Lucara Diamond Corp.

Management's Discussion and Analysis
And
Condensed Interim Consolidated Financial Statements
For the Three Months ended March 31, 2018
(Unaudited)

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2018

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. (the "Company") and its subsidiaries performance and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the period ended March 31, 2018, 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, Mineral Resources 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 May 8, 2018.

ABOUT LUCARA

Lucara's business consists of the acquisition, exploration, development and operation of diamond properties. Lucara is a leading independent producer of large exceptional quality Type IIa diamonds from its 100% owned Karowe Mine in Botswana, which is the focus of the Company's operations, development and exploration activities. The Company has an experienced board and management team with extensive diamond development and operations expertise. The Company operates 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, BC, 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".

Lucara acquired Clara Diamond Solutions ("Clara") in February 2018. Clara, now a wholly-owned subsidiary of Lucara, is developing 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.

HIGHLIGHTS

- Karowe's overall performance with respect to ore mined, processed and carats recovered was within forecast for the three months ending March 31, 2018:
  - Ore and waste mined was 0.6 million tonnes and 4.0 million tonnes respectively
  - Ore processed totaled 0.6 million tonnes
  - 218 specials (single diamonds larger than 10.8 carats) were recovered, representing 6.8% of the total recovered carats by weight
  - In April 2018, a 327 carat top white gem and a 472 carat top light brown were recovered from South lobe ore

- Achieved revenues of $25.4 million (Q1 2017: $26.1 million) or $401 per carat (Q1 2017: $405 per carat) for its first regular tender, yielding an operating margin of $170 per carat[1] or 42% during the three months ended March 31, 2018 (Q1 2017: operating margin of $188 per carat or 46%).

- Operating costs (excluding depletion and amortization) for the quarter ended March 31, 2018 were $17.1 million, an increase of $0.5 million as compared to the quarter ended March 31, 2017.

- The operating cash cost[1] for the three months ended March 31, 2018 was $43.04 per tonne processed (Q1 2017: $19.86 per tonne processed) compared to the full year forecast cash cost of $38-$42 per tonne processed. Costs per tonne processed during Q1 are higher than full year guidance due to mill maintenance completed during the period. Forecast costs are expected to be within full year guidance.

- Q1 2018 EBITDA[1] of $1.4 million as compared to $4.9 million in Q1 2017

- Net loss for the three months ended March 31, 2018 was $7.0 million (a loss of $0.02 per share) as compared to a loss of $1.5 million ($0.00 per share) in the comparative quarter and is attributable to lower revenues, higher depletion and amortization costs, higher administrative and other expenses as compared to the same period in 2017.

- As at March 31, 2018, the Company had cash and cash equivalents of $43.6 million, a decrease of $17.5 million from the December 31, 2017 cash and cash equivalents balance of $61.1 million. This decrease is mainly due to a reduction in non-cash working capital by $5.8 million, capital expenditures of $4.0 million (Q1 2017: $5.0 million) primarily for the sub-middles XRT project audit facility, and capitalized production stripping costs of $6.8 million (Q1 2017: $0.6 million). The $50 million credit facility remains undrawn.

- The Company accrued its quarterly dividend of CA$0.025 per share on the record date of March 23, 2018 and paid the dividend on April 12, 2018.

KAROWE DIAMOND SALES

Diamonds are heterogeneous by nature, with thousands of different price points depending on weight, colour, shape, and quality. Diamond production from Karowe is characterised by a coarse diamond size frequency distribution and is positively impacted by the regular recovery of diamonds in excess of 10.8 carats in size, referred to as "specials." Karowe production is further distinguished by the consistent recovery of high value, gem quality specials. Based on a production profile of 270,000 to 290,000 carats per annum, primarily sourced from the South Lobe, Lucara expects to consistently achieve average diamond values of between US$625 to US$680 per carat. This average diamond value excludes contributions from the less frequent and less predictable recovery of very large, high quality gem diamonds like the historic 1109 carat Lesedi La Rona and the 813 carat Constellation.

Regular Stone Tenders versus Exceptional Stone Tenders

Historically, Lucara has sold diamonds through both regular stone tenders (RST's) and exceptional stone tenders (EST's). Diamonds that qualify for EST's are rare, selected on a range of criteria including weight, quality, color, and, often achieve sales prices in excess of USD$ 1 million per diamond. On average, Lucara has held between 4 and 5 RST's and 1 to 2 EST's per annum.

Lucara continues to adjust its sales strategy to maximize client participation and achieve best possible revenue. As a result, Lucara has decided to conduct an exceptional stone tender (EST) during the regular tender scheduled for June 2018 and thereafter, will move to a blended tender process, whereby a greater number of exceptional stones will be sold as part of RST's. This will decrease the inventory time for large,

[1] Non-IFRS measure – see page 10

high value diamonds and will generate a smoother, more predictable revenue profile, that better supports price guidance on a per sale basis.

As part of this new approach, Lucara will retain the optionality of tendering truly unique and high value diamonds through special tenders, outside of the scheduled RST's.

FINANCIAL HIGHLIGHTS

Table 1:

In millions of U.S. dollars unless otherwise noted		**Three months ended March 31 2018**		**2017**
Revenues	$	25.4	$	26.1
Net loss for the period		(7.0)		(1.5)
Earnings per share (basic)		(0.02)		(-)
Earnings per share (diluted)		(0.02)		(-)
Cash on hand	$	43.6	$	43.5
Average price per carat sold ($/carat)*		401		405
Operating expenses per carat sold ($/carat)*		231		217
Operating margin per carat sold ($/carat)*		170		188

(*) Average price per carat sold, operating expenses per carat sold and operating margin per carat sold are Non-IFRS measures, see table 3: results of operations for reconciliations and page 10 for Non-IFRS measures.

