Lucara Diamond Corp.

Management's Discussion and Analysis
And
Consolidated Financial Statements
Year Ended December 31, 2017
(AUDITED)

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

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 audited consolidated financial statements of the Company for the year ended December 31, 2017, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in U.S. dollars unless otherwise indicated. The effective date of this MD&A is February 20, 2017.

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.

FINANCIAL UPDATE

Revenues and operating margins: The Company achieved revenues of $220.8 million during the year (2016: $295.5 million) including the sale of the 1,109 carat Lesedi La Rona ("LLR") for $53.0 million ($47,777 per carat). The 2017 average price was $847 per carat (including the sale of the LLR) compared to 2016 average sales price of $824 per carat (including the sale of 813 carat Constellation diamond for $63.1 million). Excluding the sale of the LLR the average sales price for 2017 was $647 per carat which was in line with the 2016 average sales price of $649 excluding the sale of the 813 carat Constellation diamond. The consistently strong sales price demonstrates the quality of Karowe's south lobe diamonds in a market where average diamond prices have decreased by up to 10% in certain size and quality fractions in 2017.

Karowe's operating cash cost: Karowe's total annual operating cash cost (see page 8 Non-IFRS measures) was $34.6 per tonne processed (2016: $26.5 per tonne processed) compared to forecast of $36-$30 per tonne processed. The Company's expenditures remain well controlled with mining and processing cost per tonne and all site costs within forecast.

Net Cash Position: The Company's 2017 year-end cash balance was $61.1 million (2016: $53.3 million). The increase in cash during the year is primarily due to the sale of the LLR which was partially offset by the Company's capital expenditures of $34.2 million for the Mega Diamond Recovery ('MDR') and Sub-middles XRT capital projects, stripping costs of $32.9 million of which $24.8 million was capitalized and dividend payments of $29.4 million. The Company's $50 million credit facility remains undrawn.

Earnings and Basic Earnings Per Share: Earnings for 2017 were $65.1 million (2016: $70.7 million) and basic earnings per share were $0.17 for the year ended December 31, 2017 (2016: $0.19).

Dividends: The Company paid its quarterly dividend of CA$0.025 per share on December 14, 2017 for a cumulative dividend of CA$0.10 per share in 2017 or a total of $29.4 million cash dividend to our shareholders.

OPERATIONAL UPDATE

Karowe Operating Performance: Karowe's performance was within the revised forecast for the year in terms of ore mined and processed and carats recovered. Ore and waste mined in 2017 was 1.6 million tonnes and 15.9 million tonnes respectively. Tonnage processed was within forecast for the year at 2.3 million tonnes. The south lobe continued to perform in Q4 2017 as it produced 177 specials (single diamonds larger than 10.8 carats) which equated to a 7.1% weight percentage of total recovered carats in Q4 2017. This brings 2017 production to a total of 521 specials or a 5.6% weight percentage of total recovered carats in 2017.

In Q1 2017, the Company's new mining contractor, Moolman Mining Botswana (Pty) Ltd a subsidiary of Aveng Mining ("Aveng Moolmans") commenced mining at the Karowe mine. The ore and waste mined for the year was lower than initial forecast as Aveng Moolmans experienced equipment availability issues. To address performance Aveng Moolmans has engaged a mining sub-contractor in Q4 2017 to focus only on mining ore as Aveng Moolmans focusses on waste mining while maintaining the same cost charged per tonne mined.

FINANCIAL HIGHLIGHTS

Table 1:

	Three months ended December 31		Year ended December 31	
In millions of U.S. dollars unless otherwise noted	**2017**	**2016**	**2017**	**2016**
Revenues	$ 37.1	$ 66.0	$ 220.8	$ 295.5
Net income for the period	1.7	11.2	65.1	70.7
Earnings per share (basic)	0.00	0.03	0.17	0.19
Earnings per share (diluted)	0.00	0.03	0.17	0.18
Cash on hand	$ 61.1	$ 53.3	$ 61.1	$ 53.3
Average price per carat sold ($/carat)*	535	743	847	824
Operating expenses per carat sold ($/carat)*	255	197	238	156
Operating margin per carat sold ($/carat)*	280	546	609	668

(*) 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 8 for Non-IFRS measures.

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.

Karowe Mine, Botswana

Karowe is forecast to process 2.4-2.7 million tonnes of ore, producing between 270,000 and 290,000 carats of diamonds in 2018. Revenue is forecast between $170 and $200 million.

Ore mined is forecast between 2.5-2.8 million tonnes and waste mined is expected to be between 13.0-16.0 million tonnes.

Karowe's operating cash costs (see page 8 Non-IRFS measures) are expected to be between $38.00 and $42.00 per tonne. To fully gain access to the cut 2 south lobe ore requires a large volume of waste to be mined which significantly impacts operating cash costs in 2018 similar to 2017. Operating cash costs, excluding waste mining is expected to be between $21-$24 per tonne processed. The strip ratio is forecast at approximately 5.0-6.0 in 2018 before decreasing significantly in 2019 to approximately 2.7 and then forecast at under 2.0 stripping ratio going forward from 2020 onwards. The decrease in waste mining is expected to add to free cash flow once the cut 2 push back is complete in 2019.

Sustaining capital expenditures in 2018 is forecast to be up to $11 million, which includes final expenditure for the sub-middles XRT project audit facility at $3.0 million which was part of the total project cost at $45 million compared to forecast of $45-$48 million.

A budget of up to $3.0 million is approved for the completion of the 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 and are forecast at up to $26 million in 2018. The Company also budgeted $6.0 million for advance exploration work on the Company's prospecting licenses. The Company is planning on completing drill programs at AK13, AK24 and LDD programs would be based on positive microdiamond results from the core drilling and geophysical surveys in the vicinity of AK11 and AK24.

The USD/Pula budgeted foreign exchange rate for 2018 is 9.8.

BUSINESS OVERVIEW

The Company is a diamond mining company focused in Africa. The Company's business consists of the acquisition, exploration, development and operation of diamond properties. The Company's head office is in Vancouver, BC, Canada and its common shares trade on the Toronto Stock Exchange, the Nasdaq Stockholm Exchange in Sweden and the Botswana Stock Exchange under the symbol "LUC".

The principal assets of the Company and the focus of the Company's operations, development and exploration activities reside in Botswana.

