



LUCARA

DIAMOND

Management's Discussion and Analysis

and

Condensed Interim Consolidated Financial Statements

For the Three and Nine Months ended

September 30, 2020

(Unaudited)

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected the performance of Lucara Diamond Corp. and its subsidiaries (the "Company") 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 period ended September 30, 2020, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as applicable to interim financial reporting. All amounts are expressed in U.S. dollars unless otherwise indicated.

Disclosure of a scientific or technical nature in the MD&A was prepared under the supervision of Dr. John P. Armstrong (Ph.D., P.Geol.), Lucara's Vice-President, Technical Services and a Qualified Person, as that term is defined in National Instrument 43-101.

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.

The effective date of this MD&A is November 10, 2020.

ABOUT LUCARA

Lucara is a leading independent producer of large exceptional quality Type IIa diamonds from its 100% owned Karowe Diamond Mine in Botswana. The Karowe Mine has been in production since 2012 and is the focus of the Company's operations, development, and exploration activities. Clara Diamond Solutions Limited Partnership, a wholly-owned subsidiary of Lucara, has developed a secure, digital sales platform that uses proprietary analytics together with cloud and blockchain technologies to modernize the existing diamond supply chain, driving efficiencies, unlocking value and ensuring diamond provenance from mine to finger. Lucara has an experienced board and management team with extensive diamond development and operations expertise. Lucara and its subsidiaries operate transparently and in accordance with international best practices in the areas of sustainability, health and safety, environment, and community relations.

The Company's corporate offices are located in Vancouver, Canada and London, England and its common shares trade on the Toronto Stock Exchange, the Nasdaq Stockholm Exchange in Sweden and the Botswana Stock Exchange under the symbol "LUC".

HIGHLIGHTS

- The Karowe Mine continued to deliver strong, safe, reliable production results in the third quarter with the process plant continuing to operate at full capacity.
- Revenue of \$41.3 million was recognized in Q3 2020 (Q3 2019: \$45.3 million) or \$365 per carat (Q3 2019: \$390 per carat) from the sale of 112,943 carats (Q3 2019: 116,200 carats). This includes 107,310 carats of diamonds sold through a combination of regular tenders and Clara and 5,633 carats sold through HB Antwerp ("HB") under the supply agreement announced in July 2020.
- EBITDA⁽¹⁾ of \$9.9 million earned in Q3 2020 (Q3 2019 - \$11.8 million) marks a return to a strong operating margin of 47% (Q3 2019 – 49%).
- As at September 30, 2020, the Company had cash and cash equivalents of \$10.1 million. The Company maintained draws totaling \$20.0 million on the working capital facility. The Company has no long-term debt and \$30.0 million of available liquidity from a \$50 million revolving credit facility.
- An agreement was announced on November 4, 2020 between Lucara, Louis Vuitton and HB to collaborate on the planning, cutting and polishing of the exceptional, 549 carat white gem diamond referred to as "Sethunya" meaning "Flower" in Setswana recovered from the Karowe Mine in February 2020.

- Clara’s customer base doubled during Q3 2020, from 35 to 71 customers.
- Operational highlights from Q3 2020:
 - Ore and waste mined of 0.7 million tonnes and 0.4 million tonnes, respectively
 - 0.65 million tonnes of ore processed resulting in 88,909 carats recovered, achieving a recovered grade of 13.8 carats per hundred tonnes
 - 193 Specials (+10.8 carats) recovered from direct milling during the third quarter, representing 6.5% weight percentage of total direct milling recovered carats, in line with mine plan expectations
 - 8 diamonds were recovered greater than 100 carats in weight, including 3 stones > 200 carats in weight
 - No lost time injuries, resulting in a rolling twelve-month Long-Term Injury Frequency Rate of zero.
- Operating cash cost⁽¹⁾ per tonne of ore processed was \$26.92 per tonne (Q3 2019: \$31.06 per tonne), 16% below the initial full year forecast cash cost of \$32-\$36 per tonne processed and 13% lower than the comparative quarter last year. Positive impacts were felt from a 7% depreciation of the Botswana Pula against the U.S. dollar and cost optimization efforts undertaken in the latter half of 2019, partially offset by an 8% decrease in tonnes processed as compared to Q3 2019.
- The Company recorded a net loss of \$5.4 million in Q3 2020 (Q3 2019 - \$4.0 million net loss) resulting in a \$0.01 loss per share (Q3 2019 – loss of \$0.01) for the quarter.
- Lucara recognized revenue of \$82.9 million for the nine months ended September 30, 2020 from the sale of 268,101 carats or \$309 per carat. This represents a decrease from revenue of \$136.5 million recognized for the nine months ended September 30, 2019 (313,189 carats sold at an average price of \$436 per carat). The reduction in revenue results from a combination of a 15% decrease in the number of carats sold and a deliberate decision not to sell any diamonds +10.8 carats in favour of entering into a committed supply agreement for these diamonds for the remainder of the year. All +10.8 carat diamonds produced since the second quarter sales cut off in March 2020 are now being sold to HB at regular intervals, approximately twice a month.

(1) Non-IFRS measure (see page 10 for details)

RECENT DEVELOPMENTS

Collaboration Agreement for the 549 Carat Sethunya Diamond

On November 4, 2020, the Company announced a partnership with Louis Vuitton, the famous luxury goods House and HB Antwerp (“HB”), a European diamond manufacturing and technology company, for the purpose of collaborating on the planning, cutting and polishing of the exceptional, 549 carat white gem diamond referred to as “Sethunya” meaning “Flower” in Setswana. Sethunya was recovered unbroken from direct milling of ore sourced from the EM/PK(S) unit of the South Lobe of Lucara’s 100% owned Karowe Mine in February 2020. The Sethunya agreement builds upon the January 2020 collaboration between Lucara, Louis Vuitton and HB to polish the historic 1,758 carat Sewelô, Botswana’s largest diamond, recovered from the Karowe Mine in April 2019.

Under the arrangement between Lucara, Louis Vuitton, and HB, the parties will collaborate and plan the creation of the highest value Louis Vuitton polished diamonds from the 549 carat rough, which will be made available to Louis Vuitton exclusively. Lucara will be paid a purchase price based on the estimated Louis Vuitton polished outcome, determined by HB’s state of the art scanning and planning technologies, with a true up amount paid on the actual achieved polished sales thereafter, less a fee and the cost of manufacturing. Lucara will receive the purchase price based on the polished outcome no later than Q4 2021.

In line with its long tradition of personalisation, Louis Vuitton envisages crafting beautiful, bespoke and made-to-order, high value polished stones of variable size and shape: the ultimate personalized, High Jewellery experience and the opportunity to create a truly unique gem, a storied family heirloom. In this way, the client will be involved in the creative process of plotting, cutting, polishing, and becoming part of the story that the stone will carry with it into history.

Supply Agreements for +10.8 Carat Diamond Production from Karowe

Karowe's large, high value diamonds have historically accounted for approximately 60% to 70% of Lucara's annual revenues. Though the mine has remained fully operational throughout the COVID-19 pandemic, Lucara made a deliberate decision not to tender any of its +10.8 carat production after early March 2020 amidst the uncertainty caused by the global crisis and the significant weakness observed in the rough diamond market. The polished diamond market performed much better through this period and subsequently, in July 2020, Lucara announced a ground breaking partnership agreement with HB, entering into a definitive supply agreement for the remainder of 2020, for all of the diamonds produced in excess of +10.8 carats from our 100% owned Karowe Diamond mine in Botswana.

Under the supply agreement with HB, Lucara's +10.8 carat production is being sold at prices based on the estimated polished outcome of each diamond, determined through state of the art scanning and planning technology, with a true up amount payable to Lucara on actual achieved polished sales in excess of the initial estimated polished price, less a fee and the cost of manufacturing. This unique pricing mechanism is expected to deliver regular cash flow for this important segment of our production profile at superior prices. The decision to enter into the supply agreement with HB for the remainder of 2020 followed a trial period during Q2 2020 where approximately 3,100 carats of +10.8 carat rough diamonds were placed into manufacturing ("Shipment 1"). Lucara will receive payment for the polished diamonds from Shipment 1 once those diamonds are sold by HB to an end customer, less a fee and the cost of manufacturing.

Beginning in Q3 2020, the Company recognized revenue totalling \$25.9 million from these sales agreements. The \$13.5 million deposit received in June as partial payment for +10.8 carat goods delivered under the HB sales agreement has been fully allocated and reduced to \$nil as of September 30, 2020. Revenue for +10.8 carat stones ordinarily part of the Q2 and Q3 tenders, as well as sales from Shipment 1, will continue to be recognized in Q4 2020.

UPDATE ON COVID-19 RESPONSE

The Karowe Mine remains fully operational under new measures and guidelines implemented by the Government of Botswana in late March 2020. These measures designated mining as an essential service in Botswana and included increased travel restrictions, reduced overall staffing levels and increased and appropriate social distancing. The Government of Botswana extended its state of emergency originally due to expire September 30, 2020 to March 31, 2021.

The Company continues to operate under its crisis management strategy, designed to protect the health and well-being of our employees in Botswana and Canada as well as the financial well-being of the business. The Government of Botswana recently granted permission to the Company to conduct Covid-19 testing at our operations in Botswana. To-date, more than 99% of the tests conducted have been negative. The Company has also constructed several isolation pods for use by the community as a government-sponsored isolation facility has not yet been constructed in the Letlhakane area.

