



## Lucara Diamond

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### **CORRECTION TO LUCARA HALF YEAR RESULTS**

**AUGUST 13, 2014 (LUC – TSX, LUC – BSE, LUC – NASDAQ OMX) Lucara Diamond Corp.** (“Lucara” or the “Company”) reports a correction to the first paragraph of the 2014 second quarter news release issued earlier today. The first paragraph stated: “...reported proceeds of \$128.6 million for the quarter and an increase in forecast 2014 revenues to between \$240-\$250 million.” It should have stated: “...reported proceeds of \$128.6 million for the first half of the year and an increase in forecast 2014 revenues to between \$240-\$250 million.” For clarity, the entire amended release is appended below. No further amendments were made to the balance of the release.

On behalf of the Board,

William Lamb  
President and CEO

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**AUGUST 13, 2014 (LUC – TSX, LUC – BSE, LUC – NASDAQ OMX) Lucara Diamond Corp.** (“Lucara” or the “Company”) today reported proceeds of \$128.6 million for the first half of the year and an increase in forecast 2014 revenues to between \$240-\$250 million.

### **HIGHLIGHTS**

**Safety:** Karowe had one lost time injury during the quarter, resulting in a Lost Time Injury Frequency Rate (“LTIFR”) of 0.15 for the 12 months to June 30.

**Cash flows and operating margins:** The Company achieved second quarter tender proceeds of \$95.0 million (\$849 per carat) from sales of 111,902 carats of diamond. This includes proceeds of \$24.7 million, which were received after the quarter. Total proceeds for the first half of the year were \$128.6 million (\$586 per carat) from the sale of 219,370 carats of diamond. Total Company proceeds for the half year of \$586 per carat at an operating cost of \$124 per carat resulted in a 79% operating margin of \$462 per carat.

Following the second quarter the Company concluded its second exceptional stone tender in July for proceeds of \$40.1 million, which results in full year to date proceeds of \$168.6 million at a sales price of \$764 per carat.

**Net cash position:** The Company’s quarter-end cash balance was \$82.1 million compared to a net debt position of \$29.6 million in the previous year and \$49.4 million of cash at the end of 2013. The June cash balance of \$82.1 million excludes \$24.8 million of cash received after the quarter end.

**Karowe operating performance:** Karowe's operating performance exceeded plan during the period in terms of ore and waste mined and carats recovered. The Company recovered a record number of 252 special stones (+10.8 carats) during the period with an average size of 27.84 carats.

**Adjusted Earnings per share:** Adjusted earnings per share is \$0.10 per share for the three month period ended June 30, 2014 and \$0.13 per share for year to date.

**Dividends paid:** The Company paid its inaugural semi-annual dividend of 2 cents per share on June 19. The Company is forecast to pay its year-end and special dividend in December. The special dividend will be determined based on revenues generated from the exceptional stone tenders during the year, the Company's financial position and its expected cash requirements in future periods.

**Outlook:** The Company has increased its revenue forecast by approximately 60% for the year to between \$240-\$250 million based on year to date sales, current diamond inventory and its forecast production. The Company has maintained its overall cost outlook for the mine of between \$31-\$33 per tonne ore processed.

William Lamb, President and Chief Executive Officer commented "Lucara had a strong first half of the year and this has continued into the third quarter with our second exceptional stone tender in July, resulting in total year to date proceeds of \$169 million, achieving \$764 per carat. Following these results and our current diamond inventory we have increased our full year revenue guidance to \$240-\$250 million while maintaining our original carat production and operating cost guidance due to strong operational delivery at Karowe. To the end of June, the mine sold 54 diamonds larger than 50 carats, including 11 diamonds larger than 100 carats and 30 diamonds selling for more than \$1 million. The sustainable recovery of special diamonds has enabled the addition of the third exceptional stones tender which will be held in the fourth quarter."

## FINANCIAL HIGHLIGHTS

| <i>In millions of U.S. dollars unless otherwise noted</i> | Three months ended<br>June 30 |         | Six months ended<br>June 30 |         |
|---|-------------------------------|---------|-----------------------------|---------|
|   | 2014                          | 2013    | 2014                        | 2013    |
| Revenues (*)  | \$ 71.0                       | \$ 47.2 | \$ 103.8                    | \$ 79.7 |
| Average price per carat sold (\$/ct)                      | 836                           | 527     | 540                         | 345     |
| Operating expenses per carat sold (\$/ct)                 | 132                           | 102     | 124                         | 92      |
| Operating margin per carat sold (\$/ct)                   | 704                           | 425     | 416                         | 253     |
| Net income for the period                                 | 15.6                          | 22.7    | 20.7                        | 28.8    |
| Earnings per share (basic and diluted)                    | 0.04                          | 0.06    | 0.05                        | 0.08    |
| Adjusted earnings per share <sup>(1)</sup>                | 0.10                          | 0.06    | 0.13                        | 0.08    |
| Cash on hand  | 82.1                          | 28.5    | 82.1                        | 28.5    |

(\*) Revenue is presented based on cash receipts received during the period and excludes tender proceeds received after each quarter end. See below.

(<sup>1</sup>) Non-IFRS measure

## RESULTS OF OPERATIONS

### *Karowe Mine, Botswana*

|  | UNIT  | YTD-14 | Q2-14 | Q1-14 | Q4-13 | Q3-13 | Q2-13 |
|--|-------|--------|-------|-------|-------|-------|-------|
| <b>Sales</b>   |       |        |       |       |       |       |       |
| Revenues   | US\$m | 103.8  | 71.0  | 32.8  | 58.7  | 42.1  | 47.2  |
| Proceeds generated from sales tenders conducted in the quarter are comprised of: | US\$m | 128.6  | 95.0  | 33.6  | 47.8  | 50.9  | 49.3  |
| Sales proceeds received during the quarter                                       | US\$m | 103.8  | 71.0  | 32.8  | 58.7  | 42.1  | 47.2  |
| Q2 2014 tender proceeds received post Q2 2014                                    | US\$m | 24.8   | 24.8  | -     | -     | -     | -     |

|  |                     |           |           |           |           |           |           |
|--|---------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Q1 2014 tender proceeds received post Q1 2014                    | US\$m               | -         | (0.8)     | 0.8       | -         | -         | -         |
| Q3 2013 tender proceeds received post Q3 2013                    | US\$m               | -         | -         | -         | (10.9)    | 10.9      | -         |
| Q2 2013 tender proceeds received post Q2 2013                    | US\$m               | -         | -         | -         | -         | (2.1)     | 2.1       |
| Carats sold for proceeds generated during the period             | Carats              | 219,370   | 111,900   | 107,470   | 110,635   | 80,918    | 102,452   |
| Carats sold for revenues recognized during the period            | Carats              | 192,369   | 84,915    | 107,454   | 127,804   | 76,582    | 89,619    |
| Average price per carat for proceeds generated during the period | US\$                | 586       | 849       | 312       | 433       | 625       | 481       |
| <b>Production</b>  |                     |           |           |           |           |           |           |
| Tonnes mined (ore)   | Tonnes              | 1,566,770 | 677,882   | 888,888   | 918,765   | 898,501   | 1,157,747 |
| Tonnes mined (waste)   | Tonnes              | 5,168,966 | 3,166,644 | 2,002,322 | 1,694,134 | 1,430,105 | 1,259,479 |
| Tonnes milled  | Tonnes              | 1,345,542 | 664,812   | 680,730   | 613,064   | 647,304   | 560,910   |
| Average grade processed  | cpht <sup>(*)</sup> | 15.6      | 14.9      | 16.3      | 18.9      | 17.6      | 15.6      |
| Carats recovered   | Carats              | 210,179   | 99,142    | 111,037   | 116,061   | 113,882   | 87,580    |
| <b>Costs</b>   |                     |           |           |           |           |           |           |
| Operating costs per carats sold <sup>(1)</sup>                   | US\$                | 124       | 132       | 118       | 109       | 110       | 102       |
| Operating costs per tonne processed                              | US\$/tonne          | 17.7      | 16.8      | 18.6      | 22.7      | 13.0      | 16.3      |
| Capital expenditures   | US\$m               | 11.5      | 9.7       | 1.9       | 1.5       | 2.4       | 1.7       |

(\*) carats per hundred tonnes

(1) Non-IFRS measure

The Karowe mine performed well during the second quarter of 2014. Tonnes of ore mined exceeded plan during the period. Waste mined for the push back to open up access to the south lobe accelerated during the period, recovering the first quarter deficit and is back on track for the year to date planned volumes.

