

**LUCARA DIAMOND CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**MARCH 31, 2015**

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. (the "Company") and its subsidiaries performance and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2015, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in U.S. dollars unless otherwise indicated. The effective date of this MD&A is May 12, 2015.

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**

**Exceptional Diamonds:** The Company recovered its largest gem quality diamond at 342 carats. The diamond will be offered for sale at the Company's first exceptional stone tender in 2015.

**Plant Optimization Project:** A primary focus for the Company in 2015 is to complete the plant optimization program so that it can commence mining the high value south lobe ore on a sustainable basis during the year. The project has advanced very well with construction largely complete within the \$55 million budget and with no disruption to current operations or production. The project is forecast to be complete within the \$55 million budget. Commissioning has commenced and operational ramp up is expected to be complete during the second quarter of the year. The Company plans to start treating stockpiled south lobe ore during the second half of this year.

**Cash flows and operating margins:** The Company achieved revenue of \$29.6 million or \$277 per carat yielding a 61% operating margin of \$169 per carat during the period. The Company's EBITDA (see page 8 Non-IFRS measures) at the end of March 2015 was \$11.9 million. Diamond revenue is lower compared to the previous year largely due to the processing of lower quality north lobe material during the quarter as south lobe material is stockpiled until the plant optimization project is complete.

**Net cash position:** The Company's quarter-end cash balance was \$87.5 million compared to a cash balance of \$56.8 million at March 31, 2014 and \$100.8 million of cash at the end of 2014. The decrease in cash during the period is due to the expenditures on the Company's plant optimization project and tax payments of \$20.3 million reflecting the final Q4 2014 payment and the Company's Q1 quarterly instalment. Company's Scotiabank \$50 million credit facility remains undrawn.

**Karowe operating performance:** Karowe's operating performance was in line with plan during the period in terms of ore and waste mined and carats recovered. Carats recovered were marginally below forecast. Diamond liberation is expected to improve once the tertiary crusher is commissioned. The operation performed well during the period meeting its operational targets while significant construction activity occurred on site as the Company advanced towards completion of the plant optimization project. The mine recovered 153 specials (+10.8 carats) with an average size of 27.7 carats.

**Adjusted Earnings per share:** Adjusted earnings per share (see pages 5 and 8 Non-IFRS measures) is \$0.02 per share for the three month period ended March 31, 2015 (2014: earnings per share \$0.02).

**Botswana Prospecting Licenses:** The Company was awarded two precious stone prospecting licenses located within a distance of 15 km and 30 km from Karowe in 2014. The Company is currently constructing a bulk sampling plant and will commence exploration work programs on the two prospecting licenses during 2015.

**Dividend announcement:** The Company is announcing a semi-annual dividend of Canadian \$0.02 on the issued common shares of Lucara which is payable on June 18, 2015 to the common shareholders on record of the Company on Friday June 05, 2015.

**Mothae Sale:** On May 1, 2015, the Company has entered into a binding memorandum of understanding ('MOU') for the sale of the Mothae Diamond project to Paragon Diamonds Limited. In consideration, the Company will receive \$8.5 million cash payment and 5% of profits earned from the sale of the polished stones and/or rough diamonds not selected for polishing from the first 6.75 million tonnes of ore processed at Mothae by Paragon. The completion of the MOU is subject to the approval of the Lesotho Government.

## FINANCIAL HIGHLIGHTS

| <i>In millions of U.S. dollars unless otherwise noted</i>            | <b>Three months ended</b> |                          |
|----------------------------------------------------------------------|---------------------------|--------------------------|
|                                                                      | <b>2015</b>               | <b>March 31<br/>2014</b> |
| Revenues <sup>(*)</sup>                                              | \$ 29.6                   | \$ 32.8                  |
| Average price per carat sold (\$/carat)                              | 277                       | 305                      |
| Operating expenses per carat sold (\$/carat)                         | 108                       | 118                      |
| Operating margin per carat sold (\$/carat)                           | 169                       | 187                      |
| Net income for the period                                            | 6.0                       | 5.1                      |
| Earnings per share (basic and diluted)                               | 0.02                      | 0.01                     |
| Adjusted earnings per share (see pages 5 and 8<br>Non-IRFS measures) | 0.02                      | 0.02                     |
| Cash on hand                                                         | 87.5                      | 56.8                     |

**(\*) 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 2015. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements.