FINANCIAL HIGHLIGHTS

Table 1:

<i>In millions of U.S. dollars except carats or otherwise noted</i>	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenues	\$ 41.3	\$ 45.3	\$ 82.9	\$ 136.5
Net income (loss) for the period	(5.4)	(4.0)	(22.4)	4.1
Earnings (loss) per share (basic and diluted)	(0.01)	(0.01)	(0.06)	0.01
Operating cash flow per share*	0.03	0.02	0.03	0.10
Cash on hand	10.1	4.8	10.1	4.8
Amounts drawn on working capital facility	20.0	-	20.0	-
Average price per carat sold (\$/carat)*	365	390	309	436
Operating expenses per carat sold (\$/carat)*	192	201	190	182
Operating margin per carat sold (\$/carat)*	173	189	119	254
Carats sold	112,943	116,200	268,101	313,189

(* Operating cash flow per share, average price per carat sold, operating expenses per carat sold and operating margin per carat sold are Non-IFRS measures, see Table 2: Results of Operations for reconciliations and page 10 for "Non-IFRS measures" below.

The Company recognized revenue of \$41.3 million or \$365 per carat from the sale of 112,943 carats in the third quarter of 2020, including the sale of 105,283 carats sold through the regular Q3 tender and the remainder sold through a combination of Clara and HB under the supply agreement announced in July 2020. Under this supply agreement, Lucara's +10.8 carat production will be sold at prices based on the estimated polished outcome, with a true up amount paid on the actual achieved polished sales thereafter, less a fee and the cost of manufacturing. The +10.8ct diamonds of poorer quality (clivage low, rejection goods) are sold as rough parcels and do not enter the polishing pipeline at HB. This unique pricing mechanism is expected to deliver regular cash flow at superior prices for this important segment of our production profile, which represents about 60-70% of Lucara's revenue.

Sales Channel	Rough Carats Sold	Revenue Recognized	Average Price/Carat
HB Agreements ¹	5,633	\$ 25.9 million	\$ 4,597
Clara ²	2,027	\$ 2.8 million	\$ 1,381
Tender ³	105,283	\$ 12.6 million	\$ 120
Total	112,943	\$ 41.3 million	\$ 365

- (1) Includes the sale of 999 rough carats from Shipment 1.
- (2) Seven sales were completed on Clara in Q3 2020, with the sale of third-party goods increasing the total volume transacted to \$3.2 million. Clara's customer base doubled, from 35 to 71 customers by September 30, 2020.
- (3) The Q3 tender was held in September; only diamonds less than 10.8 carats in size which did not meet quality characteristics for extraction for sale on Clara were sold through tender.

Operating expenses decreased from \$23.3 million in the three months ended September 30, 2019 to \$21.7 million in the three months ended September 30, 2020 due to a lower operating cost per tonne processed. Operating expenses per carat sold decreased 4% due to favourable foreign exchange rate movements and cost optimization, including insourcing of the process plant contract. Operating margin achieved in Q3 2020 was comparable to Q3 2019 (47% vs. 49%).

Depletion and amortization decreased from \$14.4 million for the three months ended September 30, 2019 to \$13.5 million for the three months ended September 30, 2020 due to the lower volume of carats sold. After operating expenses, depletion and amortization is the next largest expense.

The Company recognized a net loss of \$5.4 million in the third quarter of 2020 compared to a net loss of \$4.0 million in the third quarter of 2019.

Operations in the third quarter of 2020 were consistent with the strong, stable operating environment that has characterized the Karowe Mine for the last two years and were achieved according to the original 2020 plan with certain adjustments made to accommodate the health & safety of employees and to temporarily reduce variable mining costs. During Q3 2020, 0.7 million tonnes of ore and 0.4 million tonnes of waste were mined. The plant processed 0.65 million tonnes during the third quarter, consistent with the initial 2020 plan. The total tonnes processed in 2020 are expected to be slightly less than the record 2.8 million tonnes processed in 2019 due to several planned multi-day shut-downs to

upgrade the XRT technology which is a key part of the recovery circuit at the Karowe Mine. During the third quarter, the remaining two planned extended shutdowns were successfully completed on time. Related to this upgrade project, a non-cash loss on disposal of assets of \$2.7 million was recorded for certain components of the XRT circuit that were upgraded.

The change in sales approach for the large stones had the most significant impact on the results for the nine months ended September 30, 2020. This change affected revenue, loss from mining operations, Adjusted Earnings Before Interest, Tax, Depletion and Amortization ("Adjusted EBITDA", a non-IFRS measure, see page 10 for details), net income (loss) and earnings (loss) per share when compared to results from the nine months ended September 30, 2019.

RESULTS OF OPERATIONS – KAROWE MINE

Table 2:

	UNIT	Q3-20	Q2-20	Q1-20	Q4-19	Q3-19
Sales						
Revenues generated from the sale of Karowe diamonds in the quarter	US\$M	41.2	7.3	33.8	56.0	45.3
Carats recovered from Karowe sold for revenues recognized during the period	Carats	112,741	68,861	86,010	98,394	116,200
Average price per carat for proceeds received during the period	US\$	366	107	393	568	390
Production						
Tonnes mined (ore)	Tonnes	678,110	683,282	878,087	694,591	823,875
Tonnes mined (waste)	Tonnes	436,781	591,804	1,199,660	740,593	1,489,668
Tonnes processed	Tonnes	646,447	705,421	639,430	647,502	680,665
Average grade processed	cpht ^(*)	13.8	14.3	14.3	13.3 ¹	13.9 ²
Carats recovered	Carats	88,909	101,203	91,536	86,422 ¹	104,990 ²
Costs						
Operating costs per carat sold (see page 10 Non-IFRS measures)	US\$	192	174	201	209	201
Sustaining capital expenditures	US\$M	4.7	3.7	2.4	13.0	0.7
Underground expansion project	US\$M	4.8	3.9	1.7	-	-

(*) carats per hundred tonnes

- (1) Carats recovered during the period included 273 carats recovered from re-processing historic recovery tailings from previous milling and are excluded from the average grade processed.
- (2) Carats recovered during the period included 10,646 carats recovered from re-processing historic recovery tailings from previous milling and are excluded from the average grade processed.

THIRD QUARTER OVERVIEW – OPERATIONS - KAROWE MINE

Safety: Karowe had no lost time injuries during the three months ended September 30, 2020 resulting in a twelve-month rolling Lost Time Injury Frequency Rate of 0.

Production: Overall performance during the third quarter continued the trend of strong operational results achieved over the past two years. Ore and waste mined during the three months ended September 30, 2020 totaled 0.7 million tonnes and 0.4 million tonnes respectively. Tonnage processed was 0.65 million tonnes, with a total of 88,909 carats recovered. During Q3 2020, ore processed was almost entirely from the South lobe and a total of 193 Specials were recovered including 8 diamonds greater than 100 carats in weight of which 3 diamonds were each > 200 carats in weight. Recovered Specials equated to 6.5% weight percentage of total recovered carats from ore processed during Q3 2020, consistent with expectations.

Karowe's operating cash cost: Karowe's year to date operating cash cost (see page 10 Non-IFRS measures) was \$26.92 per tonne of ore processed (YTD 2019: \$31.06 per tonne of ore processed) below the initial full year forecast of \$32-\$36 per tonne processed and approximately 13% lower than the same period in 2019. The current period result includes the impact of a 7% depreciation of the Botswana Pula compared to the US Dollar reporting currency, and realized cost savings following a cost optimization process in the second-half of 2019, offset by a 8% decrease in tonnes processed as compared to YTD 2019.

KAROWE UNDERGROUND UPDATE

On November 4, 2019, the Company announced the results of a Feasibility Study for an underground mine at Karowe. A copy of the Company's news release and the related technical report prepared pursuant to the requirements of NI 43-101 – *Standards of Disclosure for Mineral Projects* were filed on Sedar (www.sedar.com) and are available on the Company's website at: www.lucaradiamond.com.

In November 2019, Lucara's Board of Directors approved a \$53 million capital program for the Karowe underground expansion project, with the majority of the budget scheduled to be spent in the latter part of 2020 and funded through the cash flow from current operations.

Given the uncertainty in global markets resulting from COVID-19, the originally planned capital budget was reduced to \$22 million for 2020. The 2020 program has been re-scoped to focus on long lead time critical-path items, detailed engineering and design, and limited site activity focused on earth works and geotechnical studies using local contractors while a State of Emergency remains in effect in Botswana.

During the nine months ended September 30, 2020, \$10.4 million was spent on project execution activities. Activities in Q3 2020 included: site earthworks (consisting of laydown preparation and clearing of shaft and surface infrastructure locations), power line engineering, detailed shaft engineering, geotechnical test pitting and drilling and completion of a 746 metre pilot hole for the ventilation shaft. Long lead time item orders were placed for shaft muckers and hoist and winder refurbishment was initiated.

The Company continues to explore debt financing options for the underground expansion for those amounts which are expected to exceed the Company's cash flow from operations during the construction period. The underground expansion program has an estimated capital cost of \$514 million and a five year period of development.

CLARA

With global restrictions impeding travel for many diamantaires, the interest from buyers in Clara doubled during the third quarter, increasing from 35 to 71 buyers. During Q3 2020, Clara began selling stones on behalf of third party sellers, which was a significant objective for 2020. Seven sales occurred on Clara during the third quarter of 2020, with total transaction volumes of \$3.2 million. As Clara becomes the online marketplace of choice for rough buyers, discussions are underway with several producers to begin trials for the sale of their diamonds on Clara.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2020, the Company had cash and cash equivalents of \$10.1 million, a \$1.1 million decrease in cash from \$11.2 million at December 31, 2019. Working capital as at September 30, 2020 totalled \$48.4 million as compared to working capital of \$60.9 million as at December 31, 2019. The Company's working capital position remains strong and there has been a minimal period to period change through the first to third quarters of 2020. The Company has no long term debt and \$30.0 million of available liquidity from a \$50 million revolving credit facility.