Table 2: Company's current land holdings:

Country	Name	Interest Held	Area (km^2)
Botswana	Karowe Diamond License (AK6)	100%	15.3
Botswana	Prospecting License No. 371/2014 (AK11,13,24)	100%	25
Botswana	Prospecting License No. 367/2014 (BK02)	100%	1.1

RESULTS OF OPERATIONS

Table 3: Karowe Mine, Botswana

	UNIT	Year 2017	Q4-17	Q3-17	Q2-17	Q1-17	Q4-16
Sales							
Revenues	US$M	220.8	37.1	77.9	79.6	26.1	66.0
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US$M	220.8	37.1	77.6	79.9	26.1	66.0
Sales proceeds received during the quarter	US$M	220.8	37.1	77.9	79.6	26.1	66.0
Q2 2017 tender proceeds received post Q2 2017	US$M	-	-	(0.3)	0.3	-	-
Carats sold for proceeds generated during the period	Carats	260,526	69,358	64,289	62,434	64,444	88,957
Carats sold for revenues recognized during the period	Carats	260,526	69,358	67,125	59,598	64,444	88,957
Average price per carat for proceeds generated during the period**	US$	847	535	1,207	1,280	405	743
Average price per carat for proceeds received during the period***	US$	847	535	1,161	1,336	405	743
Production							
Tonnes mined (ore)	Tonnes	1,575,052	624,749	386,906	432,017	131,380	582,169
Tonnes mined (waste)	Tonnes	15,965,121	4,745,609	5,540,139	4,992,196	587,177	2,728,915
Tonnes processed	Tonnes	2,335,550	631,777	591,196	513,643	598,934	630,471
Average grade processed	cpht (*)	10.7	10.2	10.6	11.2	10.9	13.0
Carats recovered	Carats	249,767	64,477	62,425	57,624	65,241	82,272
Costs							
Operating costs per carats sold (see page 8 Non-IRFS measures)	US$	238	255	229	247	217	197
Capital expenditures							
-8+4mm sub-middles XRT project	US$M	18.4	5.4	5.3	4.9	2.8	7.2
LDR and MDR circuit	US$M	7.1	0.1	3.6	1.8	1.6	0.8
Sustaining capital	US$M	8.7	4.1	1.9	2.2	0.5	2.0
Total	US$M	34.2	9.6	10.8	8.9	4.9	10.0

(*) 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

OPERATIONS: KAROWE MINE

Karowe had no lost time injuries during Q4 resulting in a twelve month rolling Lost Time Injuries Frequency Rate ("LTIFR") of 0.64.

In Q3 the Company's new mining contractor, Aveng Moolmans, experienced equipment availability issues that resulted in decreased ore and waste mined during the year. Additional trucks, shovels, excavators and drill rigs were brought to site to address the operational issues. A mining sub-contractor commenced operating on site during Q4 2017 to mine ore while Aveng Moolmans focusses on waste mining. Operations improved in Q4 2017 and the Company continues to work with Aveng Moolmans to work on improving its mining methods and operating efficiencies.

The two capital projects, an MDR project and a Sub-middles XRT project were successfully completed and commissioned in Q3 2017. These capital projects were incorporated into the comminution process to enhance diamond recovery and maintain design throughput. The primary purpose of the MDR is to recover diamonds larger than 50mm prior to unit processes where the diamond may incur breakage resulting in a lower diamond value. The sub-middles XRT circuit, which processes +4-8mm material is operating to design capacity and has shown consistent recoveries when compared to those recorded when processing low yield material through a standard Dense Medium Separation circuit. An audit plant which is designed to process a portion of the coarse plant tailings above 4mm is expected to be commissioned in Q1 2018.

During Q4 2017 the Company successfully transitioned to a new processing contractor at the Karowe mine. The transition has increased capabilities on the operation of Karowe's new circuits and the Company anticipates continued cost reductions and increased operational utilization.

The results of an Underground Preliminary Economic Assessment (PEA) prepared in accordance with National Instrument 43-101 ("NI 43-101") demonstrates positive economic potential for the development of an underground mine at Karowe (see press release dated November 2, 2017) and supports a NI 43-101 Technical Report on the Karowe Underground PEA (press release December 15, 2017).

The preparation of the PFS is currently underway and is expected to be completed by the end of 2018. The PFS will include trade-off studies for alternatives to Sub-level open stoping such as block caving, optimal sublevel intervals, potential lease option for mining equipment and other optionality. In Q1 2018, the Company will initiate hydrological and geotechnical drilling with updates to the structural and hydrological models. These updated models will inform the ongoing potential underground mining options in support of the PFS and potential Feasibility level study (FS).

The drilling and related data collection and analysis programs were approved to prepare the Company to continue the underground project into the FS following a viable PFS.

EXPLORATION AND RESOURCE UPGRADE

Karowe Resource (AK06 kimberlite) Upgrade Drilling

Work progressed on the updated geological and resource model for AK6, this program 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. Updates to the geological model interpret a larger volume of the Eastern magmatic/pyroclastic kimberlite ("EM/PK(S)") unit at depth. A controlled sample of the EM/PK(S) unit will be mined and processed through the Karowe process plant to increase data available for size frequency and diamond value analysis. A similar program was conducted in 2013 for the magmatic/pyroclastic kimberlite ("M/PK(S)") unit in support of the 2013 resource update.

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 year to Q3 2018 and the AK11/13/24 license was reduced by 50% in area and extended for two years until Q3 2019.

AK11

During Q4 2017, the Company completed a LDD program at AK11. A total of 1510 metres were drilled in 8 LDD holes with an estimated in-situ tonnage of 490 tonnes. Material recovered from the LDD samples commenced processing at the Company's Bulk Sample Plant located at the Karowe Mine in Q4 2017, results are expected in early Q2 2018.

AK13

During Q3 2017 logging and sampling of AK13 was completed and microdiamond samples shipped for analysis. Microdiamond results are expected in Q1 2018 and followed by a drill program contingent on the results.

AK24

During Q4 2017, a limited drone-based geophysical survey was flown over AK24 to confirm location and nature of the anomaly. A drill program at AK24 is planned for Q1 2018.

