LUCARA
DIAMOND

Management's Discussion and Analysis

and

Condensed Interim Consolidated Financial Statements

for the Three and Six Months ended June 30, 2019

(Unaudited)

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

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 June 30, 2019, 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 August 8, 2019.

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. In February 2018, the Company acquired Clara Diamond Solutions Corp. ("Clara"). Clara, 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 head office is in Vancouver, Canada 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

- A strong operating environment prevailed at the Karowe Mine in Q2 2019, having met or exceeded guidance with respect to all mining and processing activities including:
    - Ore and waste mined of 0.8 million tonnes and 1.8 million tonnes respectively
    - 0.71 million tonnes of ore processed
    - Carats recovered of 109,312 (including 8,172 carats recovered from re-processing historic recovery tailings from previous milling) achieving a recovered grade of 14.2 carats per hundred tonnes processed (direct milling carats)
    - 225 Specials were recovered from direct milling during the second quarter, representing 8.1% weight percentage of total recovered carats, in line with mine plan expectations
    - 10 diamonds were recovered greater than 100 carats in weight

- In May 2019, the Karowe Mine achieved a significant milestone, passing two years without a lost time injury.

- In April 2019, the largest diamond to be mined at Karowe to date was recovered, unbroken, weighing 1,758 carats. Subsequently named Sewelô following a contest open to citizens of Botswana, this near gem quality diamond is the largest diamond recovered in Botswana and one of the largest diamonds recovered in recorded history, superseding the spot held by the 1,109 carat Lesedi La Rona recovered from Karowe in 2015.

- During Q2 2019, revenue recognized totalled $42.5 million (Q2 2018: $64.5 million) or $417 per carat (Q2 2018: $856 per carat), consistent with management expectations and plan.

- Revenue of $91.2 million for the six months ended June 30, 2019 ("H1 2019") from two tenders surpassed revenue of $89.9 million for the six months ended June 30, 2018 ("H1 2018") in which two regular stone tenders and one exceptional stone tender was held.

- The operating cash cost(1) for the six months ended June 30, 2019 was $31.16 per tonne processed (H1 2018: $36.64 per tonne processed) compared to the full year forecast cash cost of $32-$37 per tonne processed. Operating cash cost per tonne processed was positively impacted by a reduction in waste mined and an increase in tonnes processed during the first half of the year.

- Continued excellent operational performance at Karowe has driven a strong 63% operating margin (H1 2018: 65%) and adjusted EBITDA(1) year to date of $38.6 million (H1 2018: $37.5 million). Operating expenses per carat sold have decreased from $225 per carat in H1 2018 to $171 per carat in H1 2019.

- As at June 30, 2019, the Company had cash and cash equivalents of $7.1 million. Funds drawn on the credit facility were $5.0 million utilized for working capital, leaving $45 million available on the facility at June 30, 2019.

- The Company paid a quarterly dividend of CA$0.025 per share on June 20, 2019.

- Rough diamonds with a value of $2.9 million were sold through the Clara platform during H1 2019 and total revenues of $3.5 million have been achieved since sales began in December of 2018. Clara's customer base has also grown from four to twenty during the first half of the year and sales continue to ramp up according to plan, with the aim of on-boarding third-party production before year-end and continuing to grow our customer base concurrently with increasing demand.

- Changes in guidance: as a result of record plant processing performance over consecutive quarters, annual carat recoveries are expected to increase to 375,000 - 420,000 carats (previously 300,000 - 330,000 carats) and carats sold to 375,000 - 420,000 carats (previously 300,000 - 320,000 carats) in 2019. Greater asset availability and utilization together with an improved mine call factor are driving the change with most of the increases attributable to enhanced recoveries of small diamonds. Ore tonnes mined is increased to between 3.0 to 3.4 million tonnes (previously 2.5 to 2.8 million tonnes) as a result of resource gains that offset planned waste mining in Q1 2019. Cost and revenue guidance are on track.

(1) Non IFRS measure (see page 11 for details)

FINANCIAL HIGHLIGHTS

Table 1:

In millions of U.S. dollars unless otherwise noted		Three months ended June 30, 2019		Three months ended June 30, 2018		Six months ended June 30, 2019		Six months ended June 30, 2018
Revenues	$	42.5	$	64.5	$	91.2	$	89.9
Net income for the period		0.7		19.7		8.1		12.7
Earnings per share (basic and diluted)		0.00		0.05		0.02		0.03
Cash on hand		7.1		49.6		7.1		49.6
Average price per carat sold ($/carat)*		417		856		463		648
Operating expenses per carat sold ($/carat)*		174		220		171		225
Operating margin per carat sold ($/carat)*		243		636		292		423

(*) 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 11 for Non-IFRS measures.

The Company recognized revenue of $91.2 million or $463 per carat for its sales in the first half of 2019, yielding an operating margin of $292 per carat (63%). In 2019, the Company held blended tenders in which diamonds recovered in the period December 2018 – April 2019 were sold in the same period, with the exception of the particularly rare stone recovered, Sewelô. The Company has completed an initial analysis of Sewelô and is considering how best to maximize value from this unique and rare diamond.

In H1 2019, a total of 196,989 carats were sold (H1 2018: 138,646 carats) achieving a year-to-date average price of $463/carat (H1 2018: $648/carat). The number of carats sold was 42% higher than in the comparative period which is being driven by better recoveries in the smaller, lower value sizes. While still profitable, the smaller goods impact the average price per carat sold when compared to the prior year. The significant increase in carats is also due to the continued strong performance in the plant which had record consecutive quarters of production, processing 1.48 million tonnes during H1 2019 (H1 2018: 1.3 million tonnes milled). An improved mine call factor also contributed to higher recoveries of diamonds in the smaller size classes.

Until September 2018, Lucara sold diamonds through both regular stone tenders (“RST”s) and exceptional stone tenders (“EST”s). In September 2018, the Company modified its sales tender to a blended sales tender, combining the sale of exceptional stones with the balance of run of mine production into one sale. This change was made to decrease the inventory time for large, high value diamonds and to generate a smoother revenue profile that better supports price guidance on a per sale basis. Q2 2018 represented the last quarter in which an exceptional stone tender was held, accounting for $32.4 million of the $64.5 million in revenue recognized during that quarter. Beginning in Q4 2018, certain stones from the Karowe production between 1 and 4 carats and of better qualities were set aside and subsequently offered for sale through the Clara platform. The first sale on the Clara platform took place in December 2018. A further five sales through Clara were completed in H1 2019, with $2.9 million in value transacted through the platform and a total of $3.5 million transacted since sales began. The frequency of sales is expected to increase during H2 2019, based on increasing demand from our growing customer base and, according to plan.

Operating expenses increased from $31.2 million in H1 2018 to $33.7 million in H1 2019 due to a combination of an increase in the average cost per tonne mined and lower volumes of total tonnes mined. Waste tonnes mined decreased as compared to the same period in 2018 as the significant waste stripping campaign (“Cut 2”) undertaken between 2017 and 2018 was substantially complete by the end of 2018. In addition, ore mining was stronger than expected in H1 2019 due to resource gains in the North Lobe that offset planned waste mining. Due to the higher volume of ore mined in H1 2019, no waste stripping costs were capitalized and the strip ratio was reduced to below the life of mine average of 2.46. No capitalized stripping is expected during 2019 (versus a strip ratio of 2.84 in 2019 Guidance). The increase in volumes processed led to a decrease in the operating expense per carat sold from $225/carat in H1 2018 to $171/carat in H1 2019.