Cash flow from operations was \$3.6 million for the three months ended September 30, 2020 compared to \$13.8 million for the three months ended September 30, 2019. Timing of working capital movements, including the deposit of \$13.5 million received from HB during Q2 2020 as a partial payment under the new supply agreement, drove the change in cash flow from operations. On a year-to-date basis, cash flow from operations of \$1.1 million was materially lower than the \$31.0 million generated for the nine months ended September 30, 2019 due to the reduction in revenue of \$53.6 million which was partially offset by an 11% decrease in operating expenses. Revenue will continue to be recognized in Q4 2020 from the +10.8 carat stones that would have ordinarily been sold in the Q2 and Q3 tenders, but which are now part of the HB supply agreement.

Capital spending during the year remains focused on the underground expansion project (Q3 2020: \$9.7 million; Q3 2019: \$10.9 million) and sustaining capital expenditures of \$10.9 million (Q3 2019: \$4.5 million) including improvements to the XRT technology used in the recovery circuit and raising of the slimes dam walls.

Financing activities during 2020 included draw downs from the working capital facility of \$20.0 million, an increase of \$1.0 million from the balance outstanding in the first half of 2020 (2019: repayment of

\$10.0 million) to manage fluctuations in working capital. In addition, during the nine months ended September 30, 2019, the Company paid dividends of \$22.4 million for which there is no comparable allocation in 2020. The Company suspended the quarterly dividend payment in November 2019 to allow excess capital to be directed to the underground expansion program.

Amounts available under the credit facility were \$30.0 million as of September 30, 2020 (\$50.0 million as of December 31, 2019). The facility contains financial and non-financial covenants customary for a facility of this size and nature. In September 2020, this facility was amended to include FirstRand Bank Limited (London Branch), a division of Rand Merchant Bank, alongside The Bank of Nova Scotia. As at September 30, 2020, the Company was 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.

Long-term liabilities have remained consistent in source currency following adjustments for current period recognition of deferred income taxes and accretion expense. Remaining changes are mainly due to the movement in the foreign exchange conversion from the Botswana Pula to the Company's reporting currency of the U.S. dollar. Long-term liabilities consist of restoration provisions of \$23.3 million (2019: \$23.6 million), deferred income taxes of \$52.1 million (2019: \$63.0 million), and other non-current liabilities of \$0.9 million (2019: \$0.8 million) which consist of leases reclassified under *IFRS 16: Leases* as of January 1, 2019.

Total shareholders' equity decreased from \$236.9 million as at December 31, 2019 to \$197.4 million as at September 30, 2020, mainly due to the cumulative translation adjustment of negative \$18.0 million in accumulated other comprehensive loss resulting from the translation of functional currency to the Company's reporting currency of the U.S. dollar. Other minor changes to share capital and contributed surplus were related to share units vesting and the recording of share-based compensation during the period.

2020 OUTLOOK

This section of the MD&A provides Management's outlook for 2020. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements.

On March 31, 2020, the Company announced the suspension of its 2020 guidance due to the uncertainty around how the COVID-19 pandemic would impact Lucara's operations and production outlook for 2020. The full impact of the COVID-19 pandemic on Lucara's outlook for 2020 remains uncertain, and as a result, the Company is maintaining the suspension of its 2020 guidance.

The global diamond industry continues to experience the widespread impacts of COVID-19 throughout the value chain, manifested as fewer sales, weaker pricing, delays in the movement of goods and people and, production curtailments at several mines. As outbreaks from COVID-19 increase and subside around the world, there are differing impacts to the diamond industry. The polished industry is heavily dependent on retail store openings in the United States and China. The manufacturing industry is predominately situated in India, with high concentrations of buyers in Belgium, Israel, United Arab Emirates and Botswana. Rough supply is being affected by production curtailments and the varying level of government restrictions in the countries in which diamond miners operate. While full production levels are currently being sustained at the Karowe Diamond Mine, Lucara cannot predict if future changes or regulations implemented by the Government of Botswana will affect its operations in the near term.

The sales arrangement with HB for the +10.8 carat diamonds sold is expected to provide a more stable monthly cash flow in the latter part of the year. In addition to revenue generated through the HB agreement, Lucara sold diamonds less than 10.8 carats in size on Clara and in a third quarter tender in Antwerp in early September. Additional sales are expected on Clara, and a fourth tender is planned for early December.

Lucara's capital spending program for 2020, which was focused on the underground expansion has been re-scoped to focus on critical-path items through the remainder of the year. Most of the previously approved capital spend of \$53 million for the Karowe underground expansion project was scheduled to be invested in the latter part of the year and funded through cash flow from operations. Given the uncertainty in global markets resulting from COVID-19, these capital expenditures will be reduced to \$22 million for 2020.

SELECT FINANCIAL INFORMATION

Table 3: <i>In millions of U.S. dollars unless otherwise noted</i>	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenues	\$ 41.3	\$ 45.3	\$ 82.9	\$ 136.5
Operating expenses	(21.7)	(23.3)	(51.0)	(57.1)
Operating earnings ⁽¹⁾	19.6	22.0	31.9	79.4
Royalty expenses	(4.6)	(4.5)	(8.8)	(13.6)
Exploration expenditures	(0.2)	(1.3)	(1.3)	(3.3)
Administration	(4.4)	(3.9)	(12.1)	(10.7)
Sales and marketing	(0.5)	(0.5)	(1.6)	(1.6)
Adjusted EBITDA ⁽²⁾	9.9	11.8	8.1	50.2
Depletion and amortization	(13.5)	(14.4)	(31.9)	(38.1)
Finance expenses	(0.9)	(1.3)	(2.5)	(2.9)
Foreign exchange loss (gain)	0.6	(0.9)	1.2	(2.1)
Loss on disposal of plant and equipment	(2.7)	-	(2.7)	-
Current income tax recovery (expense)	-	(2.5)	(0.3)	(11.3)
Deferred income tax recovery	1.1	3.3	5.6	8.2
Net income (loss) for the period	(5.4)	(4.0)	(22.4)	4.1
Change in cash during the period	(3.6)	(2.3)	(1.1)	(19.6)
Cash on hand	10.1	4.8	10.1	4.8
Earnings (loss) per share (basic and diluted)	(0.01)	(0.01)	(0.06)	0.01
Per carat sold:				
Sales price	\$ 365	\$ 390	\$ 309	\$ 436
Operating expenses	192	201	190	182
Average grade (carats per hundred tonnes) ⁽³⁾	13.8	13.9	14.1	14.7

⁽¹⁾ Operating (loss) earnings is a non-IFRS measure (see page 10) defined as revenues less operating expenses.

⁽²⁾ Adjusted EBITDA is a non-IFRS measure (see page 10) defined as earnings before interest, taxation, depreciation and amortization.

⁽³⁾ Average grade processed is from direct milling carats and excludes carats recovered from re-processing historic recovery tailings from previous milling.

Revenues

During Q3 2020, Lucara sold 112,943 carats at an average price of \$365/carat, resulting in total revenue of \$41.3 million. This compares to revenue of \$45.3 million or \$390/carat sold in the third quarter of 2019.

During the third quarter of 2020, stones greater than +10.8 carats in size were sold through the supply agreement with HB and accounted for approximately 60% of the revenue earned. The remaining balance of goods were sold through a tender held in early September and on Clara. Revenue earned under the supply agreement is recognized on a net basis, after deduction of a fee and the cost of manufacturing, both payable to HB. Royalties to the Government of Botswana are paid based on the gross sales price for the polished diamonds manufactured from the rough diamonds mined from Karowe.

Revenue for the nine months ended September 30, 2020 of \$82.9 million or \$309/carat decreased when compared to revenue of \$136.5 million or \$436/carat recognized for the same period in 2019. For the nine months ended September 30, 2020, 268,101 carats were sold representing a 15% decrease from the 313,189 carats sold in the nine months ended September 30, 2019. As a significant portion of revenue from the Karowe Mine is generated from the sale of +10.8 carats, the achieved average price per carat sold is also heavily influenced by the timing of the stones being sold under the supply agreement. All +10.8 carat diamonds produced are now being sold to HB at regular intervals, approximately twice a month, with payment due to Lucara within 60 days of each shipment. Revenue is still to be received from a portion of the +10.8 carat stones that would have ordinarily been sold in the Q2 and Q3 tenders, and as such will continue to be recognised in Q4. In addition, Lucara will receive revenue from Shipment 1 as the polished diamonds are sold. Several

high value stones from Shipment 1 have not yet been fully polished and sold, including high colour and quality rough diamonds weighing 104 and 109 carats.

Operating Earnings and Expenses

During Q3 2020, the Company recorded operating earnings of \$19.6 million or \$174/carat (Q3 2019: earnings of \$22.0 million or \$190/carat) after operating expenses during the quarter of \$21.7 million or \$192/carat (Q3 2019: \$23.3 million or \$201/carat).

The movement in operating earnings and margin represents a return to a stronger margin in Q3 2020 following the change in how revenue is recognized for the large stones sold through the supply agreement, beginning in Q2 2020. The operating margin of 47% in Q3 2020 is comparable to the 49% operating margin earned in Q2 2019 and is reflective of a decrease in the overall rough diamond market. The Company expects that over time, the impacts of that decrease should be mitigated through the HB supply agreement. The HB agreement should result in better revenue from the sale of the highest value production as polished and a more regular cash flow than previously achieved when the Company's production was sold through a quarterly tender. Operating expenses were positively impacted by lower mining costs incurred from the movement of less waste mined in Q3 2020 compared to Q3 2019.

Operations at Karowe were consistent through the third quarter. Lucara achieved an average grade processed of 13.8 carats per hundred tonnes ("cpht") during Q3 2020, which was directly comparable to an average grade of 13.9 cpht from direct milling carats in Q3 2019. Recoveries in Q3 2020 of 88,909 carats were approximately 6% less than the 94,344 carats recovered in Q3 2019 (excluding 10,646 carats recovered from re-processing tailings previously milled) and relate to planned shutdowns for improvements to the XRT circuit.