SELECT FINANCIAL INFORMATION

Table 4:		Year ended December 31,	
In millions of U.S. dollars unless otherwise noted	**2017**	2016	2015
Revenues	$ 220.8	$ 295.5	$ 223.8
Operating expenses	(61.9)	(56.1)	(50.1)
Operating earnings (1)	**158.9**	**239.4**	**173.7**
Royalty expenses	(22.1)	(29.5)	(22.4)
Exploration expenditures	(4.8)	(4.1)	(1.0)
Administration	(15.2)	(14.9)	(13.6)
Sales and marketing	(3.3)	(5.5)	(2.8)
EBITDA (2)	**113.5**	**185.4**	**133.9**
Depletion and amortization	(15.3)	(15.9)	(12.5)
Finance expenses	(2.4)	(1.5)	(1.5)
Foreign exchange loss	(5.6)	(11.0)	15.5
Loss on disposition - Mothae	-	(1.2)	-
Gain on contractor settlement	7.0	-	-
Current income tax expense	(14.8)	(85.6)	(44.7)
Deferred income tax recovery (expense)	(17.3)	0.5	(12.9)
Net income for the year	**65.1**	**70.7**	**77.8**
Change in cash during the year	**7.7**	**(81.4)**	**33.9**
Dividends paid during the year	**(29.4)**	**(149.7)**	**(11.8)**
Cash on hand	**61.1**	**53.3**	**134.8**
Earnings per share (basic)	**0.17**	**0.19**	**0.21**
Earnings per share (diluted)	**0.17**	**0.18**	**0.20**
Per carats sold			
Sales price	**$ 847**	**$ 824**	**$ 593**
Operating expenses	**238**	**156**	**133**
Average grade (carats per hundred tonnes)	**10.7**	**13.5**	**16.3**

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

Table 5: Operating cost per tonne ore processed reconciliation:	**Year ended December 31,**	
In millions of U.S. dollars with the exception of tonnes processed and operating cost per tonne processed	**2017**	2016
Operating expenses	$ 61.9	$ 56.1
Capitalized production stripping costs(1)	24.8	9.4
Net change rough diamond inventory(2)	(0.9)	3.6
Net change ore stockpile inventory(3)	(5.1)	0.1
Total operating costs for ore processed	80.7	69.2
Tonnes processed	2,335,550	2,613,217
Operating cost per tonne ore processed(4)	**34.55**	**26.50**

(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 year ended December 31, 2017 and December 31, 2016.
(3) Net change in ore stockpile inventory for the year ended December 31, 2017 and December 31, 2016.
(4) Operating cost per tonne processed for the year 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 year the Company had sales totalling 260,526 carats (2016: 358,806) for gross proceeds of $220.8 million at an average price of $847 per carat (2016 sales were $295.5 million or $824 per carat). The reduction in carats sold was due to the reduction in carats recovered during the year as lower grade stockpile was processed in place of fresh south lobe ore due to the mining contractor's equipment availability issues. Excluding the sale of the LLR, the 2017 average price sold was $647 per carat. The exceptional stone sales resulted in an average price of $31,005 per carat from the sale of 1,766 carats in 2017 (2016: $34,305 per carat from the sale of 2,624 carats), with the regular tenders achieving $439 per carat (2016: $401 per carat).

Operating Earnings

Operating earnings for 2017 were $158.9 million (2016: $239.4) and operating expenses during the year totalled $61.9 million or $238 per carat (2016: $56.1 million or $156 per carat), which resulted in an operating margin (before royalties and depletion and amortization) of $609 per carat or 72% (2016: 81%). The increase in operating expenses in 2017 which resulted in the lower operating margin was anticipated as there were additional fully operational processing circuits in 2017 and deeper ore and waste mining occurred at depth which increased mining costs.

Income Tax Expense

The Company's 2017 income tax expense was $32.1 million, which consisted of a current income tax charge of $14.8 million and a deferred income tax expense of $17.3 million for the year. The Company is subject to a variable tax rate in Botswana that increases as profit as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55% only if taxable income was equal to revenue. At the Company's 2017 performance levels, its tax rate for 2017 was 22% (2016: 44%). The Company has paid $13.4 million of its current year tax expense and the remaining current tax accrual of $1.4 million is due by April 30, 2018.

Foreign Exchange

The Company recorded a foreign exchange loss of $5.7 million in 2017 compared to a loss of $11.0 million in 2016. This non-cash foreign exchange loss of $5.7 million arises as a result of the Company's Botswana subsidiary's functional currency being Pula. The functional currency is the currency used in the primary economic environment where an entity operates. Under international accounting standards the Company's US dollar cash balance is translated to Pula in its Botswana operating entity and then reconverted to US dollar for reporting purposes. The strengthening of the Pula compared to the year-end December 2017 US dollar rate resulted in a foreign exchange loss during the year.

Net income

Full year net income was $65.1 million (2016: $70.7 million). The $5.6 million decrease is primarily due to lower sales and higher waste stripping costs incurred in 2017. This decrease was partially offset by a $7.0 million gain (net of tax: $5.5 million) arising from the reversal of a trade payable accrual for the cost of mining services that were in dispute with the Company's previous mining contractor following the correction of mined ore and waste volumes in Q3 2016. The dispute is now closed.

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

Full year EBITDA was $113.5 million (2016: $185.4 million), the EBITDA is lower than the prior year is largely due to the decrease in revenue compared to the prior year.

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

Operating Cost Per Tonne Ore Processed

The year ended December 31, 2017 operating cost per tonne processed was $34.6 per tonne processed (2016: $26.5 per tonne processed) and was below the revised 2017 forecast of $36-$40 per tonne processed. The higher cost compared to 2016 is largely due to the increase in waste mining at lower depth which was anticipated and accounts for an increase of $5 per tonne processed based on an increase of 4.8 million tonnes of waste mined in 2017 compared to the prior year. The remainder of the cost increase was due to expected higher operating costs impacted by the changes to the process plant facilities. Operating cost per tonne processed is a non-IFRS measure and is reconciled in the table on table 5 to the most directly comparable measure calculated in accordance with IFRS, which is operating expenses.

Liquidity and Capital Resources

As at December 31, 2017, the Company had cash of $61.1 million (2016: $53.3 million).