Non-cash depletion and amortization expense increased from $11.3 million in H1 2018 to $23.7 million in H1 2019 due to the 42% higher volume of carats sold during the period. Depletion and amortization expense has increased significantly as compared to prior periods for several reasons: an increasing number of fine diamonds recovered following improvements to the processing circuit implemented in late 2017, a larger mineral property balance from the waste stripping campaign between 2017 and 2018, and a corresponding increase in the rate of unit of production depletion from an update to the reserve base of the mine plan in Q3 2018. This 110% increase in the non-cash depletion and amortization expense significantly impacts net income of $8.1 million achieved in H1 2019 (H1 2018: $12.7 million net income). Adjusted Earnings Before Interest, Tax, Depletion and Amortization ("Adjusted EBITDA") for H1 2019 was $38.6 million (H1 2018: $37.5 million) (see page 11 Non-IFRS measures).

Q2 2019 performance was underpinned by a continued, strong, stable operating environment at the Karowe Mine. On the back of record production achieved during the first quarter of the year, operations continued to deliver strong performance, with 0.8 and 1.8 million tonnes of ore and waste mined respectively, and 0.71 million tonnes of ore processed. As a result, production yielded higher carat recoveries against plan and contributed to a sale of 101,931 carats during Q2 2019 which achieved an average price of $417/carat compared to the sale of 75,329 carats at an average price of $856/carat during Q2 2018. The difference in average price is due to the exceptional stone tender held in Q2 2018 for which there was no comparable sale in 2019, together with higher recoveries of small diamonds owing to plant processing improvements.

Net income and earnings per share performance were as expected for both the second quarter and year to date results and reflect the continued strength of production being realized at Karowe from the investments made over the past two years, as well as the transition to a blended sales tender in Q3 2018 creating a smoother revenue profile.

RESULTS OF OPERATIONS – KAROWE MINE

Table 2:

	UNIT	Q2-19	Q1-19	Q4-18	Q3-18	Q2-18
Sales						
Revenues	US$M	42.5	48.7	40.6	45.7	64.5[4]
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US$M	42.5	48.7	40.6	41.8	68.4[4]
Sales proceeds received during the quarter	US$M	42.5	48.7	40.6	45.7	64.5
Q2 2018 tender proceeds received post Q2 2018	US$M	-	-	-	(3.9)	3.9
Carats sold for proceeds generated during the period	Carats	101,931	95,057	110,553	89,461	87,467
Carats sold for revenues recognized during the period	Carats	101,931	95,057	110,553	101,600	75,329
Average price per carat for proceeds generated during the period	US$	417	512	367	467	782[4]
Average price per carat for proceeds received during the period	US$	417	512	367	450	856[4]
Production						
Tonnes mined (ore)	Tonnes	773,861	1,011,048	563,279	1,217,016	702,825
Tonnes mined (waste)	Tonnes	1,826,972	2,485,548	2,743,586	3,850,225	4,416,361
Tonnes processed	Tonnes	713,037	763,313	602,376	728,962	698,303
Average grade processed	cpht (*)	14.2[1]	15.9[2]	13.3[3]	17.4	11.7
Carats recovered	Carats	109,312[1]	132,336[2]	81,850[3]	127,031	81,507
Costs						
Operating costs per carat sold (see page 11 Non-IRFS measures)	US$	174	169	233	185	220
Capital expenditures	US$M	3.8	2.4	6.5	2.4	2.7

(*) carats per hundred tonnes

(1) Carats recovered during the period included 8,172 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 10,899 carats recovered from re-processing historic recovery tailings from previous milling and are excluded from the average grade processed.

(3) Carats recovered during the period included 1,505 carats recovered from re-processing historic recovery tailings from previous milling and are excluded from the average grade processed.

(4) Q2 2018 includes one EST of $32.4 million in addition to a RST during the quarter

Market Update: The market for both rough and polished diamonds remains challenging due to an excess supply of polished diamonds and reduced credit available in the mid-stream of the supply chain. Liquidity issues and concerns over manufacturers' profitability have resulted in weaker demand, while global trade disputes and unrest are also contributing factors, resulting in lower prices for rough diamonds. Weaker demand has been reported across all size classes and larger producers are withholding goods or allowing their customers to defer rough diamond allocations. Lucara's expected production of approximately 375,000 – 420,000 carats in 2019 accounts for a very small percentage of total global production, with a majority of value from the Karowe diamonds attributable to large, higher-quality diamonds. Lucara's rough diamond sales during the first six months of 2019 have been consistent with expectations and in line with 2019 revenue guidance of $170 million to $200 million. Interest in Clara, our online sales platform for rough diamonds, continues to increase as manufacturers look to purchase only the rough diamonds that they can use in their business, while at the same time assuring provenance of the rough diamonds purchased. While the current market remains challenging, longer-term supply-demand fundamentals for rough diamonds are predicted to strengthen as a number of large, world class diamond mines mature and reach end of life.

SECOND QUARTER OVERVIEW – OPERATIONS - KAROWE MINE

Safety: Karowe had no lost time injuries during the three months ended June 30, 2019 resulting in a twelve-month rolling Lost Time Injuries Frequency Rate ("LTIFR") of 0. In May 2019, Lucara Botswana and the Karowe Mine achieved a significant milestone, passing two years without a lost time injury.

Production: Ore and waste mined during the three months ended June 30, 2019 totaled 0.8 million tonnes and 1.8 million tonnes respectively (H1 2019: 1.8 million tonnes of ore; 4.3 million tonnes of waste). Tonnage processed was 0.71 million tonnes, with a total of 109,312 carats recovered (H1 2019: 1.5 million tonnes processed; 241,648 carats recovered). Included in total carats recovered of 109,312 were 8,172 carats recovered from the re-processing of material previously milled. During Q2 2019, ore processed was substantially from the South lobe, with some ore blended from the Central lobe. During Q2 2019, a total of 225 Specials were recovered including 10 diamonds greater than 100 carats in weight. Recovered Specials equated to 8.1% weight percentage of total recovered carats from direct milling during Q2 2019, in line with expectations.

Mine performance during the second quarter is consistent with the record plant performance achieved in the first quarter and is reflective of significant operational improvements executed in late 2018. The investments made in the plant during 2017 and 2018 are being realized through increasing recoveries and higher plant availability. Improvements to maintenance scheduling and equipment are expected to continue the strong production trend. Ore and waste mining are meeting or exceeding planned volumes following the mining contractor transition in mid-2018. Due to the higher volume of ore mined in Q1 2019 (due to ore gains on the waste contact), no waste stripping costs were capitalized during H1 2019. Ore mining is expected to be above guidance for the year due to the resource gains in the North and Centre pipes, previously categorized as waste. Total waste mining volumes are expected at the lower end of guidance for the year while total tonnes mined should remain within guidance.

Karowe's operating cash cost: Karowe's year to date operating cash cost (see page 11 Non-IFRS measures) was $31.16 per tonne processed (2018: $36.64 per tonne processed) compared to the full year forecast of $32-$37 per tonne processed. The decrease in cost per tonne processed compared to the three months ended June 30, 2018 reflects lower volumes of waste tonnes mined during the quarter as the significant stripping campaign undertaken between 2017 and 2018 was largely completed in 2018, as well as an increase in tonnes processed from ongoing plant improvements. Forecast costs for the 2019 fiscal year are expected to be within guidance and are trending to the lower end of that guidance.