The process plant performed well during the quarter with mill throughput and carats produced in excess of plan. Carats produced were lower than the prior period due to mining a lower grade area in accordance with the mine plan. A total of 252 special stones (+10.8 carats) were recovered during the quarter at an average size of 27.84 carats. This represents a record quarter both in frequency and average size of specials recovered.

## 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*

The Plant Optimization progressed well during the period. The Company has spent approximately \$8 million and committed a further \$27 million of expenditure to date. At the end of the second quarter, project progress was on schedule and within plan. The impact of industrial action within the steel industry in South Africa, who was on strike between July 1 and July 28, is still being assessed. The project is now forecast to be complete during Q2 2015 and is not expected to impact on 2015 production.

### **Karowe Mine, Botswana**

Revenue is forecast between \$240-\$250 million based on the sale of between 400,000 to 420,000 carats.

Karowe is still forecast to process between 2.2 - 2.4 million tonnes.

Forecast for ore mined remains at between 3.0 – 3.5 million tonnes and waste mined between 10.0 –11.0 million tonnes.

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

The Company is forecasting that the plant optimization project will cost up to \$55 million, an increase from the \$45-\$50 million in previous guidance. The additional cost includes the purchase of an additional XRT diamond sorting machine which will be installed early, in the capacity of a large diamond recovery unit. Once the optimization project has been completed, this unit will be used as an audit machine as well as for future development work. The XRT machine may also be used for future new development work. The Company has also included costs to mitigate the impact of industrial action in the steel industry in South Africa, which commenced on July 1 and ended July 28. The Company is forecasting a Q2 2015 completion date for the plant optimization project and this timeline is not expected to affect 2015 production. Sustaining capital expenditures remains at \$3.5 million.

## **CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS**

Certain of the statements made and contained herein 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 herein 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.



Lucara Diamond  
Corp.

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



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

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. (the "Company") and its subsidiaries performance and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited condensed-interim consolidated financial statements of the Company for the three and six months ended June 30, 2014, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in U.S. dollars unless otherwise indicated. The effective date of this MD&A is August 13, 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](http://www.sedar.com).

## **HIGHLIGHTS**

**Safety:** Karowe had one lost time injury during the quarter, resulting in a Lost Time Injury Frequency Rate ("LTIFR") of 0.15 for the 12 months to June 30. LTIFR is the number of lost time injuries multiplied by 200,000 and divided by the number of hours worked.

**Cash flows and operating margins:** The Company achieved second quarter tender proceeds of \$95.0 million (\$849 per carat) from sales of 111,902 carats of diamond. This includes proceeds of \$24.7 million, which were received after the quarter and will be reported in the Company's third quarter revenues. Total proceeds for the first half of the year were \$128.6 million (\$586 per carat) from the sale of 219,370 carats of diamond. Total Company proceeds for the half year of \$586 per carat at an operating cost of \$124 per carat resulted in an operating margin of \$462 per carat.

Revenues for the second quarter, excluding the late proceeds of \$24.8 million were \$71.0 million (\$836 per carat). At an operating cost of \$132 per carat, the operating margin for the quarter was \$704 per carat.

Following the second quarter the Company concluded its second exceptional stone tender in July for proceeds of \$40.1 million, which results in full year to date proceeds of \$168.6 million at a sales price of \$764 per carat. This compares to the Company's 43-101 technical report average price of \$394 per carat. These sales tenders excluding the exceptional stone sales have sold for an average sales price of \$361 per carat and the exceptional stone tenders have achieved an average sales price of \$33,839 per carat for the year.

**Net cash position:** The Company's quarter-end cash balance was \$82.1 million compared to a net debt position of \$29.6 million in the previous year and \$49.4 million of cash at the end of 2013. The June cash balance of \$82.1 million excludes \$24.8 million of cash received after the quarter end.

**Karowe operating performance:** Karowe's operating performance exceeded plan during the period in terms of ore and waste mined and carats recovered. The Company recovered a record number of 252 special stones (+10.8 carats) during the period with an average size of 27.84 carats.

**Adjusted Earnings per share:** Adjusted earnings per share (see pages 5 and 7 Non-IRFS measures), is \$0.10 per share for the three month period ended June 30, 2014 and \$0.13 per share for year to date June. Adjusted earnings per share removes the non-cash foreign exchange impact on an intercompany loan between Corporate and Karowe and a deferred tax charge in order to



present the current cash distributable on an earnings per share basis. This more accurately reports the Company's distributable profit per share (see select financial information for further detail).

**Dividends paid:** The Company paid its inaugural semi-annual dividend of 2 cents per share on June 19. The Company is forecast to pay its year-end and special dividend in December. The special dividend will be determined based on revenues generated from the exceptional stone tenders during the year, the Company's financial position and its expected cash requirements in future periods.

**Outlook:** The Company has increased its revenue forecast by approximately 60% for the year to between \$240-\$250 million based on year to date sales, current diamond inventory and its forecast production. The Company has maintained its overall cost outlook for the mine of between \$31-\$33 per tonne ore processed. The forecast is discussed in the outlook section of the MD&A.

## FINANCIAL HIGHLIGHTS

| <i>In millions of U.S. dollars unless otherwise noted</i>            | Three months ended<br>June 30 |         | Six months ended<br>June 30 |         |
|--|-------------------------------|---------|-----------------------------|---------|
|  | 2014                          | 2013    | 2014                        | 2013    |
| Revenues (*)   | \$ 71.0                       | \$ 47.2 | \$ 103.8                    | \$ 79.7 |
| Average price per carat sold (\$/ct)                                 | 836                           | 527     | 540                         | 345     |
| Operating expenses per carat sold (\$/ct)                            | 132                           | 102     | 124                         | 92      |
| Operating margin per carat sold (\$/ct)                              | 704                           | 425     | 416                         | 253     |
| Net income for the period  | 15.6                          | 22.7    | 20.7                        | 28.8    |
| Earnings per share (basic and diluted)                               | 0.04                          | 0.06    | 0.05                        | 0.08    |
| Adjusted earnings per share (see pages 5 and 7<br>Non-IRFS measures) | 0.10                          | 0.06    | 0.13                        | 0.08    |
| Cash on hand   | 82.1                          | 28.5    | 82.1                        | 28.5    |

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

## 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**

Revenue is forecast between \$240-\$250 million based on the sale of between 400,000 to 420,000 carats.

Karowe is still forecast to process between 2.2 - 2.4 million tonnes.

Forecast for ore mined remains at between 3.0 – 3.5 million tonnes and waste mined between 10.0 – 11.0 million tonnes.