Cash increased during the year by $7.7 million. This increase is mainly due to sale of the LLR, which was partially offset by the Company's capital expenditures of $34.2 million mainly for the MDR and Sub-middles XRT capital projects, stripping costs of $32.9 million of which $24.8 million was capitalized and dividend payments of $29.4 million.

SUMMARY OF QUARTERLY RESULTS

(All amounts expressed in thousands of U.S. dollars, except per share data). The Company's financial statements are reported under IFRS issued by the IASB.

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	Dec-17	Sept-17	Jun-17	Mar-17	Dec-16	Sept-16	Jun-16	Mar-16
A. Revenues	37,143	77,911	79,615	26,094	66,017	38,098	140,785	50,566
B. Administration expenses	(6,071)	(3,163)	(2,975)	(3,025)	(6,429)	(3,226)	(2,678)	(2,448)
C. Net income (loss)	1,571	32,903	32,174	(1,531)	11,204	(3,804)	46,116	17,141
D. Earnings (loss) per share (basic and diluted)	-	0.09	0.08	(-)	0.03	(0.01)	0.12	0.05

Revenues

During the three months ended December 31, 2017, the Company completed one regular diamond tender that generated gross proceeds of $37.1 million ($535 per carat).

Administration Expenses

During the three months ended December 31, 2017, administration expenses were $6.1 million (Q4 2016: $6.4 million) with full year costs in line with the previous year.

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 carat of diamond. This is calculated as operating costs per carat of diamond sold.

Operating cost per tonne 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

For the year ended December 31, 2017, the Company paid $0.4 million (2016 $0.3 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

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statements of operations or consolidated statements of comprehensive loss. Those categories are: fair value through profit or loss; loans and receivables; available for sale assets; and, for other liabilities, the accounting is amortized cost.

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

In the normal course of business, the Company is inherently exposed to currency and commodity price risk. 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 consolidated financial statements. For a discussion of the methods used to value financial instruments, as well as any significant assumptions, refer also to Note 19 of the Company's consolidated financial statements.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 382,619,334 common shares outstanding, 1,401,590 share units and 3,738,337 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 acquisition, financing, exploration, development and operation of diamond properties. The material risk factors and uncertainties, 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.

FINANCIAL INFORMATION

The report for the quarter ended March 31, 2018 is expected to be published on May 8, 2017. In addition, the Company's annual general meeting of shareholders will be held on May 10, 2017 in Vancouver, British Columbia.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The application of certain accounting policies requires the Company to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

Note 3 to the audited consolidated financial statements for the year ended December 31, 2017 includes a summary of the significant accounting policies adopted by the Company. The following policies are considered to be critical accounting policies since they involve the use of significant estimates.

Estimated Recoverable Reserves and Resources

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

Depreciation and Depletion

Mineral properties and plant and equipment comprise a large component of the Company's assets and as such, depreciation and depletion of these assets have a significant effect on the Company's financial statements. Upon commencement of commercial production, the Company amortizes mineral property and mining equipment and other assets over the life of the mine based on the depletion of the mine's proven and probable reserves. In the case of mining equipment and other assets, if the useful life of the asset is shorter than the life of the mine, the asset is amortized over its expected useful life.

Proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves geological and geophysical studies and economic data and the reliance on a number of assumptions. The estimates of the reserves may change based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production.

A change in the original estimate of reserves would result in a change in the rate of depreciation and amortization of the related mining assets and could result in an impairment of the mining assets.

Mineral Properties

The Company carries its mineral properties at cost less any provision for impairment. The costs of each property will be amortized over the economic life of the property on a unit of production basis. Costs are charged to operations when a property is abandoned or when impairment in value, other than temporary, has been determined. Exploration costs are charged to operations as incurred.

The Company undertakes a periodic review of the carrying values of mineral properties and whenever events or changes in circumstances indicate that their carrying value may exceed their fair value. In undertaking this review, management of the Company is required to make significant estimates. These estimates are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the mineral properties and related expenditures.

Income Taxes

Deferred income tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases ("temporary difference"), and losses carried forward. Deferred income tax assets and liabilities are measured using tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by year end. The effect on deferred income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is substantively enacted. The amount of deferred income tax assets recognized is limited to the extent that it is probable that future tax profits will be available against which the temporary difference can be utilized.

Management of the Company is required to exercise judgments and make assumptions about the future performance of the Company in determining its ability to utilize loss carry-forwards and realize the benefits of deferred income tax assets.

Decommissioning and Site Restoration

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

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

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of

December 31, 2017, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting

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

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of December 31, 2017, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

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

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.

February 20, 2018

Independent Auditor's Report

To the Shareholders of Lucara Diamond Corp.

We have audited the accompanying consolidated financial statements of Lucara Diamond Corp., which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated statements of operations, comprehensive income, cash flows and changes in equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lucara Diamond Corp. as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

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

	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 61,065	$ 53,345
VAT receivables and other (Note 5)	3,951	7,967
Inventories (Note 6)	35,898	40,852
	100,914	102,164
Investments	2,500	3,153
Plant and equipment (Note 7)	167,576	131,505
Mineral properties (Note 8)	90,559	62,158
Other non-current assets	4,261	3,020
TOTAL ASSETS	$ 365,810	$ 302,000
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	$ 16,780	$ 26,617
Taxes payable (Note 15)	494	9,198
	17,274	35,815
Restoration provisions (Note 9)	18,941	15,679
Deferred income taxes (Note 15)	72,919	50,516
TOTAL LIABILITIES	109,134	102,010
EQUITY		
Share capital (Note 10)	290,846	289,969
Contributed surplus (Note 11)	7,832	6,488
Deficit	(3,043)	(38,640)
Accumulated other comprehensive loss	(38,959)	(57,827)
TOTAL EQUITY	256,676	199,990
TOTAL LIABILITIES AND EQUITY	$ 365,810	$ 302,000

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

Approved on Behalf of the Board of Directors:

"Marie Inkster"
Director

"William Lamb"
Director

LUCARA DIAMOND CORP.