Operating earnings is a non-IFRS measure and is reconciled in Table 3 above.

Depletion and Amortization

The Company incurred a depletion and amortization charge of \$13.5 million (Q3 2019: \$14.4 million) for Q3 2020 resulting from a 3% decrease in carats sold between the periods and a decreasing asset balance.

Net Income and Adjusted Earnings Before Interest, Tax, Depletion and Amortization (Adjusted EBITDA)

The Company recorded a net loss for Q3 2020 of \$5.4 million (Q3 2019: \$4.0 million). Adjusted EBITDA for the three months ended September 30, 2020 was \$9.9 million as compared to adjusted EBITDA of \$11.8 million in Q3 2019.

Decreases in Net Income and Adjusted EBITDA are consistent with the decrease in revenue.

Adjusted EBITDA is a non-IFRS measure and is reconciled in Table 3 above.

Operating Cost Per Tonne of Ore Processed

Operating cost per tonne of ore processed was \$26.92 (2019: \$31.06). Factors influencing the operating cost per tonne of ore processed most significantly include a weakening of the Botswana Pula in 2020 by 7% and cost optimization efforts including the insourcing of the process plant contract and renegotiation of consumable supply rates. The decrease in operating cost per tonne of ore processed is offset by a decrease in tonnes processed of 5% during the period. Smaller net increases in both rough diamond inventory (+ \$0.9 million) and the ore stockpile inventory (+ \$1.7 million) also contributed to a lower operating cost per tonne of ore processed as compared to Q3 2019.

Operating cost per tonne processed is a non-IFRS measure and is reconciled in Table 7 to the most directly comparable measure calculated in accordance with IFRS, which is operating expenses.

SUMMARY OF QUARTERLY RESULTS

(All amounts expressed in thousands of U.S. dollars, except per share data). The Company's interim financial statements are reported under IFRS applicable to interim financial reporting.

Table 5: The following table provides highlights, extracted from the Company's financial statements, of quarterly results for the past eight quarters:

Three months ended	Sept-20	Jun-20	Mar-20	Dec-19	Sept-19	Jun-19	Mar-19	Dec-18
A. Revenues	41,297	7,462	34,117	55,993	45,317	42,541	48,690	40,609
B. Administration expenses	(4,387)	(3,653)	(4,071)	(4,993)	(3,921)	(3,960)	(2,777)	(4,369)
C. Net income (loss)	(5,368)	(13,915)	(3,161)	8,635	(4,012)	675	7,416	(6,225)
D. Earnings (loss) per share (basic and diluted)	(0.01)	(0.04)	(0.01)	0.02	(0.01)	0.00	0.02	(0.02)

The Company's quarterly results, including net income (loss) and earnings (loss) per share are most directly affected by the sale of unique and high value diamonds. In July 2020, the Company announced a supply agreement with HB for all stones sized above +10.8 carats. Under the terms of the supply agreement, the purchase price paid shall be based on the estimated polished outcome, with a true up paid on actual achieved polished sales thereafter, less a fee and the cost of manufacturing. The +10.8ct diamonds of poorer quality (clivage low, rejection goods) are sold as rough parcels and do not enter the polishing pipeline at HB. This change is expected to result in a more stable cash flow with access to price improvements along the value chain when compared to previous quarters where all diamonds recovered were typically sold in the quarterly tender or through Clara. The Company's quarterly revenue is also affected by the number and quality of stones available for sale in any given quarter.

Revenue in the quarter ended September 30, 2020 reflects a return, in July 2020, to regular sales of +10.8 carat stones recovered from Karowe, which typically account for 60 to 70% of Lucara's revenue by value. Revenue is now being recognized three ways: through committed sales of +10.8 carat diamonds to HB, sales on Clara, our secure web based digital sales platform, and, through regular tenders of our smaller stones.

Revenue recognized in the quarter ended June 30, 2020 represents the sale of smaller stones only (less than 10.8 carats) through two sales channels: Clara and a tender held in June 2020. The decrease in revenue is reflective of a deliberate decision not to sell any diamonds +10.8 carats in size during the second quarter.

Revenue recognized in the quarter ended March 31, 2020 was significantly less than revenue recognized in Q1 2019, resulting from a combination of lower overall prices and the quality of goods available for sale (in the quarter ended March 31, 2019 several higher value stones were sold). Early impacts of COVID-19 were observed in the lower pricing achieved in the Q1 2020 tender. Similarly, the availability of large, high-quality stones in the Q4 2019 tender and improvement in rough diamond pricing prior to Covid-19 resulted in a higher revenue achieved when compared to the quarter ended March 31, 2020.

The quarter ended December 31, 2019 was representative of a stronger pricing environment combined with a better blend of stones available for sale as compared to the quarter ended December 31, 2018. Q4 2018 saw a particularly weak tender following significant inventory builds and liquidity issues in the mid-stream of the industry. The end of 2019 saw a return to a more stable pricing environment for most of the Company's goods available for sale.

The quarter ended September 30, 2019 is directly comparable to the prior year quarter in which one blended tender was held. The quarter to quarter change in revenue was \$0.4 million, decreasing slightly from \$45.7 million in Q3 2018 to \$45.3 million in Q3 2019.

The net income achieved in each quarter is most impacted by the revenue earned during that quarter.

NON-IFRS FINANCIAL MEASURES

This MD&A refers to certain financial measures, such as adjusted EBITDA, operating earnings, operating cash flow per share, operating cost per carat sold, and operating cost per tonne of ore

processed, which are not measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. These measures may differ from those made by other corporations and accordingly may not be comparable to such measures as reported by other corporations. These measures have been derived from the Company's financial statements, and applied on a consistent basis, because the Company believes they are of assistance in the understanding of the results of operations and financial position.

Adjusted 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 measure performance and evaluate trends of individual assets. Adjusted EBITDA comprises earnings before deducting interest and other financial charges, income taxes, depreciation and amortization.

Operating earnings (see "Select Financial Information") is the term the Company uses as an approximate measure of the earnings from the operations under an accrual basis of accounting defined as revenues less operating expenses.

Operating cash flow per share is the term the Company uses to assess its ability to generate cash flow from operations, while also taking into consideration changes in the number of outstanding common shares of the Company. Operating cash flow per share is calculated by taking cash flows from operating activities, less changes in non-cash working capital items, divided by the basic weighted average number of common shares outstanding. The most directly comparable measure calculated in accordance with IFRS is cash flows from operating activities. A table reconciling the two measures is presented below.

Table 6: Operating cash flow per share reconciliation:

<i>In millions of U.S. dollars with the exception of weighted average common shares outstanding and operating cash flow per share</i>	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Cash flows from operating activities	\$ 3,648	\$ 13,810	\$ 1,108	\$ 30,982
Add: Changes in non-cash working capital	6,966	(4,287)	8,825	9,000
Total cash flow from operating activities before changes in non-cash working capital	10,614	9,523	9,933	39,982
Weighted average common shares outstanding	396,896,733	396,858,168	396,886,881	396,768,297
Operating cash flow per share⁽¹⁾	\$0.03	\$0.02	\$0.03	\$0.10

⁽¹⁾ Operating cash flow per share for the period is a non-IFRS measure defined as cash flows from operating activities, less changes in non-cash working capital items, divided by the basic weighted average number of common shares outstanding for the period.

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

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

Table 7: Operating cost per tonne of ore processed reconciliation:

<i>In millions of U.S. dollars with the exception of tonnes processed and operating cost per tonne processed</i>	Nine months ended September 30,	
	2020	2019
Operating expenses	\$ 51.0	\$ 57.1
Net change rough diamond inventory, excluding depletion and amortization ⁽¹⁾	0.9	3.0
Net change ore stockpile inventory, excluding depletion and amortization ⁽²⁾	1.7	6.9
Total operating costs for ore processed	53.6	67.0
Tonnes processed	1,991,298	2,157,015
Operating cost per tonne of ore processed⁽³⁾	\$ 26.92	\$ 31.06

⁽¹⁾ Net change in rough diamond inventory, excluding depletion and amortization.

⁽²⁾ Net change in ore stockpile inventory, excluding depletion and amortization.

⁽³⁾ Operating cost per tonne processed for the period is a non-IFRS measure defined as the sum of operating expenses, capitalized production stripping costs, and the net changes in rough diamond inventories and ore stockpiles divided by the tonnes of ore processed for the period.

RELATED PARTY TRANSACTIONS

A description of key management compensation can be found in Note 9 of the condensed interim consolidated financial statements for the three and nine months ended September 30, 2020.

In relation to the acquisition of Clara in February 2018, certain related parties may receive additional shares of Lucara if Clara, now a wholly-owned subsidiary of Lucara, achieves certain levels of revenue generated by sales on the platform (the "Performance Milestones"). The Performance Milestones are detailed in Note 9 of the audited consolidated financial statements for the year ended December 31, 2019. As of September 30, 2020, none of the revenue milestones had been achieved.

A profit sharing mechanism also exists which is detailed in Note 9 of the audited consolidated financial statements for the year ended December 31, 2019. To-date, no amounts have been paid under this profit sharing mechanism.

FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

In the normal course of business, the Company is inherently exposed to currency and commodity price risk. The Company's financial instruments are exposed to certain financial risks, including currency, credit, price and liquidity risks.

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 most operating costs are denominated in the Botswana Pula. At September 30, 2020, the Company is exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately \$0.8 million in net income for the year.

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. A majority of the Company's cash and cash equivalents are 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 goods are not released until full payment is received.

Under the new supply agreement with HB announced in July, a larger proportion of the Company's goods will be sold through HB to buyers of polished diamonds. The credit risk associated with these

sales will concentrate with one individual customer and payment terms are longer (60 days) than the Company's traditional tender sales (5 days).