The average sales price per carat achieved for the three months ending March 31, 2018 is consistent with the price achieved for the same period last year. The increase in waste mining activities in the current quarter resulted in an increase in operating expenses causing a decrease in the operating margin per carat sold during the three months ended March 31, 2018 ($170 per carat or 42% compared to $188 per carat or 46% in Q1 2017).

CORPORATE UPDATE

Acquisition of Clara Diamond Solutions Corp.

Lucara completed the acquisition of Clara (see announcement February 26, 2018), a company whose primary asset is a secure, digital diamond sales platform that combines proprietary analytics with existing cloud and blockchain technologies to transform how rough diamonds are sold. This transaction was accounted for as an asset acquisition and the consideration paid was categorized as intangible assets. As up-front consideration for the acquisition, Lucara issued 13.1 million shares with a value of $21.5 million and paid acquisition costs of $0.4 million. Further staged equity payments totalling 13.4 million shares become payable upon the achievement of performance milestones related to total revenues (revenues from rough diamonds bought and sold) generated through the platform. Lucara has also agreed to a profit sharing mechanism whereby the founders and facilitators of the Clara technology, as well as the Clara management team, will retain 13.33% and 6.67%, respectively, of the annual EBITDA generated by the platform, to a maximum of US$25 million per year, for ten years. This contingent consideration will be recognized as additional purchase consideration for the intangible asset, if the performance milestones are reached.

Lucara is currently working on commercialization of the Clara platform (anticipated in H2 2018) and will initially use select diamond production from the Karowe Diamond Mine. Thereafter, it is management's objective to scale the platform to accommodate diamond uptake from a variety of sources across the supply chain. Testing on the platform has demonstrated the potential to unlock greater than 20% of value throughout the diamond pipeline to the benefit of all participants. Clara's revenue model will be based on capturing a portion of this incremental value.

Management and Board Changes

Ms. Eira Thomas, a founder and current board member of Lucara, assumed the role of CEO in February 2018, following a decision by Mr. William Lamb to retire after almost ten years with Lucara. Ms. Catherine McLeod-Seltzer, an original founder of Lucara and also a founder of Clara was appointed to the Lucara Board of Directors on February 25, 2018, concurrently to Lucara's acquisition of Clara. In addition to the changes at the Board level, changes were made to the senior management team, including the appointment of Ms. Zara Boldt as CFO & Corporate Secretary and the promotion of Ms. Naseem Lahri to Managing Director of Boteti Mining (Pty.) Ltd. from CFO of that entity, which is the operator of the Company's Karowe diamond mine.

2018 OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2018. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements.

The Company's 2018 forecast remains unchanged.

Karowe Mine, Botswana

Table 2: 2018 Diamond Sales, Production and Outlook

Karowe Mine *In millions of U.S. dollars unless otherwise noted*	**Full Year – 2018**
Diamond revenue (millions)	\$170 to \$200
Diamond sales (thousands of carats)	270 to 290
Diamonds recovered (thousands of carats)	270 to 290
Ore tonnes mined (millions)	2.5 to 2.8
Waste tonnes mined (millions)	13.0 to 16.0
Ore tonnes processed (millions)	2.4 to 2.7
Total operating cash costs(1) including waste mined(2) (per tonne processed)	\$38.00 to \$42.00
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%
Average exchange rate – USD/Pula	9.8

(1) Operating cash costs are a non-IFRS measure. See "Non-IFRS Measures" on page 10.
(2) Includes ore and waste mined cash costs of \$2.90 to \$3.20; processing cash costs of \$13.75 to \$15.00 and mine-site departmental costs (security, technical services, mine planning, health & safety, geology) of \$4.50 to \$5.50 (all dollar figures in per tonne mined or processed).

During 2018, efforts to fully gain access to the Cut 2 South lobe ore will require a large volume of waste to be mined which impacts operating cash costs. The strip ratio is forecast to be approximately 5.0-6.0 in 2018, decreasing in the fourth quarter of 2018. A more significant decrease in the stripping ratio is forecast in 2019 (approximately 2.9 – 3.1), followed by a forecast stripping ratio of 2.0 from 2020 onwards. The decrease in waste mining is expected to add to free cash flow once the Cut 2 push back is complete between late 2018 and early 2019.

Sustaining capital expenditures in 2018 are forecast to be up to \$11 million, which includes final expenditures for the sub-middles XRT project audit facility (completed during the three months ending March 31, 2018).

A budget of up to \$3.0 million was approved for the completion of a pre-feasibility level study ("PFS") of the Karowe AK06 underground development and is expected to be completed by the end of 2018. Costs associated with geotechnical and hydrogeology drilling and additional studies in support of an underground development study are forecast at up to $26 million in 2018. During the three months ended March 31, 2018, the Company started hydrological and geotechnical drilling programs and updates to structural and hydrological models to support the underground study.

The Company also budgeted $6.0 million for advanced exploration work on the Company's prospecting licenses in Botswana. The Company is planning drill programs at AK24. Any large diameter drilling programs would be based on positive microdiamond results from the core drilling and geophysical surveys in the vicinity of AK11 and AK24. Please see "Exploration and Resource Upgrade" below.

