Lucara Diamond Corp.

Consolidated Financial Statements

Year Ending: December 31, 2014

February 19, 2015

Independent Auditor's Report

To the Shareholders of Lucara Diamond Corp.

We have audited the accompanying consolidated financial statements of Lucara Diamond Corp., which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013 and the consolidated statements of operations, comprehensive income, cash flows and changes in equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lucara Diamond Corp. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

signed "PricewaterhouseCoopers LLP"

Chartered Accountants

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

	December 31, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 100,839	$ 49,364
Investments	56	90
VAT receivables and other (Note 6)	5,017	3,593
Inventories (Note 7)	32,019	21,132
	137,931	74,179
Plant and equipment (Note 8)	122,016	100,886
Mineral properties (Note 9)	52,729	72,061
Other non-current assets	4,349	62
TOTAL ASSETS	$ 317,025	$ 247,188
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	$ 12,384	$ 15,491
Taxes payable (Note 17)	13,681	-
Current portion of restoration provisions (Note 10)	2,857	-
	28,922	15,491
Restoration provisions (Note 10)	15,902	14,515
Deferred income taxes (Note 17)	43,646	14,258
TOTAL LIABILITIES	88,470	44,264
EQUITY		
Share capital (Note 11)	286,138	283,609
Contributed surplus (Note 12)	4,713	5,108
Deficit	(25,128)	(45,516)
Accumulated other comprehensive loss	(37,182)	(41,820)
Total equity attributable to shareholders of the Company	228,541	201,381
Non-controlling interests (Note 13)	14	1,543
TOTAL EQUITY	228,555	202,924
TOTAL LIABILITIES AND EQUITY	$ 317,025	$ 247,188

Commitments (Note 23)

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

Approved on Behalf of the Board of Directors:

"Marie Inkster"
Director

"William Lamb"
Director

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31
(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

		2014		2013
Revenues	$	265,504	$	180,507
Cost of goods sold				
Operating expenses		47,169		43,835
Royalty expenses (Note 9)		26,550		18,051
Depletion, amortization and accretion		14,681		14,979
		88,400		76,865
Income from mining operations		177,104		103,642
Other expenses				
Exploration expenditures (Note 14)		1,197		1,323
Administration (Note 15)		12,774		11,429
Gain on sale of exploration program diamonds		-		(584)
Sales and marketing		4,355		3,523
Finance (income) expenses (Note 16)		(813)		3,785
Foreign exchange loss		19,372		3,953
Restoration charge (Note 5)		2,415		-
Impairment charge (Note 5)		18,783		-
		58,083		23,429
Net income before tax		119,021		80,213
Income tax expense (Note 17)				
Current income tax		41,589		96
Deferred income tax		31,692		14,895
		73,281		14,991
Net income for the year	$	45,740	$	65,222
Attributable to:				
Shareholders of the Company	$	47,317	$	65,317
Non-controlling interests	$	(1,577)	$	(95)
Income per common share (Note 18)				
Basic	$	0.13	$	0.17
Diluted	$	0.13	$	0.17
Weighted average common shares outstanding (Note 18)				
Basic		378,198,299		376,392,625
Diluted		380,011,269		376,512,990

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

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31
(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

		2014		2013
Net income for the year	$	45,740	$	65,222
Other comprehensive income (loss)				
Items that may be subsequently reclassified to net income				
Change in fair value of available-for-sale securities		(29)		11
Currency translation adjustment		4,620		(20,816)
		4,591		(20,805)
Comprehensive income	$	50,331	$	44,417
Comprehensive income attributable to:				
Shareholders of the Company		51,955		44,878
Non-controlling interests		(1,624)		(461)
	$	50,331	$	44,417

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

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31
(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

	Number of shares issued and outstanding	Share capital	Contributed surplus	Cumulative deficit	Accumulated other comprehensive loss	Non-controlling interests	Total
Balance, January 1, 2013	376,292,749	$ 282,796	$ 4,874	$ (110,740)	$ (21,381)	$ 1,911	$ 157,460
Exercise of stock options	606,666	813	(283)	-	-	-	530
Stock-based compensation	-	-	517	-	-	-	517
Effect of foreign currency translation	-	-	-	-	(20,450)	(366)	(20,816)
Unrealized gain on investments	-	-	-	-	11	-	11
Free-carried non-controlling interests (Note 13)	-	-	-	(93)	-	93	-
Net income for the year	-	-	-	65,317	-	(95)	65,222
Balance, December 31, 2013	376,899,415	$ 283,609	$ 5,108	$ (45,516)	$ (41,820)	$ 1,543	$ 202,924
Balance, January 1, 2014	376,899,415	$ 283,609	$ 5,108	$ (45,516)	$ (41,820)	$ 1,543	$ 202,924
Exercise of stock options	2,469,664	2,529	(727)	-	-	-	1,802
Stock-based compensation	-	-	332	-	-	-	332
Effect of foreign currency translation	-	-	-	-	4,667	(47)	4,620
Unrealized loss on investments	-	-	-	-	(29)	-	(29)
Free-carried non-controlling interests (Note 13)	-	-	-	(95)	-	95	-
Dividends paid[(1)]	-	-	-	(26,834)	-	-	(26,834)
Net income for the year	-	-	-	47,317	-	(1,577)	45,740
Balance, December 31, 2014	379,369,079	$ 286,138	$ 4,713	$ (25,128)	$ (37,182)	$ 14	$ 228,555