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

The Company is forecasting that the plant optimization project will cost up to \$55 million, an increase from the \$45-\$50 million in previous guidance. The additional cost includes the purchase of an additional XRT diamond sorting machine which will be installed early, in the capacity of a large diamond recovery unit. Once the optimization project has been completed, this unit will be used as an audit machine as well as for future development work. The Company has also included costs to mitigate the impact of industrial action in the steel industry in South Africa, which commenced on July 1 and ended July 28. The Company is forecasting a Q2 2015 completion date for the plant optimization project and this timeline is not expected to affect 2015 production. Sustaining capital expenditures remains at \$3.5 million.

The Company plans on holding a further three diamond tenders and a third exceptional stone tender during the second half of the year.

Karowe's detailed operating performance and capital spend guidance is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## BUSINESS OVERVIEW

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

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

The following summarizes the Company's interest in Karowe and Mothae:

| Country  | Name                        | Interest Held |
|----------|-----------------------------|---------------|
| Botswana | Karowe Diamond License      | 100%          |
| Lesotho  | Mothae Diamond Mining Lease | 75%           |

## RESULTS OF OPERATIONS

### *Karowe Mine, Botswana*

|  | UNIT       | YTD-14    | Q2-14     | Q1-14     | Q4-13     | Q3-13     | Q2-13     |
|--|------------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Sales</b>   |            |           |           |           |           |           |           |
| Revenues   | US\$m      | 103.8     | 71.0      | 32.8      | 58.7      | 42.1      | 47.2      |
| Proceeds generated from sales tenders conducted in the quarter are comprised of: | US\$m      | 128.6     | 95.0      | 33.6      | 47.8      | 50.9      | 49.3      |
| Sales proceeds received during the quarter                                       | US\$m      | 103.8     | 71.0      | 32.8      | 58.7      | 42.1      | 47.2      |
| Q2 2014 tender proceeds received post Q2 2014                                    | US\$m      | 24.8      | 24.8      | -         | -         | -         | -         |
| Q1 2014 tender proceeds received post Q1 2014                                    | US\$m      | -         | (0.8)     | 0.8       | -         | -         | -         |
| Q3 2013 tender proceeds received post Q3 2013                                    | US\$m      | -         | -         | -         | (10.9)    | 10.9      | -         |
| Q2 2013 tender proceeds received post Q2 2013                                    | US\$m      | -         | -         | -         | -         | (2.1)     | 2.1       |
| Carats sold for proceeds generated during the period                             | Carats     | 219,370   | 111,900   | 107,470   | 110,635   | 80,918    | 102,452   |
| Carats sold for revenues recognized during the period                            | Carats     | 192,369   | 84,915    | 107,454   | 127,804   | 76,582    | 89,619    |
| Average price per carat for proceeds generated during the period                 | US\$       | 586       | 849       | 312       | 433       | 625       | 481       |
| <b>Production</b>  |            |           |           |           |           |           |           |
| Tonnes mined (ore)   | Tonnes     | 1,566,770 | 677,882   | 888,888   | 918,765   | 898,501   | 1,157,747 |
| Tonnes mined (waste)   | Tonnes     | 5,168,966 | 3,166,644 | 2,002,322 | 1,694,134 | 1,430,105 | 1,259,479 |
| Tonnes milled  | Tonnes     | 1,345,542 | 664,812   | 680,730   | 613,064   | 647,304   | 560,910   |
| Average grade processed  | cpht (*)   | 15.6      | 14.9      | 16.3      | 18.9      | 17.6      | 15.6      |
| Carats recovered   | Carats     | 210,179   | 99,142    | 111,037   | 116,061   | 113,882   | 87,580    |
| <b>Costs</b>   |            |           |           |           |           |           |           |
| Operating costs per carats sold (see page 7 Non-IFRS measures)                   | US\$       | 124       | 132       | 118       | 109       | 110       | 102       |
| Operating costs per tonne processed  | US\$/tonne | 17.7      | 16.8      | 18.6      | 22.7      | 13.0      | 16.3      |
| Capital expenditures   | US\$m      | 11.5      | 9.7       | 1.9       | 1.5       | 2.4       | 1.7       |

(\*) carats per hundred tonnes

The Karowe mine performed well during the second quarter of 2014. Tonnes of ore mined exceeded plan during the period. Waste mined for the push back to open up access to the south lobe accelerated during the period, recovering the first quarter deficit and is back on track for the year to date planned volumes for the push back to open up access to the south lobe.

The process plant performed well during the quarter with mill throughput and carats produced in excess of plan. Carats produced were lower than the prior period due to mining a lower grade area in accordance with the mine plan. A total of 252 special stones (+10.8 carats) were recovered during the quarter at an average size of 27.84 carats. This represents a record quarter both in frequency and average size of specials recovered.

## **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*

The Plant Optimization progressed well during the period. The Company has spent approximately \$8 million and committed a further \$27 million of expenditure to date. At the end of the second quarter, project progress was on schedule and within plan. The impact of industrial action within the steel industry in South Africa, who was on strike between July 1 and July 28, is still being assessed. The project is now forecast at a cost of up to \$55 million and to be complete during Q2 2015 and is not expected to impact on 2015 production.

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## SELECT FINANCIAL INFORMATION

|   | Three months ended |               | Six months ended |               |
|---|--------------------|---------------|------------------|---------------|
|   | June 30            |               | June 30          |               |
| <i>In millions of U.S. dollars unless otherwise noted</i>                             | 2014               | 2013          | 2014             | 2013          |
| Revenues  | \$ 71.0            | \$ 47.2       | \$ 103.8         | \$ 79.7       |
| Operating expenses  | (11.2)             | (9.1)         | (23.8)           | (21.6)        |
| Royalty expenses  | (7.1)              | (4.8)         | (10.4)           | (8.0)         |
| <b>Operating earnings <sup>(1)</sup></b>  | <b>52.7</b>        | <b>33.3</b>   | <b>69.6</b>      | <b>50.1</b>   |
| Exploration expenditures  | (0.1)              | (0.5)         | (0.6)            | (0.8)         |
| Administration  | (3.8)              | (2.8)         | (5.9)            | (4.7)         |
| Gain on sale of exploration program diamonds  | -                  | -             | -                | 0.6           |
| Sales and marketing   | (0.9)              | (1.0)         | (1.8)            | (1.5)         |
| <b>EBITDA <sup>(2)</sup></b>  | <b>47.9</b>        | <b>29.0</b>   | <b>61.3</b>      | <b>43.7</b>   |
| Depletion, amortization and accretion   | (3.2)              | (3.3)         | (6.8)            | (7.7)         |
| Finance expenses  | -                  | (0.8)         | -                | (1.9)         |
| Foreign exchange loss   | (8.6)              | (2.2)         | (10.6)           | (5.3)         |
| Current income tax expense  | (5.6)              | -             | (5.5)            | -             |
| Deferred income tax expense   | (14.9)             | -             | (17.4)           | -             |
| <b>Net income for the period</b>  | <b>15.6</b>        | <b>22.7</b>   | <b>20.7</b>      | <b>28.8</b>   |
| Add back: Foreign exchange loss related to intercompany loan repayment <sup>(3)</sup> | 8.6                | -             | 10.6             | -             |
| Add back: Deferred income tax expense   | 14.9               | -             | 17.4             | -             |
| Adjusted net income for the period <sup>(4)</sup>                                     | 39.1               | 22.7          | 48.7             | 28.8          |
| <b>Total equity</b>   | <b>228.0</b>       | <b>169.1</b>  | <b>228.0</b>     | <b>169.1</b>  |
| <b>Total assets</b>   | <b>295.4</b>       | <b>225.9</b>  | <b>295.4</b>     | <b>225.9</b>  |
| <b>Change in cash during the period</b>   | <b>25.3</b>        | <b>11.2</b>   | <b>32.8</b>      | <b>15.3</b>   |
| <b>Cash on hand</b>   | <b>82.1</b>        | <b>28.5</b>   | <b>82.1</b>      | <b>28.5</b>   |
| <b>Earnings per share (basic and diluted)</b>   | <b>0.04</b>        | <b>0.06</b>   | <b>0.05</b>      | <b>0.08</b>   |
| <b>Adjusted earnings per share (basic and diluted) <sup>(5)</sup></b>                 | <b>0.10</b>        | <b>0.06</b>   | <b>0.13</b>      | <b>0.08</b>   |
| <b>Per carats sold</b>  |                    |               |                  |               |
| <b>Sales price</b>  | \$ <b>836</b>      | \$ <b>527</b> | \$ <b>540</b>    | \$ <b>345</b> |
| <b>Operating expenses</b>   | <b>132</b>         | <b>102</b>    | <b>124</b>       | <b>92</b>     |
| <b>Average grade (carats per hundred tonnes)</b>                                      | <b>14.9</b>        | <b>15.6</b>   | <b>15.6</b>      | <b>19.3</b>   |