RESULTS OF OPERATIONS

Table 3: Karowe Mine, Botswana

	UNIT	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
Sales						
Revenues	US$M	25.4	37.1	77.9	79.6	26.1
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US$M	25.4	37.1	77.6	79.9	26.1
Sales proceeds received during the quarter	US$M	25.4	37.1	77.9	79.6	26.1
Q2 2017 tender proceeds received post Q2 2017	US$M	-	-	(0.3)	0.3	-
Carats sold for proceeds generated during the period	Carats	63,317	69,358	64,289	62,434	64,444
Carats sold for revenues recognized during the period	Carats	63,317	69,358	67,125	59,598	64,444
Average price per carat for proceeds generated during the period**	US$	401	535	1,207[2]	1,280[1]	405
Average price per carat for proceeds received during the period***	US$	401	535	1,161[2]	1,336[1]	405
Production						
Tonnes mined (ore)	Tonnes	630,242	624,749	386,906	432,017	131,380
Tonnes mined (waste)	Tonnes	3,991,648	4,745,609	5,540,139	4,992,196	587,177
Tonnes processed	Tonnes	599,407	631,777	591,196	513,643	598,934
Average grade processed	cpht (*)	12.6	10.2	10.6	11.2	10.9
Carats recovered	Carats	75,698	64,477	62,425	57,624	65,241
Costs						
Operating costs per carats sold (see page 10 Non-IFRS measures)	US$	231	255	229	247	217
Capital expenditures						
-8+4mm sub-middles XRT project	US$M	3.6	5.4	5.3	4.9	2.8
Sustaining capital	US$M	0.4	4.1	1.9	2.2	0.5
LDR and MDR circuit	US$M	-	0.1	3.6	1.8	1.6
Total	US$M	4.0	9.6	10.8	8.9	4.9

(*) carats per hundred tonnes

(**) Average price per carat for proceeds generated during the period includes all sales tendered during the period including proceeds received post the quarter end

(***) Average price per carat for proceeds received during the period includes all sales proceeds collected during the period including proceeds received during the quarter

(1) This includes one EST sale of $54.8 million in addition to a RST during the quarter.

(2) This includes the sale of the 1103 carat Lesedi La Rona for US$53 million.

FIRST QUARTER OVERVIEW – OPERATIONS - KAROWE MINE

Karowe had no lost time injuries during the three months ended March 31, 2018 resulting in a twelve-month rolling Lost Time Injuries Frequency Rate ("LTIFR") of 0.06.

Revenues and operating margins: The Company achieved revenues of $25.4 million (Q1 2017: $26.1 million) or $401 per carat (Q1 2017: $405 per carat) for its first regular tender, yielding an operating margin of $170 per carat or 42% during the period.

Revenue, EBITDA and earnings per share performance were as expected and reflect the overall timing of the Company's sales tenders, with a single tender held during the first quarter. The Company maintains its 2018 revenue forecast of between $170-$200 million.

Production: Ore and waste mined during the three months ended March 31, 2018 totaled 0.6 million tonnes and 4.0 million tonnes respectively. Tonnage processed was within forecast at 0.6 million tonnes, with a total of 75,698 carats recovered. Ore processed was predominantly from the South lobe. During Q1, a total of 218 specials (single diamonds larger than 10.8 carats) were recovered including four diamonds greater than 100 carats in weight. Recovered specials equated to 6.8% weight percentage of total recovered carats during the first quarter.

Lucara continues to work with its mining contractor, Aveng Moolmans (Moolmans), to address equipment availability issues and ensure that mined volumes of both ore and waste are achieved according to plan. As a result, a sub-contractor continues to mine and haul ore, while Moolmans focuses on waste stripping. In the first quarter, ore mined volumes and carats recovered were as expected, but waste mining was lower than forecast. Performance has since improved and waste mining is expected to be within guidance for the year.

Karowe's operating cash cost: Karowe's first quarter operating cash cost (see page 10 Non-IFRS measures) was $43.04 per tonne processed (2017: $19.86 per tonne processed) compared to the full year forecast of $38-$42 per tonne processed. The increase in cost per tonne processed compared to the three months ended March 31, 2017 reflects an increase in waste mined during the quarter as compared to the prior year, following the 2017 change in mining contractor. Waste stripping volumes will start to significantly reduce by the end of the fourth quarter. Costs per tonne processed during Q1 are higher than the full year guidance, due to mill maintenance completed during the period however, forecast costs are expected to be within guidance.

Net Cash Position: As at March 31, 2018, the Company's cash balance was $43.6 million, a decrease of $17.5 million from the December 31, 2017 cash balance of $61.1 million. This decrease is mainly due to a reduction in non-cash working capital by $5.8 million, capital expenditures of $4.0 million primarily for the sub-middles XRT project audit facility, and capitalized production stripping costs of $6.8 million. The $50 million credit facility remains undrawn.

SELECT FINANCIAL INFORMATION

Table 4: *In millions of U.S. dollars unless otherwise noted*	Three months ended March 31, **2018**	2017
Revenues	$ 25.4	$ 26.1
Operating expenses	(14.6)	(14.0)
Operating earnings [1]	**10.8**	**12.1**
Royalty expenses	(2.5)	(2.6)
Exploration expenditures	(0.6)	(1.0)
Administration	(5.8)	(3.0)
Sales and marketing	(0.5)	(0.5)
EBITDA [2]	**1.4**	**4.9**
Depletion and amortization	(5.1)	(3.5)
Finance expenses	(0.5)	(0.2)
Foreign exchange loss	(2.1)	(1.8)
Current income tax expense	(0.7)	(0.6)
Deferred income tax expense	-	(0.3)
Net loss for the period	**(7.0)**	**(1.5)**
Change in cash during the period	**(17.5)**	**(9.9)**
Cash on hand	**43.6**	**43.5**
Loss per share (basic and diluted)	**(0.02)**	**(-)**
Per carats sold:		
Sales price	**$ 401**	**$ 405**
Operating expenses	**231**	**217**
Average grade (carats per hundred tonnes)	**12.6**	**10.9**

(1) Operating earnings is a non-IFRS measure defined as sales less operating expenses.
(2) EBITDA is a non-IFRS measure defined as earnings before interest, taxation, depreciation and amortization.