(1) On June 19, 2014, the Company paid a cash dividend of CA$ 0.02 per share. On December 18, 2014, the Company paid a cash dividend of CA$ 0.06 per share.

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

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)

	2014	2013
Cash flows from (used in):		
Operating Activities		
Net income for the year	$ 45,740	$ 65,222
Items not involving cash and cash equivalents:		
Depletion, amortization and accretion	15,128	15,402
Foreign exchange loss	23,879	-
Stock-based compensation	332	517
Deferred income taxes	31,692	14,895
Finance costs	184	3,527
Restoration charge	2,415	-
Impairment charge	18,783	-
	138,153	99,563
Net changes in working capital items:		
VAT receivables and other current assets	(2,094)	2,060
Inventories	(11,814)	(6,953)
Trade payables and other current liabilities	(3,094)	3,893
Taxes payable	11,908	
	133,059	98,563
Financing Activities		
Repayments of debt	-	(50,000)
Repayments of revolving credit facility	-	(4,500)
Dividends paid	(26,834)	-
Proceeds from exercise of stock options	1,802	530
Other	(2,298)	-
	(27,330)	(53,970)
Investing Activities		
Acquisition of plant and equipment	(42,271)	(7,865)
Capitalized production stripping costs	(6,162)	-
Other	(2,051)	54
	(50,484)	(7,811)
Effect of exchange rate change on cash and cash equivalents	(3,770)	(679)
Increase in cash and cash equivalents during the year	51,475	36,103
Cash and cash equivalents, beginning of year	49,364	13,261
Cash and cash equivalents, end of year	$ 100,839	$ 49,364
Supplemental Information		
Interest received (paid)	739	(109)
Taxes (paid) received	(26,708)	96
Changes in trade payable and accrued liabilities related to plant and equipment	(272)	(2,870)

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

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

The Company prepared its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The same accounting policies have been consistently applied in all periods presented.

These financial statements were approved by the Board of Directors for issue on February 19, 2015.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

(a) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for investments in equity securities, which are measured at fair value.

(b) Consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries. (See Note 13 Principal subsidiaries)

Subsidiaries are entities controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. Where the Company's interest is less than 100%, the Company recognized non-controlling interests. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-controlling interests represent the equity in a subsidiary not attributable, directly and indirectly, to the Company and is presented separately within equity in the consolidated balance sheet, separately from equity attributable to the shareholders of the Company. Losses within a subsidiary continue to be attributed to the non-controlling interests even if that results in a deficit balance. Changes in the Company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

(c) Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the consolidated financial statements:

Estimated recoverable reserves and resources – Mineral reserve and resource estimates are based on various assumptions relating to operating matters. These include production costs, mining and processing recoveries, cut-off grades, long term commodity prices and, in some cases, exchange rates, inflation rates and capital costs. Cost estimates are based on feasibility study estimates or operating history. Estimates are prepared by appropriately qualified persons, but will be affected by forecasted commodity prices, inflation rates, exchange rates, capital and production costs and recoveries amongst other factors. Estimated recoverable reserves and resources are used to determine the depreciation of property, plant and equipment at operating mine site, in accounting for deferred stripping costs and in performing impairment testing. Therefore, changes in the assumptions used could affect the carrying value of assets, depreciation and impairment charges recorded in the income statement.

Valuation of mineral properties – The Company carries the acquisition costs of its mineral properties at cost less any provision for impairment. The Company undertakes a periodic review of the carrying values of mineral properties and whenever events or changes in circumstances indicate that their carrying values may exceed their fair value. In undertaking this review, management of the Company is required to make significant judgments. These judgments are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the mineral properties and related expenditures.

