



LUCARA

DIAMOND

Management's Discussion and Analysis
and
Consolidated Interim Financial Statements
Quarter Ended June 30, 2021

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected the performance of Lucara Diamond Corp. and its subsidiaries (the "Company") and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the period ended June 30, 2021, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as applicable to interim financial reporting. All amounts are expressed in U.S. dollars unless otherwise indicated.

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

Some of the statements in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary note contained herein. Additional information about the Company and its business activities is available on SEDAR at www.sedar.com.

The effective date of this MD&A is August 10, 2021.

ABOUT LUCARA

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

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

HIGHLIGHTS – Q2 2021

- On April 6, 2021, a 24-month extension was executed to the definitive supply agreement with HB Antwerp ("HB") in respect of all diamonds produced in excess of 10.8 carats in size from the Karowe Mine. The extension will be effective for the period from January 1, 2021 to December 31, 2022.
- On May 5, 2021, Lucara announced that it had received credit approved commitments from a syndicate of five mandated lead arrangers to fund an underground expansion at the Karowe Mine. Definitive documentation for two tranches (collectively, the "Facilities") was subsequently executed on July 12, 2021 for: a project finance facility of \$170 million to fund the development of the underground project and a working capital facility of \$50 million to support the ongoing operation of the Karowe Mine.
- Also on May 5, 2021, Lucara announced an extension of its current \$50 million working capital facility with FirstRand Bank (London Branch).
- On June 7, 2021, Lucara announced the recovery of a 470 carat top light brown clivage diamond from the Karowe Mine, measuring 49x42x26mm.
- On June 22, 2021, Lucara announced the recovery of the third +1,000 carat diamond recovered from the Karowe Mine since 2015. This recovery, a 1,174.76 carat diamond from the Karowe Mine measuring 77x55x33mm is described as a clivage gem of variable quality with significant domains of high-quality white gem material.
- Revenue of \$46.3 million during Q2 2021 resulted in an average price per carat sold of \$671.
- Operational highlights from the Karowe Mine included:

- Ore and waste mined of 1.0 million tonnes and 0.7 million tonnes, respectively
- 0.73 million tonnes of ore processed resulting in 101,330 carats recovered, achieving a recovered grade of 13.9 carats per hundred tonnes
- 261 Specials (+10.8 carats) were recovered from direct milling during the second quarter, representing 10.2% weight percentage of total direct milling recovered carats, a record production quarter in terms of volume of specials recovered (Q2 2020: 6.4%).
- In addition to the 1,174 carat stone recovered, 16 diamonds greater than 100 carats were also recovered during the quarter, including two diamonds > 400 carats, two diamonds >200 carats, along with a further 12 stones between 100 and 200 carats in weight.
- Financial highlights for the three months ended June 30, 2021 included:
 - Total revenue of \$46.3 million was recognized in Q2 2021 (Q2 2020: \$7.5 million) or \$671 per carat (Q2 2020: \$109 per carat) from the sale of 68,961 carats (Q2 2020: 68,979 carats). During Q2 2020, no diamonds > 10.8 carats in size were sold, as a deliberate decision due to market conditions, in favour of entering into a committed supply agreement for these diamonds with HB Antwerp.
 - Operating cash cost⁽¹⁾ per tonne of ore processed for the six months ended June 30, 2021 was \$28.79 per tonne (Q2 2020: \$27.14 per tonne), in line with 2021 guidance of between \$28 and \$32 per tonne.
 - The Company recorded net income of \$6.0 million during Q2 2021 (earnings per share of \$0.02), as compared to a net loss of \$13.9 million for Q2 2020 (loss per share of \$0.04).
 - Adjusted EBITDA⁽¹⁾ was \$22.2 million as compared to adjusted EBITDA of negative \$10.0 million for the same period in 2020.
 - The value of the rough diamonds transacted through the Clara platform in Q2 2021 was \$8.3 million over six sales, a 38% increase from the \$6.0 million transacted in Q1 2021. Strong price increases observed in the first quarter continued through Q2 2021 and the number of buyers on the platform increased to 84 as of June 30, 2021.
 - As at June 30, 2021, the Company had cash and cash equivalents of \$13.7 million, an increase of \$8.8 million from December 31, 2020 and net debt⁽¹⁾ of \$36.6 million.
- Events occurring after June 30, 2021:
 - On July 12, 2021, loan documentation was signed in relation to the previously announced Facilities.
 - On July 13, 2021, the Company announced the recovery of four pink diamonds from direct milling from the EM/PK(S) unit of the South Lobe. The largest stone recovered was a 62.7 carat high quality, fancy pink Type Ila gem diamond. A 22.21 carat pink gem of similar quality was also recovered during the same production period along with two additional pink gems of similar colour and purity weighing 11.17, and 5.05 carats.
 - On July 15, 2021, the Company closed two equity financings, generating gross proceeds of C\$41.4 million (approximately \$33.1 million) from the sale of 55,157,733 common shares at a price of C\$0.75 per share. Net proceeds from these financings will be used for working capital to support the development and ongoing operation of the Karowe mine, including the underground expansion project.