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

		2017		2016
Revenues	$	220,763	$	295,466
Cost of goods sold				
Operating expenses		61,851		56,080
Royalty expenses (Note 8)		22,076		29,547
Depletion and amortization		15,362		15,931
		99,289		101,558
Income from mining operations		121,474		193,908
Other expenses				
Administration (Note 13)		15,234		14,868
Exploration expenditures		4,754		4,136
Finance expenses		2,358		1,549
Foreign exchange loss		5,652		10,969
Sales and marketing		3,253		5,513
Gain on contractor settlement (Note 14)		(6,996)		-
Loss on disposition of Mothae		-		1,196
		24,255		38,231
Net income before tax		97,219		155,677
Income tax expense (Note 15)				
Current income tax expense		14,841		85,558
Deferred income tax expense (recovery)		17,261		(538)
		32,102		85,020
Net income for the year	$	65,117	$	70,657
Income per common share (Note 16)				
Basic	$	0.17	$	0.19
Diluted	$	0.17	$	0.18
Weighted average common shares outstanding (Note 16)				
Basic		382,619,294		381,285,066
Diluted		384,072,810		383,159,736

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

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

		2017		2016
Net income for the year	$	65,117	$	70,657
Other comprehensive income				
Items that may be subsequently reclassified to net income				
Change in fair value of available-for-sale securities		28		651
Currency translation adjustment		18,840		14,315
Item that was reclassified to net income				
Currency translation adjustment – Mothae disposition		-		3,310
		18,868		18,276
Comprehensive income	$	83,985	$	88,933

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

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

	2017	2016
Cash flows from (used in):		
Operating Activities		
Net income for the year	$ 65,117	$ 70,657
Items not involving cash and cash equivalents:		
Depletion and amortization	15,968	16,322
Unrealized foreign exchange loss	5,652	9,182
Stock-based compensation	1,484	2,027
Deferred income taxes expense (recovery)	17,261	(538)
Finance costs	2,293	1,464
Gain on contractor settlement (Note 14)	(6,996)	-
Loss on disposition of Mothae	-	1,196
	100,779	100,310
Net changes in working capital items:		
VAT receivables and other current assets	3,992	(4,858)
Inventories	4,520	(6,480)
Trade payables and other current liabilities	(3,743)	14,362
Taxes payable	(8,707)	(396)
	96,841	102,938
Financing Activities		
Dividends paid	(29,415)	(149,681)
Proceeds from exercise of stock options	632	2,039
	(28,783)	(147,642)
Investing Activities		
Acquisition of plant and equipment	(34,204)	(23,327)
Capitalized mineral property expenditure	(1,223)	(1,972)
Capitalized production stripping costs	(24,752)	(9,407)
Acquisition of other assets	(822)	-
Acquisition of marketable securities	-	(2,500)
	(61,001)	(37,206)
Effect of exchange rate change on cash and cash equivalents	663	479
Increase (decrease) in cash and cash equivalents during the year	7,720	(81,431)
Cash and cash equivalents, beginning of year	53,345	134,776
Cash and cash equivalents, end of year	$ 61,065	$ 53,345
Supplemental Information		
Interest received	431	476
Taxes paid	(23,357)	(85,533)
Changes in trade payable and accrued liabilities related to plant and equipment	804	(983)

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

LUCARA DIAMOND CORP.

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

	Number of shares issued and outstanding	Share capital	Contributed surplus	Cumulative deficit	Accumulated other comprehensive loss	Non-controlling interests	Total
Balance, January 1, 2016	379,979,413	$ 286,658	$ 5,270	$ 40,847	$ (76,103)	$ 12	$ 256,684
Exercise of stock options and share units	2,266,588	3,311	(1,272)	-	-	-	2,039
Stock-based compensation	-	-	2,027	-	-	-	2,027
Effect of foreign currency translation	-	-	-	-	17,625	-	17,625
Change in fair value of available-for-sale securities	-	-	-	-	651	-	651
Free-carried non-controlling interests	-	-	-	-	-	(12)	(12)
Dividends paid[(1)]	-	-	463	(150,144)	-	-	(149,681)
Net income for the year	-	-	-	70,657	-	-	70,657
Balance, December 31, 2016	382,246,001	$ 289,969	$ 6,488	$ (38,640)	$ (57,827)	$ -	$ 199,990
Balance, January 1, 2017	382,246,001	$ 289,969	$ 6,488	$ (38,640)	$ (57,827)	$ -	$ 199,990
Exercise of stock options	373,333	877	(245)	-	-	-	632
Stock-based compensation	-	-	1,484	-	-	-	1,484
Effect of foreign currency translation	-	-	-	-	18,840	-	18,840
Change in fair value of available-for-sale securities	-	-	-	-	28	-	28
Dividends paid[(2)]	-	-	105	(29,520)	-	-	(29,415)
Net income for the year	-	-	-	65,117	-	-	65,117
Balance, December 31, 2017	382,619,334	$ 290,846	$ 7,832	$ (3,043)	$ (38,959)	$ -	$ 256,676

(1) The Company paid cash dividends of CA$ 0.015 per share on March 31, 2016, June 18, 2016, September 15, 2016 and December 15, 2016. The Company also paid a special cash dividend of CA$ 0.45 per share on September 15, 2016.

(2) The Company paid cash dividends of CA$ 0.025 per share on March 30, 2017, June 15, 2017, September 14, 2017 and December 14, 2017

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

1. NATURE OF OPERATIONS

Lucara Diamond Corp. together with its subsidiaries (collectively referred to as the "Company") is a diamond mining company focused on the development and operation of diamond properties in Africa. The Company holds a 100% interest in the Karowe Mine and three prospecting licenses located in Botswana.

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. BASIS OF PRESENTATION

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

These financial statements were approved by the Board of Directors for issue on February 20, 2018.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of measurement

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

(b) Consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries. (See Note 12 Principal subsidiaries)

Subsidiaries are entities controlled by the Company. An entity is controlled by the Company when as a group; it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. Where the Company's interest is less than 100%, the Company recognized non-controlling interests. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses have been eliminated on consolidation.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Critical accounting estimates and judgments

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

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

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

Current and Deferred Taxes - The current and deferred tax provisions are determined by the Company's calculation whilst the actual amounts of income tax expense are not final until tax returns are filed and accepted by the relevant authorities. Judgment is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet and what tax rate is expected to be applied in the year when the related temporary differences reverse. Deferred tax liabilities arising from temporary differences are recognized unless the reversal of the temporary differences is not expected to occur in the foreseeable future and can be controlled. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future production and sales volumes, commodity prices, reserves and resources, operating costs, decommissioning and restoration costs, capital expenditures, dividends and other capital management transactions. These estimates and judgments are subject to risk and uncertainty and could result in an adjustment to the deferred tax provision and a corresponding credit or charge to profit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(d) Segment reporting

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

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

(e) Foreign currency translation

Functional and presentation currency

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transactions and balances

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

Group companies

The functional currency of the significant subsidiary of the Company, Boteti Mining (PTY) Ltd., is the Botswana Pula. The results and financial position of the group companies, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

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

(f) Cash and cash equivalents

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

(g) Financial instruments

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of operations. Gains and losses arising from changes in fair value are presented in the consolidated statement of operations within "other gains and losses" in the period in which they arise.