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

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

<sup>(3)</sup> Foreign exchange loss related to an intercompany loan repayment between Corporate and Karowe (see foreign exchange loss on page 6)

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

<sup>(5)</sup> Adjusted earnings per share for the period is a non-IFRS measure defined as adjusted net income<sup>(4)</sup> 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 June 30, 2014, the Company completed two regular diamond tenders and one exceptional stone tender totalling 111,916 carats. The tenders achieved gross proceeds totalling \$95.0 million excluding proceeds of \$24.8 million from the June 26, 2014 regular diamond tender, which were received post the end of the second quarter.

The increase in revenue for the quarter of \$23.8 million compared to the prior year is due to higher prices received for the Karowe diamonds and a larger number of carats being sold during the period. The Company sold its diamonds for \$836 per carat compared to \$527 per carat in the previous year. This increase reflects the strong results from the exceptional stone tender during the first quarter and also higher prices for the scheduled sales tenders compared to the prior year.

### ***Operating earnings***

Operating earnings for the three months ended June 30, 2014 were \$52.7 million resulting in an operating margin (before royalties) of 84%. The margin was significantly impacted by the Company's exceptional stone tender held during the quarter with revenues of \$41,220 per carat. Operating expenses during the quarter were \$132 per carat, which resulted in an operating margin of \$704 per carat. As anticipated, operating expenses in the second quarter of 2014 was at \$132 cost per carat which is higher than \$102 per carat in the prior year due to the increase in waste mined.

### ***Exploration and other mining costs***

Exploration expenditures and other mining costs relating to the Mothae project were \$0.1 million during the second quarter of 2014 compared to \$0.5 million during the second quarter of 2013. The decrease in costs is due to Mothae being on care and maintenance during the quarter compared to the previous year when the Company was completing the project's PEA study.

### ***Administration expenses***

Administration expenses increased \$1.0 million during the quarter when comparing the three month period ended June 30, 2014 to the three month period ended June 30, 2013; this is mostly due to expenditures related to the Company's NASDAQ OMX Stockholm listing and an increase in employee salaries and benefits in 2014.

### ***Income Tax expense***

Total income tax expense was \$20.5 million during the three month period ended June 30, 2014. This is mainly due to the recognition of a current income tax liability of \$5.6 million and a deferred tax liability of \$14.9 million during the quarter. The Company is subject to a variable tax rate in Botswana that increases as profit as a percentage of revenue increases. The current tax expense has been calculated at a rate of approximately 30%, which reflects the forecast current year tax rate based on the Company's outlook revenue guidance.

The Company has estimated the variable tax rate for the deferred income taxes at approximately 30% following the updated Karowe 43-101 technical report and current financial performance. This non-cash expense is used to adjust future accounting tax recovery in the profit and loss to taxable income during the period.

### ***Foreign exchange loss***

The Company recorded a non-cash foreign exchange loss of \$8.6 million in the three months ended June 30, 2014. A loss of \$7.8 million was recognized during the three months 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 cumulative foreign exchange losses of \$25.0 million reported in other comprehensive income is being reported in the statement of operations as the intercompany loan is repaid.

This \$8.6 million foreign exchange loss is entirely due to non-cash 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 nor does it result in a cash outflow to the business in the current or future periods.

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

The three months ended June 30, 2014 EBITDA was \$47.9 million compared to \$29.0 million in the three month period ended June 30, 2013. The EBITDA of \$47.9 million excludes the revenues of \$24.8 million received after the quarter end. EBITDA is higher than the prior year as higher prices were received for the Karowe diamonds during the period and were partially offset by higher costs to reflect increased waste stripping during the period.

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

## **LIQUIDITY AND CAPITAL RESOURCES**

As at June 30, 2014, the Company had cash of \$82.1 million compared to net debt of \$29.6 million at June 30, 2013 and \$49.4 million at December 31, 2013.

Cash increased during the quarter by \$25.3 million. This increase reflects cash from operating activities of \$41.0 million offset primarily by the Company's first dividend payment of \$6.9 million and acquisition of plant and equipment, largely for the plant optimization project of \$5.6 million.

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

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

| <b>Three months ended</b>                        | <b>Jun-14</b> | <b>Mar-14</b> | <b>Dec-13</b> | <b>Sept-13</b> | <b>Jun-13</b> | <b>Mar-13</b> | <b>Dec-12</b> | <b>Sept-12</b> |
|--|---------------|---------------|---------------|----------------|---------------|---------------|---------------|----------------|
| A. Revenues                                      | 70,972        | 32,780        | 58,683        | 42,096         | 47,224        | 32,504        | 29,172        | 12,658         |
| B. Exploration (expenditures) recovery           | (135)         | (459)         | (167)         | (389)          | (557)         | 374           | (2,277)       | (4,465)        |
| C. Administration expenses                       | (3,841)       | (2,107)       | (4,871)       | (1,851)        | (2,761)       | (1,946)       | (1,798)       | (2,980)        |
| D. Net income (loss)                             | 15,639        | 5,074         | 21,331        | 15,043         | 22,679        | 6,169         | 7,664         | (3,413)        |
| E. Earnings (loss) per share (basic and diluted) | 0.04          | 0.01          | 0.05          | 0.04           | 0.06          | 0.02          | 0.02          | (0.01)         |

## **NON-IFRS FINANCIAL MEASURES**

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

EBITDA (see "Select 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 Financial Information") is the term the Company uses 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 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 six months ended June 30, 2014, the Company incurred the following expenses with Namdo Management Services Limited ("Namdo"), a company related by way of directors in common. In 2013, the Company had also incurred aircraft charter services and professional geological services & laboratory related expenditures from Mile High Holdings Ltd. ("Mile High") and the Mineral Services Group ("MS Group") respectively, the companies are associated with a director of Company. Beginning July 1, 2013, the MS Group is no longer a related party.

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

| <b>Description of services</b>   | <b>Related Party</b> | <b>June 30, 2014</b> | <b>June 30, 2013</b> |
|----------------------------------|----------------------|----------------------|----------------------|
| Management fees                  | Namdo                | \$ 229               | \$ 248               |
| Exploration related expenditures | MS Group             | -                    | 86                   |
| Aircraft charter                 | Mile High            | -                    | 50                   |
|                                  |                      | \$ 229               | \$ 384               |

## FINANCIAL INSTRUMENTS

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

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

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

## **OUTSTANDING SHARE DATA**

As at the date of this MD&A, the Company had 378,984,414 common shares outstanding and 2,423,335 stock options outstanding under its stock-based incentive plan.

## **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 September 30, 2014 is expected to be published on November 10, 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 six months ended June 30, 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 and six months ended June 30, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS**

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

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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.