Labour relations update: In April 2019, the Botswana Mine Workers Union and Lucara Botswana entered into a Memorandum of Agreement which governs the working relationship between the two parties. In May 2019, the parties successfully negotiated and signed a Salaries and Conditions of Service Agreement which covers the terms and conditions of employment, including wages, to March 31, 2021. In Botswana, a majority of currently operating mines are unionized.

Naming of the 1,758 carat diamond: the winning submission for the naming of the 1,758 carat diamond recovered in April 2019 was chosen from over 22,000 submissions in a contest open to all citizens of Botswana. Meaning “rare find” in Setswana, the name Sewelô was selected for the unbroken, 1,758 carat stone which was mined from the EM/PK(S) unit of the South Lobe and was recovered through Lucara’s XRT circuit. Lucara is committed to ensuring that the Sewelô Diamond has a lasting and positive impact for Botswana and is proud to have once again invited and engaged with the people of Botswana to choose the name of such an iconic diamond recovered at the Karowe Mine.

KAROWE UNDERGROUND UPDATE

Karowe Underground Update

In 2018, the Company embarked on a technical program to support a Feasibility Level study for a potential underground operation at the Karowe Diamond Mine. This program included the completion of an updated mineral resource, geotechnical drilling of the country rock and AK06 kimberlite, hydrogeological drilling and modelling, and mining trade off studies to address risks and issues identified during the PEA. A total of $21.0 million was spent in 2018 in support of this work, which resulted in significant de-risking of the key technical components associated with the potential underground development.

During H1 2019, $8.4 million was spent to complete the geotechnical drilling program, geotechnical and geological logging, downhole geophysical survey, hyperspectral analysis of core, geotechnical modeling, hydrogeological drilling and studies, and mine planning activities in support of the ongoing feasibility study. Field programs were completed in late April 2019 and the results are being incorporated into the feasibility study with a planned completion date in Q4 2019.

2019 OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2019. These are “forward-looking statements” and subject to the cautionary note regarding the risks associated with forward-looking statements.

Due to an increase in recoveries of smaller-sized diamonds and overall improved mine call factor, we have increased the number of diamonds that are expected to be recovered and sold during 2019. While the increase in the number of carats recovered and expected to be sold in 2019 should have a positive economic impact, revenues for the year remained unchanged at $170 million to $200 million. A majority of the Company’s revenue comes from the sale of large, single stones in excess of 10.8 carats; the additional recoveries are in the smaller size classes. Following an increase in ore tonnes mined which had previously been classified as waste during Q1 2019, we have also increased guidance for total ore tonnes mined. No other changes have been made to the 2019 outlook previously provided.

Karowe Mine, Botswana

Table 3: 2019 Diamond Sales, Production and Outlook

Karowe Diamond Mine *In millions of U.S. dollars unless otherwise noted*	**Full Year – 2019**
Diamond revenue (millions)	$170 to $200
Diamond sales (thousands of carats)	375 to 420 (revised from 300 to 320)
Diamonds recovered (thousands of carats)	375 to 420 (revised from 300 to 330)
Ore tonnes mined (millions)	3.0 to 3.4 (revised from 2.5 to 2.8)
Waste tonnes mined (millions)	6.0 to 9.0
Ore tonnes processed (millions)	2.5 to 2.8
Total operating cash costs(1) including waste mined(2) (per tonne processed)	$32.00 to $37.00
Operating cash costs excluding waste mined (per tonne processed)	$21.00 to $24.00
Botswana general & administrative expenses including marketing costs (per tonne processed)	$2.00 to $3.00
Tax rate	22% to 29%
Average exchange rate – USD/Pula	10.5

(1) Operating cash costs are a non-IFRS measure. See “Non-IFRS Measures” on page 11.

(2) Includes ore and waste mined cash costs of $4.00 to $4.50; processing cash costs of $12.00 to $13.00 and mine-site departmental costs (security, technical services, mine planning, health & safety, geology) of $5.00 to $6.00 (all dollar figures in per tonne mined or processed).

As a result of the increase in ore tonnes mined, the average strip ratio in 2019 is now expected to be lower than originally anticipated. No waste capitalization is expected in 2019.

The 2019 estimated cash cost per tonne of ore processed is expected to be between $32.00 and $37.00 (2018: $38.00 to $42.00) while estimated operating cash costs, excluding waste mining, are expected to be between $21.00 and $24.00 per tonne processed. The cost per tonne mined is expected to be between $4.00 and $4.50 and the estimated processing cost per tonne processed is expected to be between $12.00 and $13.00, mostly offsetting the increase in cost per tonne mined which results from higher rates from the mining contractor appointed in mid-2018.

In 2019, the Company forecasts revenues between $170 million and $200 million, consistent with the forecast for 2018. With increasing recoveries in the smaller sizes and reprocessing of previously milled material, diamonds recovered are expected to be between 375,000 carats and 420,000 carats, an increase from initial guidance of 300,000 and 330,000 carats, and diamonds sold are expected to be between 375,000 carats and 420,000 carats, an increase from 300,000 carats and 320,000 carats. While the number of carats recovered and sold is expected to exceed our original guidance for 2019, this increase is not expected to change the revenue guidance as the Company's revenue is weighted to the larger stones, or "Specials", which are individual diamonds greater than 10.8 carats. The 2019 revenue projection includes "Specials" but excludes the sale of any truly unique diamonds such as the 1,109 carat LLR (sold in 2017 for $53 million) and the 813 carat Constellation (sold in 2016 for $63.1 million). Specials are consistently recovered from the Karowe Diamond Mine and those Specials which are gem-quality contribute a significant percentage of the Company's annual revenue.

Sustaining capital and project expenditures are expected to be up to $14.0 million in 2019, including expenditures associated with the construction of an additional slimes dam, improvements related to the XRT recovery circuit, and a provision for the implementation of body scanning technology to enhance security. This does not include investments being made on the underground development study noted below.

A budget of $14.8 million was approved to complete a feasibility study that was initiated in 2018, evaluating the potential for an underground mining operation at Karowe. In 2019, efforts have focused on follow up geotechnical and hydrogeological drilling and related studies. Exploration expenditures are estimated to be up to $3.0 million for use of the Sunbird remote mapping technology, drilling of prospective targets identified by the technology and work on Lucara Botswana Prospecting License. Please see "Karowe Underground Update" above.