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.

Price risk

The Company derives its income from the sale of rough diamonds mined in Botswana, a majority of which are sold through a quarterly tender process from Botswana. The price and marketability of these diamonds can be significantly impacted by international economic trends, global or regional consumption, demand and supply patterns and the availability of capital for diamond manufacturers, all factors that are not within the Company's control. Under the supply agreement with HB, the ultimate achieved sales prices of stones larger than 10.8 carats in size will be based on a polished diamond pricing mechanism. This pricing mechanism will result in the Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than it is currently through its traditional tender process for rough diamonds. The COVID-19 pandemic has negatively impacted global demand for luxury commodities, which includes jewelry containing diamonds. Restrictions on international travel have also disrupted the diamond supply chain. To the extent that the supply of rough or polished diamonds exceeds demand, this is likely to result in price deterioration and negatively impact the Company's revenue, thereby increasing the risk that not only will operations not be profitable, the Company may not have sufficient liquidity to meet its financial obligations as they come due.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. To manage liquidity risk, regular cash flow forecasting is performed in the operating entities of the Company and aggregated in the head office to understand what level of capital is required. Rolling forecasts of the Company's liquidity requirements are prepared and monitored to assess whether there is sufficient cash available to meet the Company's short and longer-term operational needs. Such forecasting takes into consideration the Company's ability to generate cash from the sale of diamonds and additional liquidity which can be accessed through the revolving term credit facility.

The Company has a \$50 million revolving term credit facility with a maturity date of May 5, 2021. In September 2020, this facility was amended to include FirstRand Bank Limited (London Branch), a division of Rand Merchant Bank alongside The Bank of Nova Scotia. 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 September 30, 2020, the Company was 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 adjusted leverage ratio.

As at September 30, 2020, \$20.0 million was drawn on the facility for working capital purposes (March 31 & June 30, 2020 - \$19.0 million; December 31, 2019 - \$nil) and \$30.0 million was available to be drawn.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 396,896,733 common shares outstanding, 2,946,527 share units, 454,235 deferred share units, and 4,462,000 stock options outstanding under its share-based incentive plans.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business which includes the acquisition, financing, exploration, development and operation of diamond properties, the potential construction of an underground mine at Karowe and the continued commercialization of Clara. The material risk factors and uncertainties, which should be taken into account in assessing the Company's activities, are described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form available at <http://www.sedar.com> (the "AIF"). Any one or more of these risks and uncertainties could have a material adverse effect on the Company.

COVID-19 Global pandemic risk

On March 11, 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) a global pandemic. With the majority of governments across the jurisdictions in which Lucara and many of its customers operate declaring a state of emergency in response to the COVID-19 pandemic, Lucara’s operations could be impacted in a number of ways including, but not limited to: a suspension of operations at the Karowe Mine, by disruption to the progress of the Karowe Mine underground expansion project and by an inability to ship or sell rough (or polished) diamonds during this period. These possible impacts could result from government directives, the need to modify work practices to meet appropriate health and safety standards, a build up of supply or a lack of demand for rough (or polished) diamonds, a lack of available liquidity to meet ongoing operational expenses and, due to or by other COVID-19 related impacts on the availability of labour or to the supply chain.

As a relatively novel risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of government and central bank interventions in the jurisdictions in which Lucara and its clients operate, the Company’s business continuity plan and other mitigating measures. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on our business, including the duration and impact that it may have on our ability to ship and sell diamonds, on demand for rough and polished diamonds, on achievable diamond prices, on our suppliers, on our employees and on global financial markets, cannot be reasonably estimated at this time. Accordingly estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Company’s operations, financial results and condition in future periods are also subject to significant uncertainty.

In preparing our condensed interim consolidated financial statements, we make judgments in applying our accounting policies. The areas of policy judgement are consistent with those reported in our 2019 annual consolidated financial statements. In addition, we make assumptions about the future in deriving estimates used in preparing our condensed interim consolidated financial statements. As disclosed in our 2019 annual consolidated financial statements, the most significant sources of estimation uncertainty include estimated recoverable reserves and resources, valuation of mineral properties, the provision for deferred taxes and the valuation of decommissioning and site restoration provisions.

Management is required to exercise judgment to ensure that disclosures relating to liquidity and the Company’s ability to continue as a going concern are appropriate. To this end, the Company manages liquidity risk by maintaining an adequate level of cash and cash equivalents to meet its short-term ongoing obligations and reviews its actual expenditures and forecast cash flows on a regular basis. Changes in demand for rough and polished diamonds and diamond prices, production levels and related costs, foreign exchange rates and other factors all impact the Company’s liquidity position.

Therefore, uncertainty about judgments, estimates and assumptions made by management during the preparation of the Company’s condensed interim consolidated financial statements related to potential impacts of the COVID-19 outbreak on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

OFF-BALANCE SHEET ARRANGEMENTS

Previously the Company’s operating lease arrangements for offices in Botswana were considered to be off-balance sheet arrangements. With the adoption of *IFRS 16 – Leases*, as of January 1, 2019, these leases are no longer off-balance sheet arrangements. With the exception of short-term leases with a term of 12 months or less, the Company is not party to any off-balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

There have been no changes to accounting policies except the additional revenue policy described in Note 2 to the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2020. Note 3 to the audited consolidated financial statements for the year ended December 31, 2019 includes a summary of the significant accounting policies adopted by the Company.

MANAGEMENT’S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of this document along with the unaudited condensed interim consolidated financial statements. Management is responsible for the integrity and objectivity

of this document, ensuring the fair presentation of its financial results. The Audit Committee is responsible for reviewing the contents of this document along with the condensed interim consolidated financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended September 30, 2020.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information related to the Company is identified and communicated on a timely basis. Management of the Company, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), is responsible for the design and operation of disclosure controls and procedures.

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. However, due to inherent limitations, internal controls over financial reporting may not prevent or detect all misstatements and fraud.

Management assesses the effectiveness of the Company's internal control over financial reporting using the Internal Control – Integrated Framework ("2013 Framework") issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

There have been no changes in the Company's internal control over financial reporting during the three months ended September 30, 2020 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 impact of COVID-19 pandemic on the Company's operations and cash flows and its plans with respect to the Karowe underground expansion project; the estimates of the Company's mineral reserves and resources; estimates of the Company's production and sales volumes for the Karowe Diamond Mine; estimated costs for capital expenditures related to the Karowe Diamond Mine; production costs; exploration and development expenditures and reclamation costs; expectation of diamond prices and the potential for the supply agreement with HB to achieve both higher prices from the sale of polished diamonds and to provide more regular cash flow than in previous periods; changes to foreign currency exchange rates; assumptions and expectations related to the possible development of an underground mining operation at Karowe including associated capital costs, financing strategies and timing; expectations in respect of the development and functionality of the technology related to the Clara platform, the intended benefits and performance of the Clara platform, including ability to complete sales without viewing diamonds, the growth of the Clara platform, the timing and frequency of sales on the Clara Platform, and the quantum and timing of participation of third parties on the Clara platform; expectations regarding the need to raise capital and its availability; possible impacts of disputes or litigation; and other risks and uncertainties described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form available at <http://www.sedar.com> (the "AIF").

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

There can be no assurance that such statements will prove to be accurate, as the Company's results and future events could differ materially from those anticipated in this forward-looking information as a result of those factors discussed in or referred to under the heading "COVID -19 Global Pandemic" in this MD&A and under the heading "Risks and Uncertainties" in the Company's AIF, as well as changes in general business and economic conditions, changes in interest and foreign currency rates, the supply and demand for, deliveries of and the level and volatility of prices of rough diamonds, costs and availability of power and diesel, acts of foreign governments and the outcome of legal proceedings, inaccurate geological and recoverability assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources) and unanticipated operational difficulties (including failure of plant, equipment or processes to operate in accordance with specifications or expectations, cost escalations, unavailability of materials and equipment, government action or delays in the receipt of government approvals, industrial disturbances or other job actions, adverse weather conditions, and unanticipated events relating to health safety and environmental matters).

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

LUCARA DIAMOND CORP.
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS
(Unaudited - in thousands of U.S. Dollars)

	September 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,066	\$ 11,197
VAT receivables and other	7,300	6,248
Inventories (Note 3)	64,859	65,052
	82,225	82,497
Investments	268	241
Plant and equipment (Note 4)	103,949	130,108
Mineral properties (Note 5)	95,318	105,243
Intangible assets (Note 6)	21,276	22,774
Other non-current assets	4,490	5,168
TOTAL ASSETS	\$ 307,526	\$ 346,031
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	\$ 9,755	\$ 15,880
Credit facility (Note 11)	20,010	-
Tax and royalties payable	3,408	4,397
Lease liabilities	700	1,347
	33,873	21,624
Restoration provisions	23,256	23,629
Deferred income taxes	52,141	63,015
Other non-current liabilities	903	828
TOTAL LIABILITIES	110,173	109,096
EQUITY		
Share capital (unlimited common shares, no par value)	314,924	314,820
Contributed surplus	8,363	7,679
Deficit	(53,938)	(31,494)
Accumulated other comprehensive loss	(71,996)	(54,070)
TOTAL EQUITY	197,353	236,935
TOTAL LIABILITIES AND EQUITY	\$ 307,526	\$ 346,031

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

Approved on Behalf of the Board of Directors:

"Marie Inkster"
Director

"Catherine McLeod-Seltzer"
Director

LUCARA DIAMOND CORP.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited - in thousands of U.S. Dollars, except for share and per share amounts)**