Stock based compensation – The fair value of stock options is determined using the Black-Scholes option pricing model and are expensed over their vesting periods. In estimating fair value, management of the Company is required to make certain assumptions and estimates regarding the life of the options, volatility and forfeitures rates. Changes in the assumptions used could result in materially different results.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Decommissioning and site restoration – The Company has obligations for site restoration and decommissioning related to its diamond properties. The future obligations for decommissioning and site restoration activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The decommissioning and site restoration provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The Company's policy for recording decommissioning and site restoration provisions is to establish provisions for future mine closure costs at the commencement of mining operations based on the present value of the future cash flows required to satisfy the obligations. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of the mine through a charge to operating costs. Actual results could differ from estimates made by management during the preparation of these consolidated financial statements and those differences may be material.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the person that makes strategic decisions. The CEO is deemed the chief operating decision-maker of the Company.

The Company's primary reporting segments are based on individual diamond properties, being the Karowe Mine and the Mothae Diamond Project and Corporate. The Corporate office provides support to the diamond properties with respect to sales, treasury and finance, technical support, regulatory reporting and corporate administration.

(e) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in U.S. dollars. The functional currency of the parent company, Lucara Diamond Corp., is the Canadian dollar.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the statement of operations.

Group companies

The functional currency of the significant subsidiaries of the Company are Boteti Mining (PTY) Ltd., which has a Pula functional currency and Mothae Diamonds (Pty) Ltd, which has a Loti functional currency. The results and financial position of the group companies, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
(ii) Income and expenses for each statement of operation are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).
(iii) All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(g) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of operations. Gains and losses arising from changes in fair value are presented in the consolidated statement of operations within "other gains and losses" in the period in which they arise. Non-derivative financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which are classified as non-current.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from re-measurement are recognized in other comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of operations and are included in "other gains and losses". Available-for-sale investments are classified as non-current, unless an investment matures within twelve months, or management expects to dispose of it within twelve months.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and trade receivables and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired.

The criteria used to determine if objective evidence of an impairment loss exists include:

(i) significant financial difficulty of the obligor;
(ii) delinquencies in interest or principal payments; and
(iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of operations. This amount represents the loss in accumulated other comprehensive income that is reclassified to net loss.

Impairment losses on financial assets carried at amortized cost and available-for-sale debt instruments are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

(h) Inventories

Inventories, which include rough diamonds, ore stockpile and parts and supplies, are measured at the lower of cost and net realizable value. The amount of any write-down of inventories to net realizable value and all losses, are recognized in the period the write-down of loss occurs. Cost is determined using the weighted average method. Cost includes directly attributable mining overhead but excludes borrowing costs.

Net realizable value represents the estimated selling price in the ordinary course of business, less all estimated costs to completion and selling expenses.

(i) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset consists of its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation of each asset is calculated using the straight line or unit of production method to allocate its cost less its residual value over its estimated useful life. The estimated useful lives of plant and equipment are as follows:

Machinery	5 to 10 years
Plant facilities	based on resources on a unit of production basis
Furniture and office equipment	2 to 3 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains and losses" in the statement of operations.

(j) Exploration and evaluation expenditures and mineral properties

Exploration and evaluation expenditures relate to the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activities include:

- Researching and analyzing historical exploration data;
- Gathering exploration data through topographical, geochemical and geophysical studies;
- Exploratory drilling, trenching and sampling;
- Determining and examining the volume and grade of the resource; and
- Surveying, transportation and infrastructure requirement

Exploration and development expenditures are expensed as incurred on mineral properties not sufficiently advanced as to identify their development potential. When it has been established that a mineral property is considered to be sufficiently advanced and an economic analysis has been completed, all further expenditures for the current year and subsequent years are capitalized as incurred. Costs associated with acquiring a mineral property are capitalized as incurred.

(l) Impairment of non-financial assets

Long lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Provisions

Asset retirement obligations

The Company recognizes a liability for an asset retirement obligation on long-lived assets when a present legal or constructive obligation exists, as a result of past events and the amount of the liability is reasonably determinable. Asset retirement obligations are initially recognized and recorded as a liability based on estimated future cash flows discounted at a risk free rate. This is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the risk free discount rate. Corresponding amounts and adjustments are added to the carrying value of the related long-lived asset and amortized or depleted to operations over the life of the related asset.

Environmental expenditures

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated.

Other provisions

Provisions are recognized when:

- the Company has a present legal or constructive obligation as a result of a past event;
- a reliable estimate can be made of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as finance costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Deferred income taxes

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the year end.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities where there is a legal right to do so, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future tax profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each year end and are reduced to extent that is no longer probable that the related tax benefit will be realized.

(o) Share capital

Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(p) Revenue recognition

Revenues from diamond sales are recognized when the risks and rewards of ownership pass to the customer, which is when proceeds are received and title is transferred to the purchaser.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Royalties

Royalties and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of income tax. This is considered to be the case when they are imposed under Government authority and the amount payable is based on taxable income – rather than based on quantity produced or as a percentage of revenue. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognized as current provisions and disclosed as part of royalty expenses. The royalties incurred by the Company are considered not to meet the criteria to be treated as part of income tax.