(1) Non-IFRS measure (see pages 13-14 for details)

DIAMOND MARKET

The diamond market continues to be strong and stable in 2021 following a very strong start to the year, where we have seen price increases in virtually all sizes and quality of diamonds. The key dominant retail markets for diamonds in the US and China remain buoyant, and the market continues to be supported from lower supply from producers, and a pick up in capacity in the midstream in India. This follows a challenging year in 2020 as a result of the global COVID-19 pandemic, characterized by global travel restrictions, low sales volumes, pricing pressure and overall, difficult economic conditions for miners, manufacturers, retailers and consumers. The potential challenges created by the COVID-19 pandemic do however remain a key market concern.

HB SUPPLY AGREEMENT FOR +10.8 CARAT DIAMOND PRODUCTION

Karowe's large, high value diamonds have historically accounted for approximately 60% to 70% of Lucara's annual revenues. Though the mine remained fully operational following the declaration of COVID-19 as a global pandemic, Lucara made a decision not to tender any of its +10.8 carat production

after early March 2020 amidst the uncertainty caused by the global crisis and the significant weakness observed in the rough diamond market. The polished diamond market performed better through this period and subsequently, in July 2020, Lucara announced a partnership agreement with HB, entering into a definitive supply agreement for the remainder of 2020, for all diamonds produced in excess of +10.8 carats from our 100% owned Karowe Diamond mine in Botswana. In April 2021, this agreement was subsequently extended for a 24 month period, effective from January 1, 2021 to December 31, 2022.

Under the amended supply agreement with HB, +10.8 carat production from the Karowe Mine is being sold at prices based on the estimated polished outcome of each diamond, determined through state of the art scanning and planning technology, with an adjusted amount payable on actual achieved polished sales compared to the initial estimated polished price, less a fee and the cost of manufacturing. Changes to the payment profile were also amended in the extended agreement to better reflect the timing of mine production and the manufacturing process. This unique pricing mechanism delivers regular cash flow for this important segment of our production profile.

UPDATE ON COVID-19 RESPONSE

Measures and guidelines implemented by the GRB in late March 2020 have allowed the Karowe Mine to remain fully operational throughout the pandemic. These measures designated mining as an essential service in Botswana and included increased travel restrictions, reduced overall staffing levels and appropriate social distancing. An initial six-month state of emergency has been extended twice and currently the published end date is September 30, 2021. With increasing cases in Botswana and surrounding countries and limited opportunities for vaccination, restrictions on the movement of people within zones in Botswana and curfews have been implemented and are subject to change with limited notice. The Company has been able to continue mining and processing activities during the state of emergency as most of the workforce (+98%) are Botswana Nationals.

Concern remains over how governments across the jurisdictions in which Lucara and many of its customers operate will respond to increasing infection numbers and variants of COVID-19, even as mass vaccination campaigns are in progress in many countries. Due to the ongoing uncertainty resulting from the global pandemic, Lucara's operations could be impacted in a number of ways including, but not limited to: a suspension of operations at the Karowe Mine, disruptions to supply chains, worker absenteeism due to illness, disruption to the progress of the Karowe Mine underground expansion project and an inability to ship or sell rough and/or polished diamonds during this period. These possible impacts could result from government directives, the need to modify work practices to meet appropriate health and safety standards, a lack of demand for rough and/or polished diamonds, a lack of available liquidity to meet ongoing operational expenses and, due to or by other COVID-19 related impacts on the availability of labour or to the supply chain.