### **Karowe Mine, Botswana**

Karowe is in line with its forecast to process 2.3-2.5 million tonnes of ore and to sell 400,000 to 420,000 carats of diamond in 2015 and maintains its revenue forecast of between \$230 and \$240 million.

Ore mined is forecasted between 2.5-2.8 million tonnes and waste mined is expected to be between 12.0-12.5 million tonnes.

Karowe's operating cash costs (see page 9 Non-IRFS measures) are expected to be between \$33 and \$36 per tonne ore treated.

The Company has maintained its forecast for the plant optimization project at a total cost of \$55 million. In addition to the plant optimization project, the Company has forecast expenditures of \$5 million for the purchase and installation of a mill relining machine of which up to \$3 million is forecast to be spent in 2015. Sustaining capital expenditures are forecasted to be between \$4.5-\$5.5 million for the year.

The Company maintains its forecast to spend between \$7-\$8 million on exploration, including the purchase of a bulk sample plant for up to \$5 million.

## 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 reside in Lesotho and Botswana.

The following summarizes the Company's current land holdings:

| Country  | Name                             | Interest Held | Area (km <sup>2</sup> ) |
|----------|----------------------------------|---------------|-------------------------|
| Botswana | Karowe Diamond License           | 100%          | 15.3                    |
| Botswana | Prospecting License No. 371/2014 | 100%          | 55.4                    |
| Botswana | Prospecting License No. 367/2014 | 100%          | 1.1                     |
| Lesotho  | Mothae Diamond Mining Lease      | 75%           | 20.0                    |

## RESULTS OF OPERATIONS

### *Karowe Mine, Botswana*

|                                                                                  | UNIT                | Q1-15     | Q4-14     | Q3-14     | Q2-14     | Q1-14     |
|----------------------------------------------------------------------------------|---------------------|-----------|-----------|-----------|-----------|-----------|
| <b>Sales</b>                                                                     |                     |           |           |           |           |           |
| Revenues                                                                         | US\$m               | 29.6      | 70.5      | 91.2      | 71.0      | 32.8      |
| Proceeds generated from sales tenders conducted in the quarter are comprised of: | US\$m               | 29.6      | 70.5      | 66.5      | 95.0      | 33.5      |
| Sales proceeds received during the quarter                                       | US\$m               | 29.6      | 70.5      | 91.2      | 71.0      | 32.8      |
| 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       |
| Carats sold for proceeds generated during the period                             | Carats              | 106,777   | 104,405   | 88,364    | 111,900   | 107,467   |
| Carats sold for revenues recognized during the period                            | Carats              | 106,777   | 104,405   | 115,362   | 84,915    | 107,454   |
| Average price per carat for proceeds generated during the period                 | US\$                | 277       | 675       | 753       | 849       | 312       |
| <b>Production</b>                                                                |                     |           |           |           |           |           |
| Tonnes mined (ore)                                                               | Tonnes              | 561,287   | 757,672   | 1,003,312 | 677,882   | 888,888   |
| Tonnes mined (waste)                                                             | Tonnes              | 3,243,372 | 2,477,687 | 2,624,067 | 3,166,644 | 2,002,322 |
| Tonnes treated                                                                   | Tonnes              | 603,969   | 566,681   | 509,283   | 664,812   | 680,730   |
| Average grade processed                                                          | cpht <sup>(*)</sup> | 14.9      | 20.1      | 20.8      | 14.9      | 16.3      |
| Carats recovered                                                                 | Carats              | 90,077    | 113,950   | 106,162   | 99,142    | 111,037   |
| <b>Costs</b>                                                                     |                     |           |           |           |           |           |
| Operating costs per carats sold (see page 8 Non-IRFS measures)                   | US\$                | 108       | 89        | 122       | 132       | 118       |
| Capital expenditures (including capitalized waste)                               |                     |           |           |           |           |           |
| Plant Optimization                                                               | US\$m               | 9.4       | 16.6      | 12.8      | 4.5       | 1.6       |
| Sustaining capital                                                               | US\$m               | 1.1       | 2.3       | 1.0       | 1.2       | 0.3       |
| Bulk Sample Plant                                                                | US\$m               | 0.2       | 2.0       | -         | -         | -         |
| Capitalized waste                                                                | US\$m               | 5.1       | 1.8       | 0.4       | 4.0       | -         |
| Total                                                                            | US\$m               | 15.8      | 22.7      | 14.2      | 9.7       | 1.9       |