(r) Stock-based compensation

The Company has a stock-based compensation plan, under which the entity receives services from employees and non-employees as consideration for equity instruments (options) of the Company.

Stock options granted to employees are measured on the grant date. Stock options granted to non-employees are measured on the date that the goods or services are received.

The fair value of the employee and non-employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted and the vesting periods. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The cash subscribed for the shares issued when the options are exercised is credited to share capital, net of any directly attributable transaction costs.

(s) Income per share

Income per share is calculated by dividing the income attributable to the shareholders of the Company by the weighted average number of common shares issued and outstanding during the year. Diluted income per share is calculated using the treasury stock method.

(t) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of operations on a straight-line basis over the period of the lease.

(u) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

4. ADOPTION OF NEW IFRS PRONOUNCEMENTS

As of January 1, 2014, the Company adopted the new and amended IFRS pronouncements in accordance with the transitional provisions outlined in the respective standards as listed below.

a) *Pronouncement affecting financial statement presentation or disclosures*

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.

b) *Pronouncements issued but not yet effective*

New IFRS pronouncements that have been issued but are not yet effective are listed below. The Company plans to apply the new standards or interpretations in the annual period for which it is first required.

IFRS 15 - Revenue from Contracts with Customers

The new revenue standard introduces a single, principles based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The five steps are: identify the contract(s) with the customer, identify the performance obligations in the contract, determine transaction price, allocate the transaction price and recognize revenue when a performance obligation is satisfied. IFRS 15 also requires enhanced disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers and improves the comparability of revenue from contracts with customers.

IFRS 15 will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently assessing the effect of this standard on our financial statements.

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

4. ADOPTION OF NEW IFRS PRONOUNCEMENTS (continued)

IFRS 9 - Financial Instruments

IFRS 9, Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: those measured at fair value through profit and loss, those measured at fair value through other comprehensive income and those measured at amortized cost. Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, there is an irrevocable option to present fair value changes in other comprehensive income. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard and its related amendments on our financial statements.

5. IMPAIRMENT OF MOTHAE PROJECT

During the year ended December 31, 2014, the Company concluded that the Mothae project in Lesotho did not meet the Company's investment criteria. The Company's decision to cease development resulted in a charge of $18.8 million, which is included in other expenses and reflects a write-down of the Company's carrying value of the Mothae project. The Company also recorded a $2.4 million restoration charge to increase its Mothae closure cost provisions to $2.9 million and classified the resulting restoration obligation as a current liability based upon the planned timing of these expenditures (Note 10).

6. VAT RECEIVABLES AND OTHER

		2014		2013
VAT	$	2,712	$	2,694
Other		1,335		233
Prepayments		970		666
	$	5,017	$	3,593

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

7. INVENTORIES

	2014	2013
Rough diamonds	$ 11,703	$ 9,026
Ore stockpile	13,849	6,674
Parts and supplies	6,467	5,432
	$ 32,019	$ 21,132

Inventory expensed during the year ended December 31, 2014 totaled $47.2 million (2013 – $43.8 million).

8. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2013	$ -	$ 126,430	$ 1,542	$ 2,361	$ 130,333
Additions	-	5,212	100	293	5,605
Disposals and other	-	(964)	(36)	334	(666)
Translation differences	-	(14,748)	(187)	(281)	(15,216)
Balance, December 31, 2013	-	115,930	1,419	2,707	120,056
Additions	41,154	245	228	372	41,999
Disposals and other	-	-	(19)	-	(19)
Impairment (Note 5)	-	(5,171)	(111)	(106)	(5,388)
Translation differences	(2,473)	(9,277)	(123)	(238)	(12,111)
Balance, December 31, 2014	$ 38,681	$ 101,727	$ 1,394	$ 2,735	$ 144,537
Accumulated depreciation					
Balance, January 1, 2013	$ -	$ 10,752	$ 598	$ 588	$ 11,938
Depletion, amortization and accretion for the year	-	8,515	382	619	9,516
Disposals and other	-	(33)	(35)	12	(56)
Translation differences	-	(2,042)	(90)	(96)	(2,228)
Balance, December 31, 2013	-	17,192	855	1,123	19,170
Depletion, amortization and accretion for the year	-	9,170	388	628	10,186
Disposals and other	-	-	(13)	-	(13)
Impairment (Note 5)	-	(4,746)	(75)	(74)	(4,895)
Translation differences	-	(1,713)	(89)	(125)	(1,927)
Balance, December 31, 2014	$ -	$ 19,903	$ 1,066	$ 1,552	$ 22,521
Net book value					
As at December 31, 2013	$ -	$ 98,738	$ 564	$ 1,584	$ 100,886
As at December 31, 2014	$ 38,681	$ 81,824	$ 328	$ 1,183	$ 122,016