Table 5: 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*	**Three months ended March 31,** **2018**	2017
Operating expenses	$ 14.6	$ 14.0
Capitalized production stripping costs[1]	6.8	0.6
Net change rough diamond inventory[2]	2.7	0.4
Net change ore stockpile inventory[3]	1.7	(3.1)
Total operating costs for ore processed	25.8	12.4
Tonnes processed	599,407	598,934
Operating cost per tonne of ore processed[4]	**43.04**	**19.86**

(1) Capitalized production stripping cost in investing activities in the audited consolidated statements of cash flows.

(2) Net change in rough diamond inventory for the three months ended March 31, 2018 and December 31, 2017.

(3) Net change in ore stockpile inventory for the three months ended March 31, 2018 and December 31, 2017.

(4) 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 net change in rough diamond inventory and ore stockpile divided by the tonnes ore processed for the period.

Revenues

During the three months ended March 31, 2018, the Company sold 63,317 carats (Q1 2017: 64,444 carats) for gross proceeds of $25.4 million (2017: $26.1 million) at an average price of $401 per carat (2017: $405 per carat).

Operating Earnings

Operating earnings for the three months ending March 31, 2018 were $10.8 million (Q1 2017: $12.1 million) and operating expenses during the period totalled $14.6 million or $231 per carat (Q1 2017: $14.0 million or $217 per carat), which resulted in an operating margin (before royalties, depletion and amortization) of $170 per carat or 42% (Q1 2017: $188 per carat or 46%). Scheduled increases in waste mining together with cost escalation associated with the deepening of the open pit, resulted in increased operating expenses and lower operating margins in Q1.

Administration

Administration expense in the first quarter totalled $5.8 million, a $2.8 million increase when compared to administration expenses during the three months ended March 31, 2017. The variance is mainly a result of severance charges of $2.3 million incurred in the first quarter this year, following the management changes described above.

Depletion and amortization

The Company incurred a depletion and amortization charge of $5.1 million (Q1 2017: $3.5 million). The increase is a result of incurring higher amortization charges upon completion of the Diamond Recovery Capital projects in the third quarter of 2017.

Net loss

Net loss for the three months ending March 31, 2018 was $7.0 million (2017: net loss of $1.5 million). Severance payments and amortization expense had the most significant impact on the $5.5 million increase in net loss as compared to the same period in 2017.

Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)

EBITDA for the three months ending March 31, 2018 was $1.4 million (2017: $4.9 million), with an one time increase in administration expenses related to severance having the most significant impact as compared to the three months ending March 31, 2017.

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

Operating Cost Per Tonne of Ore Processed

During the first quarter of 2018, operating cost per tonne processed was $43.04 as compared to $19.86 per tonne processed during the three months ending March 31, 2017. This increase is in line with the Company's expectations and forecast as the increase is mainly due to the mining activity incurred in the three months ended March 31, 2018 as compared with the same period last year when the Company was transitioning to a new mining contractor and did not have any mining activity during period. Operating cost per tonne processed is a non-IFRS measure and is reconciled in Table 5 above to the most directly comparable measure calculated in accordance with IFRS, which is operating expenses.

EXPLORATION AND RESOURCE UPGRADE

Karowe Resource (AK06 kimberlite) Upgrade Drilling

During Q1, work continued on the resource model update with receipt of all microdiamond and density data from previous sampling. Work progressed on the updated geological and resource model for AK6, which is designed to increase confidence in the geological model for the South lobe of the AK06 kimberlite and provide sufficient data and material for an updated resource to be utilized in the underground project study for the Karowe mine. Mineral Services Canada has been contracted to assist in the development of a sampling program and the internal geology updates. Updates to the geological model, based on the 2016 and 2017 drilling programs, interpret a larger volume of the Eastern magmatic/pyroclastic kimberlite ("EM/PK(S)") unit at depth than in the original model. The EM/PK(S) unit has recently (Q1 2018) been exposed in the Karowe open pit and during Q1, a controlled sample of EM/PK(S) of approximately 88,000 tonnes was processed through the Karowe process plant. From this sample, a total of 14,310 carats were recovered, including seven diamonds greater than 50 carats and one diamond greater than 100 carats. Results of this sample including independent and internal valuations will be used in the current resource model update, which is expected to be announced in Q2.

Botswana Prospecting Licenses:

In 2014, the Company was awarded two precious stone prospecting licenses (PL367/2014 and PL371/2014). The prospecting licenses are located within a distance of 15 km and 30 km from the Karowe Diamond mine. The BK02 license was extended for one period to the third quarter of 2018 and the AK11/24 license was reduced by 50% in area and extended for two periods until the third quarter of 2019.

AK11

During the first quarter, the Company continued to process the large diameter drilling sample (estimated in-situ tonnage of 490 tonnes) at the Company's Bulk Sample Plant located at the Karowe Mine. Results are expected in the second quarter this year.

AK13

During the third quarter of 2017, the Company completed logging and sampling of AK13 and microdiamond samples were shipped for analysis. Microdiamond results were received in the first quarter of this year. As the samples were barren, no further work will be conducted on AK13.

AK24

During the first quarter this year, tenders were extended for a drill program at AK24 with the objective of commencing this program in the second quarter.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2018, the Company had cash and cash equivalents of $43.6 million, a decrease of $17.5 million from the cash and cash equivalents balance of $61.1 million at December 31, 2017. This decrease is mainly due to a reduction in non-cash working capital by $5.8 million, capital expenditures of $4.0 million mainly for sub-middles XRT project audit facility and capitalized production stripping costs of $6.8 million.

Working capital as at March 31, 2018 was $66.5 million as compared to $83.6 million as at December 31, 2017. The decrease in working capital reflects a smaller cash balance as at March 31, 2017 and a higher payables balance, including the first quarter dividend payable of $7.7 million (paid April 2018).