(\*) carats per hundred tonnes

### *Karowe Mine, Botswana*

Karowe had one lost time injury reported in the Plant Optimization construction area in February resulting in a year to date LTIFR of 0.27.

The process plant performed well with tonnes and grade treated as forecast. Carats recovered were below forecast (7%) due to lower diamond liberation when processing the harder fragmental kimberlite reducing recovered grade. This will be mitigated as part of the plant optimization with the commissioning of the tertiary crusher in the second quarter of 2015 increasing fine diamond liberation.

The Company's new mining contractor has completed their site mobilization and ramped up the mining rate through the quarter. Volume mined from the pit for the period was in excess of forecast, with waste mined ahead of forecast. Ore tonnage mined from the pit for the quarter was below forecast but was at a higher grade and in line with operational requirements. Mining has concentrated in the south and centre lobes with most south lobe ore being stockpiled for future treatment.

## **REVIEW OF PROJECTS AND EXPLORATION**

### *Karowe, Plant Optimization Project*

The plant upgrade project to modify the process plant to treat harder, more dense ore at depth is well advanced. The Company has spent approximately \$45 million of the forecast \$55 million as at March 31, 2015.

As at March 31, 2015, construction work on site for the project was largely complete. Subsequent to the end of first quarter of 2015, most cold commissioning had been completed with hot commissioning under way for the XRT and recovery circuits. The XRT circuit has functioned well and the XRT machines have shown exceptional recovery throughout the testing period. Operational ramp up and full plant integration is expected to be complete during the second quarter.

### *Botswana Prospecting Licenses:*

The Company was awarded two precious stone prospecting licenses located within a distance of 15 km and 30 km from the Karowe Diamond mine in 2014. Ground geophysical surveys were conducted over known kimberlite occurrences within the prospecting licenses during Q4 2014 and Q1 2015. The geophysical results confirmed the kimberlite localities and have provided information that has been used to plan our core drilling and surface sampling in 2015. The Company is currently constructing a bulk sampling plant and will commence exploration work programs on the two prospecting licenses during 2015. Manufacturing of the modular plant is well advanced and final assembly of the modules is underway at steel fabricators in South Africa. Components are due on site at the Karowe Mine during the second quarter with commissioning being undertaken in the third quarter. Core drilling and bulk sampling activities are planned for the third and fourth quarter of 2015.

### *Mothae Diamond Project, Lesotho*

The Mothae project is located in northeast Lesotho. On May 1, 2015, the Company entered into a binding MOU for the sale of the Mothae Diamond project to Paragon Diamonds Limited. In consideration, the Company will receive \$8.5 million cash payment and 5% of profits earned from the sale of the polished stones and/or rough diamonds not selected for polishing from the first 6.75 million tonnes of ore processed at Mothae by Paragon. The completion of the MOU is subject to the approval of the Lesotho Government.