SELECT FINANCIAL INFORMATION

Table 4: *In millions of U.S. dollars unless otherwise noted*	Three months ended June 30, **2019**	Three months ended June 30, 2018	Six months ended June 30, **2019**	Six months ended June 30, 2018
Revenues	$ 42.5	$ 64.5	$ 91.2	$ 89.9
Operating expenses	(17.7)	(16.6)	(33.7)	(31.2)
Operating earnings (1)	**24.8**	**47.9**	**57.5**	**58.7**
Royalty expenses	(4.3)	(6.5)	(9.1)	(9.0)
Exploration expenditures	(1.0)	(1.3)	(2.0)	(1.8)
Administration	(4.0)	(3.3)	(6.7)	(9.2)
Sales and marketing	(0.5)	(0.7)	(1.1)	(1.2)
Adjusted EBITDA (2)	**15.0**	**36.1**	**38.6**	**37.5**
Depletion and amortization	(12.1)	(6.1)	(23.7)	(11.3)
Finance expenses	(0.8)	(0.6)	(1.6)	(1.1)
Foreign exchange loss	(0.4)	1.1	(1.3)	(1.0)
Current income tax expense	(4.2)	(4.0)	(8.8)	(4.6)
Deferred income tax expense/recovery	3.1	(6.8)	4.9	(6.8)
Net income for the period	**0.7**	**19.7**	**8.1**	**12.7**
Change in cash during the period	**(10.8)**	6.0	**(17.3)**	(11.4)
Cash on hand	**7.1**	49.6	**7.1**	49.6
Earnings per share (basic and diluted)	**0.00**	0.05	**0.02**	0.03
Per carats sold:				
Sales price	**$ 417**	$ 856	**$ 463**	$ 648
Operating expenses	**174**	220	**171**	225
Average grade (carats per hundred tonnes) (3)	**14.2**	11.7	**15.1**	12.1

(1) Operating earnings is a non-IFRS measure (see page 11) defined as revenues less operating expenses.
(2) Adjusted EBITDA is a non-IFRS measure (see page 11) 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 Q2 2019, Lucara sold 101,931 carats at an average price of $417/carat, resulting in total revenue of $42.5 million. The May 2019 tender included a total of 43 single stones greater than +10.8ct, including three diamonds in excess of 100 carats and one diamond in excess of 200 carats. A total of seven diamonds sold for > $1 million, including two diamonds that sold for in excess of $3 million.

This compares to revenue of $64.5 million or $856/carat sold for the second quarter in 2018. The change to a blended tender process as of Q3 2018 resulted in a smoothing of revenue through the first half of 2019 compared to the first half of 2018. An exceptional stone tender was held during Q2 2018 which accounted for $32.4 million of total revenue recognized of $64.5 million during the quarter. A smoother revenue profile is expected to continue through 2019.

During H1 2019, Lucara sold 196,989 carats at an average price of $463/carat, resulting in total revenue of $91.2 million. This compares to revenue of $89.9 million achieved during H1 2018, an increase of $1.3 million. For comparison, during the first half of 2019 the Company held two regular tenders while in the first half of 2018, the Company held two regular tenders and an exceptional stone tender. This change in the tender process improves the time to market for the stones that would have been previously set aside for an exceptional tender. The average price in 2019 is affected by an increase in the number of finer sized diamonds being sold, which while profitable, do not materially change the revenue profile of the Company.

During H1 2019, the Company also transacted rough diamonds with a value of $2.9 million through the Clara platform and efforts continue to ramp up available supply for purchase. Clara expects to continue to grow its supply and demand concurrently through 2019 by adding third-party production to the platform as well as increasing the number of manufacturers who are buying on the platform and the frequency of sales. Development expenditures of $0.3 million were capitalized to Intangible Assets during H1 2019.

Operating Earnings and Expenses

Operating earnings for the three months ending June 30, 2019 were $24.8 million (Q2 2018: $47.9 million) and operating expenses during the period totalled $17.7 million or $174/carat (Q2 2018: $16.6 million or $220/carat).

Operating expenses decreased about 21% on a per carat basis which is a reflection of the improved performance at the plant resulting in higher carats recovered, especially in the smaller sizes following the commissioning of the sub-middles circuit in Q3 2017. The movement in operating earnings is directly attributable to the exceptional stone tender held and corresponding revenue recognized in the three months ended June 30, 2018.

Lucara achieved an average grade processed of 14.2 carats per hundred tonnes ("cpht") during Q2 2019 compared to an average grade of 11.7 cpht in the comparable quarter; recoveries of 101,140 carats (excluding 8,172 carats recovered from re-processing tailings previously milled) were 24% greater as compared to the 81,507 carats recovered in Q2 2018.

Operating earnings for H1 2019 were $57.5 million (H1 2018: $58.7 million) and operating expenses during the period totalled $33.7 million or $171/carat (H1 2018: $31.2 million or $225/carat), which resulted in an operating margin (before royalties, depletion and amortization) of $292/carat or 63% (H1 2018: $423/carat or 65%).

Depletion and amortization

The Company incurred a depletion and amortization charge of $12.1 million (Q2 2018: $6.2 million) which is due to a 35% increase in the number of carats sold in the quarter (101,931 carats in Q2 2019 vs. 87,467 carats in Q2 2018) and a change in the reserve base in Q3 2018 which increased the rate of depletion on assets amortized over the unit of production method. Similarly, a depletion and amortization charge for the six months ended June 30, 2019 of $23.7 million compared to a charge of $11.3 million for the six months ended June 30, 2018 is as a result of a 42% increase in carats sold between the periods. Higher capitalized production stripping through 2018 also contributed to an increase in this expense for the quarter and year to date.

Net income

Net income for Q2 2019 was $0.7 million (Q2 2018: $19.7 million). Higher net income in the prior period is due to an exceptional stone tender and lower depletion and amortization expense as compared to the Q2 2018.

Net income for H1 2019 was $8.1 million compared to net income of $12.7 million in H1 2018. The decrease in net income compared to the prior period was directly attributable to higher depletion and amortization expense offset by a recovery of deferred tax expense.

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

Adjusted EBITDA for the three months ended June 30, 2019 was $15.0 million compared to $36.1 million in the second quarter of 2018 and is largely attributable to the increase in revenue from the exceptional stone tender held in Q2 2018.

Adjusted EBITDA for the six months ended June 30, 2019 was mostly comparable at $38.6 million compared to $37.5 million in the first half of 2018 and is attributable to slightly higher revenue in 2019. An increase in operating expenses from higher mining costs is offset by a 27% decrease in administration expenses in H1 2019.

Adjusted EBITDA is a non-IFRS measure and is reconciled in table 4 above.

Operating Cost Per Tonne of Ore Processed

In H1 2019, operating cost per tonne processed was $31.16 (H1 2018: $36.64). This significant decrease is due to the 14% higher volume of ore processed during the period. The operating cost per tonne processed decreased in 2019 as expected due to a lower volume of waste mined (in 2018 the Company was still in the middle of a significant waste stripping campaign (Q2 2019 – 4.3 million tonnes; Q2 2018 – 8.4 million tonnes)). This was partially offset by significant net increases in both the rough diamond inventory (+ $6.0 million) and the ore stockpile inventory (+ $ 6.3 million) as compared to the balances at December 31, 2018.

Operating cost per tonne processed is a non-IFRS measure and is reconciled in Table 6 to the most directly comparable measure calculated in accordance with IFRS, which is operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2019, the Company had cash and cash equivalents of $7.1 compared to $17.9 million at the end of the first quarter. The decrease in quarterly cash position is due to the timing of the first quarter dividend payment in April 2019. Spending during the six months ended June 30, 2019 was focused on operating expenses, investments in the business including mineral property expenditures of $8.4 million and acquisition of plant and equipment assets of $3.8 million and comprised of payment of the first and second quarter dividends totalling $14.9 million. A significant increase in inventories (+ $15.3 million) contributed to a decrease in cashflow from operations.

Working capital as at June 30, 2019 was $56.9 million, consistent with Q1 and as compared to $48.8 million as at December 31, 2018. The increase in working capital results from an increase in inventory due to a larger number of carats recovered in the second quarter compared to the fourth quarter, decreases in both receivables and payables in the normal course of business and a decrease in short-term liabilities from the repayment of the credit facility in Q1 2019.

Short-term liabilities consist of $5.0 million outstanding on the credit facility to manage fluctuations in the Company's working capital requirements. Long-term liabilities consist of restoration provisions of $21.4 million (2018: $20.2 million), deferred income taxes of $69.1 million (2018: $73.5 million), and other liabilities of $1.2 million (2018: nil) which consist of leases reclassified under IFRS 16: Leases as of January 1, 2019.