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

9. MINERAL PROPERTIES

Cost	**Capitalized production stripping asset**	**Karowe Mine**	**Mothae Diamond**	**Mothae mining license**	**Total**
Balance, January 1, 2013	$ -	$ 65,504	$ 17,688	$ 3,177	$ 86,369
Additions	-	2,324	-	-	2,324
Disposals and other	-	(500)	(74)	-	(574)
Translation differences	-	(7,459)	(1,773)	(609)	(9,841)
Balance, December 31, 2013	-	59,869	15,841	2,568	78,278
Additions	6,162	1,881	-	-	8,043
Impairment (Note 5)	-	-	(15,502)	(2,487)	(17,989)
Translation differences	(370)	(5,040)	(339)	(81)	(5,830)
Balance, December 31, 2014	$ 5,792	$ 56,710	$ -	$ -	$ 62,502
Accumulated depletion					
Balance, January 1, 2013	$ -	$ 1,724	$ -	$ -	$ 1,724
Depletion for the year	-	4,896	-	-	4,896
Translation differences	-	(403)	-	-	(403)
Balance, December 31, 2013	-	6,217	-	-	6,217
Depletion for the year	213	4,116	-	-	4,329
Translation differences	(13)	(760)	-	-	(773)
Balance, December 31, 2014	$ 200	$ 9,573	$ -	$ -	$ 9,773
Net book value					
As at December 31, 2013	$ -	$ 53,652	$ 15,841	$ 2,568	$ 72,061
As at December 31, 2014	$ 5,592	$ 47,137	$ -	$ -	$ 52,729

a) *Karowe Mine*

A royalty of 10% of the sales value of diamonds produced from Karowe is payable to the government of Botswana. During the year, the Company had a royalty expense of $26.6 million. (2013: $18.1 million)

b) *Mothae Diamond Project*

Pursuant to the terms of the mining agreement, Mothae Diamonds, an indirect 75% owned subsidiary of the Company has a 100% interest in the project. The remaining 25% of Mothae Diamonds is held by the Government of Lesotho (Note 13). One half of the project interest held by the Government is a free carried interest and one half is funded by the Government through its share of project dividends.

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

10. RESTORATION PROVISIONS

The Company's restoration provisions relate to the rehabilitation of its diamond properties. The provisions have been calculated based on total estimated rehabilitation costs and discounted back to their present values. The pre-tax discount rates and inflation rates are adjusted annually and reflect current market assessments. The Company has applied a pre-tax discount rate of 8.4% at December 31, 2014 (10.8% at December 31, 2013) and an inflation rate of 5.3% at December 31, 2014 (5.8% at December 31, 2013) at the Karowe Mine project. The Karowe rehabilitation costs are expected to be incurred in the year 2022. The Company's decision to divest Mothae resulted in a present value accretion and a re-estimation of the Mothae restoration provision (Note 5). The Mothae rehabilitation costs are expected to be incurred in 2015. The estimated total liability for reclamation and remediation costs on an undiscounted basis is approximately $23.0 million (December 31, 2013 - $21.9 million).

		2014		**2013**
Balance, beginning of year	$	14,515	$	12,242
Revision to provisions		2,415		-
Changes due to discount rate changes		1,881		2,250
Accretion of liability component of obligation		1,484		1,628
Foreign currency translation adjustment		(1,536)		(1,605)
Balance, end of year		18,759		14,515
Less: Current portion		2,857		-
Long-term portion of restoration provisions	$	15,902	$	14,515

11. SHARE CAPITAL

The authorized share capital consists of an unlimited number of common shares, with no par value.

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

12. 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 (CA$)
Balance at December 31, 2012	**2,665,000**	**$ 0.88**
Granted	2,775,000	0.72
Forfeited	(50,000)	1.03
Expired	(575,000)	0.91
Exercised	(606,666)	0.92
Balance at December 31, 2013	**4,208,334**	**0.76**
Granted	300,000	2.11
Exercised[1]	(2,469,664)	0.80
Balance at December 31, 2014	**2,038,670**	**$ 0.92**

(1) The weighted average share price on the exercise dates for the 2014 stock option exercises was CA$2.20.

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

	Outstanding Options			Exercisable Options		
Range of exercise prices CA$	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price CA$	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price CA$
$0.61 - $0.70	1,638,670	1.3973	$ 0.70	763,643	1.3973	$ 0.70
$0.71 - $1.00	100,000	1.6795	0.99	50,000	1.6795	0.99
$1.01 - $2.25	300,000	2.3822	2.11	100,000	2.3822	2.11
	2,038,670	1.5560	$ 0.92	913,641	1.5205	$ 0.87

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

12. STOCK OPTIONS (continued)

During the year ended December 31, 2014, an amount of $0.3 million (2013 – $0.5 million) was charged to operations in recognition of stock-based compensation expense, based on the vesting schedule for the options granted.