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenues	\$ 41,297	\$ 45,317	\$ 82,876	\$ 136,548
Cost of goods sold				
Operating expenses	21,675	23,313	50,975	57,050
Royalty expenses (Note 5)	4,610	4,502	8,840	13,625
Depletion and amortization	13,451	14,422	31,915	38,132
	39,736	42,237	91,730	108,807
Income (loss) from mining operations	1,561	3,080	(8,854)	27,741
Other expenses				
Administration (Note 8)	4,387	3,921	12,111	10,658
Exploration	171	1,258	1,256	3,261
Finance expenses	869	1,265	2,508	2,905
Foreign exchange (gain) loss	(574)	877	(1,211)	2,141
Loss on disposal of plant and equipment (Note 4)	2,663	-	2,663	-
Sales and marketing	475	494	1,575	1,570
	7,991	7,815	18,902	20,535
Net income (loss) before tax	(6,430)	(4,735)	(27,756)	7,206
Income tax expense (recovery)				
Current income tax expense	3	2,529	254	11,279
Deferred income tax recovery	(1,065)	(3,252)	(5,566)	(8,151)
	(1,062)	(723)	(5,312)	3,128
Net income (loss) for the period	\$ (5,368)	\$ (4,012)	\$ (22,444)	\$ 4,078
Earnings (loss) per common share				
Basic	\$ (0.01)	\$ (0.01)	\$ (0.06)	\$ 0.01
Diluted	\$ (0.01)	\$ (0.01)	\$ (0.06)	\$ 0.01
Weighted average common shares outstanding				
Basic	396,896,733	396,858,168	396,886,881	396,768,297
Diluted	396,896,733	396,858,168	396,886,881	397,903,131

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

LUCARA DIAMOND CORP.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
(Unaudited - in thousands of U.S. Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net income (loss) for the period	\$ (5,368)	\$ (4,012)	\$ (22,444)	\$ 4,078
Other comprehensive income (loss)				
<i>Items that will not be reclassified to net income</i>				
Change in fair value of marketable securities	(28)	(106)	27	(615)
<i>Items that may be subsequently reclassified to net income</i>				
Currency translation adjustment	3,727	(7,309)	(17,953)	(3,948)
	3,699	(7,415)	(17,926)	(4,563)
Comprehensive income (loss) for the period	\$ (1,669)	\$ (11,427)	\$ (40,370)	\$ (485)

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

LUCARA DIAMOND CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - in thousands of U.S. Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Cash flows from (used in):				
Operating activities				
Net income (loss) for the period	\$ (5,368)	\$ (4,012)	\$ (22,444)	\$ 4,078
Items not involving cash and cash equivalents:				
Depletion and amortization	14,037	14,679	33,627	38,852
Unrealized foreign exchange (gain) loss	(574)	877	(1,211)	2,141
Share-based compensation	344	252	989	971
Deferred income taxes	(1,065)	(3,252)	(5,566)	(8,151)
Loss on disposal of plant and equipment (Note 4)	2,663	-	2,663	-
Finance costs	577	979	1,875	2,091
	10,614	9,523	9,933	39,982
Net changes in working capital:				
VAT receivables and other Inventories	735	(1,367)	992	3,946
Deposits on future sales	(13,500)	-	-	-
Trade payables and other current liabilities	(3,885)	(1,853)	(8,334)	(6,174)
Taxes payable	3,728	5,801	(618)	6,785
	3,648	13,810	1,108	30,982
Financing activities				
Proceeds (repayments) of credit facility, net	1,000	(5,000)	20,000	(10,000)
Dividends paid	-	(7,520)	-	(22,380)
Withholding tax for share units vested	-	-	(8)	(427)
Interest paid	(17)	-	(87)	-
Principal elements of lease payments	(60)	-	(890)	-
	923	(12,520)	19,015	(32,807)
Investing activities				
Acquisition and disposition of plant and equipment, net Mineral property expenditures	(4,216)	(761)	(10,842)	(4,519)
Acquisition of other assets	(4,056)	(2,408)	(9,687)	(10,853)
Development of intangible assets	-	69	-	(1,810)
	(16)	(71)	(68)	(380)
	(8,288)	(3,171)	(20,597)	(17,562)
Effect of exchange rate change on cash and cash equivalents	92	(460)	(657)	(205)
Decrease in cash and cash equivalents during the period	(3,625)	(2,341)	(1,131)	(19,592)
Cash and cash equivalents, beginning of period	13,691	7,104	11,197	24,355
Cash and cash equivalents, end of period⁽¹⁾	\$ 10,066	\$ 4,763	\$ 10,066	\$ 4,763

LUCARA DIAMOND CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - in thousands of U.S. Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Supplemental information				
Interest received	\$ 2	\$ 27	\$ 124	\$ 117
Taxes paid	(13)	(681)	(5,008)	(5,019)
Changes in trade payables and accrued liabilities related to plant and equipment	(793)	47	(682)	1,385

⁽¹⁾ Cash and cash equivalents are composed of 100% cash deposits held with accredited financial institutions.

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

LUCARA DIAMOND CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited – in thousands of U.S. Dollars, unless otherwise indicated)

	Number of shares issued and outstanding	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total
Balance, January 1, 2019	396,509,387	\$ 313,913	\$ 7,766	\$ (21,767)	\$ (57,997)	\$ 241,915
Share-based compensation	-	-	971	-	-	971
Effect of foreign currency translation	-	-	-	-	(3,948)	(3,948)
Change in fair value through other comprehensive income securities	-	-	-	-	(615)	(615)
Shares issued from SUs vested	348,781	907	(907)	-	-	-
Withholding tax for SUs vested	-	-	(427)	-	-	(427)
Dividends paid ⁽¹⁾	-	-	61	(22,441)	-	(22,380)
Net income for the period	-	-	-	4,078	-	4,078
Balance, September 30, 2019	396,858,168	\$ 314,820	\$ 7,464	\$ (40,130)	\$ (62,560)	\$ 219,594
Balance, January 1, 2020	396,858,168	\$ 314,820	\$ 7,679	\$ (31,494)	\$ (54,070)	\$ 236,935
Share-based compensation	-	-	796	-	-	796
Effect of foreign currency translation	-	-	-	-	(17,953)	(17,953)
Change in fair value through other comprehensive income securities	-	-	-	-	27	27
Shares issued from SUs vested	38,565	104	(104)	-	-	-
Withholding tax for SUs vested	-	-	(8)	-	-	(8)
Net loss for the period	-	-	-	(22,444)	-	(22,444)
Balance, September 30, 2020	396,896,733	\$ 314,924	\$ 8,363	\$ (53,938)	\$ (71,996)	\$ 197,353

⁽¹⁾ On April 11, June 20, and September 19, 2019, the Company paid a cash dividend of CA\$0.025 per share.

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

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

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

1. NATURE OF OPERATIONS

Lucara Diamond Corp. together with its subsidiaries (collectively referred to as the “Company”) is a diamond mining company focused on the development and operation of diamond properties in Africa. The Company holds a 100% interest in the Karowe Mine located in Botswana and a 100% interest in Clara Diamond Solutions Limited Partnership (“Clara”). Clara operates a secure, digital diamond sales platform that uses proprietary analytics together with cloud and blockchain technologies.

The Company’s common shares are listed on the TSX, NASDAQ Stockholm 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 2600 - 595 Burrard Street, Vancouver, British Columbia, V7X 1L3.

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, IAS 34: Interim Financial Statements, and do not contain all of the information required for annual financial statements. These statements follow the same accounting policies and methods of application as the most recent annual audited financial statements, with the addition of the following addition to the Company’s revenue policy. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company. These financial statements were approved by the Board of Directors for issue on November 10, 2020.

Revenue

Revenues from diamond sales are recognized when the purchaser obtains control of the diamond. Control is achieved when the Company receives payment for the diamonds sold and title is transferred to the purchaser according to contract terms.

In July 2020, the Company entered into a new sales agreement to sell its large stone production (diamonds greater than 10.8 carats) to HB Antwerp (“HB”). The purchase price paid for the rough diamonds is based on the initial estimated polished outcome, less a fee and the cost of manufacturing. The Company will recognize net revenue from the sale of rough diamonds when the performance obligations of delivery and analysis of the rough diamond are achieved according to the contract terms. Under the terms of the supply agreement, rough diamonds are sold to HB based on the initial estimated polished outcome price (less a fee and the cost of manufacturing), with a true up paid if the actual achieved polished sales price exceeds the initial price paid. This variable consideration is recognized when the manufactured diamond is sold to an end buyer for a price higher than the initial estimated polished price.

COVID-19 Global pandemic

On March 11, 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) a global pandemic and on April 2, 2020 the Government of Botswana declared an initial state of emergency. The Government of Botswana has since extended the state of emergency, which is expected to remain in place until March 31, 2021. Concern remains over how governments across the jurisdictions in which Lucara and many of its customers operate will react in response to a “second wave” until a vaccine can be made widely available. Due to the ongoing uncertainty resulting from the global pandemic, Lucara’s operations could continue to be impacted in a number of ways including, but not limited to: a suspension of operations at the Karowe Mine, by disruption

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

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

to the progress of the Karowe Mine underground expansion project and by an inability to ship or sell rough and/or polished diamonds during this period. These possible impacts could result from government directives, the need to modify work practices to meet appropriate health and safety standards, a lack of demand for rough and/or polished diamonds, a lack of available liquidity to meet ongoing operational expenses and, due to or by other COVID-19 related impacts on the availability of labour or to the supply chain.

As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of government and central bank interventions in the jurisdictions in which Lucara and its clients operate, the Company's business continuity plan and other mitigating measures. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on our business operations, including the duration and impact that it may have on our ability to ship and sell diamonds, on demand for rough and polished diamonds, on our suppliers, on our employees and on global financial markets, cannot be reasonably estimated at this time. Accordingly, estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty.