## SELECT FINANCIAL INFORMATION

|                                                                                       | Three months ended |                |
|---------------------------------------------------------------------------------------|--------------------|----------------|
|                                                                                       | 2015               | March 31, 2014 |
| <i>In millions of U.S. dollars unless otherwise noted</i>                             |                    |                |
| Revenues                                                                              | \$ 29.6            | \$ 32.8        |
| Operating expenses                                                                    | (11.5)             | (12.7)         |
| Royalty expenses                                                                      | (3.0)              | (3.3)          |
| <b>Operating earnings <sup>(1)</sup></b>                                              | <b>15.1</b>        | <b>16.8</b>    |
| Administration                                                                        | (2.4)              | (2.1)          |
| Care and maintenance                                                                  | (0.1)              | -              |
| Sales and marketing                                                                   | (0.7)              | (0.9)          |
| Exploration expenditures                                                              | -                  | (0.5)          |
| <b>EBITDA <sup>(2)</sup></b>                                                          | <b>11.9</b>        | <b>13.3</b>    |
| Depletion, amortization and accretion                                                 | (3.9)              | (3.7)          |
| Finance income (expenses)                                                             | 0.6                | (0.1)          |
| Foreign exchange gain (loss)                                                          | 1.6                | (2.0)          |
| Current income tax expense                                                            | (0.7)              | -              |
| Deferred income tax expense                                                           | (3.5)              | (2.4)          |
| <b>Net income for the period</b>                                                      | <b>6.0</b>         | <b>5.1</b>     |
| Add back: Foreign exchange loss related to intercompany loan repayment <sup>(3)</sup> | -                  | 2.5            |
| Adjusted net income for the period <sup>(4)</sup>                                     | 6.0                | 7.6            |
| <b>Change in cash during the period</b>                                               | <b>(13.3)</b>      | <b>7.5</b>     |
| <b>Cash on hand</b>                                                                   | <b>87.5</b>        | <b>56.8</b>    |
| <b>Earnings per share (basic and diluted)</b>                                         | <b>0.02</b>        | <b>0.01</b>    |
| <b>Adjusted earnings per share (basic and diluted) <sup>(5)</sup></b>                 | <b>0.02</b>        | <b>0.02</b>    |
| <b>Per carats sold</b>                                                                |                    |                |
| <b>Sales price</b>                                                                    | <b>\$ 277</b>      | <b>\$ 305</b>  |
| <b>Operating expenses</b>                                                             | <b>108</b>         | <b>118</b>     |
| <b>Average grade (carats per hundred tonnes)</b>                                      | <b>14.9</b>        | <b>16.3</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 and foreign exchange loss.

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

<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.

### Adjusted earnings per share (basic and diluted):

Three months ended  
March 31,

|                                                                                       | Three months ended |             |
|---------------------------------------------------------------------------------------|--------------------|-------------|
|                                                                                       | 2015               | 2014        |
| <i>In millions of U.S. dollars unless otherwise noted</i>                             |                    |             |
| <b>Net income for the quarter</b>                                                     | <b>6.0</b>         | <b>5.1</b>  |
| Add back: Foreign exchange loss related to intercompany loan repayment <sup>(1)</sup> | -                  | 2.5         |
| Adjusted net income for the quarter <sup>(2)</sup>                                    | 6.0                | 7.6         |
| <b>Earnings per share (basic and diluted)</b>                                         | <b>0.02</b>        | <b>0.01</b> |
| <b>Adjusted earnings per share (basic and diluted) <sup>(3)</sup></b>                 | <b>0.02</b>        | <b>0.02</b> |

<sup>(1)</sup> Foreign exchange loss related to an intercompany loan repayment between Corporate and Karowe (see page 6)

<sup>(2)</sup> Adjusted net income for the year is a non-IFRS measure defined as earnings before non-cash foreign exchange loss related to an intercompany loan repayment.

<sup>(3)</sup> Adjusted earnings per share for the quarter is a non-IFRS measure defined as adjusted net income<sup>(2)</sup> divided by the weighted average number of shares outstanding during the quarter on both a basic and fully diluted basis.