The Company has no long-term debt and the credit facility of $50 million was undrawn as of March 31, 2018. Long-term liabilities consist of restoration provisions of $20.0 million (2017: $18.9 million) and deferred income taxes of $75.1 million (2017: $72.9 million).

Total shareholder's equity increased from $256.7 million as at December 31, 2017 to $271.1 million as at March 31, 2018, due to an increase in share capital of $21.5 million for the common shares issued to acquire Clara, an increase in the deficit to $17.7 million resulting from the first quarter loss of $7.0 million, dividends payable of $7.7 million and a decrease of $7.2 million to accumulated other comprehensive loss from a currency translation adjustment.

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

Three months ended	**Mar-18**	**Dec-17**	**Sept-17**	**Jun-17**	**Mar-17**	**Dec-16**	**Sept-16**	**Jun-16**
A. Revenues	25,374	37,143	77,911	79,615	26,094	66,017	38,098	140,785
B. Administration expenses	(5,831)	(6,071)	(3,163)	(2,975)	(3,025)	(6,429)	(3,226)	(2,678)
C. Net income (loss)	(6,957)	1,571	32,903	32,174	(1,531)	11,204	(3,804)	46,116
D. Earnings (loss) per share (basic and diluted)	(0.02)	-	0.09	0.08	(-)	0.03	(0.01)	0.12

The Company's quarterly results are most directly affected by the sale of unique and high value diamonds.

The Company's revenues for the first three months of 2017 and 2018 were relatively consistent and reflective of one RST in each quarter. Revenues for the three months ended September 30, 2017 include proceeds from the sale of the 1103 carat Lesedi La Rona for US$53 million ($47,777 per carat). The Company's first EST of 2017 occurred during the three months ended June 30, 2017. This sale contributed $54.8 million out of total revenues of $79.6 million. During the three months ended June 30, 2016, the Company sold the 813 carat Constellation diamond for $63.1 million ($77,614 per carat); proceeds from the sale of the Constellation are included in the $140.8 million revenue for that quarter.

The Company expects to conduct an EST in June 2018 concurrent with the RST and thereafter, expects to move to a blended tender process whereby a greater number of exceptional stones will be sold as part of the RST. We expect that this will decrease the time in inventory for large, high value diamonds and should generate a smoother, more predictable revenue profile that better supports price guidance on a per sale basis.

NON-IFRS FINANCIAL MEASURES

This MD&A refers to certain financial measures, such as EBITDA, Operating costs per carats sold, and Operating cost per tonne 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.

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. EBITDA comprises earnings before deducting interest and other financial charges, income taxes, depreciation and amortization and net loss attributable to non-controlling interests.

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 in table 5.

RELATED PARTY TRANSACTIONS

In relation to the acquisition of Clara, the following related parties were issued Lucara shares and will 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 3 of the condensed interim consolidated financial statements for the three months ended March 31, 2018.

Eira Thomas, the CEO and a current director of Lucara, was a founder of Clara and was issued a total of 1,192,000 shares of Lucara in consideration for her shares of Clara. Ms. Thomas may be issued up to an additional 1,788,001 shares of Lucara if Clara achieves the Performance Milestones.

Catherine McLeod-Seltzer was also a founder of Clara and, following Lucara's acquisition of Clara, was appointed to the Lucara Board of Directors. Ms. McLeod-Seltzer received 400,000 Lucara shares as consideration for her Clara shares. Ms. McLeod-Seltzer may be issued up to an additional 600,000 shares of Lucara if Clara achieves the Performance Milestones.

John Armstrong, Vice President of Mineral Resources of the Company, was a shareholder of Clara at the time of the Company's acquisition of Clara. Mr. Armstrong received 50,000 Lucara shares as consideration for his Clara shares. He may receive a further 74,999 common shares of Lucara if Clara achieves the Performance Milestones.

Zara Boldt was a shareholder of Clara at the time of the Company's acquisition of Clara and, following Lucara's acquisition of Clara, was appointed as Lucara's Chief Financial Officer and Corporate Secretary. Ms. Boldt received 50,000 Lucara shares as consideration for her Clara shares. She may receive a further 74,999 common shares of Lucara if Clara achieves the Performance Milestones.

Pursuant to the profit sharing mechanism described above, a total of 3.45% of the EBITDA generated by the platform has been assigned to Ms. Thomas and Ms. McLeod-Seltzer with the remaining 3.22% of the EBITDA generated by the platform to be distributed to management, including Mr. Armstrong and Ms. Boldt, at the discretion of Lucara's compensation committee based on key performance targets.

For the quarter ended March 31, 2018, the Company paid $0.1 million (Q1 2017: $0.1 million) to a charitable foundation directed by certain of the Company's directors to carry out social programs on behalf of the Company in Botswana.

FINANCIAL INSTRUMENTS

The Company amended its financial instrument accounting policy as a result of the adoption of IFRS 9, no adjustments were required from this adoption. IFRS 9, Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: those measured at fair value through profit and loss, those measured at fair value through other comprehensive income and those measured at amortized cost. Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, there is an irrevocable option to present fair value changes in other comprehensive income. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

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

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 commodity price risk, currency risk, liquidity risk and credit risk, refer to Note 19 in the Company's audited consolidated financial statements for the year ending December 31, 2017. Note 19 also includes a discussion of the methods used to value financial instruments, as well as any significant assumptions made as part of the valuation.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 395,719,334 common shares outstanding, 1,911,803 share units and 4,868,337 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 recent acquisition of Clara Diamond Solutions Corporation. 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

Other than in respect of operating lease arrangements for offices in Botswana, the Company is not party to any off-balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

During the three months ended March 31, 2018, the Company adopted new accounting policies for contingent consideration, intangible assets, capitalization of development expenditures, financial instruments – IFRS 9 and revenue from contracts with customers – IFRS 15. A description of these accounting policies can be found in Note 2 of the condensed interim consolidated financial statements for the three months ended March 31, 2018.