In preparing our condensed interim consolidated financial statements, we make judgments in applying our accounting policies. The areas of policy judgement are consistent with those reported in our 2019 annual consolidated financial statements. In addition, we make assumptions about the future in deriving estimates used in preparing our condensed interim consolidated financial statements. As disclosed in Note 3c of the audited consolidated financial statements for the year ended December 31, 2019, the most significant sources of estimation uncertainty include estimated recoverable reserves and resources, valuation of mineral properties, the provision for deferred taxes and the valuation of decommissioning and site restoration provisions.

Management is required to exercise judgment to ensure that disclosures relating to indicators of impairment, liquidity and the Company's ability to continue as a going concern are appropriate. To this end, the Company manages liquidity risk by maintaining an adequate level of cash and cash equivalents to meet its short-term ongoing obligations and reviews its actual expenditures and forecast cash flows on a regular basis. Changes in demand for rough and/or polished diamonds and diamond prices, production levels and related costs, foreign exchange rates and other factors all impact the Company's liquidity position.

Uncertainty about judgments, estimates and assumptions made by management during the preparation of the Company's condensed interim consolidated financial statements related to potential impacts of the COVID-19 outbreak on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

3. INVENTORIES

	September 30, 2020	December 31, 2019
Rough diamonds	\$ 25,502	\$ 24,536
Ore stockpile	27,616	28,354
Parts and supplies	11,741	12,162
	\$ 64,859	\$ 65,052

Inventory expensed during the nine months ended September 30, 2020 totaled \$51.0 million (nine months ended September 30, 2019 – \$57.1 million). There were no inventory write-downs during the nine months ended September 30, 2020 and 2019.

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

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

4. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Leased assets	Total
Balance, January 1, 2019	\$ 5,661	\$ 206,424	\$ 2,524	\$ 6,729	\$ -	\$ 221,338
IFRS 16 adoption	-	-	-	-	3,691	3,691
Additions	15,936	226	-	17	-	16,179
Reclassification ¹	(10,331)	7,596	104	2,331	-	(300)
Disposals and other	-	-	-	(3)	-	(3)
Translation differences	122	2,152	26	99	32	2,431
Balance, December 31, 2019	\$ 11,388	\$ 216,398	\$ 2,654	\$ 9,173	\$ 3,723	\$ 243,336
Additions	10,302	32	-	33	475	10,842
Reclassification	(11,137)	8,550	357	2,230	-	-
Disposals and other ²	-	(5,709)	-	-	(1,772)	(7,481)
Translation differences	(967)	(18,386)	(229)	(796)	(304)	(20,682)
Balance, September 30, 2020	\$ 9,586	\$ 200,885	\$ 2,782	\$ 10,640	\$ 2,122	\$ 226,015
Accumulated amortization						
Balance, January 1, 2019	\$ -	\$ 68,511	\$ 1,497	\$ 4,084	\$ -	\$ 74,092
Depletion and amortization	-	34,550	355	1,454	1,565	37,924
Disposals and other	-	-	-	(3)	-	(3)
Translation differences	-	1,112	19	65	19	1,215
Balance, December 31, 2019	\$ -	\$ 104,173	\$ 1,871	\$ 5,600	\$ 1,584	\$ 113,228
Depletion and amortization	-	20,942	236	1,118	856	23,152
Disposals and other ²	-	(3,094)	-	-	(1,449)	(4,543)
Translation differences	-	(9,003)	(162)	(476)	(130)	(9,771)
Balance, September 30, 2020	\$ -	\$ 113,018	\$ 1,945	\$ 6,242	\$ 861	\$ 122,066
Net book value						
As at December 31, 2019	\$ 11,388	\$ 112,225	\$ 783	\$ 3,573	\$ 2,139	\$ 130,108
As at September 30, 2020	\$ 9,586	\$ 87,867	\$ 837	\$ 4,398	\$ 1,261	\$ 103,949

- (1) Karowe mine related expenditure of \$174 was reclassified to mineral properties and \$126 was reclassified to inventory in 2019 from construction in progress.
- (2) During the three months ended September 30, 2020, a loss on disposal of assets of \$2,663 was recorded related to the replacement of several XRT machines.

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

5. MINERAL PROPERTIES

Cost	Capitalized production stripping asset	Karowe Mine	Total
Balance, January 1, 2019	\$ 72,352	\$ 73,372	\$ 145,724
Additions	-	10,320	10,320
Reclassification ¹	-	174	174
Translation differences	676	811	1,487
Balance, December 31, 2019	\$ 73,028	\$ 84,677	\$ 157,705
Additions	-	10,368	10,368
Translation differences	(6,267)	(7,378)	(13,645)
Balance, September 30, 2020	\$ 66,761	\$ 87,667	\$ 154,428
Accumulated depletion			
Balance, January 1, 2019	\$ 11,584	\$ 21,031	\$ 32,615
Depletion	12,583	6,727	19,310
Translation differences	258	279	537
Balance, December 31, 2019	\$ 24,425	\$ 28,037	\$ 52,462
Depletion	7,356	3,915	11,271
Translation differences	(2,175)	(2,448)	(4,623)
Balance, September 30, 2020	\$ 29,606	\$ 29,504	\$ 59,110
Net book value			
As at December 31, 2019	\$ 48,603	\$ 56,640	\$ 105,243
As at September 30, 2020	\$ 37,155	\$ 58,163	\$ 95,318

(1) Karowe mine related expenditure of \$174 was reclassified from plant and equipment to mineral properties in 2019.

Karowe Mine

A royalty of 10% of the gross sales value of all diamonds produced from the Karowe Mine is payable to the government of Botswana, regardless of whether the diamond is sold as rough or polished. During the nine months ended September 30, 2020, the Company incurred a royalty expense of \$8.8 million (2019: \$13.6 million).

6. INTANGIBLE ASSETS

Cost		
Balance, January 1, 2019	\$	21,798
Development expenditures		404
Translation differences		1,001
Balance, December 31, 2019		23,203
Development expenditures		68
Translation differences		(593)
Balance, September 30, 2020		22,678

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

Accumulated Depletion		
Balance, January 1, 2019	\$	-
Additions		(429)
Balance, December 31, 2019	\$	(429)
Additions		(982)
Translation differences		9
Balance, September 30, 2020	\$	(1,402)
Net book value		
As at December 31, 2019	\$	22,774
As at September 30, 2020	\$	21,276

In 2018, the Company acquired the Clara platform, a secure, digital sales platform for rough diamonds. The consideration paid was allocated entirely to the intangible assets. As part of the purchase, contingent consideration was agreed to and will be recognized as additional purchase consideration for the intangible asset, if the obliging events occur. The contingent consideration consists of a profit-sharing allocation and additional Lucara share payments if certain revenue triggers are reached.

As of September 1, 2019, management determined that the sales platform was operating as intended. The definite-lived intangible asset is being amortized over the 20 year life of the patents. All income and expenses incurred following September 1, 2019 have been recorded to the statement of operations.

7. SHARE BASED COMPENSATION**a. Stock options**

The Company's stock option plan (the 'Option Plan') was approved by the shareholders of the Company initially on May 13, 2015, with amendments approved on May 10, 2019. Under the terms of the Option Plan, a maximum of 20,000,000 shares had been reserved for issuance upon the exercise of stock options. At the 2020 Shareholder meeting, this maximum was subsequently reduced to 10,000,000 shares reserved for issuance upon the exercise of stock options, with the difference allocated for issuance under the Company's share unit plans as described in note 7(b) below. The Option Plan provides the Board of Directors with discretion to determine the vesting period for each stock option grant. Options typically vest in thirds over a three-year period beginning on the first anniversary of the date of grant and expire four years from the date of grant.

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

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

7. SHARE BASED COMPENSATION (continued)

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 January 1, 2019	4,278,336	\$ 2.40
Granted	1,437,000	1.64
Expired	(703,336)	2.13
Forfeited	(490,000)	2.54
Balance at December 31, 2019	4,522,000	2.19
Granted	1,604,000	0.77
Expired	(1,480,000)	2.45
Forfeited	(184,000)	1.45
Balance at September 30, 2020	4,462,000	\$ 1.62

Options to acquire common shares have been granted and are outstanding at September 30, 2020 as follows:

Range of exercise prices CA\$	Outstanding Options			Exercisable Options		
	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\$)
\$0.50 - \$1.00	1,532,000	3.42	0.77	-	-	-
\$1.51 - \$2.00	1,365,000	2.41	1.64	455,000	2.41	1.64
\$2.01 - \$2.50	1,190,000	1.54	2.33	768,333	1.53	2.33
\$2.51 - \$3.00	375,000	0.50	2.76	375,000	0.50	2.76
	4,462,000	2.37	\$ 1.62	1,598,333	1.54	\$ 2.24

During the nine months ended September 30, 2020, an amount of \$0.2 million (2019 – \$0.3 million) was charged to operations in recognition of share-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:

	2020	2019
Assumptions:		
Risk-free interest rate (%)	1.33	1.82
Expected life (years)	3.63	3.63
Expected volatility (%)	35.04	38.20
Expected dividend	Nil	CA\$0.025/share quarterly
Results:		
Weighted average fair value of options granted (per option)	CA\$0.21	CA\$0.30

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

7. SHARE BASED COMPENSATION (continued)

b. Restricted and performance share units

The Company has a share unit ('SU') plan that provides for the issuance of SUs as a long-term incentive for certain members of the management team. Amendments to the SU plan, including a reallocation of 10,000,000 common shares now reserved for issuance upon the vesting of share units (from the pool originally allocated for the exercise of stock options) were approved by Shareholders at the May 8, 2020 annual meeting. SUs vest three years from the date of grant and certain share units include performance metrics. Each SU entitles the holder to receive one common share and the cumulative dividend equivalent SU earned during the SU's vesting period. The value of each SU at the vesting date is equal to the closing value of one Lucara common share plus the cumulative dividend equivalent which was earned over the vesting period.