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

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

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

13. PRINCIPAL SUBSIDIARIES

The Company had the following subsidiaries at December 31, 2014:

Name	Country of incorporation and place of business	Nature of business	Proportion of shares directly held by the Company (%)	Proportion of shares held by the group (%)	Proportion of shares held by non-controlling interests (%)
African Diamonds Ltd.	UK	Intermediate holding company	100	-	-
Lucara Management Services Ltd.	UK	Intermediate services company	100	-	-
Lucara Diamond Holdings (I) Inc.	Mauritius	Intermediate holding company	100	-	-
Mothae Diamond Holdings Inc.	Mauritius	Intermediate holding company	-	100	-
Boteti Diamond Holdings Inc.	Mauritius	Intermediate holding company	-	100	-
Lucara Diamond South Africa (Pty) Ltd.	South Africa	Intermediate holding company	-	100	-
Wati Ventures (Pty) Ltd.	Botswana	Intermediate holding company	-	100	-
Debwat Exploration (Pty) Ltd.	Botswana	Intermediate holding company	-	100	-
Boteti Mining (Pty) Ltd.	Botswana	Mining of diamonds	-	100	-
Mothae Diamonds (Pty) Ltd.	Lesotho	Exploration of diamond properties	-	75	25

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

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

13. PRINCIPAL SUBSIDIARIES (continued)

The total non-controlling interest at December 31, 2014 is $14 thousand (2013 - $1.5 million).

As consideration for acquiring a mining license from the Government of Lesotho ("GOL"), the Company issued the GOL 25% ownership in Mothae Diamonds (Pty) Ltd. ("Mothae Diamonds"). One half of the interest held by the GOL is a free-carried interest and the other 12.5% will ultimately be paid for by the GOL through its share of future dividends paid by Mothae Diamonds, if any.

The GOL's equity interest must be kept at 25% and cannot be diluted by further equity issuances. As such, the 12.5% free-carried interest portion of the Company's capital contributions into Mothae Diamonds is accounted for as an equity transaction between shareholders.

Set out below is the summarized financial information for Mothae Diamonds.

Summarized balance sheet

	2014	2013
CURRENT		
Assets	$ 115	$ 890
Liabilities	(38)	(77)
	77	813
NON-CURRENT		
Assets	-	8,953
Liabilities	(3,478)	(608)
	(3,478)	8,345
NET ASSETS (LIABILITIES)	$ (3,401)	$ 9,158

Summarized statement of operations

	2014	2013
Revenue	$ -	$ -
Depreciation	-	-
Loss from operations	(12,379)	(758)
Other comprehensive loss	(90)	(2,174)
Comprehensive loss	(12,469)	(2,932)
Attributable to non-controlling interests	(1,559)	(367)
Dividends paid to non-controlling interests	-	-

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

13. PRINCIPAL SUBSIDIARIES (continued)

Summarized statement of cash flows

		2014		2013
Cash used in operating activities	$	(1,161)	$	(538)
Cash generated from financing activities		910		742
Cash generated from (used in) investing activities		(26)		54
Effect of exchange rate on cash		50		(46)
Net increase (decrease) in cash		(227)		212
Cash, beginning of year		340		128
Cash, end of year		113		340

The information above is the amount before inter-company eliminations.

14. EXPLORATION EXPENDITURES

		2014		2013
Resource development	$	170	$	-
Office and other		578		849
Care and maintenance		449		474
	$	1,197	$	1,323

15. ADMINISTRATION

		2014		2013
Salaries and benefits	$	5,822	$	5,275
Professional fees		1,972		1,490
Office and general		1,904		1,313
Travel		945		894
Stock exchange, transfer agent, shareholder communication		668		775
Stock based compensation		332		517
Management fees		457		489
Depreciation		447		423
Donations		227		253
	$	12,774	$	11,429

16. FINANCE INCOME

The Company generated $0.8 million in interest income during 2014 from its cash and cash equivalents holdings. In 2013, the Company had incurred $3.8 million in interest expenses from its debenture financing which was fully repaid in 2013.