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

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|  | <b>June 30, 2014</b> |           | <b>December 31, 2013</b> |
|--|----------------------|-----------|--------------------------|
| <b>ASSETS</b>  |                      |           |                          |
| Current assets   |                      |           |                          |
| Cash and cash equivalents                                | \$ 82,098            | \$        | 49,364                   |
| Investments  | 79                   |           | 90                       |
| VAT receivables and other                                | 4,682                |           | 2,927                    |
| Prepaid and deposits                                     | 6,055                |           | 666                      |
| Inventories (Note 4)                                     | 25,676               |           | 21,132                   |
|  | 118,590              |           | 74,179                   |
| Plant and equipment (Note 5)                             | 102,725              |           | 100,886                  |
| Mineral properties (Note 6)                              | 73,640               |           | 72,061                   |
| Other non-current assets                                 | 403                  |           | 62                       |
| <b>TOTAL ASSETS</b>                                      | <b>\$ 295,358</b>    | <b>\$</b> | <b>247,188</b>           |
| <b>LIABILITIES</b>                                       |                      |           |                          |
| Current liabilities                                      |                      |           |                          |
| Trade payables and accrued liabilities                   | \$ 15,176            | \$        | 15,491                   |
| Taxes payable (Note 9)                                   | 5,555                |           | -                        |
|  | 20,731               |           | 15,491                   |
| Restoration provisions                                   | 15,167               |           | 14,515                   |
| Future income taxes (Note 9)                             | 31,598               |           | 14,258                   |
| <b>TOTAL LIABILITIES</b>                                 | <b>67,496</b>        |           | <b>44,264</b>            |
| <b>EQUITY</b>  |                      |           |                          |
| Share capital  | 285,364              |           | 283,609                  |
| Contributed surplus (Note 7)                             | 4,808                |           | 5,108                    |
| Cumulative deficit                                       | (31,675)             |           | (45,516)                 |
| Accumulated other comprehensive loss                     | (32,117)             |           | (41,820)                 |
| Total equity attributable to shareholders of the Company | 226,380              |           | 201,381                  |
| Non-controlling interests                                | 1,482                |           | 1,543                    |
| <b>TOTAL EQUITY</b>                                      | <b>227,862</b>       |           | <b>202,924</b>           |
| <b>TOTAL LIABILITIES AND EQUITY</b>                      | <b>\$ 295,358</b>    | <b>\$</b> | <b>247,188</b>           |

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 June 30, |             | Six months ended June 30, |             |
|---|-----------------------------|-------------|---------------------------|-------------|
|   | 2014                        | 2013        | 2014                      | 2013        |
| <b>Revenues</b>                                   | \$ 70,972                   | \$ 47,224   | \$ 103,752                | \$ 79,728   |
| <b>Cost of goods sold</b>                         |                             |             |                           |             |
| Operating expenses                                | 11,180                      | 9,125       | 23,836                    | 21,579      |
| Royalty expenses                                  | 7,097                       | 4,763       | 10,375                    | 7,973       |
| Depletion, amortization and accretion             | 3,091                       | 3,317       | 6,831                     | 7,725       |
|   | 21,368                      | 17,205      | 41,042                    | 37,277      |
| <b>Income from mining operations</b>              | 49,604                      | 30,019      | 62,710                    | 42,451      |
| <b>Other expenses</b>                             |                             |             |                           |             |
| Exploration and expenditures                      | 135                         | 557         | 594                       | 767         |
| Administration (Note 8)                           | 3,841                       | 2,761       | 5,948                     | 4,707       |
| Gain on sale of exploration program               | -                           | -           | -                         | (584)       |
| Sales and marketing                               | 934                         | 963         | 1,842                     | 1,541       |
| Finance (income)/expenses                         | (57)                        | 859         | 25                        | 1,901       |
| Foreign exchange loss                             | 8,644                       | 2,200       | 10,649                    | 5,271       |
|   | 13,497                      | 7,340       | 19,058                    | 13,603      |
| <b>Net income before tax</b>                      | 36,107                      | 22,679      | 43,652                    | 28,848      |
| <b>Income tax expense</b> (Note 9)                |                             |             |                           |             |
| Current income tax                                | 5,555                       | -           | 5,555                     | -           |
| Deferred income tax                               | 14,913                      | -           | 17,384                    | -           |
|   | 20,468                      | -           | 22,939                    | -           |
| <b>Net income for the period</b>                  | \$ 15,639                   | \$ 22,679   | \$ 20,713                 | \$ 28,848   |
| <b>Attributable to:</b>                           |                             |             |                           |             |
| Shareholders of the Company                       | \$ 15,656                   | \$ 22,747   | \$ 20,787                 | \$ 28,865   |
| Non-controlling interests                         | \$ (17)                     | \$ (68)     | \$ (74)                   | \$ (17)     |
| <b>Earning per common share</b>                   |                             |             |                           |             |
| Basic   | \$ 0.04                     | \$ 0.06     | \$ 0.05                   | \$ 0.08     |
| Diluted   | \$ 0.04                     | \$ 0.06     | \$ 0.05                   | \$ 0.08     |
| <b>Weighted average common shares outstanding</b> |                             |             |                           |             |
| Basic   | 377,638,144                 | 376,294,357 | 377,287,107               | 376,293,538 |
| Diluted   | 379,778,959                 | 376,294,357 | 379,444,727               | 376,293,538 |

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

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

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|  | <b>Three months ended June 30,</b> |             | <b>Six months ended June 30,</b> |             |
|--|------------------------------------|-------------|----------------------------------|-------------|
|  | <b>2014</b>                        | <b>2013</b> | <b>2014</b>                      | <b>2013</b> |
| <b>Net income for the period</b>                                 | \$ 15,639                          | \$ 22,679   | \$ 20,713                        | \$ 28,848   |
| <b>Other comprehensive income</b>                                |                                    |             |                                  |             |
| <b>Items that may be subsequently reclassified to net income</b> |                                    |             |                                  |             |
| Change in fair value of available-for-sale securities            | (59)                               | (18)        | (11)                             | (22)        |
| Currency translation adjustment                                  | 8,366                              | (6,782)     | 9,704                            | (17,593)    |
|  | 8,307                              | (6,800)     | 9,693                            | (17,615)    |
| <b>Comprehensive income</b>                                      | \$ 23,946                          | \$ 15,879   | \$ 30,406                        | \$ 11,233   |
| <b>Comprehensive income attributable to:</b>                     |                                    |             |                                  |             |
| Shareholders of the Company                                      | 23,963                             | 16,061      | 30,491                           | 11,523      |
| Non-controlling interests  | (17)                               | (182)       | (85)                             | (290)       |
|  | \$ 23,946                          | \$ 15,879   | \$ 30,406                        | \$ 11,233   |