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

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

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

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

Impairment of financial assets

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate.

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

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

(h) Inventories

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

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

(i) Plant and equipment

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

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

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

Machinery	5 to 10 years
Mineral property & plant facilities	based on recoverable reserves on a unit of production basis
Furniture and office equipment	2 to 3 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

(j) Exploration and evaluation expenditures and mineral properties

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

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

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

(l) Capitalized production stripping asset

During the production phase, mining expenditures (exploration or development costs) incurred either to develop new ore bodies or to develop mine areas in advance of current production are capitalized to mineral properties. Stripping costs incurred in the production phase are accounted for as variable production costs. However, stripping costs are capitalized and recorded on the statement of financial position as deferred stripping, a component of mineral properties, when the stripping activity provides access to sources of reserves or resources that will be produced in future periods that would not have otherwise been accessible in the absence of this activity. The deferred stripping costs are depleted on a unit-of-production basis over the reserves or resources that directly benefited from the stripping activity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of non-financial assets

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

(n) Provisions

Asset retirement obligations

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

Environmental expenditures

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

Other provisions

Provisions are recognized when:

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income taxes

Income taxes are recognized in the statement of income, except where they relate to items recognized in other comprehensive income or directly in equity, in which case the related taxes are recognized in other comprehensive income or equity.

Current taxes receivable or payable are based on estimated taxable income for the current year at the statutory tax rates enacted or substantively enacted less amounts paid or received on account.

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

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

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

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

Uncertain tax positions and interest and penalties related to uncertain tax positions are accounted for under IAS 12, the Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more-likely-than-not recognition threshold it is then measured to determine the amount of benefit or liability to recognize in the financial statements. The tax position is measured as the amount of benefit or liability that is likely to be realized upon ultimate settlement. The Company assesses the validity of conclusions regarding uncertain tax positions on a quarterly basis to determine if facts or circumstances have arisen that might cause the Company to change their judgment regarding the likelihood of a tax position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Share capital

Common shares are classified as equity.

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

(q) Revenue recognition

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

(r) Stock-based compensation

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

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

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

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

(s) Income per share

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

(t) Leases

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

(u) Borrowing costs

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

4. ADOPTION OF IFRS PRONOUNCEMENTS

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

IFRS 2 - Share-based payments

The amendment clarifies the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

The completed version of IFRS 2 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Based on the Company's assessment, the Company does not expect this standard to have a significant measurement or disclosure impact on our financial statements.

IFRS 9 - Financial Instruments

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

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for 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.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Based on the Company's assessment, the Company does not expect this standard to have a significant measurement or disclosure impact on our financial statements.

IFRS 15 - Revenue from Contracts with Customers

The new revenue standard introduces a single, principles based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The five steps are: identify the contract(s) with the customer, identify the performance obligations in the contract, determine transaction price, allocate the transaction price and recognize revenue when a performance obligation is satisfied.

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

4. ADOPTION OF NEW IFRS PRONOUNCEMENTS (continued)

IFRS 15 also requires enhanced disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers and improves the comparability of revenue from contracts with customers.

IFRS 15 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Based on the Company's assessment, the Company does not expect this standard to have a significant measurement or disclosure impact on our financial statements.

IFRS 16 - Leases

The new Leases standard requires lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently assessing the effect of this standard on our financial statements.

5. VAT RECEIVABLES AND OTHER

	2017	2016
VAT	$ 2,152	$ 5,882
Other	407	119
Prepayments	1,392	1,966
	$ 3,951	$ 7,967

6. INVENTORIES

	2017	2016
Rough diamonds	$ 13,171	$ 14,116
Ore stockpile	12,037	17,089
Parts and supplies	10,690	9,647
	$ 35,898	$ 40,852

Inventory expensed during the year ended December 31, 2017 totaled $61.9 million (2016 – $56.1 million).

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

7. PLANT AND EQUIPMENT

Cost		**Construction in progress**		**Mine and plant facilities**		**Vehicles**		**Furniture and office equipment**		**Total**
Balance, January 1, 2016	$	2,930	$	136,615	$	1,165	$	3,249	$	143,959
Additions		22,037		59		2		260		22,358
Disposals and other		-		-		-		(29)		(29)
Reclassification		(10,527)		9,627		125		775		-
Translation differences		326		6,550		56		166		7,098
Balance, December 31, 2016		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
Accumulated depreciation										
Balance, January 1, 2016	$	-	$	25,473	$	1,005	$	1,791	$	28,269
Depletion and amortization		-		11,564		78		480		12,122
Disposals and other		-		-		-		(16)		(16)
Translation differences		-		1,370		48		88		1,506
Balance, December 31, 2016		-		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
Net book value										
As at December 31, 2016	$	14,766	$	114,444	$	217	$	2,078	$	131,505
As at December 31, 2017	$	8,560	$	155,845	$	618	$	2,553	$	167,576

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

8. MINERAL PROPERTIES

Cost	**Capitalized production stripping asset**	**Karowe Mine**	**Total**
Balance, January 1, 2016	$ 16,254	$ 47,569	$ 63,823
Additions	10,983	1,940	12,923
Revision in estimate of restoration provision	-	(295)	(295)
Translation differences	946	2,270	3,216
Balance, December 31, 2016	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
Accumulated depletion			
Balance, January 1, 2016	$ 1,025	$ 11,120	$ 12,145
Depletion for the year	1,724	2,990	4,714
Translation differences	76	574	650
Balance, December 31, 2016	2,825	14,684	17,509
Depletion for the year	2,244	2,195	4,439
Translation differences	362	1,408	1,770
Balance, December 31, 2017	$ 5,431	$ 18,287	$ 23,718
Net book value			
As at December 31, 2016	$ 25,358	$ 36,800	$ 62,158
As at December 31, 2017	$ 51,237	$ 39,322	$ 90,559

Karowe Mine

A royalty of 10% of the sales value of diamonds produced from Karowe is payable to the government of Botswana. During the year, the Company incurred a royalty expense of $22.1 million (2016: $29.5 million).