MANAGEMENT'S RESPONSIBILTY FOR THE FINANCIAL STATEMENTS

The Audit Committee is responsible for reviewing the contents of this document along with the interim quarterly financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended March 31, 2018.

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 March 31, 2018 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 Mine; estimated costs for capital expenditures related to the Karowe Mine; start-up, exploration and development plans and objectives; production costs; exploration and development expenditures and reclamation costs; expectation of diamond price and changes to foreign currency exchange rates; expectations regarding the need to raise capital; possible impacts of disputes or litigation; and other risks and uncertainties described under the heading "Risks and Uncertainties" in the Company's 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
(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)
(Unaudited)

		March 31, 2018		December 31, 2017
ASSETS				
Current assets				
Cash and cash equivalents	$	43,606	$	61,065
VAT receivables and other		7,527		3,951
Inventories (Note 4)		40,084		35,898
Tax prepayment		627		-
		91,844		100,914
Investments		2,240		2,500
Plant and equipment (Note 5)		171,594		167,576
Mineral properties (Note 6)		99,842		90,559
Intangible assets (Note 3 and 7)		21,868		-
Other non-current assets		4,132		4,261
TOTAL ASSETS	$	391,520	$	365,810
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities	$	17,638	$	16,780
Dividend payable		7,670		-
Taxes payable		-		494
		25,308		17,274
Restoration provisions		19,949		18,941
Deferred income taxes		75,119		72,919
TOTAL LIABILITIES		120,376		109,134
EQUITY				
Share capital		312,335		290,846
Contributed surplus		8,209		7,832
Deficit		(17,674)		(3,043)
Accumulated other comprehensive loss		(31,726)		(38,959)
TOTAL EQUITY		271,144		256,676
TOTAL LIABILITIES AND EQUITY	$	391,520	$	365,810

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

	Three months ended March 31, 2018	2017
Revenues	$ 25,374	$ 26,094
Cost of goods sold		
Operating expenses	14,592	14,047
Royalty expenses	2,537	2,609
Depletion and amortization	5,123	3,529
	22,252	20,185
Income from mining operations	3,122	5,909
Other expenses		
Administration (Note 9)	5,831	3,025
Exploration expenditures	595	989
Finance expense	459	156
Foreign exchange loss	2,099	1,887
Sales and marketing	485	532
	9,469	6,589
Net loss before tax	(6,347)	(680)
Income tax expense		
Current income tax	643	568
Deferred income tax	(33)	283
	610	851
Net loss for the period	$ (6,957)	$ (1,531)
Loss per common share		
Basic	$ (0.02)	$ (-)
Diluted	$ (0.02)	$ (-)
Weighted average common shares outstanding		
Basic	386,840,445	382,252,628
Diluted	386,840,445	382,252,628

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

LUCARA DIAMOND CORP.

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

		Three months ended March 31, 2018		2017
Net loss for the period	$	(6,957)	$	(1,531)
Other comprehensive income				
Items that may be subsequently reclassified to net income				
Change in fair value of available-for-sale securities		(95)		590
Currency translation adjustment		7,328		5,833
		7,233		6,423
Comprehensive Income	$	276	$	4,892

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

LUCARA DIAMOND CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)
(Unaudited)

	Three months ended March 31, 2018	2017
Cash flows from (used in):		
Operating Activities		
Net loss for the period	$ (6,957)	$ (1,531)
Items not involving cash and cash equivalents:		
Depletion and amortization	5,364	3,732
Unrealized foreign exchange loss	2,099	1,887
Stock-based compensation	377	369
Deferred income tax expense (recovery)	(33)	283
Finance expense (income)	522	(224)
	1,372	4,516
Net changes in working capital items:		
VAT receivables and other current assets	(3,730)	(628)
Inventories	(1,708)	4,648
Trade payables and other current liabilities	(652)	(4,711)
Taxes prepayment	(1,128)	-
	(5,846)	3,825
Financing Activities		
Dividends paid	-	(7,170)
Proceeds from exercise of stock options	-	336
	-	(6,834)
Investing Activities		
Acquisition of plant and equipment	(3,975)	(4,996)
Capitalized mineral property expenditure	(651)	(467)
Capitalized production stripping costs	(6,757)	(593)
Acquisition of intangible assets	(438)	-
Acquisition of other assets	-	(967)
	(11,821)	(7,023)
Effect of exchange rate change on cash and cash equivalents	208	148
Decrease in cash and cash equivalents during the period	(17,459)	(9,884)
Cash and cash equivalents, beginning of period	61,065	53,345
Cash and cash equivalents, end of period	$ 43,606	$ 43,461
Supplemental Information		
Interest received	110	38
Taxes paid	(2,847)	(1,165)
Changes in trade payable and accrued liabilities related to plant and equipment	128	171

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

LUCARA DIAMOND CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

(Unaudited)

	Number of shares issued and outstanding		Share capital		Contributed surplus		Cumulative retained earnings/ (deficit)		Accumulated other comprehensive loss		Total
Balance, January 1, 2017	382,246,001	$	289,969	$	6,488	$	(38,640)	$	(57,827)	$	199,990
Exercise of stock options	200,000		481		(145)		-		-		336
Share based compensation	-		-		369		-		-		369
Unrealized gain on investment	-		-		-		-		590		590
Effect of foreign currency translation	-		-		-		-		5,833		5,833
Dividends paid	-		-		24		(7,194)		-		(7,170)
Net loss for the period	-		-		-		(1,531)		-		(1,531)
Balance, March 31, 2017	382,446,001	$	290,450	$	6,736	$	(47,365)	$	(51,403)	$	198,418
Balance, January 1, 2018	382,246,001	$	290,846	$	7,832	$	(3,043)	$	(38,959)	$	256,676
Shares issued for Clara acquisition (Note 3)	13,100,000		21,489		-		-		-		21,489
Share based compensation	-		-		377		-		-		377
Unrealized gain on investment	-		-		-		-		(95)		(95)
Effect of foreign currency translation	-		-		-		-		7,328		7,328
Dividends payable[1]	-		-		-		(7,674)		-		(7,674)
Net loss for the period	-		-		-		(6,957)		-		(6,957)
Balance, March 31, 2018	395,346,001	$	312,335	$	8,209	$	(17,674)	$	(31,726)	$	271,144