Total shareholders' equity is substantially consistent from $241.9 million as at December 31, 2018 to $238.3 million as at June 30, 2019. There was minimal movement in the deficit resulting from net income of $8.1 million offset by dividends paid of $14.9 million and foreign exchange translation adjustments of $3.4 million on translation the Company's USD reporting currency. Other minor changes to share capital and contributed surplus were related to share units vesting and the recording of stock-based compensation during the period. Accumulated other comprehensive loss decreased to $55.2 million from $58.0 million at December 31, 2018, primarily from currency translation adjustments.

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	Jun-19	Mar-19	Dec-18	Sept-18	Jun-18	Mar-18	Dec-17	Sept-17
A. Revenues	42,541	48,690	40,609	45,669	64,539	25,374	37,143	77,911
B. Administration expenses	(3,960)	(2,777)	(4,369)	(2,849)	(3,342)	(5,831)	(6,071)	(3,163)
C. Net income (loss)	675	7,416	(6,225)	5,136	19,698	(6,957)	1,571	32,903
D. Earnings (loss) per share (basic and diluted)	0.00	0.02	(0.02)	0.01	0.05	(0.02)	-	0.09

The Company's quarterly results, including net income and earnings (loss) per share are most directly affected by the sale of unique and high value diamonds. Commencing in September 2018, the Company moved to a blended tender process to reduce the length of time that high value diamonds remained in inventory.

Revenues for the three months ended June 30, 2019 included proceeds from the second tender of 2019 achieving an average sales price of $417 per carat. This period marked the fourth quarter, and the first year in which tenders were held on a blended basis allowing for a smoother annual revenue flow. Revenues for the three months ended March 31, 2019 included proceeds from the Company's first sales tender of 2019 achieving an average sales price of $512 per carat.

The Company's only EST of 2018 occurred during the three months ended June 30, 2018 and contributed $32.4 million of the total revenues of $64.5 million recognized during the quarter. This compares to the first EST of 2017 which occurred during the three months ended June 30, 2017 and contributed $54.8 million out of total revenues of $79.6 million.

In December 2018, the Company commenced rough diamond sales on the Clara platform. Revenue from the sale of diamonds (primarily mined from Karowe) sold on the Clara platform is included in total quarterly revenue beginning in the three months ended December 31, 2018.

Revenues for the three months ended September 30, 2018 included proceeds from the Company's first blended sales tender achieving an average sales price per carat price of $467. Revenues for the three months ended September 30, 2017 include proceeds from the sale of the 1,109 carat LLR for US$53 million ($47,777 per carat).

NON-IFRS FINANCIAL MEASURES

This MD&A refers to certain financial measures, such as Adjusted EBITDA, 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 costs per carats sold (see "Karowe Mine, Botswana") is the term the Company uses to describe the mining, processing and site administration costs to produce a single 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 6: Operating cost per tonne of ore processed reconciliation: *In millions of U.S. dollars with the exception of tonnes processed and operating cost per tonne processed*	**Six months ended June 30, 2019**	2018[1]
Operating expenses	$ 33.7	$ 31.2
Capitalized production stripping costs[2]	-	13.5
Net change rough diamond inventory, excluding depletion and amortization [3]	6.0	1.7
Net change ore stockpile inventory, excluding depletion and amortization [4]	6.3	1.2
Total operating costs for ore processed	46.0	47.5
Tonnes processed	1,476,350	1,297,710
Operating cost per tonne of ore processed[5]	**$ 31.16**	**$ 36.64**

[1] Amended to be on a comparable presentation basis. Net change in rough diamond inventory was previously presented on a gross change basis. In 2019, the net change in rough diamond inventory is reported excluding the change in depletion and amortization, a non-cash item, to better present the operating cost per tonne of ore processed which is designed to be a cash measure.

[2] Capitalized production stripping cost in investing activities in the interim condensed consolidated statements of cash flows.

[3] Net change in rough diamond inventory, excluding depletion and amortization for the periods ended June 30, 2019 and 2018.

[4] Net change in ore stockpile inventory for the periods ended June 30, 2019 and 2018.

[5] 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 six months ended June 30, 2019.

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 6 of the condensed interim consolidated financial statements for the three and six months ended June 30, 2019.

Name	**Position**	**Lucara shares issued as consideration for Clara in February 2018**	**Lucara shares to be issued if Performance Milestones are achieved**
Eira Thomas	President, CEO & Director (Founder of Clara)	1,192,000	1,788,001
Catherine McLeod-Seltzer	Director (Founder of Clara)	400,000	600,000
John Armstrong	VP, Technical Services	50,000	74,999
Zara Boldt	CFO & Corporate Secretary	50,000	74,999

A profit sharing mechanism also exists, whereby a total of 3.45% of the EBITDA generated by the platform has been assigned to Ms. Thomas and Ms. McLeod-Seltzer as founders of the platform, with the remaining 3.22% of the EBITDA generated by the platform to be distributed to management, including Dr. Armstrong and Ms. Boldt, at the discretion of Lucara’s compensation committee based on key performance targets. In March 2019, the EBITDA sharing agreement between Clara and Eira Thomas and Clara and the Clara Management was amended. Under the terms of the amendment, each of Eira Thomas and the Clara Management waived their respective rights to the EBITDA payment to the extent that such payment relates to net income earned by Clara on the sale of rough diamonds from Karowe Mine. This waiver is in effect from the date of the share purchase agreement in February 2018 through to December 31, 2020.

FINANCIAL INSTRUMENTS

In the normal course of business, the Company is inherently exposed to currency and commodity price risk. For a discussion of certain risks and assumptions that relate to commodity price risk, currency risk, liquidity risk and credit risk, refer to Note 20 in the Company's audited consolidated financial statements for the year ending December 31, 2018. Note 20 also includes a discussion of the methods used to value financial instruments, as well as any significant assumptions made as part of the valuation. There have been no material changes to these assumptions during the six months ended June 30, 2019.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 396,858,168 common shares outstanding, 1,061,707 share units and 4,555,334 stock options outstanding under its stock-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 and the acquisition of Clara Diamond Solutions Corporation in February 2018. 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.

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

As of January 1, 2019, the Company adopted a new accounting policy for leases – IFRS 16. A description of this accounting policy can be found in Note 2 of the condensed interim consolidated financial statements for the three and six months ended June 30, 2019.

MANAGEMENT'S RESPONSIBILTY 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 June 30, 2019.