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

17. INCOME TAXES

		2014		2013
Current	$	41,589	$	96
Deferred		31,692		14,895
Income tax expense	$	73,281	$	14,991

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to net income before tax. These differences result from the following items:

		2014		2013
Basic statutory tax rate		26.00%		25.75%
Net income before tax		119,021		80,213
Computed income tax expense		30,945		20,655
Differences between Canadian and foreign tax rates		(6,819)		(3,962)
Non-deductible expenses and other permanent differences		4,493		1,331
Current tax effect of Botswana variable tax rate in excess of Botswana standard tax rate		18,534		-
Deferred tax effect of Botswana variable tax rate in excess of Botswana standard tax rate		15,717		-
Change in deferred tax rates		-		(376)
Benefits from previously unrecognized tax benefits		-		(8,458)
Change in deferred benefits not recognized		3,961		4,461
Exchange rate differences		5,772		1,144
Other		678		196
	$	73,281	$	14,991

The Company is subject to a variable tax rate in Botswana based on a profit and revenue ratio which increases as profit as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55% only if taxable income were equal to revenue. The Company has estimated the variable tax rate for the deferred income taxes following the updated Karowe 43-101 technical report and current financial performance. The Company recorded a deferred tax liability during the year, which resulted in a corresponding non-cash deferred income tax expense of $32.0 million.

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

17. INCOME TAXES (continued)

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

	2014	2013
Balance, beginning of year	$ 14,258	$ -
Deferred income tax expense	31,692	14,895
Foreign currency translation adjustment	(2,304)	(637)
Balance, end of year	$ 43,646	$ 14,258

Deferred income tax assets and liabilities recognized	**2014**	**2013**
Deferred income tax assets		
Non-capital losses	$ 590	$ 7,659
Restoration provisions	5,467	3,060
Total deferred income tax assets	6,057	10,719
Deferred income tax liabilities		
Mineral properties, plant and equipment	47,283	24,751
Other	2,420	226
Deferred income tax liabilities	49,703	24,977
Deferred income tax liabilities, net	$ 43,646	$ 14,258

Deferred income tax assets not recognized	**2014**	**2013**
Tax losses	$ 20,305	$ 19,229
Mineral property, plant and equipment	2,104	58
Other deductible temporary differences	484	1,045
	$ 22,893	$ 20,332

As at December 31, 2014, the Company has non-capital losses for income tax purposes which expire as follows:

	2015	2016	2017	Subsequent to 2018	No expiry date	Total
Canada	$ -	$ -	$ -	$ 47,969	$ -	$ 47,969
United Kingdom	-	-	-	-	5,832	5,832
Lesotho	-	-	-	-	21,475	21,475
	$ -	$ -	$ -	$ 47,969	$ 27,307	$ 75,276

No tax benefit has been recorded for the Canadian, United Kingdom and Lesotho non-capital losses.

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

18. INCOME PER COMMON SHARE

a) Basic

Basic earnings per common share are calculated by dividing the net income attributable to the shareholders of the Company by the weighted average number of common shares outstanding during the year:

	2014	2013
Income for the year – attributable to Shareholders of the Company	$ 47,317	$ 65,317
Weighted average number of common shares outstanding	378,198,299	376,392,625
	$ 0.13	$ 0.17

b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. For stock options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the year), based on the exercise prices attached to the stock options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of stock options.

	2014	2013
Income for the year – attributable to Shareholders of the Company	$ 47,317	$ 65,317
Weighted average number of common shares outstanding	378,198,299	376,392,625
Adjustment for stock options	1,812,970	120,365
Weighted average number of common shares for diluted earnings per share	380,011,269	376,512,990
	$ 0.13	$ 0.17

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

19. RELATED PARTY TRANSACTIONS

a) *Key management compensation*

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

The remuneration of key management personnel were as follows:

		2014		**2013**
Salaries and wages	$	3,058	$	2,142
Short term benefits		77		49
Stock based compensation		239		402
	$	3,374	$	2,593

b) *Other related parties*

For the year ended December 31, 2014, the Company paid $0.5 million, (2013 ☐ $0.5 million) for services provided by a company associated with the Chairman of the Company. The Company also paid $0.2 million for the year ended December 31, 2014 (2013 ☐ $0.3 million) to a charitable foundation directed by members of the Company's directors to carry out social programs on behalf of the Company.

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

20. 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.

2014

	Karowe Mine	Mothae Diamond Project	Corporate and other	Total
Revenues	$ 265,504	$ -	$ -	$ 265,504
Income from mining operations	177,331	-	(227)	177,104
Exploration expenditures	-	(1,197)	-	(1,197)
Finance income (expenses)	1,298	-	(485)	813
Other expenses	(5,016)	(4)	(31,481)	(36,501)
Taxes	(73,281)	-	-	(73,281)
Restoration and Impairment charges	-	(21,198)	-	(21,198)
Net income (loss) for the year	100,332	(22,399)	(32,193)	45,740
Capital expenditures	(42,190)	(22)	(59)	(42,271)
Total assets	306,668	115	10,242	317,025