[1] On the record date, March 23, 2018, the Company accrued the Q1 2018 dividend payable of CA$ 0.025 per share. The Q1 2018 dividend was paid on April 12, 2018.

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 two prospecting licenses located in Botswana. The Company is also currently 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 of the most recent annual audited financial statements. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company. The Company has also adopted additional accounting policies as listed below. These financial statements were approved by the Board of Directors for issue on May 8, 2018.

(ii) Contingent consideration

Contingent consideration relating to an asset acquisition is recognized using the cost accumulation method when: (a) the conditions associated with the contingent payment are met; (b) the Company has a present legal or constructive obligation that can be estimated reliably; and (c) it is probable that an outflow of economic benefits will be required to settle the obligation.

(iii) Intangible assets

Intangible assets with finite lives consist of acquired trademarks, copyrights, patents and intellectual property that are initially capitalized at the purchase price plus any other directly attributable costs. These costs are amortized using the straight-line method over their estimated useful lives. Amortization of intangible assets will be included in cost of sales, administrative expenses and/or research and development expenses, as appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Capitalization of development expenditure

Development expenditures are capitalized only if the expenditure can be measured reliably, the process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Judgment is required in determining the technical and commercial feasibility and in assessing the probability of future economic benefits. Amortization related to capitalized development costs is classified within amortization and depreciation under operating expenses.

(v) Adoption of IFRS pronouncements

The following are the significant accounting policies that have been amended as a result of the adoption of IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers. These amendments were applied retroactively and no adjustments were required from the adoption of these new standards.

IFRS 9 - Financial Instruments

Cash and cash equivalents
Cash and cash equivalents include cash on account, demand deposits and money market investments with maturities from the date of acquisition of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant changes in value. Cash is classified as subsequently measured at amortized cost. Cash equivalents are classified as subsequently measured at amortized cost.

Investments in marketable equity securities
Investments in marketable equity securities are classified at fair value through other comprehensive income. Investment transactions are recognized on the trade date with transaction costs included in the underlying balance. Fair values are determined by reference to quoted market prices at the balance sheet date. When investments in marketable equity securities are disposed of the cumulative gains and losses recognized in other comprehensive income are not recycled to profit and loss and remain within equity.

Trade payables
Trade payables are non-interest bearing if paid when due and are recognized at face amount, except when fair value is materially different. Trade payables are subsequently measured at amortized cost.

IFRS 15 - Revenue from Contracts with Customers

Revenues from diamond sales are recognized when the purchaser obtains control of the diamond. Control is achieved when proceeds are received and title is transferred to the purchaser according to contract terms.

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

3. INVESTMENT IN CLARA

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 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 a 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 10).

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 Company concluded the acquired assets and assumed liabilities of Clara did not constitute a business and accordingly the transaction was accounted for as an asset acquisition. The consideration paid was allocated entirely to the intangible assets (Note 7).

4. INVENTORIES

		March 31, 2018		December 31, 2017
Rough diamonds	$	15,905	$	13,171
Ore stockpile		13,706		12,037
Parts and supplies		10,473		10,690
	$	40,084	$	35,898

Inventory expensed for the period ended March 31, 2018 totaled $14.6 million (Q1 2017 – $14.0 million).

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

5. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2017	$ 14,766	$ 152,851	$ 1,348	$ 4,421	$ 173,386
Additions	34,522	113	42	177	34,854
Reclassification	(41,675)	40,281	444	950	-
Disposals and other	-	(547)	(56)	(183)	(786)
Translation differences	947	15,451	140	432	16,970
Balance, December 31, 2017	8,560	208,149	1,918	5,797	224,424
Additions	4,103	-	-	-	4,103
Reclassification[1]	(799)	-	114	52	(633)
Translation differences	298	6,368	59	166	6,891
Balance, March 31, 2018	$ 12,162	$ 214,517	$ 2,091	$ 6,015	$ 234,785
Accumulated depreciation					
Balance, January 1, 2017	$ -	$ 38,407	$ 1,131	$ 2,343	$ 41,881
Depletion and amortization	-	10,414	122	848	11,384
Disposals and other	-	(392)	(56)	(183)	(631)
Translation differences	-	3,875	103	236	4,214
Balance, December 31, 2017	-	52,304	1,300	3,244	56,848
Depletion and amortization for the period	-	4,126	121	360	4,607
Translation differences	-	1,604	42	90	1,736
Balance, March 31, 2018	$ -	$ 58,034	$ 1,463	$ 3,694	$ 63,191
Net book value					
As at December 31, 2017	$ 8,560	$ 155,845	$ 618	$ 2,553	$ 167,576
As at March 31, 2018	$ 12,162	$ 156,483	$ 628	$ 2,321	$ 171,594

(Note 1) – Karowe mine related expenditure of $633 was reclassified to mineral properties in Q1 2018.