The Company continues to operate under its approved crisis management plan, designed to protect the health and well-being of our employees in Botswana and Canada as well as the financial well-being of the business. The Company has permission to conduct COVID-19 testing at our operations in Botswana which began in January 2021, and regular health screening, temperature checks and the use of infrared measurements are also routine. All contractors and visitors are required to have negative COVID-19 tests and adhere to all COVID-19 protocols while conducting work at company operations in Botswana. A government-sponsored vaccination program commenced in Botswana in July.

EQUITY FINANCINGS – JULY 2021

On July 15, 2021, the Company closed its previously announced bought deal financing (the "Offering") as well as the previously announced concurrent private placement (the "Concurrent Private Placement" and together with the Offering, the "Financing") for aggregate gross proceeds of approximately C\$41.4 million (approximately \$33.1 million).

Pursuant to the Offering, a total of 33,810,000 common shares of the Company ("Common Shares"), including 4,410,000 Common Shares issued pursuant to the over-allotment option, which was exercised in full, were sold at a price of C\$0.75 per Common Share, for aggregate gross proceeds of approximately C\$25.4 million (approximately \$20.3 million). The Common Shares issued pursuant to the Offering were offered by way of a short form prospectus (the "Prospectus") filed in British Columbia, Alberta, Manitoba, Ontario and Quebec. The Offering was conducted through a syndicate of underwriters comprised of BMO Capital Markets and Scotia Capital Inc.

Pursuant to the Concurrent Private Placement, a total of 21,347,733 Common Shares were sold at a price of C\$0.75 per share for additional aggregate gross proceeds of approximately C\$16 million (approximately \$12.8 million), which included an investment by Nemesia S.a.r.l. (“Nemesia”). No commission or other fee was paid to the underwriters in connection with the sale of Common Shares pursuant to the Concurrent Private Placement. The Common Shares issued pursuant to the Concurrent Private Placement are subject to a statutory hold period in Canada expiring on November 16, 2021.

Proceeds from the equity financings will be used to satisfy the requirement under the project loan agreements that a \$30 million cash contribution (the “Initial Equity Contribution”) be advanced to Lucara Botswana Proprietary Limited (“Lucara Botswana”) towards the underground expansion cap-ex requirement in 2021 (see “Karowe Underground Update” below).

PROJECT DEBT FINANCING AND SHAREHOLDER UNDERTAKING – JULY 2021

On July 12, 2021, loan documentation in relation to the previously announced senior secured project financing debt package of \$220 million (the “Facilities”) between Lucara Botswana as the Borrower and a syndicate of five mandated lead arrangers (“MLAs”) was signed. The MLAs are: African Export-Import Bank (Afreximbank), Africa Finance Corp., ING, Natixis, and Societe Generale, London Branch. Afraximbank is acting as Facility Agent in connection with the Facilities.

The Facilities include two tranches: a project finance facility of \$170 million to fund the development of the underground project, and a \$50 million working capital facility to re-finance the Company’s existing debt and to support on-going operations. The Facilities, combined with the Initial Equity Contribution and projected cash flows from the Karowe open pit mine, during the underground construction period, result in the Karowe Underground Expansion Project (the “UGP”) being fully financed.

The UGP is expected to extend Karowe’s mine life to at least 2040 and is projected to deliver approximately \$4 billion in revenues using conservative diamond price assumptions. The arrangement of the Facilities is an important milestone in progressing the UGP, and reflects confidence in the large-stone resource at Karowe.

First drawdown under the Facilities is expected to occur in the third quarter this year, following satisfaction of certain conditions precedent customary to a financing of this nature, including the closing and receipt of the Initial Equity Contribution completed in July 2021 (“Financial Close”).

In connection with the Facilities, the Company’s largest shareholder, Nemesia agreed to provide a limited standby undertaking in the event of a funding shortfall occurring up to thirty-six (36) months from Financial Close (the “Shareholder Undertaking”).