2013

	Karowe Mine	Mothae Diamond Project	Corporate and other	Total
Revenues	$ 180,507	$ -	$ -	$ 180,507
Income from mining operations	103,899	-	(257)	103,642
Exploration expenditures	-	(1,323)	-	(1,323)
Gain on sale of exploration program diamonds	-	584	-	584
Finance income (expenses)	96	(67)	(3,814)	(3,785)
Other income (expenses)	(4,836)	48	(14,117)	(18,905)
Taxes	(14,991)	-	-	(14,991)
Net income (loss) for the year	84,168	(758)	(18,188)	65,222
Capital expenditures	(7,822)	-	(43)	(7,865)
Total assets	222,031	19,845	5,312	247,188

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

	Plant and equipment 2014	Plant and equipment 2013	Mineral properties 2014	Mineral properties 2013	Other 2014	Other 2013
Canada	$ 127	$ 142	$ -	$ -	$ 202	$ -
Lesotho	-	486	-	18,408	-	62
Botswana	121,889	100,258	52,729	53,653	4,147	-
	$ 122,016	$ 100,886	$ 52,729	$ 72,061	$ 4,349	$ 62

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

21. FINANCIAL INSTRUMENTS

a) Measurement categories and fair values

As explained in Note 3, 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.

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

	December 31, 2014	December 31, 2013
ASSETS		
Loans and receivables		
Cash and cash equivalents	$ 100,839	$ 49,364
Other receivables	445	233
	$ 101,284	$ 49,597
Available for sale		
Investments	56	90
	$ 56	$ 90
LIABILITIES		
Amortized cost		
Trade payables and accrued liabilities	$ 12,384	$ 15,491
	$ 12,384	$ 15,491

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

21. FINANCIAL INSTRUMENTS (continued)

b) Fair value hierarchy

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

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

	December 31, 2014	**December 31, 2013**
Level 1		
Investments	$ 56	$ 90
Level 2 and Level 3 – N/A		

c) Financial risk management

The Company's financial instruments are exposed to certain financial risks, including commodity price, currency, credit, liquidity and price risks.

Commodity price risk

The Company is subject to commodity price risk. Diamonds are not a homogenous product and the price of rough diamonds is not monitored on a public index system. The fluctuation of prices is related to certain features of diamonds such as quality and size. Diamond prices are marketed in U.S. dollars and long term U.S. dollar per carat prices are based on external market consensus forecasts. The Company does not have any financial instruments that may fluctuate as a result of commodity price movements.

Currency risk

The Company is exposed to the financial risk related to fluctuating foreign exchange rates. All sales revenues are denominated in U.S. dollars, while directly related costs are denominated in Botswana Pula. At December 31, 2014, the Company is exposed to currency risk relating to U.S. dollar cash held within the Company. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately $4.7 million in net income for the year.

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

21. FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The majority of the Company's cash and cash equivalents is held through a large Canadian financial institution with a high investment grade rating. Considering the nature of the Company's ultimate customers and the relevant terms and conditions entered into with such customers, the Company believes that credit risk is limited as customers pay on receipt of goods.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Company's maximum exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Cash flow forecasting is performed in the operating entities of the Company and aggregated in head office which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Such forecasting takes into consideration the Company's debt financing plans.

The Company's estimated minimum contractual undiscounted cash flow requirements for financial liabilities were:

December 31, 2014	**Less than 3 months**	**3 months to 1 year**	**2-5 years**	**Over 5 years**
Trade payables and accrued liabilities	$ 12,384	$ -	$ -	$ -

December 31, 2013	**Less than 3 months**	**3 months to 1 year**	**2-5 years**	**Over 5 years**
Trade payables and accrued liabilities	$ 15,491	$ -	$ -	$ -

Guarantee

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

21. FINANCIAL INSTRUMENTS (continued)

Revolving credit facility

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

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

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

As at December 31, 2014, the full amount under this facility was available. As a result, the deferred finance charges have been classified under other assets.

Interest rate risk

The Company's exposure to interest rate risk results from the effects that changes in interest rates may have on the reported value of cash. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any short-term investments included in cash due to their short-term nature. Based on the balance of cash and cash equivalents at December 31, 2014, and assuming that all other variables remain constant, a 0.25% change in the U.S. prime rate would result in an increase/decrease of $0.3 million in the interest accrued by the Company per annum.

Equity market risk

The Company is exposed to equity price risk arising from its marketable securities, which are classified as available-for-sale.

22. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes costs of capital at an acceptable risk.

In the management of capital, the Company considers items included in equity attributable to shareholders and its debt facility to be capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's assets. In order to maintain or adjust the capital structure, the Company may attempt to issue new shares or debt instruments, acquire or dispose of assets, or to bring in joint venture partners.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditures budgets and life-of-mine plans which are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets and life-of-mine plan are approved by the Board of Directors.

23. COMMITMENTS

In conjunction with the building and commissioning of a plant upgrade at the Karowe Mine, the Company has committed to approximately $7.4 million in capital expenditures.