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 June 30, |           | Six months ended June 30, |           |
|--|-----------------------------|-----------|---------------------------|-----------|
|  | 2014                        | 2013      | 2014                      | 2013      |
| <b>Cash flows from (used in):</b>  |                             |           |                           |           |
| <b>Operating Activities</b>  |                             |           |                           |           |
| Net income for the period  | \$ 15,639                   | \$ 22,679 | \$ 20,713                 | \$ 28,848 |
| Items not involving cash and cash equivalents:                                     |                             |           |                           |           |
| Depletion, amortization and accretion  | 3,187                       | 3,466     | 7,020                     | 7,962     |
| Foreign exchange loss  | 8,636                       | 2,103     | 10,170                    | 5,395     |
| Stock-based compensation   | 119                         | 282       | 213                       | 305       |
| Deferred income taxes  | 14,869                      | -         | 17,340                    | -         |
| Finance costs  | -                           | 828       | 66                        | 1,801     |
|  | 42,450                      | 29,358    | 55,522                    | 44,311    |
| Net changes in working capital items:  |                             |           |                           |           |
| VAT receivables and other current assets   | (7,304)                     | 643       | (7,091)                   | 1,458     |
| Inventories  | (2,047)                     | (3,567)   | (3,797)                   | (2,976)   |
| Trade payables and other current liabilities                                       | 2,432                       | (900)     | 131                       | (2,231)   |
| Taxes payables   | 5,555                       | -         | 5,555                     | -         |
|  | 41,086                      | 25,534    | 50,320                    | 40,562    |
| <b>Financing Activities</b>  |                             |           |                           |           |
| Repayments of debt   | -                           | (12,833)  | -                         | (21,166)  |
| Proceeds from exercise of stock options  | 1,157                       | 58        | 1,240                     | 58        |
| Dividends paid   | (6,923)                     | -         | (6,923)                   | -         |
| Other  | (333)                       | -         | (333)                     | -         |
|  | (6,099)                     | (12,775)  | (6,016)                   | (21,108)  |
| <b>Investing Activities</b>  |                             |           |                           |           |
| Acquisition of plant and equipment   | (5,621)                     | (1,666)   | (7,493)                   | (3,911)   |
| Capitalized production stripping costs   | (4,031)                     | -         | (4,031)                   | -         |
|  | (9,652)                     | (1,666)   | (11,524)                  | (3,911)   |
| <b>Effect of exchange rate change on cash and cash equivalents</b>                 | (54)                        | 65        | (46)                      | (268)     |
| <b>Increase in cash and cash equivalents during the period</b>                     | 25,281                      | 11,158    | 32,734                    | 15,275    |
| <b>Cash and cash equivalents, beginning of period</b>                              | 56,817                      | 17,378    | 49,364                    | 13,261    |
| <b>Cash and cash equivalents, end of period</b>                                    | \$ 82,098                   | \$ 28,536 | \$ 82,098                 | \$ 28,536 |
| <b>Supplemental Information</b>  |                             |           |                           |           |
| Interest received (paid)   | 146                         | 9         | 176                       | (153)     |
| Changes in accounts payable and accrued liabilities related to plant and equipment | (226)                       | (118)     | (272)                     | (2,247)   |

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<br>shares<br>issued and<br>outstanding | Share capital | Contributed<br>surplus | Deficit      | Accumulated<br>other<br>comprehensive<br>loss | Non-<br>controlling<br>interests | Total      |
|---|--|---------------|------------------------|--------------|---|----------------------------------|------------|
| <b>Balance, January 1, 2013</b>           | 376,292,749                                      | \$ 282,796    | \$ 4,874               | \$ (110,740) | \$ (21,381)                                   | \$ 1,911                         | \$ 157,460 |
| Exercise of stock options                 | 75,000   | 90            | (32)                   | -            | -   | -                                | 58         |
| Stock-based compensation                  | -  | -             | 305                    | -            | -   | -                                | 305        |
| Unrealized loss on investments            | -  | -             | -                      | -            | (22)  | -                                | (22)       |
| Effect of foreign currency<br>translation | -  | -             | -                      | -            | (17,320)                                      | (273)                            | (17,593)   |
| Free-carried non-controlling<br>interests | -  | -             | -                      | (45)         | -   | 45                               | -          |
| Net income for the period                 | -  | -             | -                      | 28,865       | -   | (17)                             | 28,848     |
| <b>Balance, June 30, 2013</b>             | 376,367,749                                      | \$ 282,886    | \$ 5,147               | \$ (81,920)  | \$ (38,723)                                   | \$ 1,666                         | \$ 169,056 |
| <b>Balance, January 1, 2014</b>           | 376,899,415                                      | \$ 283,609    | \$ 5,108               | \$ (45,516)  | \$ (41,820)                                   | \$ 1,543                         | \$ 202,924 |
| Exercise of stock options                 | 1,618,666  | 1,755         | (513)                  | -            | -   | -                                | 1,242      |
| Stock-based compensation                  | -  | -             | 213                    | -            | -   | -                                | 213        |
| Unrealized loss on investments            | -  | -             | -                      | -            | (11)  | -                                | (11)       |
| Effect of foreign currency<br>translation | -  | -             | -                      | -            | 9,714   | (10)                             | 9,704      |
| Free-carried non-controlling<br>interests | -  | -             | -                      | (23)         | -   | 23                               | -          |
| Dividends paid <sup>(1)</sup>             | -  | -             | -                      | (6,923)      | -   | -                                | (6,923)    |
| Net income for the period                 | -  | -             | -                      | 20,787       | -   | (74)                             | 20,713     |
| <b>Balance, June 30, 2014</b>             | 378,518,081                                      | \$ 285,364    | \$ 4,808               | \$ (31,675)  | \$ (32,117)                                   | \$ 1,482                         | \$ 227,862 |

<sup>(1)</sup> On June 19, 2014, the Company paid a cash dividend of CDN\$0.02 per share.

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

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# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014

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

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### 1. NATURE OF OPERATIONS

Lucara Diamond Corp. together with its subsidiaries (collectively referred to as the "Company") is a diamond mining company focused on the development and operation of diamond properties in Africa. The Company holds a 100% interest in the Karowe Mine (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 2000 - 885 West Georgia Street, Vancouver, British Columbia, V6C 3E8.

### 2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, *IAS 34: Interim Financial Statements*, and do not contain all of the information required for annual financial statements. These statements follow the same accounting policies and methods of application of the most recent annual audited financial statements, 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 August 13, 2014.

### 3. ADOPTION OF NEW IFRS PRONOUNCEMENT

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

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

### 4. INVENTORIES

|                    | June 30, 2014 | December 31, 2013 |
|--------------------|---------------|-------------------|
| Rough diamond      | \$ 11,650     | \$ 9,026          |
| Ore stockpile      | 7,772         | 6,674             |
| Parts and supplies | 6,254         | 5,432             |
|                    | \$ 25,676     | \$ 21,132         |

Inventory expensed during the six months ended June 30, 2014 totaled \$23.8 million (2013 – \$21.6 million).

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**5. PLANT AND EQUIPMENT**

| <b>Cost</b>  | <b>Construction<br/>in progress</b> | <b>Mine and<br/>plant<br/>facilities</b> | <b>Vehicles</b> | <b>Furniture<br/>and office<br/>equipment</b> | <b>Total</b> |
|--|-------------------------------------|--|-----------------|---|--------------|
| <b>Balance, January 1, 2013</b>                    | \$ -                                | \$ 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)     |
| <b>Balance, December 31, 2013</b>                  | -                                   | 115,930                                  | 1,419           | 2,707   | 120,056      |
| Additions  | 6,921                               | 33                                       | 175             | 106   | 7,235        |
| Reclassification                                   | 1,370                               | (1,193)                                  | -               | (177)   | -            |
| Translation differences                            | 29                                  | (694)                                    | (8)             | (13)  | (686)        |
| <b>Balance, June 30, 2014</b>                      | \$ 8,320                            | \$ 114,076                               | \$ 1,586        | \$ 2,623                                      | \$ 126,605   |
| <b>Accumulated depreciation</b>                    |                                     |  |                 |   |              |
| <b>Balance, January 1, 2013</b>                    | \$ -                                | \$ 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)      |
| <b>Balance, December 31, 2013</b>                  | -                                   | 17,192                                   | 855             | 1,123   | 19,170       |
| Depreciation, depletion for the period             | -                                   | 4,274                                    | 216             | 328   | 4,818        |
| Disposals and other                                | -                                   | -  | -               | -   | -            |
| Translation differences                            | -                                   | (98)                                     | (5)             | (5)   | (108)        |
| <b>Balance, June 30, 2014</b>                      | \$ -                                | \$ 21,368                                | \$ 1,066        | \$ 1,446                                      | \$ 23,880    |
| <b>Net book value</b>                              |                                     |  |                 |   |              |
| <b>As at December 31, 2013</b>                     | \$ -                                | \$ 98,738                                | \$ 564          | \$ 1,584                                      | \$ 100,886   |
| <b>As at June 30, 2014</b>                         | \$ 8,320                            | \$ 92,708                                | \$ 520          | \$ 1,177                                      | \$ 102,725   |