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 June 30, 2019 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

In particular, this MD&A may contain forward looking information pertaining to the following: the estimates of the Company's mineral 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; start-up, exploration and development plans and objectives; production costs; exploration and development expenditures and reclamation costs; expectation of diamond price and changes to foreign currency exchange rates; expectations 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 achieved margins in pricing, the timing and cost of commercialization and operation of the Clara platform, the timing and frequency of sales on the Clara Platform, and future participation of third parties on the Clara platform; expectations regarding the need to raise capital; possible impacts of disputes or litigation; and other risks and uncertainties described under the heading "Risks and Uncertainties" in the Company's 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 "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)

	June 30, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 7,104	$ 24,355
VAT receivables and other	5,858	11,583
Inventories (Note 3)	69,285	48,146
	82,247	84,084
Investments	410	920
Plant and equipment (Note 4)	132,682	147,246
Mineral properties (Note 5)	111,744	113,109
Intangible assets (Note 6)	22,994	21,798
Other non-current assets	5,332	3,738
TOTAL ASSETS	$ 355,409	$ 370,895
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	$ 15,360	$ 21,204
Credit facility	5,009	10,111
Taxes payable	5,013	3,999
	25,382	35,314
Restoration provisions	21,394	20,184
Deferred income taxes	69,108	73,482
Other non-current liabilities	1,235	-
TOTAL LIABILITIES	117,119	128,980
EQUITY		
Share capital (unlimited common shares, no par value)	314,820	313,913
Contributed surplus	7,194	7,766
Deficit	(28,576)	(21,767)
Accumulated other comprehensive loss	(55,148)	(57,997)
TOTAL EQUITY	238,290	241,915
TOTAL LIABILITIES AND EQUITY	$ 355,409	$ 370,895

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

"Brian Edgar"
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 June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Revenues	$ 42,541	$ 64,539	$ 91,231	$ 89,913
Costs of goods sold				
Operating expenses	17,657	16,628	33,737	31,220
Royalty expenses	4,254	6,454	9,123	8,991
Depletion and amortization	12,125	6,159	23,710	11,282
	34,036	29,241	66,570	51,493
Income from mining operations	8,505	35,298	24,661	38,420
Other expenses				
Administration (Note 8)	3,960	3,342	6,737	9,173
Exploration expenditures	953	1,250	2,002	1,845
Finance expenses	838	595	1,640	1,053
Foreign exchange loss (gain)	439	(1,100)	1,264	1,000
Sales and marketing	548	744	1,076	1,229
	6,738	4,831	12,719	14,300
Net income before tax	1,767	30,467	11,942	24,120
Income tax expense (recovery)				
Current income tax	4,220	3,981	8,750	4,624
Deferred income tax	(3,128)	6,788	(4,899)	6,755
	1,092	10,769	3,851	11,379
Net income for the period	$ 675	$ 19,698	$ 8,091	$ 12,741
Earnings per common share				
Basic	$ 0.00	$ 0.05	$ 0.02	$ 0.03
Diluted	$ 0.00	$ 0.05	$ 0.02	$ 0.03
Weighted average common shares outstanding				
Basic	396,853,867	395,980,852	396,722,617	391,435,179
Diluted	397,904,267	397,663,901	397,893,009	393,073,114

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, except for share and per share amounts)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Net income for the period	$ 675	$ 19,698	$ 8,091	$ 12,741
Other comprehensive income (loss)				
Items that will not be reclassified to net income				
Change in fair value of marketable securities	(159)	(400)	(509)	(495)
Items that may be subsequently reclassified to net income				
Currency translation adjustment	3,190	(19,343)	3,358	(12,015)
	3,031	(19,743)	2,849	(12,510)
Comprehensive income (loss)	$ 3,706	$ (45)	$ 10,940	$ 231

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 June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Cash flows from (used in):				
Operating Activities				
Net income for the period	$ 675	$ 19,698	$ 8,091	$ 12,741
Items not involving cash and cash equivalents:				
Depletion and amortization	12,455	5,890	24,173	11,254
Unrealized foreign exchange (gain) loss	1,096	(1,100)	1,264	1,000
Share-based compensation	430	557	719	934
Deferred income taxes	(3,128)	6,788	(4,899)	6,755
Finance costs	552	503	1,112	1,024
	12,080	32,336	30,460	33,708
Net change in working capital items:				
VAT receivables and other	264	1,337	5,313	(2,393)
Inventories	(7,111)	(2,672)	(15,263)	(4,380)
Trade payables and other current liabilities	3,715	4,310	(4,321)	3,658
Taxes payable	(2,412)	2,533	984	1,405
	6,536	37,844	17,173	31,998
Financing Activities				
Proceeds from exercise of stock options	-	108	-	108
Dividends paid	(14,857)	(15,311)	(14,857)	(15,311)
Withholding tax for share units vested	(146)	(367)	(427)	(367)
Borrowing (repayments) of credit facility, net	5,000	-	(5,000)	-
	(10,003)	(15,570)	(20,284)	(15,570)
Investing Activities				
Acquisition of plant and equipment	(1,373)	(3,045)	(3,758)	(7,020)
Capitalized mineral property expenditures	(4,246)	(5,657)	(8,445)	(6,308)
Capitalized production stripping costs	-	(6,719)	-	(13,476)
Acquisition and development of intangible assets	(113)	(289)	(309)	(727)
Acquisition of other assets	(1,879)	-	(1,879)	-
	(7,611)	(15,710)	(14,391)	(27,531)
Effect of exchange rate change on cash and cash equivalents	243	(533)	251	(325)
(Decrease) increase in cash and cash equivalents during the period	(10,835)	6,031	(17,251)	(11,428)
Cash and cash equivalents, beginning of period	17,939	43,606	24,355	61,065
Cash and cash equivalents, end of period [(1)]	$ 7,104	$ 49,637	$ 7,104	$ 49,637
Supplemental information				
Interest received	37	56	90	166
Taxes paid	(2,447)	-	(4,338)	(2,726)
Changes in accounts payable and accrued liabilities related to plant and equipment	47	64	1,338	192

[(1)] Cash and cash equivalents are composed of 100% cash deposits held with accredited financial institutions as at the end of the period

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, except for share amounts)

	Number of shares issued and outstanding		Share Capital		Contributed surplus		Retained earnings (deficit)		Accumulated other comprehensive loss		Total
Balance, January 1, 2018	382,619,334	$	290,846	$	7,832	$	(3,043)	$	($38,959)	$	256,676
Shares issued for Clara acquisition	13,100,000		21,489		-		-		-		21,489
Exercise of stock options	66,667		146		(38)		-		-		108
Share-based compensation	-		-		934		-		-		934
Change in fair value through other comprehensive income securities	-		-		-		-		(495)		(495)
Effect of foreign currency translation	-		-		-		-		(12,015)		(12,015)
Shares issued from SUs vested	590,053		1,137		(1,137)		-		-		0
Withholding tax for SUs vested	-		-		(367)		-		-		(367)
Dividends paid[1]	-		-		55		(15,366)		-		(15,311)
Net income for the period	-		-		-		12,741		-		12,741
Balance, June 30, 2018	396,376,054	$	313,618	$	7,279	$	(5,668)	$	(51,469)	$	263,760
Balance, January 1, 2019	396,509,387	$	313,913	$	7,766	$	(21,767)	$	(57,997)	$	241,915
Share-based compensation	-		-		719		-		-		719
Change in fair value through other comprehensive income securities	-		-		-		-		(509)		(509)
Effect of foreign currency translation	-		-		-		-		3,358		3,358
Shares issued from SUs vested	348,781		907		(907)		-		-		0
Withholding tax for SUs vested	-		-		(427)		-		-		(427)
Dividends paid [2]	-		-		43		(14,900)		-		(14,857)
Net income for the period	-		-		-		8,091		-		8,091
Balance, June 30, 2019	396,858,168	$	314,820	$	7,194	$	(28,576)	$	(55,148)	$	238,290

(1) On April 12 and June 21, 2018 the Company paid a cash dividend of CA$0.025 per share.
(2) On April 11 and June 20, 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

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 and a prospecting license, both of which are located in Botswana. The Company is also developing a secure, digital diamond sales platform (Clara Diamond Solutions Corporation) 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 2000 - 885 West Georgia Street, Vancouver, British Columbia, V6C 3E8.