Key terms of the project finance facility:

- Lucara Botswana is the Borrower, with Lucara Diamond Corp. as the Sponsor and Guarantor until the Project Completion Date;
- Up to \$170 million provided to fund the development, construction costs and construction phase operating costs of the UGP as well as financing costs in relation to the Facilities;
- 8 year maturity after Financial Close, with quarterly repayments commencing on June 30, 2026;
- Interest rate and Margin: LIBOR (or replacement benchmark) plus margin of 5.5% annually for the period commencing on Financial Close and ending on the Project Completion Date, and 5.0% annually thereafter;
- First ranking security over all assets of the Borrower on a fixed and floating basis, as well as all shares in and shareholder loans into the Borrower and all shares in and shareholder loans into the intermediary companies between the Sponsor and the Borrower;
- The project facility will require interest rate hedging of at least 75% of the Borrower’s exposure for a period of at least six (6) years to be arranged as a condition subsequent to Financial Close;
- Positive and negative covenants, including financial ratios, as well as events of default and a cash flow waterfall customary to a financing of this nature are set out in the Facilities agreement.

Key terms of the working capital facility (“WCF”):

- Borrower: Lucara Botswana
- Up to \$50 million for a senior, secured WCF to be used initially to re-finance the Sponsor’s existing working capital facility and thereafter, for working capital and other corporate purposes of the Borrower;

- Interest rate and Margin: LIBOR (or replacement benchmark) plus margin of 3.5% annually.

Shareholder Undertaking

Nemesia has agreed to provide up to \$25 million in the Shareholder Undertaking for a period of up to thirty-six months from Financial Close in support of the Facilities. The Shareholder Undertaking is unsecured and subordinated to the Facilities. As consideration for providing the Shareholder Undertaking, Lucara issued 600,000 common shares as a fee upon execution of the Shareholder Undertaking. A further 600,000 common shares will be issuable should the Shareholder Undertaking be called upon in the event of a funding shortfall. As an additional fee, and subject to receipt of all required regulatory approvals, Lucara, as Sponsor, has agreed to issue 5,000 common shares for each \$500,000 drawn down per month until the amounts borrowed are repaid.

Nemesia is an insider of the Company and, as a result of their provision of the Shareholder Undertaking and receipt of 600,000 common shares in connection with the execution thereof, the transaction contemplated by the Shareholder Undertaking was considered a “related party transaction” under Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (“MI 61-101”). The Company has relied on the exemptions set forth in sections 5.5(a) and 5.7(1)(a) of MI 61-101 from the valuation and minority shareholder approval requirements of MI 61-101 in respect of Nemesia’s provision of the Shareholder Undertaking as the aggregate fair market value of the common shares issued to Nemesia upon signing of the Shareholder Undertaking was less than 25% of the Company’s market capitalization.

KAROWE UNDERGROUND UPDATE

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

The Karowe UGP will extend the mine life to at least 2040 mining predominately from the highest value EM/PK(S) unit, and is forecast to contribute approximately \$4 billion in additional revenues, using conservative diamond prices.

Highlights of the activities undertaken leading up to full project sanction, include:

- The Karowe UGP is now fully financed with the funds provided from the Facilities (see “Project Debt Financing and Shareholder Undertaking” above), the funds from the recently closed equity financings (see “Equity Financings” above), combined with the projected cash flows from the Karowe open pit mine, during the underground construction period;
- Although COVID-19 related delays have impacted the original schedule, no material variances between the 2019 feasibility study (“2019 FS”) and current project design have resulted following the completion of detailed design and engineering work undertaken in 2020 and 2021;
- \$32.6 million has been spent to June 30, 2021, primarily in relation to engineering and procurement of long lead items; the total planned spend for 2021 is up to \$120 million;
- During Q2 2021, the Company spent \$22.6 million on project execution activities including shaft and geotechnical engineering, surface infrastructure, dewatering and power line engineering and procurement.
- Mobilization of shaft sinking teams commenced in late Q2 2021, with pre-sinking activities scheduled in Q3 2021;
- Mine shaft civil works are underway at the two shaft collar boxcuts, hoist houses and hoist foundations;
- Construction of a generator pad for temporary diesel power generation to support shaft sinking in advance of a power line upgrade into the site;
- A Self-build agreement signed with the Botswana Power Corporation for construction of two substations and a 29 km 132kV transmission line upgrade; substation contracts awarded with a timeline for upgraded bulk power supply commissioning in Q4 2022;
- Phase 1 of the camp construction completed allowing for 100 of the 200 person camp;