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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**6. MINERAL PROPERTIES**

| <b>Cost</b>                       |    | <b>Capitalized<br/>Production<br/>stripping<br/>asset</b> | <b>Karowe<br/>Mine</b> | <b>Mothae<br/>Diamond</b> | <b>Mothae<br/>mining<br/>license</b> | <b>Total</b> |
|-----------------------------------|----|---|------------------------|---------------------------|--------------------------------------|--------------|
| <b>Balance, January 1, 2013</b>   | \$ | -   | \$ 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)      |
| <b>Balance, December 31, 2013</b> |    | -   | 59,869                 | 15,841                    | 2,568                                | 78,278       |
| Addition                          |    | 4,017   | -                      | -                         | -                                    | 4,017        |
| Translation differences           |    | 14  | (367)                  | (70)                      | (24)                                 | (447)        |
| <b>Balance, June 30, 2014</b>     | \$ | 4,031   | \$ 59,502              | \$ 15,771                 | \$ 2,544                             | \$ 81,848    |

**Accumulated depletion**

|                                   |    |   |          |      |      |          |
|-----------------------------------|----|---|----------|------|------|----------|
| <b>Balance, January 1, 2013</b>   | \$ | - | \$ 1,724 | \$ - | \$ - | \$ 1,724 |
| Depletion for the year            |    | - | 4,896    | -    | -    | 4,896    |
| Translation differences           |    | - | (403)    | -    | -    | (403)    |
| <b>Balance, December 31, 2013</b> |    | - | 6,217    | -    | -    | 6,217    |
| Depletion for the period          |    | - | 2,022    | -    | -    | 2,022    |
| Translation differences           |    | - | (31)     | -    | -    | (31)     |
| <b>Balance, June 30, 2014</b>     | \$ | - | \$ 8,208 | \$ - | \$ - | \$ 8,208 |

**Net book value**

|                                |    |       |           |           |          |           |
|--------------------------------|----|-------|-----------|-----------|----------|-----------|
| <b>As at December 31, 2013</b> | \$ | -     | \$ 53,652 | \$ 15,841 | \$ 2,568 | \$ 72,061 |
| <b>As at June 30, 2014</b>     | \$ | 4,031 | \$ 51,294 | \$ 15,771 | \$ 2,544 | \$ 73,640 |

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**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\$) |
|-------------------------------------|---|---|
| <b>Balance at December 31, 2012</b> | <b>2,665,000</b>                                    | <b>\$ 0.88</b>                                    |
| Granted                             | 2,775,000   | 0.72  |
| Forfeited                           | (50,000)  | 1.03  |
| Expired                             | (575,000)   | 0.91  |
| Exercised                           | (606,666)   | 0.92  |
| <b>Balance at December 31, 2013</b> | <b>4,208,334</b>                                    | <b>0.76</b>                                       |
| Granted                             | 300,000   | 2.11  |
| Exercised                           | (1,618,666)   | 0.84  |
| <b>Balance at June 30, 2014</b>     | <b>2,889,668</b>                                    | <b>\$ 0.86</b>                                    |

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

| Range of exercise prices<br>CDN\$ | Outstanding Options           |   |  | Exercisable Options           |   |  |
|-----------------------------------|-------------------------------|---|--|-------------------------------|---|--|
|                                   | Number of options outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price<br>CDN\$ | Number of options exercisable | Weighted average remaining contractual life (years) | Weighted average exercise price<br>CDN\$ |
| \$0.61 - \$0.70                   | 2,341,668                     | 1.90  | \$ 0.70                                  | 1,466,625                     | 1.90  | \$ 0.70                                  |
| \$0.71 - \$0.90                   | 148,000                       | 0.41  | 0.80                                     | 148,000                       | 0.41  | 0.80                                     |
| \$0.91 - \$1.25                   | 100,000                       | 2.18  | 0.99                                     | -                             | -   | -  |
| \$1.25 - \$2.25                   | 300,000                       | 2.89  | 2.11                                     | 66,666                        | 2.95  | 2.25                                     |
|                                   | <b>2,889,668</b>              | <b>1.94</b>   | <b>\$ 0.86</b>                           | <b>1,681,291</b>              | <b>1.81</b>   | <b>\$ 0.77</b>                           |

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**7. STOCK OPTIONS (continued)**

During the six months ended June 30, 2014, an amount of \$0.2 million (2013 – \$0.3 million) was charged to operations in recognition of stock-based compensation expense, based on the vesting schedule for the options granted.

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

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

**8. ADMINISTRATION**

|  | <b>Three months ended June 30,</b> |             | <b>Six months ended June 30,</b> |             |
|--|------------------------------------|-------------|----------------------------------|-------------|
|  | <b>2014</b>                        | <b>2013</b> | <b>2014</b>                      | <b>2013</b> |
| Salaries and benefits  | \$ 1,794                           | \$ 1,301    | \$ 2,617                         | \$ 1,979    |
| Office and general   | 627                                | 436         | 823                              | 588         |
| Stock-based compensation (Note 7)                            | 119                                | 282         | 212                              | 305         |
| Stock exchange, transfer agent,<br>shareholder communication | 146                                | 186         | 359                              | 445         |
| Travel   | 226                                | 153         | 452                              | 390         |
| Depreciation   | 96                                 | 149         | 189                              | 237         |
| Professional fees  | 718                                | 131         | 1,066                            | 515         |
| Management fees  | 115                                | 123         | 230                              | 248         |
|  | \$ 3,841                           | \$ 2,761    | \$ 5,948                         | \$ 4,707    |

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**9. INCOME TAXES**

|                    | <b>Six months ended June 30,</b> |             |
|--------------------|----------------------------------|-------------|
|                    | <b>2014</b>                      | <b>2013</b> |
| Current            | \$ 5,555                         | \$ -        |
| Deferred           | 17,384                           | -           |
| Income tax expense | \$ 22,939                        | \$ -        |

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

|  | <b>Six months ended June 30,</b> |             |
|--|----------------------------------|-------------|
|  | <b>2014</b>                      | <b>2013</b> |
| Income tax expense at Statutory Rate 26% (2013 - 25.75%) | \$ 11,346                        | \$ 7,428    |
| Differences between Canadian and foreign tax rates       | (409)                            | (1,548)     |
| Non-deductible expenses and other permanent differences  | 370                              | 489         |
| Benefits from previously unrecognized tax benefits       | -                                | (9,676)     |
| Increase in future expected variable tax rate            | 8,396                            | -           |
| Change in deferred tax benefits not recognized           | 1,168                            | 2,759       |
| Exchange rate differences                                | 2,117                            | 548         |
| Other  | (49)                             | -           |
| Income tax expense                                       | \$ 22,939                        | \$ -        |

The Company is subject to a variable tax rate in Botswana that increases as profit as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55% only if taxable income were equal to revenue. The Company has estimated the variable tax rate for the deferred income taxes following the updated Karowe 43-101 technical report and current financial performance. This resulted in an \$8.4 million deferred tax charge in the period based on expected variable tax rate in future years.