2. SIGNIFICANT ACCOUNTING POLICIES

(i) 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 except for the adoption of IFRS 16, Leases. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company. These financial statements were approved by the Board of Directors for issue on August 8, 2019.

(ii) Adoption of new accounting policy

The following accounting policy was amended as a result of the adoption of IFRS 16, Leases as of January 1, 2019. The new Leases standard requires lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases. The Company has several office leases previously treated as operating leases that have been recorded to the balance sheet by recognizing an asset for the use of the leased premises and a corresponding obligation. These amendments were adopted retrospectively using the modified retrospective approach with the cumulative effect of initially applying the new standard recognized through opening retained earnings on January 1, 2019. The cumulative effect of the change in treatment of the Company's leases is not material and is disclosed in Note 4. Comparatives for the 2018 financial year have not been restated.

Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Company leases various properties. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

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

3. INVENTORIES

	June 30, 2019	December 31, 2018
Rough diamonds	$ 29,885	$ 16,847
Ore stockpile	26,746	20,435
Parts and supplies	12,654	10,864
	$ 69,285	$ 48,146

Inventory expensed during the six months ended June 30, 2019 totaled $33.7 million (six months ended June 30, 2018 – $31.2 million). There were no inventory write-downs during the six months ended June 30, 2019 and 2018.

4. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2018	$ 8,560	$ 208,149	$ 1,918	$ 5,797	$ 224,424
Additions	17,438	-	-	10	17,448
Disposals and other	-	-	-	(47)	(47)
Reclassification	(19,756)	16,131	804	1,520	(1,301)
Translation differences	(581)	(17,856)	(198)	(551)	(19,186)
Balance, December 31, 2018	$ 5,661	$ 206,424	$ 2,524	$ 6,729	$ 221,338
Additions[1]	1,984	429	-	1,592	4,005
Reclassification[2]	(2,645)	1,557	4	908	(176)
Translation differences	42	1,649	20	60	1,771
Balance, June 30, 2019	$ 5,042	$ 210,059	$ 2,548	$ 9,289	$ 226,938
Accumulated depreciation					
Balance, January 1, 2018	$ -	$ 52,304	$ 1,300	$ 3,244	$ 56,848
Depletion and amortization	-	21,595	320	1,167	23,082
Disposals and other	-	-	-	(2)	(2)
Translation differences	-	(5,388)	(123)	(325)	(5,836)
Balance, December 31, 2018	$ -	$ 68,511	$ 1,497	$ 4,084	$ 74,092
Depletion and amortization	-	18,647	178	716	19,541
Translation differences	-	572	12	39	623
Balance, June 30, 2019	$ -	$ 87,730	$ 1,687	$ 4,839	$ 94,256
Net book value					
As at December 31, 2018	$ 5,661	$ 137,913	$ 1,027	$ 2,645	$ 147,246
As at June 30, 2019	$ 5,042	$ 122,329	$ 861	$ 4,450	$ 132,682

(1) Additions include $1,588 recorded to furniture and office equipment upon the adoption of IFRS 16, Leases.

(2) Karowe mine related expenditure of $176 was reclassified to mineral properties in 2019 from construction in progress.

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

5. MINERAL RESOURCES

Cost		Capitalized production stripping asset		Karowe Mine		Total
Balance, January 1, 2018	$	56,668	$	57,609	$	114,277
Additions		21,425		20,990		42,415
Reclassification		-		599		599
Translation differences		(5,741)		(5,826)		(11,567)
Balance, December 31, 2018	$	72,352	$	73,372	$	145,724
Additions		-		8,445		8,445
Reclassification[1]		-		176		176
Translation differences		537		548		1,085
Balance, June 30, 2019	$	72,889	$	82,541	$	155,430
Accumulated Depreciation						
Balance, January 1, 2018	$	5,431	$	18,287	$	23,718
Depletion		6,955		4,471		11,426
Translation differences		(802)		(1,727)		(2,529)
Balance, December 31, 2018	$	11,584	$	21,031	$	32,615
Depletion		6,819		4,005		10,824
Translation differences		89		158		247
Balance, June 30, 2019	$	18,492	$	25,194	$	43,686
Net book value						
As at December 31, 2018	$	60,768	$	52,341	$	113,109
As at June 30, 2019	$	54,397	$	57,347	$	111,744

(1) Karowe mine related expenditure of $176 was reclassified from construction in progress to mineral properties in 2019.

Karowe Mine

A royalty of 10% of the sales value of diamonds sold from Karowe is payable to the government of Botswana.

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

6. INTANGIBLE ASSETS

Balance, January 1, 2018	$	-
Acquisition of intangible assets		21,868
Development expenditures		1,139
Translation differences		(1,209)
Balance, December 31, 2018	$	21,798
Development expenditures		309
Translation differences		887
Balance, June 30, 2019	$	22,994

On March 2, 2018, the Company completed the acquisition of 100% of the issued and outstanding common shares of Clara Diamond Solutions Corporation (“Clara”), a company whose primary asset is a secure, digital sales platform for rough diamonds. The total initial purchase consideration was $21.5 million, based on the closing price of the Company's common shares on the acquisition date, plus transaction costs and other adjustments of $0.4 million. The consideration paid was allocated entirely to the intangible assets.

The purchase consideration was as follows:

- 13.1 million Lucara shares.
- Contingent consideration of profit sharing: cash payments based on 3.45% of the annual EBITDA generated by the sales platform. Lucara also assumed the existing 13.3% annual EBITDA performance based contingent payments within Clara payable to the founders of the technology. This totals to 16.75% of the annual EBITDA generated by the sales platform, to a maximum of $20.9 million per year, for 10 years.
- Contingent consideration of share payments: additional Lucara shares to be issued if the revenue triggers detailed below are reached. In total, a maximum of 13.4 million shares may become payable upon the achievement of the performance milestones related to revenue generated from the digital sales platform.

Revenue Trigger	Number of shares	Expiry Date
$200 million of cumulative revenue generated by the sales platform up to the expiry date	3 million	March 2, 2028
$400 million of cumulative revenue generated by the sales platform up to the expiry date	3 million	March 2, 2030
$800 million of cumulative revenue generated by the sales platform up to the expiry date	3.2 million	March 2, 2032
$1.6 billion of cumulative revenue generated by the sales platform up to the expiry date	4.2 million	March 2, 2034

The contingent considerations will be recognized as additional purchase consideration for the intangible asset, if and when the obliging events occur (Note 9).

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

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 are reserved for issuance upon the exercise of stock options. 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 and expire four years from the date of grant.

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

	Number of shares issuable pursuant to stock options	Weighted average exercise price per share (CA$)
Balance at December 31, 2017	3,738,337	$ 2.48
Granted	1,490,000	2.36
Exercised[1]	(200,000)	2.15
Forfeited	(750,001)	2.79
Balance at December 31, 2018	**4,278,336**	**2.40**
Granted	1,437,000	1.64
Expired	(670,002)	2.15
Forfeited	(490,000)	2.55
Balance at June 30, 2019	**4,555,334**	**$ 2.18**

[1] The weighted average share price on the exercise dates for the 2018 stock option exercises was CA$2.18.