- All necessary permits, including a mining license extension to 2046 have been obtained to support all construction activities.
- Adoption of IFC performance Standards and the World Bank Group's Environmental, Health and Safety Guidelines for Mining; the development of the UGP adheres to the Equator Principles.

Cost and Schedule Update

A revised project cost and schedule has been developed that captures the detailed engineering and design work through 2020 until May 2021, incorporating all changes, improvements, and COVID-19 related delays. Overall capital expenditures, including contingency have increased marginally (approximately +4%), to \$534 million, driven by the increase to the production shaft diameter (8.0 to 8.5m) and additional mine development (additional drilling sublevel). The Company has spent \$51.4 million of the total budget on project execution activities through 2020 to June 2021. Total expenditures on the UGP in 2021 are expected to be up to \$120 million. The schedule to 75% of full production has increased by 1.3 years in comparison to the 2019 FS, driven mainly by COVID-19 related delays to commence the shaft pre-sinking, and additional planned time for shaft station breakouts and ground support. The open pit mining schedule has been adjusted to push the open pit to 2026, with mill throughput maintained at 2.7 million tonnes per annum. Underground operation parameters with respect to waste and ore tonnes mined, processed tonnes, recoverable diamond grade, recovered carats and diamond pricing assumptions are unchanged from the 2019 FS study. A comparison of the 2019 FS to the 2021 Base Plan appears in the table below:

Table 1 – Comparison of 2019 FS vs 2021 Base Plan

<i>All amounts in '000s of U.S. Dollars</i>	2019 FS	2021 Base Plan
Capital Costs	Pre-Production	Pre-Production
Mining	\$321.7	\$309.4
Bulk Earthworks	\$18.98	\$18.1
Process Plant	\$0.1	\$0.1
Onsite Infrastructure	\$5.9	\$13.2
Buildings & Facilities	\$1.6	\$1.1
Offsite Infrastructure	\$19.6	\$23.2
Project Indirect	\$47.7	\$55.1
Owner's Costs	\$46.9	\$53.3
Subtotal	\$462.48	\$473.5
Contingency	\$51.4	\$60.5
Total Capital Costs	\$ 513.88	\$ 534.0

Table 2 – High Level Timetable

Item	Start	Complete
Camp Phase 1 (100 rooms)	Q1 2021	Q2 2021
Bulk power supply	Q3 2021	Q4 2022
Shaft Pre-sink	Q3 2021	Q2 2022
Change over to Main sink	Q2 2022	Q3 2022
Shaft Main Sink	Q3 2022	Q3 2024
Mine development 310 level	Q3 2024	Q1 2026
Excavate and Install Crush & Convey	Q4 2024	Q4 2025
Mobilize LHDs to extraction level	Q4 2025	Q1 2026
Start Mine ramp up	Q1 2026	-
Full production	-	Q4 2026

Next Steps

Next steps on the Karowe Underground development are expected to include the following: UMS mobilization to site and start of pre-sink in mid Q3 2021, completion of early civil works in Q4 2021, continuation of detailed design and engineering of the underground mine infrastructure and layout, commencement of bulk power supply infrastructure with substation construction scheduled to start in Q3 2021, and transmission line engineering in H2 2021. The start of engineering on the fine residue deposit expansion and completion of other site related infrastructure will also take place in 2021. JDS Energy & Mining Inc. is the Engineering Procurement Construction Manager for the execution of the Karowe UGP and is currently building up the onsite project team in conjunction with the Lucara's owners team, while working closely with the Karowe Diamond Mine operations team.