For the nine month period ended September 30, 2020, the Company recognized a share-based payment charge against income of \$0.3 million (2019: \$0.6 million) for the SUs granted during the period.

	Number of share units	Estimated fair value at date of grant (CA\$)	
Balance at January 1, 2019	1,283,045	\$	2.41
February 25, 2019 grant	439,000		1.63
February 26, 2019 vesting	(445,567)		2.57
April 2, 2019 vesting	(247,393)		2.52
April 11, 2019 dividend	19,822		1.61
April 11, 2019 vesting	(3,841)		1.61
June 20, 2019 dividend	16,641		1.57
September 19, 2019 dividend	23,283		1.14
Balance at December 31, 2019	1,084,990	\$	1.95
February 26, 2020 grant	1,918,000		0.77
March 8, 2020 vesting	(56,463)		2.57
Balance at September 30, 2020	2,946,527	\$	1.17

c. Deferred share units

In February 2020, the Company approved a deferred share unit ('DSU') plan that provides for the issuance of up to 4,000,000 DSUs for eligible directors; the DSU plan was subsequently ratified by Shareholders at the May 8, 2020 annual meeting. Directors can elect to receive up to 100% of their fees earned in DSUs, awarded quarterly. DSUs vest immediately and are paid out upon retirement from the Board of Directors of the Company. Each DSU entitles the holder to receive one common share and the cumulative dividend equivalent DSU earned prior to the payout date. The value of each DSU at the grant date is equal to the closing value of one Lucara common share. The DSU plan is a cash-settled share-based compensation plan and is recorded as a liability. Upon payout, the director can elect to receive the value in cash or common shares of the Company.

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

7. SHARE BASED COMPENSATION (continued)

For the nine month period ended September 30, 2020, the Company recognized a share-based payment charge against income of \$0.2 million (2019: \$nil million) for the DSUs granted during the period.

	Number of share units	Estimated fair value (CA\$)
February 26, 2020 grant	278,000	\$ 0.77
May 7, 2020 vesting	(74,000)	0.51
July 2, 2020 grant	90,923	0.62
Sept 30, 2020 grant	159,312	0.50
Balance at September 30, 2020	454,235	\$ 0.50

8. ADMINISTRATION

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Salaries and benefits	\$ 1,472	\$ 1,670	\$ 4,137	\$ 4,063
Professional fees	616	665	1,434	1,722
Insurance, office and general	628	385	1,449	1,277
Marketing	290	208	667	621
Stock exchange, transfer agent, shareholder communication	77	100	266	317
Travel	20	214	295	581
Share-based compensation (Note 7)	344	252	989	971
Management fees	26	124	195	371
Depreciation	586	301	1,712	657
Sustainability and donations ¹	328	2	967	78
	\$ 4,387	\$ 3,921	\$ 12,111	\$ 10,658

(1) Included in this expense item are amounts incurred for the Company's COVID-19 response totalling \$531 for the nine months ended September 30, 2020, including a \$300 donation to the Government of Botswana's COVID-19 Response Fund.

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

9. 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 named executive officers and members of its Board of Directors. The remuneration of key management personnel was as follows:

	Nine months ended September 30,			
		2020		2019
Salaries and wages	\$	1,111	\$	1,332
Short term benefits		25		62
Share based compensation		715		496
	\$	1,851	\$	1,890

b) Clara acquisition

At the time of Lucara's acquisition of Clara, certain directors and officers of the Company were also shareholders of Clara. If certain milestones are reached, these individuals will receive additional common shares of Lucara as described in Note 16 of the consolidated financial statements for the year ended December 31, 2019. Pursuant to a profit sharing described in Note 16 of the consolidated financial statements for the year ended December 31, 2019, a portion of the EBITDA generated by the platform has been assigned to two directors of Lucara, each of whom was a founder of Clara, and a portion may be distributed to members of management, at the discretion of Lucara's Compensation Committee, based on the achievement of key performance targets. As at September 30, 2020, no amounts have been recorded under this profit sharing mechanism.

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

10. SEGMENT INFORMATION

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

Three months ended September 30, 2020			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 41,212	\$ 85	\$ 41,297
Income (loss) from mining operations ⁽¹⁾	1,826	(265)	1,561
Exploration expenditures	(171)	-	(171)
Finance expenses	(746)	(123)	(869)
Foreign exchange gain	504	70	574
Other	(5,060)	(2,465)	(7,525)
Taxes	1,062	-	1,062
Net loss for the period	(2,585)	(2,783)	(5,368)
Capital expenditures	\$ 8,272	\$ 16	\$ 8,288

Three months ended September 30, 2019			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 45,021	\$ 296	\$ 45,317
Income (loss) from mining operations ⁽¹⁾	3,102	(22)	3,080
Exploration expenditures	(1,258)	-	(1,258)
Finance expenses	(1,162)	(103)	(1,265)
Foreign exchange loss	(782)	(95)	(877)
Other	(1,627)	(2,788)	(4,415)
Taxes	723	-	723
Net loss for the period	(1,004)	(3,008)	(4,012)
Capital expenditures	\$ 3,169	\$ 71	\$ 3,240

⁽¹⁾ Karowe Mine's depletion and amortization expense during the three months ended September 30, 2020 totaled \$8.0 million (three months ended September 30, 2019 – \$14.4 million).

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

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

10. SEGMENT INFORMATION (continued)

Nine months ended September 30, 2020			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 82,328	\$ 548	\$ 82,876
Loss from mining operations ⁽¹⁾	(8,312)	(542)	(8,854)
Exploration expenditures	(1,256)	-	(1,256)
Finance expenses	(2,206)	(302)	(2,508)
Foreign exchange gain (loss)	1,295	(84)	1,211
Other	(8,779)	(7,570)	(16,349)
Taxes	5,312	-	5,312
Net loss for the period	(13,946)	(8,498)	(22,444)
Capital expenditures	\$ 20,529	\$ 68	\$ 20,597
Total assets	\$ 283,900	\$ 23,626	\$ 307,526

Nine months ended September 30, 2019			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 136,252	\$ 296	\$ 136,548
Income (loss) from mining operations ⁽¹⁾	27,763	(22)	27,741
Exploration expenditures	(3,261)	-	(3,261)
Finance expenses	(2,459)	(446)	(2,905)
Foreign exchange loss	(1,851)	(290)	(2,141)
Other	(4,765)	(7,463)	(12,228)
Taxes	(3,128)	-	(3,128)
Net income (loss) for the period	12,299	(8,221)	4,078
Capital expenditures	\$ 15,372	\$ 380	\$ 15,752
Total assets	\$ 302,533	\$ 26,656	\$ 329,189

⁽¹⁾ Karowe Mine's depletion and amortization expense during the nine months ended September 30, 2020 totaled \$33.6 million (nine months ended September 30, 2019 – \$38.1 million).

11. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

a) *Measurement categories and fair values*

Financial assets and liabilities have been classified into categories that determine their basis of measurement. Those categories are: fair value through profit and loss; fair value through other comprehensive income and amortized cost.

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

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

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

11. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (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).

	September 30, 2020	December 31, 2019
Level 1: Fair value through other comprehensive income		
– Investments	\$ 268	\$ 241
Level 2: N/A		
Level 3: N/A		

c) *Financial risk management*

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

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 September 30, 2020, the Company is exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately \$0.8 million in net income for the year.

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. A majority of the Company's cash and cash equivalents are 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 goods are not released until full payment is received when goods are sold through tender or on Clara.

Under the new supply agreement disclosed in Note 2, a larger proportion of the Company's goods will be sold through HB to buyers of polished diamonds. The credit risk associated with these sales will concentrate with one individual customer and payment terms are longer (60 days) than the Company's traditional tender sales (5 days).

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.

Price risk

The Company derives its income from the sale of rough diamonds mined in Botswana, a majority of which are sold through a quarterly tender process from Botswana. The price and marketability of these diamonds can be significantly impacted by international economic trends, global or regional consumption, demand and supply patterns and the availability of capital for diamond manufacturers,

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

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

11. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

all factors that are not within the Company's control. Under the supply agreement with the HB Group, the ultimate achieved sales prices of stones larger than 10.8 carats in size will be based on a polished diamond pricing mechanism. This pricing mechanism will result in the Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than it is currently through its traditional tender process for rough diamonds. The COVID-19 pandemic has negatively impacted global demand for luxury commodities, which includes jewelry containing diamonds. Restrictions on international travel have also disrupted the diamond supply chain. To the extent that the supply of rough or polished diamonds exceeds demand, this is likely to result in price deterioration and negatively impact the Company's revenue, thereby increasing the risk that not only will operations not be profitable, the Company may not have sufficient liquidity to meet its financial obligations as they come due.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. To manage liquidity risk, regular cash flow forecasting is performed in the operating entities of the Company and aggregated in the head office to understand what level of capital is required. Rolling forecasts of the Company's liquidity requirements are prepared and monitored to assess whether there is sufficient cash available to meet the Company's short and longer-term operational needs. Such forecasting takes into consideration the Company's ability to generate cash from the sale of diamonds and additional liquidity which can be accessed through the revolving term credit facility.

Revolving credit facility

The Company has a \$50 million revolving term credit facility with a maturity date of May 5, 2021. In September 2020, this facility was amended to include FirstRand Bank Limited (London Branch), a division of Rand Merchant Bank alongside The Bank of Nova Scotia. 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 part of the amendment, Lucara has agreed to limit capital expenditures related to the underground expansion project to \$22 million during 2020. As at September 30, 2020, the Company was 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 adjusted leverage ratio.

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

As at September 30, 2020, \$20.0 million was drawn on the facility for working capital purposes (2019 - \$nil) and \$30.0 million was available to be drawn.