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

9. RESTORATION PROVISIONS

The Company's restoration provisions relate to the rehabilitation of its diamond property. The provisions have been calculated based on total estimated rehabilitation costs and discounted back to their present values. The pre-tax discount rates and inflation rates are adjusted annually and reflect current market assessments. The Company has applied a pre-tax discount rate of 8.4% at December 31, 2017 (8.3% at December 31, 2016) and an inflation rate of 3.3% at December 31, 2017 (4.5% at December 31, 2016) at the Karowe Mine project. The Karowe rehabilitation costs are expected to commence in the year 2022. The estimated Karowe liability for reclamation and remediation costs on an undiscounted basis is approximately $24.1 million (December 31, 2016 - $19.4 million).

		2017		2016
Balance, beginning of year	$	15,679	$	16,157
Disposal of Mothae project		-		(2,161)
Changes in rates and estimates		275		(295)
Accretion of liability component of obligation		1,511		1,274
Foreign currency translation adjustment		1,476		704
Long-term portion of restoration provisions	$	18,941	$	15,679

10. SHARE CAPITAL

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

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

11. SHARE BASED COMPENSATION

a. Stock options

The Company's stock option plan (the 'Option Plan') was approved by the shareholders of the Company on May 13, 2015 and reserves 20,000,000 as the aggregate number of shares issuable upon the exercise of all Options granted under the Option Plan. The Option Plan is subject to the Board of Directors discretion, options granted may have a vesting period of up to three years, with 1/3 of the options vesting 12 months from the date of grant; 1/3 of the options vesting 24 months from the date of grant; and the remaining 1/3 vesting 36 months 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$)
Balance at December 31, 2015	**3,191,669**	**$ 1.63**
Granted	2,160,000	2.53
Exercised	(2,004,999)	1.33
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**

(1) The weighted average share price on the exercise dates for the 2017 stock option exercises was CA$2.97 (2016: CA$3.35).

Options to acquire common shares have been granted and are outstanding at December 31, 2017 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$
$1.00 - $2.00	33,334	1.64	$ 1.80	16,667	1.64	$ 1.80
$2.01 - $3.00	3,585,003	2.18	2.44	1,070,009	1.80	2.31
$3.01 - $4.00	120,000	2.36	3.94	40,000	2.36	3.94
	3,738,337	2.18	$ 2.48	1,126,676	1.82	$ 2.36

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

11. SHARE BASED COMPENSATION (continued)

During the year ended December 31, 2017, an amount of $0.7 million (2016 – $1.1 million) was charged to operations in recognition of stock-based compensation expense, based on the vesting schedule for the options granted.

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

		2017		2016
Assumptions:				
Risk-free interest rate *(%)*		1.02		0.80
Term *(years)*		4.00		4.00
Expected life *(years)*		3.63		3.68
Expected volatility *(%)*		41.78		47.46
Expected dividend		CA$0.025/share quarterly		CA$0.015/share quarterly
Results:				
Weighted average fair value of options granted *(per option)*	CA$	0.69	CA$	0.78

b. Share units

The Company has a share unit ("SU") plan that provides for the issuance of SUs. The value of a SU at the issuance date is equal to the closing value of one Lucara common share. Each SU vests in three years and entitles the recipient to receive one common share and the cumulative dividend equivalent the SU earned during the SU's vesting period. For the year ended December 31, 2017, the Company recognized a share-based payment charge against income of $0.8 million (2016: $0.9 million) for the SUs granted during the year.

	Number of shares issuable pursuant to share units		Weighted average price per share (CA$)
Balance at January 1, 2016	**529,889**	**$**	**2.07**
February 26, 2016 grant	645,000		2.43
March 31, 2016 dividend	6,380		2.76
June 16, 2016 dividend	4,550		3.89
September 15, 2016 dividend	137,847		4.00
November 8, 2016 vesting	(261,589)		2.44
December 15, 2016 dividend	5,416		2.94
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**

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

12. PRINCIPAL SUBSIDIARIES

The Company had the following subsidiaries at December 31, 2017:

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

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

13. ADMINISTRATION

	2017	2016
Salaries and benefits	$ 4,989	$ 5,716
Professional fees	2,596	1,473
Office and general	1,776	2,303
Marketing	1,898	1,052
Stock exchange, transfer agent, shareholder communication	410	330
Travel	558	688
Stock based compensation	1,484	2,027
Management fees	407	467
Depreciation	606	391
Donations	510	421
	$ 15,234	$ 14,868

14. GAIN ON CONTRACTOR SETTLEMENT

In Q4 2017, the Company settled its performance dispute with its previous mining contractor and realized a net gain on the settlement of $7.0 million. The net gain arises as a result of the reversal of a trade payable accrual for the cost of mining services invoiced by the previous mining contractor relating to year 2015 and 2016. The dispute is now closed.

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

15. INCOME TAXES

		2017		2016
Current	$	14,841	$	85,558
Deferred		17,261		(538)
Income tax expense	$	32,102	$	85,020

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

		2017		2016
Statutory tax rate		26.00%		26.00%
Net income before tax		97,219		155,677
Computed income tax expense		25,277		40,476
Differences between Canadian and foreign tax rates		(4,251)		(6,657)
Non-deductible expenses and other permanent differences		573		885
Current tax effect of Botswana variable tax rate in excess of Botswana standard tax rate		-		38,663
Deferred tax effect of Botswana variable tax rate in excess of Botswana standard tax rate		6,162		(431)
Change in deferred benefits not recognized		1,992		2,519
Exchange rate differences		(269)		(1)
Withholding taxes		2,618		9,566
	$	32,102	$	85,020

The Company is subject to a variable tax rate in Botswana based on a profit and revenue ratio which increases as profit as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55% only if taxable income were equal to revenue. The Company has estimated the variable tax rate to be at 34.38% for deferred income taxes based on current financial performance and the life of mine plan.