CLARA

Interest in Clara, Lucara's 100% owned proprietary, secure, web-based digital sales platform, grew significantly in 2020 due to continued global restrictions impeding travel for many diamond manufacturers, combined with a new openness to purchasing rough diamonds in an innovative way. That positive momentum continued through H1 2021 with six sales in the second quarter and total sales volume transacted of \$8.3 million, a 38% increase from the \$6.0 million transacted in Q1 2021. Encouragingly, Clara also observed consistent price increases at each subsequent sale throughout the period. The number of buyers on the platform increased to 84 in Q2, from 80 in Q1. The Company is maintaining a waiting list to manage supply and demand. A third party supplier trialed the platform in Q2 and discussions continue with third party sellers to build supply.

FINANCIAL HIGHLIGHTS

Table 3:

<i>In millions of U.S. dollars except carats or otherwise noted</i>	Three months ended		Six months ended	
	2021	June 30, 2020	2021	June 30, 2020
Revenues	\$ 46.3	\$ 7.5	\$ 99.4	\$ 41.6
Net income (loss) for the period	6.0	(13.9)	9.4	(17.1)
Earnings (loss) per share (basic)	0.02	(0.04)	0.02	(0.04)
Earnings (loss) per share (diluted)	0.01	(0.04)	0.02	(0.04)
Operating cash flow per share*	0.05	(0.02)	0.11	0.00
Cash on hand	13.7	13.7	13.7	13.7
Amounts drawn on working capital facility	50.0	19.0	50.0	19.0
Average price per carat sold (\$/carat)*	671	109	618	268
Operating expenses per carat sold (\$/carat)*	219	174	217	189
Operating margin per carat sold (\$/carat)*	452	(65)	401	79
Carats sold	68,961	68,979	160,721	155,158

(*) Operating cash flow per share, average price per carat sold, operating expenses per carat sold and operating margin per carat sold are Non-IFRS measures, see Table 5: Results of Operations for reconciliations and page 13 for "Non-IFRS measures" below.

The Company recognized revenue of \$46.3 million from the sale of 68,961 carats in Q2 2021. Included in revenue for the six months ended June 30, 2021 is variable consideration of \$5.1 million which relates to "top-up" payments which arise from polished diamond sales in excess of the initial purchase price paid to Lucara under the initial HB sales agreements for rough diamonds delivered in 2020.

Beginning in Q2 2020, all +10.8 carat diamonds mined from Karowe were sold to HB pursuant to the terms of the diamond supply agreement described above (see "HB Supply Agreement For +10.8 Carat Diamond Production" above). The +10.8ct diamonds of poorer quality (clivage low, rejection goods) are sold as rough parcels and do not enter the polishing pipeline at HB. In June 2020, a deposit of \$13.5 million was received by the Company for a portion of +10.8 carat goods delivered under the HB sales agreement. That deposit was initially recognized as deferred revenue as at June 30, 2020.

The Q2 2020 tender, which generated a majority of the \$7.5 million revenue recognized (with a small number of diamonds by volume and value sold through Clara), was held in June 2020 during the beginning of the global pandemic as diamond markets were mostly closed. The Q2 2020 average sales

price of \$109/carats reflects the decision to only sell stones smaller than 10.8 carats in size. The average sales price of goods smaller than 10.8 carats in size realized in Q2 2021 was \$242/carats, a 122% increase in prices from the comparable quarter.

Table 4: Q2 2021 Sales Results:

Sales Channel	Rough Carats Sold	Revenue Recognized	Average Price/Carat
HB Agreements	4,541	\$30.7 million	\$ 6,767
Clara ¹	5,198	\$ 8.3 million	\$ 1,604
Tender ²	59,222	\$ 7.3 million	\$ 123
Total	68,961	\$46.3 million	\$ 671

- (1) Six sales were completed on Clara in Q2 2021, with total sales volume transacted increasing by 38% as compared to Q1 2021.
- (2) The Q2 2021 tender was held in May in Antwerp; diamonds less than 10.8 carats in size which did not meet quality characteristics for extraction for sale on Clara were sold through tender.