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

6. MINERAL PROPERTIES

Cost		Capitalized stripping costs		Karowe Mine		Total
Balance, January 1, 2017	$	28,183	$	51,484	$	79,667
Additions		24,752		1,223		25,975
Revision in estimate of restoration provision		-		275		275
Translation differences		3,733		4,627		8,360
Balance, December 31, 2017		56,668		57,609		114,277
Additions		7,088		651		7,739
Reclassification[1]		-		633		633
Translation differences		1,850		1,834		3,684
Balance, March 31, 2018	$	65,606	$	60,727	$	126,333
Accumulated depletion						
Balance, January 1, 2017	$	2,825	$	14,684	$	17,509
Depletion for the period		2,244		2,195		4,439
Translation differences		362		1,408		1,770
Balance, December 31, 2017		5,431		18,287		23,718
Depletion for the period		1,110		896		2,006
Translation differences		181		586		767
Balance, March 31, 2018	$	6,722	$	19,769	$	26,491
Net book value						
As at December 31, 2017	$	51,237	$	39,322	$	90,559
As at March 31, 2018	$	58,884	$	40,958	$	99,842

(Note 1) – Karowe mine related expenditure of $633 was reclassified from plant and equipment to mineral properties in Q1 2018.

Karowe Mine

A royalty of 10% of the sales value of diamonds sold from Karowe is payable to the government of Botswana. During the quarter, the Company had a royalty expense of $2.5 million. (2017: $2.6 million)

7. INTANGIBLE ASSETS

Balance, December 31, 2017	$	-
Acquisition of intangible assets (Note 3)		21,868
Balance, March 31, 2018	$	21,868

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

8. SHARE BASED COMPENSATION

a. Stock options

The Company's stock option plan (the 'Option Plan') was approved by the Company's shareholders on May 13, 2015. 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 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$)
Balance at December 31, 2016	**3,346,670**	**$ 2.39**
Granted	910,000	2.78
Exercised[1]	(373,333)	2.27
Forfeited	(145,000)	2.75
Balance at December 31, 2017	**3,738,337**	**2.48**
Granted	1,005,000	2.46
Balance at March 31, 2018	**4,743,337**	**$ 2.48**

(1) The weighted average share price on the exercise dates for the 2017 stock option exercises was CA$2.97.

Options to acquire common shares as at March 31, 2018 are 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$
$1.01 - $2.00	33,334	1.39	$ 1.80	16,667	1.39	$ 1.80
$2.01 - $3.00	4,590,003	2.37	2.45	1,941,680	1.84	2.42
$3.01 - $4.00	120,000	2.12	3.94	40,000	2.12	3.94
	4,743,337	2.35	$ 2.48	1,998,347	1.84	$ 2.44

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

8. SHARE BASED COMPENSATION (continued)

During the period ended March 31, 2018, an amount of $0.3 million (2017 – $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:

	2018	2017
Assumptions:		
Risk-free interest rate *(%)*	2.01	1.02
Expected life *(years)*	3.63	3.63
Expected volatility *(%)*	39.59	41.78
Expected dividend	CA$0.025/share quarterly	CA$0.025/share quarterly
Results:		
Weighted average fair value of options granted *(per option)*	CA$ 0.52	CA$ 0.69

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. 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 period ended March 31, 2018, the Company recognized a share-based payment charge against income of $0.1 million (2017: $0.1 million) for the SUs granted during the period.

	Number of shares issuable pursuant to share units	Weighted average exercise price per share (CA$)
Balance at December 31, 2016	**1,067,493**	**$ 2.46**
March 8, 2017 grant	283,500	2.75
March 30, 2017 dividend	10,924	3.09
June 15, 2017 dividend	12,110	2.81
September 14, 2017 dividend	14,015	2.45
December 14, 2017 dividend	13,548	2.56
Balance at December 31, 2017	1,401,590	2.53
February 27, 2018 grant	409,000	2.36
Balance at March 31, 2018	**1,810,590**	**$ 2.49**

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

9. ADMINISTRATION

	Three months ended March 31, 2018	2017
Salaries and benefits and severance	$ 3,618	$ 773
Professional fees	228	394
Office and general	338	244
Marketing	465	469
Stock exchange, transfer agent, shareholder communication	144	214
Travel	260	201
Stock based compensation	377	366
Management fees	108	100
Depreciation	155	203
Donations	137	61
	$ 5,831	$ 3,025

10. 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:

	Three months ended March 31, 2018	2017
Salaries and wages	$ 1,462	$ 1,325
Severance	2,311	-
Short term benefits	71	75
Share based compensation	310	280
	$ 4,154	$ 1,680

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 3) 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.)

b) Clara acquisition (continued)

Pursuant to the profit sharing mechanism described in note 3, 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

11. 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 March 31, 2018	Karowe Mine	Corporate and other	Total
Revenues	$ 25,374	$ -	$ 25,374
Income (loss) from operations	3,124	(2)	3,122
Exploration expenditures	(595)	-	(595)
Finance expense	(447)	(12)	(459)
Foreign exchange	(2,000)	(99)	(2,099)
Other expenses	(1,413)	(4,903)	(6,316)
Taxes	33	(643)	(610)
Net loss for the period	(1,298)	(5,659)	(6,957)
Capital expenditures	(11,383)	(438)	(11,821)
Total assets	$ 352,070	$ 39,450	$ 391,520

Three months ended March 31, 2017	Karowe Mine	Corporate and other	Total
Revenues	$ 26,094	$ -	$ 26,094
Income (loss) from operations	5,938	(29)	5,909
Exploration expenditures	(989)	-	(989)
Finance income (expense)	(293)	137	(156)
Foreign exchange	(1,793)	(94)	(1,887)
Other expenses	(1,577)	(1,980)	(3,557)
Taxes	(431)	(420)	(851)
Net income (loss) for the period	855	(2,386)	(1,531)
Capital expenditures	(6,056)	-	(6,056)
Total assets	$ 289,052	$ 10,673	$ 299,725

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