## SELECT FINANCIAL INFORMATION (CONTINUED)

### Cash operating cost per tonne ore milled:

|                                                                                                                 | Three months ended<br>March 31, |              |
|-----------------------------------------------------------------------------------------------------------------|---------------------------------|--------------|
|                                                                                                                 | 2015                            | 2014         |
| <i>In millions of U.S. dollars with the exception of tonnes milled and cash operating cost per tonne milled</i> |                                 |              |
| Operating expenses                                                                                              | \$ 11.5                         | \$ 12.7      |
| Capitalized production stripping costs <sup>(1)</sup>                                                           | 5.1                             | -            |
| Net change in working capital items: Inventories <sup>(2)</sup>                                                 | 0.4                             | 1.8          |
| Total cash operating costs for ore milled                                                                       | 17.0                            | 14.5         |
| Tonnes milled                                                                                                   | 603,969                         | 680,730      |
| <b>Cash operating cost per tonne ore milled<sup>(3)</sup></b>                                                   | <b>28.15</b>                    | <b>21.30</b> |

<sup>(1)</sup> Capitalized production stripping cost in investing activities in the Condensed interim consolidated statements of cash flows.

<sup>(2)</sup> Net change in working capital items: Inventories in operating activities in the Condensed interim consolidated statements of cash flows.

<sup>(3)</sup> Cash operating cost per tonne milled for the period is a non-IFRS measure defined as the sum of operating expenses, capitalized production stripping costs, and net change in working capital items: Inventories divided by the tonnes ore milled for the period.

### Revenues

During the three months ended March 31, 2015, the Company completed two diamond tenders totalling 106,777 carats. The tenders achieved gross proceeds totalling \$29.6 million for an average sales price of \$277 per carat compared to the prior year of \$305 per carat.

### Operating earnings

Operating earnings before royalty payments for the three months ended March 31, 2015 were \$18.1 million resulting in operating margin (before royalties and depletion, amortization and accretion) of 61% consistent with prior year's first quarter results. Operating expenses during the quarter were \$108 per carat, which resulted in an operating margin of \$169 per carat.

### Income Tax expense

Total income tax expense was \$4.2 million during the three month period ended March 31, 2015, which includes a current income tax charge of \$0.7 million and a deferred income tax charge of \$3.5 million. The current tax expense has been calculated at an annualized tax rate of approximately 33.4%, which reflects the forecast current year tax rate based on the Company's outlook revenue guidance. The Company is subject to a variable tax rate in Botswana that increases as profit as a percentage of revenue increases.

The Company commenced its quarterly tax instalments to the Botswana government in 2015. The tax instalments are based on projected annual revenue and reflect the Company's current level of profitability and are to be paid in four instalments of \$6.8 million. During the quarter, the Company has paid its final 2014 tax liability of \$13.5 million.

### Foreign exchange gain

The Company recorded a foreign exchange gain of \$1.6 million in the three months ended March 31, 2015. The gain was mostly a result of the appreciation of the US dollar holdings in the Company's Botswana subsidiary.

### Foreign exchange loss related to intercompany loan repayment:

A foreign exchange charge of \$2.5 million was recognized during the three months ended March 31, 2014 from an intercompany Pula denominated loan between Corporate and Boteti. Foreign exchange losses following the weakening of the Botswana Pula were previously calculated and reported in the Company's other comprehensive income as this loan was reported as a net investment in a foreign operation under IAS21. In 2014 the Company no longer reported this intercompany loan as a net investment in a foreign operation and as a result previous foreign exchange losses reported in other comprehensive income were charged against the statement of operations as the intercompany loan is repaid.

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

The three months ended March 31, 2015 EBITDA was \$11.9 million compared to \$13.3 million in the three month period ended March 31, 2014. The decrease in EBITDA as compared to the prior year was due to a decrease in carats sold and decreased prices received for the Karowe diamonds during the period.

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

### ***Cash operating cost per tonne ore milled***

The three months ended March 31, 2015 cash operating cost per tonne milled was \$28.1 per tonne milled compared to \$21.3 per tonne milled in the three month period ended March 31, 2014. The higher cost compared to the same period in the prior year is largely due to higher waste mining in the current year as anticipated in the mine plan.