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

|   | <b>June 30,</b> | <b>December 31,</b> |
|---|-----------------|---------------------|
|   | <b>2014</b>     | <b>2013</b>         |
| <b>Balance, beginning of the period</b> | \$ 14,258       | \$ -                |
| Deferred income tax expense             | 17,384          | 14,895              |
| Foreign currency translation adjustment | (44)            | (637)               |
| <b>Balance, end of the period</b>       | \$ 31,598       | \$ 14,258           |

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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

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

| Description of services          | Related party | Six months ended June 30, |        |
|----------------------------------|---------------|---------------------------|--------|
|                                  |               | 2014                      | 2013   |
| Management fees                  | Namdo         | \$ 229                    | \$ 248 |
| Exploration related expenditures | MS Group      | -                         | 86     |
| Aircraft charter                 | Mile High     | -                         | 50     |
|                                  |               | \$ 229                    | \$ 384 |

*b) Related party liabilities*

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

|       | June 30, | December 31, |
|-------|----------|--------------|
|       | 2014     | 2013         |
| Namdo | \$ 9     | \$ -         |
|       | \$ 9     | \$ -         |

*c) Key management compensation*

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers, vice-presidents and members of its Board of Directors.

The remuneration of key management personnel were as follows:

|                          | Six months ended June 30, |          |
|--------------------------|---------------------------|----------|
|                          | 2014                      | 2013     |
| Salaries and wages       | \$ 1,732                  | \$ 1,330 |
| Short term benefits      | 39                        | 31       |
| Stock-based compensation | 158                       | 236      |
|                          | \$ 1,929                  | \$ 1,597 |

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**11. SEGMENT INFORMATION**

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

**Three months ended June 30, 2014**

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|                                  | <b>Karowe Mine</b> | <b>Mothae<br/>Diamond<br/>Project</b> | <b>Corporate<br/>and other</b> | <b>Total</b> |
|----------------------------------|--------------------|---------------------------------------|--------------------------------|--------------|
| Revenues                         | \$ 70,972          | \$ -                                  | \$ -                           | \$ 70,972    |
| Income from mining operations    | 49,652             | -                                     | (48)                           | 49,604       |
| Exploration expenditures         | -                  | (135)                                 | -                              | (135)        |
| Finance income (expenses)        | 163                | -                                     | (106)                          | 57           |
| Other expenses                   | (3,588)            | (7)                                   | (9,824)                        | (13,419)     |
| Tax expenses                     | (20,468)           | -                                     | -                              | (20,468)     |
| Net income (loss) for the period | 25,759             | (142)                                 | (9,978)                        | 15,639       |
| Capital expenditures             | \$ 9,380           | \$ -                                  | \$ -                           | \$ 9,380     |

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**Three months ended June 30, 2013**

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|                                  | <b>Karowe Mine</b> | <b>Mothae<br/>Diamond<br/>Project</b> | <b>Corporate<br/>and other</b> | <b>Total</b> |
|----------------------------------|--------------------|---------------------------------------|--------------------------------|--------------|
| Revenues                         | \$ 47,224          | \$ -                                  | \$ -                           | \$ 47,224    |
| Income from mining operations    | 30,071             | -                                     | (52)                           | 30,019       |
| Exploration expenditures         | -                  | (557)                                 | -                              | (557)        |
| Finance income (expenses)        | 26                 | -                                     | (885)                          | (859)        |
| Other income (expenses)          | (1,532)            | 11                                    | (4,403)                        | (5,924)      |
| Net income (loss) for the period | 28,565             | (546)                                 | (5,340)                        | 22,679       |
| Capital expenditures             | \$ 1,666           | \$ -                                  | \$ -                           | \$ 1,666     |

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# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014

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

### 11. SEGMENT INFORMATION (continued)

#### Six months ended June 30, 2014

|                                  | Karowe Mine | Mothae<br>Diamond<br>Project | Corporate<br>and other | Total      |
|----------------------------------|-------------|------------------------------|------------------------|------------|
| Revenues                         | \$ 103,752  | \$ -                         | \$ -                   | \$ 103,752 |
| Income from mining operations    | 62,819      | -                            | (109)                  | 62,710     |
| Exploration expenditures         | -           | (594)                        | -                      | (594)      |
| Finance income (expenses)        | 184         | -                            | (209)                  | (25)       |
| Other income (expenses)          | (4,611)     | (8)                          | (13,820)               | (18,439)   |
| Tax expenses                     | (22,939)    | -                            | -                      | (22,939)   |
| Net income (loss) for the period | 35,453      | (602)                        | (14,138)               | 20,713     |
| Capital expenditures             | 11,192      | -                            | 60                     | 11,252     |
| Total assets                     | \$ 268,882  | \$ 19,348                    | \$ 7,128               | \$ 295,358 |

#### Six months ended June 30, 2013

|                                  | Karowe Mine | Mothae<br>Diamond<br>Project | Corporate<br>and other | Total      |
|----------------------------------|-------------|------------------------------|------------------------|------------|
| Revenues                         | \$ 79,728   | \$ -                         | \$ -                   | \$ 79,728  |
| Income from mining operations    | 42,590      | -                            | (139)                  | 42,451     |
| Exploration expenditures         | -           | (767)                        | -                      | (767)      |
| Gain on sale of diamonds         | -           | 584                          | -                      | 584        |
| Finance income (expenses)        | 44          | -                            | (1,945)                | (1,901)    |
| Other income (expenses)          | (1,923)     | 45                           | (9,641)                | (11,519)   |
| Net income (loss) for the period | 40,711      | (138)                        | (11,725)               | 28,848     |
| Capital expenditures             | 3,911       | -                            | -                      | 3,911      |
| Total assets                     | \$ 200,049  | \$ 20,701                    | \$ 5,168               | \$ 225,918 |

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

|          | Plant and equipment |                      | Mineral properties |                      | Other            |                      |
|----------|---------------------|----------------------|--------------------|----------------------|------------------|----------------------|
|          | June 30,<br>2014    | December<br>31, 2013 | June 30,<br>2014   | December<br>31, 2013 | June 30,<br>2014 | December<br>31, 2013 |
| Canada   | \$ 172              | \$ 142               | \$ -               | \$ -                 | \$ 342           | \$ -                 |
| Lesotho  | 482                 | 486                  | 18,313             | 18,408               | 61               | 62                   |
| Botswana | 102,071             | 100,258              | 55,327             | 53,653               | -                | -                    |
|          | \$ 102,725          | \$ 100,886           | \$ 73,640          | \$ 72,061            | \$ 403           | \$ 62                |

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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

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

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

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

|  | <b>June 30, 2014</b> |        | <b>December 31, 2013</b> |        |
|--|----------------------|--------|--------------------------|--------|
| <b>ASSETS</b>                          |                      |        |                          |        |
| Loans and receivables                  |                      |        |                          |        |
| Cash                                   | \$                   | 82,098 | \$                       | 49,364 |
| Other receivables                      |                      | 85     |                          | 233    |
|  | \$                   | 82,183 | \$                       | 49,597 |
| Available for sale                     |                      |        |                          |        |
| Investments                            |                      | 79     |                          | 90     |
|  | \$                   | 79     | \$                       | 90     |
| <b>LIABILITIES</b>                     |                      |        |                          |        |
| Amortized cost                         |                      |        |                          |        |
| Trade payables and accrued liabilities | \$                   | 15,176 | \$                       | 15,491 |
| Taxes payable                          |                      | 5,555  |                          | -      |
|  | \$                   | 20,731 | \$                       | 15,491 |

*b) Fair value hierarchy*

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

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

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

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

|                           | <b>June 30, 2014</b> |    | <b>December 31, 2013</b> |    |
|---------------------------|----------------------|----|--------------------------|----|
| Level 1                   |                      |    |                          |    |
| Investments               | \$                   | 79 | \$                       | 90 |
| Level 2 and Level 3 – N/A |                      |    |                          |    |

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