The Company has not recognized deferred tax liabilities in respect of historical unremitted earnings from foreign subsidiaries for which the Company is able to control the timing of the remittance and which are considered by the Company to be reinvested for the foreseeable future. At December 31, 2017, these earnings amount to $154.3 million (2016: $98.8 million). All of these earnings would be subject to withholding taxes if they were remitted by the foreign subsidiaries.

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

15. INCOME TAXES (continued)

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

		2017		2016
Balance, beginning of year	$	50,516	$	48,834
Deferred income tax (recovery) expense		17,261		(538)
Foreign currency translation adjustment		5,142		2,220
Balance, end of year	$	72,919	$	50,516

Deferred income tax assets and liabilities recognized		2017		2016
Deferred income tax assets				
Non-capital losses	$	384	$	363
Unrealized foreign exchange loss		1,673		2,798
Restoration provisions		6,515		5,390
Total deferred income tax assets		8,572		8,551
Deferred income tax liabilities				
Mineral properties, plant and equipment		79,219		57,064
Future withholding taxes		2,280		1,984
Other		(8)		19
Deferred income tax liabilities		81,491		59,067
Deferred income tax liabilities, net	$	72,919	$	50,516

Deferred income tax assets not recognized		2017		2016
Tax losses	$	21,166	$	16,605
Mineral property, plant and equipment		43		39
Other deductible temporary differences		27		82
	$	21,236	$	16,726

As at December 31, 2017, the Company has non-capital losses for income tax purposes which expire as follows:

		2018		2019		2020		Subsequent to 2021		No expiry date		Total
Canada	$	-	$	-	$	-	$	67,965	$	-	$	67,965
United Kingdom		-		-		-		-		6,411		6,411
	$	-	$	-	$	-	$	67,965	$	6,411	$	74,376

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

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

16. INCOME PER COMMON SHARE

a) *Basic*

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

		2017		2016
Income for the year	$	65,117	$	70,657
Weighted average number of common shares outstanding		382,619,294		381,285,066
	$	0.17	$	0.19

b) *Diluted*

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

		2017		2016
Income for the year	$	65,117	$	70,657
Weighted average number of common shares outstanding		382,619,294		381,285,066
Adjustment for stock options		139,044		788,085
Adjustment for share units		1,314,472		1,086,585
Weighted average number of common shares for diluted earnings per share		384,072,810		383,159,736
	$	0.17	$	0.18

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

17. RELATED PARTY TRANSACTIONS

a) Key management compensation

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

The remuneration of key management personnel were as follows:

		2017		2016
Salaries and wages	$	2,662	$	3,984
Short term benefits		159		144
Stock based compensation		1,164		1,647
	$	3,985	$	5,775

b) Other related parties

For the year ended December 31, 2017, the Company paid $0.4 million (2016 $0.3 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.

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

18. SEGMENT INFORMATION

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

2017

	Karowe Mine	Corporate and other	Total
Revenues[1]	$ 220,763	$ -	$ 220,763
Income from mining operations	121,589	(115)	121,474
Exploration expenditures	(4,754)	-	(4,754)
Finance income (expenses)	(1,138)	(1,220)	(2,358)
Foreign exchange gain	(4,953)	(699)	(5,652)
Other	495	(11,986)	(11,491)
Taxes	(31,343)	(759)	(32,102)
Net income (loss) for the year	79,896	(14,779)	65,117
Capital expenditures	(60,179)	-	(60,179)
Total assets	357,072	8,738	365,810

2016

	Karowe Mine	Corporate and other	Total
Revenues[1]	$ 295,466	$ -	$ 295,466
Income from mining operations	194,071	(163)	193,908
Exploration expenditures	(4,136)	-	(4,136)
Finance income (expenses)	(1,059)	(490)	(1,549)
Foreign exchange gain	(8,434)	(2,535)	(10,969)
Other expenses	(9,868)	(11,709)	(21,577)
Taxes	(75,454)	(9,566)	(85,020)
Net income (loss) for the year	95,120	(24,463)	70,657
Capital expenditures	(34,706)	-	(34,706)
Total assets	289,646	12,354	302,000

(1) During the year ended December 31, 2017, one customer (2016: two customers) generated more than 10% of the Company's total revenue, representing 27% of the Company's 2017 revenue (2016: 29% and 11% of the Company's 2016 revenue).

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

	Plant and equipment		Mineral properties		Other	
	2017	2016	2017	2016	2017	2016
Canada	$ 11	$ 20	$ -	$ -	$ 145	$ -
Botswana	167,565	131,485	90,559	62,158	4,116	3,020
	$ 167,576	$ 131,505	$ 90,559	$ 62,158	$ 4,261	$ 3,020

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

19. FINANCIAL INSTRUMENTS

a) *Measurement categories and fair values*

As explained in Note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement. Those categories are: fair value through profit and loss; loans and receivables; available for sale assets; and, for liabilities, other liabilities.

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

b) *Fair value hierarchy*

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

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

		December 31, 2017		December 31, 2016
Level 1: Available for sale – Investments	$	2,318	$	2,298
Level 2: Fair value through profit and loss – Investments	$	182	$	855
Level 3: N/A				

c) *Financial risk management*

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

Currency risk

The Company is exposed to the financial risk related to fluctuating foreign exchange rates. All sales revenues are denominated in U.S. dollars, while directly related costs are denominated in Botswana Pula. At December 31, 2017, the Company is exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately $5.4 million in net income for the year.

19. FINANCIAL INSTRUMENTS (continued)

Credit risk

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

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

Liquidity risk

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

Revolving credit facility

In Q2 2017, the Company renewed its credit facility with the Bank of Nova Scotia. The credit facility is a three year $50 million revolving term credit facility and may be extended if both parties agree. Funds drawn under the revolving credit facility are due in full at maturity. The facility contains financial and non-financial covenants customary for a facility of this size and nature. As at December 31, 2017, the Company is in compliance with all financial and non-financial covenants. Outstanding amounts under the facility bear interest at LIBOR or an alternative base rate plus an applicable margin based on the Company's leverage ratio.

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

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

As at December 31, 2017, the full amount under this facility was available and undrawn.

20. CAPITAL MANAGEMENT

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

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

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

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

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