Cash operating cost per tonne milled is a non-IFRS measure and is reconciled in the table on page 5 to the most directly comparable measure calculated in accordance with IFRS, which is operating expenses.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at March 31, 2015, the Company had cash of \$87.5 million compared to \$56.8 million at March 31, 2014 and \$100.8 million at December 31, 2014.

Cash decreased during the quarter by \$13.3 million. This decrease reflects cash earnings before waste stripping and before income tax of \$23.6 million being offset by waste stripping costs of \$5.1 million, the plant and equipment additions of \$10.6 million and payment of the Company's current year's first quarter tax instalment of \$6.8 million and its 2014 final tax liability of \$13.5 million and foreign exchange impact on cash of \$1.6 million.

## **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>Mar-15</b> | <b>Dec-14</b> | <b>Sept-14</b> | <b>Jun-14</b> | <b>Mar-14</b> | <b>Dec-13</b> | <b>Sept-13</b> | <b>Jun-13</b> |
|-----------------------------------------------------|---------------|---------------|----------------|---------------|---------------|---------------|----------------|---------------|
| A. Revenues                                         | 29,634        | 70,499        | 91,253         | 70,972        | 32,780        | 58,683        | 42,096         | 47,224        |
| B. Administration expenses                          | (2,425)       | (4,536)       | (2,290)        | (3,841)       | (2,107)       | (4,871)       | (1,851)        | (2,761)       |
| C. Net income (loss) <sup>(1)</sup>                 | 6,006         | (16,819)      | 41,846         | 15,639        | 5,074         | 21,331        | 15,043         | 22,679        |
| D. Earnings (loss) per share<br>(basic and diluted) | 0.02          | (0.03)        | 0.11           | 0.04          | 0.01          | 0.05          | 0.04           | 0.06          |

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

## **NON-IFRS FINANCIAL MEASURES**

This MD&A refers to certain financial measures, such as 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.

Adjusted earnings per share for the period (see "Select Financial Information") is the term the Company uses 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.

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

## **RELATED PARTY TRANSACTIONS**

For the period ended March 31, 2015, the Company donated \$0.6 million for the period ended March 31, 2015 (2014 – nil) to Lundin Foundation, a charitable foundation directed by members of the Company's directors to carry out social programs on behalf of the Company.

## **FINANCIAL INSTRUMENTS**

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statements of operations or consolidated statements of comprehensive loss. Those categories are: fair value through profit or loss; loans and receivables; available for sale assets; and, 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 379,382,412 common shares outstanding and 2,018,670 stock options outstanding under its stock-based incentive plan. As at the same date, the Company had no stock purchase warrants outstanding.

## **RISKS AND UNCERTAINTIES**

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

The risk factors which should be taken into account in assessing the Company's activities, include, but are not necessarily limited to, those set out in the Management's Discussion and Analysis for the year ended December 31, 2014.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

## **FINANCIAL INFORMATION**

The report for the quarter ended June 30, 2015 is expected to be published on August 11, 2015

## **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Audit Committee is responsible for reviewing the contents of this document along with the interim quarterly financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended March 31, 2015.

## **INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS**

### *Disclosure controls and procedures*

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2014, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

### *Internal controls over financial reporting*

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

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of December 31, 2014, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

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

As required under Multilateral Instrument 52-109, management advises that there have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period, beginning January 1, 2015 and ending March 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

In particular, this MD&A may contain forward looking information pertaining to the following: the estimates of the Company's mineral reserve and resources; estimates of the Company's production and sales volumes for the Karowe Mine; estimated costs to construct the Karowe Mine; start-up, exploration and development plans and objectives; production costs; exploration and development expenditures and reclamation costs; expectation of diamond price and changes to foreign currency exchange rates; expectations regarding the need to raise capital; possible impacts of disputes or litigation; and other risks and uncertainties described under the heading "Risks and Uncertainties" in the Company's Annual Information Form dated March 19, 2015 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.