Options to acquire common shares have been granted and are outstanding at June 30, 2019 as follows:

	Outstanding Options			**Exercisable Options**		
Range of exercise prices CA$	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CA$)	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price (CA$)
$1.50 - $2.00	1,470,334	3.58	1.64	33,334	0.14	1.8
$2.01 - $2.50	2,700,000	1.27	2.39	1,725,000	0.38	2.45
$2.51 - $3.00	385,000	1.76	2.76	240,000	1.73	2.78
	4,555,334	2.27	$2.18	1,998,334	1.03	$2.48

During the six months ended June 30, 2019, an amount of $0.2 million (2018 – $0.3 million) was charged to operations in recognition of stock-based compensation expense, based on the vesting schedule for the options granted.

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

7. SHARE BASED COMPENSATION (continued)

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:

	2019	**2018**
Assumptions		
Risk-free interest rate *(%)*	1.82	2.00
Expected life *(years)*	3.63	3.72
Expected volatility *(%)*	38.20	39.48
Expected dividend	CA$0.025/share quarterly	CA$0.025/share quarterly
Results:		
Weighted average fair value of options granted *(per option)*	CA$0.30	CA$0.50

b. 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. SUs vest three years from the date of grant. 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 six month period ended June 30, 2019, the Company recognized a share-based payment charge against income of $0.5 million (2018: $0.6 million) for the SUs granted during the period.

	Number of share units	Estimated fair value at date of grant (CA$)	
Balance at December 31, 2017	1,401,590	$	2.53
February 27, 2018 grant	364,000		2.36
April 2, 2018 grant	125,000		2.05
April 12, 2018 dividend	21,213		2.08
May 14, 2018 vesting	(490,661)		2.30
May 31, 2018 vesting	(327,049)		2.66
June 21, 2018 dividend	12,601		2.17
June 29, 2018 grant	140,000		2.11
September 20, 2018 dividend	13,848		2.25
December 20, 2018 dividend	22,503		1.40
Balance at December 31, 2018	**1,283,045**	**$**	**2.41**
February 25, 2019 grant	439,000		1.63
February 26, 2019 vesting	(445,567)		2.57
April 2, 2019 vesting	(247,393)		2.52
April 11, 2019 dividend	19,822		1.61
April 11, 2019 vesting	(3,841)		1.61
June 20, 2019 dividend	16,641		1.57
Balance at June 30, 2019	**1,061,707**	**$**	**1.97**

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

8. ADMINISTRATION

	Three months ended June 30,		Six months ended June 30,	
	2019	**2018**	**2019**	**2018**
Salaries, benefits and severance	$ 1,562	$ 1,095	$ 2,392	$ 4,714
Professional fees	669	446	1,057	674
Office and general	410	321	892	660
Marketing	197	130	414	594
Stock exchange, transfer agent, shareholder communication	93	140	217	284
Travel	199	413	367	673
Share-based compensation (Note 7)	430	557	719	934
Management fees	123	90	247	198
Depreciation	263	148	356	302
Donation	14	2	76	140
	$ 3,960	$ 3,342	$ 6,737	$ 9,173

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:

	Six months ended June 30,	
	2019	**2018**
Salaries and wages	$ 905	$ 1,903
Severance	-	2,311
Short term benefits	51	228
Share-based compensation	361	800
	$ 1,317	$ 5,242

b. Clara acquisition

At the time of Lucara's acquisition of Clara, a current director and a current officer of the Company were also shareholders of Clara and received 1,192,000 common shares and 50,000 common shares, respectively, of Lucara. If all of the Clara performance milestones (Note 6) are reached, these individuals will receive an additional 1,788,001 common shares and 74,999 common shares, respectively, of Lucara. Following the acquisition of Clara, Lucara appointed a new director and a new officer, each of whom had been a shareholder of Clara at the time of its acquisition by the Company. If all of the Clara performance milestones are reached, these individuals will be entitled to receive an additional 600,000 common shares and 74,999 common shares of Lucara.

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

9. RELATED PARTY TRANSACTIONS (continued)

Pursuant to the profit sharing mechanism described in Note 6, a total of 3.45% of the EBITDA generated by the platform has been assigned to two directors of Lucara, each of whom was a founder of Clara. A further 3.22% of the EBITDA generated by the platform may be distributed to members of management, at the discretion of Lucara's Compensation Committee, based on the achievement of key performance targets. In March 2019, the EBITDA sharing agreement was amended such that one of the two founders and the Clara Management waived their respective rights to the EBITDA payment to the extent that such payment relates to net income earned by Clara on the sale of rough diamonds from the Karowe Mine. The waiver is effective from the date of the share purchase agreement in February 2018 through to December 31, 2020.

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 June 30, 2019		
	Karowe Mine	**Corporate and other**	**Total**
Revenues	$ 42,541	$ -	$ 42,541
Income from mining operations [1]	8,505	-	8,505
Exploration expenditures	(953)	-	(953)
Finance expenses	(711)	(127)	(838)
Foreign exchange loss	(267)	(172)	(439)
Other expenses	(1,553)	(2,955)	(4,508)
Tax expense	(1,092)	-	(1,092)
Net income (loss) for the period	$ 3,929	$ (3,254)	$ 675
Capital expenditures	$ (5,619)	$ (113)	$ (5,732)

	Three months ended June 30, 2018		
	Karowe Mine	**Corporate and other**	**Total**
Revenues	$ 64,539	$ -	$ 64,539
Income (loss) from mining operations [1]	35,369	(71)	35,298
Exploration expenditures	(1,250)	-	(1,250)
Finance expenses	(294)	(301)	(595)
Foreign exchange loss	676	424	1,100
Other expenses	(1,780)	(2,306)	(4,086)
Tax expense	(11,413)	644	(10,769)
Net income (loss) for the period	$ 21,308	$ (1,610)	$ 19,698
Capital expenditures	$ (15,421)	$ (289)	$ (15,710)

[1] Karowe Mine's depletion and amortization expense during the three months ended June 30, 2019 totaled $12.1 million (three months ended June 30, 2018 – $6.2 million).

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

10. SEGMENT INFORMATION (continued)

	Six months ended June 30, 2019		
	Karowe Mine	Corporate and other	Total
Revenues	$ 91,231	$ -	$ 91,231
Income from mining operations [(1)]	24,661	-	24,661
Exploration expenditures	(2,002)	-	(2,002)
Finance expenses	(1,297)	(343)	(1,640)
Foreign exchange loss	(1,070)	(194)	(1,264)
Other expenses	(3,135)	(4,678)	(7,813)
Tax expense	(3,851)	-	(3,851)
Net income (loss) for the period	$ 13,306	$ (5,215)	$ 8,091
Capital expenditures	$ (12,203)	$ (309)	$ (12,512)
Total assets	$ 327,644	$ 27,765	$ 355,409

	Six months ended June 30, 2018		
	Karowe Mine	Corporate and other	Total
Revenues	$ 89,913	$ -	$ 89,913
Income from mining operations [(1)]	38,494	(74)	38,420
Exploration expenditures	(1,845)	-	(1,845)
Finance expenses	(741)	(312)	(1,053)
Foreign exchange loss	(1,324)	324	(1,000)
Other expenses	(3,193)	(7,210)	(10,403)
Tax expense	(11,379)	-	(11,379)
Net income (loss) for the period	$ 20,012	$ (7,272)	$ 12,740
Capital expenditures	$ (26,804)	$ (727)	$ (27,531)
Total assets	$ 352,377	$ 27,863	$ 380,240

[(1)] Karowe Mine's depletion and amortization expense during the six months ended June 30, 2019 totaled $23.7 million (six months ended June 30, 2018 – $11.3 million).

LUCARA

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