Operating expenses increased \$3.1 million or approximately 26%, from \$12.0 million in Q2 2020 to \$15.1 million in Q2 2021 due to combination of higher power, labour and insurance costs, slightly offset by lower fuel expense. Operating margin per carat sold (a non-IFRS measure, see page 13 for details) increased to \$452/carats, or 67%, in Q2 2021 due to significantly higher revenues in Q2 2021 (Q2 2020: operating loss of \$65/carats, or 37% operating loss).

Table 7 below sets out the calculation of Adjusted Earnings Before Interest, Tax, Depletion and Amortization ("Adjusted EBITDA", a non-IFRS measure, see page 13 for details), which increased 322% in Q2 2021 to \$22.2 million as compared to a loss of \$10.0 million in Q2 2020. Significantly higher quarterly revenues drove this increase. Adjusted EBITDA of \$22.2 million earned in Q2 2021 is reflective of a similar contribution of \$22.3 million in Q1 2021 (H1 2021: \$44.2 million; H1 2020: negative \$1.8 million), a return to a more normalized level of adjusted EBITDA following several challenging months in 2020 arising from the pandemic.

Depletion and amortization, a non-cash expense, increased 22%, from \$8.0 million in Q2 2020 to \$10.3 million in Q2 2021 due to increases in the opening asset balance.

Net income was \$6.0 million in Q2 2021, resulting in earnings per share of \$0.02. This compares to a loss of \$13.9 million in Q2 2020, resulting in a loss per share of \$0.04. The increase in revenue had the most significant impact on the current quarter's earnings.

RESULTS OF OPERATIONS – KAROWE MINE

Table 5:

	UNIT	Q2-21	Q1-21	Q4-20	Q3-20	Q2-20 ⁽¹⁾
Sales						
Revenues generated from the sale of Karowe diamonds in the quarter	US\$M	45.9	53.1	42.3	41.2	7.3 ⁽¹⁾
Carats recovered from Karowe sold for revenues recognized during the period	Carats	68,806	91,734	105,329	112,741	68,861
Average price per carat for proceeds received during the period	US\$	667	579	401	366	107 ⁽¹⁾
Production						
Tonnes mined (ore)	Tonnes	1,020,267	1,100,622	748,296	678,110	683,282
Tonnes mined (waste)	Tonnes	707,722	756,494	434,082	436,781	591,804
Tonnes processed	Tonnes	726,379	673,646	684,768	646,447	705,421
Average grade processed	cpht ^(*)	13.9	11.9	14.6	13.8	14.3
Carats recovered	Carats	101,330	80,014	100,059	88,909	101,203
Costs						
Operating costs per carats sold (see page 13 Non-IFRS measures)	US\$	219	215	205	192	174
Sustaining capital expenditures	US\$M	2.4	0.4	4.4	4.7	3.7
Underground expansion project	US\$M	22.6	9.9	8.3	4.8	3.9

(*) carats per hundred tonnes

- (1) During the three months ended June 30, 2020 the Company made a deliberate decision to withhold from sale all +10.8 carat stones due to market uncertainty arising from the global pandemic. As a result, the quarterly revenue recognized during Q2 2020 and the average price per carat sold are not directly comparable to the other quarterly results presented in the table above.

SECOND QUARTER OVERVIEW – OPERATIONS - KAROWE MINE

Safety: Karowe had no lost time injuries during the three months ended June 30, 2021 resulting in a twelve-month rolling Lost Time Injury Frequency Rate of 0.

Environment and Social: In addition to meeting applicable Botswana national laws, regulations and requirements, Lucara has adopted the IFC Performance Standards and the World Bank Group's Environmental, Health and Safety Guidelines for Mining (2007). Accordingly, the development of the UGP adheres to the Equator Principles. A non-technical summary of the environmental and social impacts of the UGP was prepared during Q2 2021. Lucara will continue to publish performance results externally through its independently assured annual sustainability report, which is prepared in accordance with GRI Standards and available on our website (www.lucaradiamond.com). In addition, the Company has committed to re-addressing the consequence rating of its tailings storage facilities based on the latest Global Industry Standard on Tailings Management ("GISTM"), as well as the associated management requirements for different TSF/Mine Residue Disposal Facilities consequence levels. Lucara is committed to upholding high standards while striving to deliver long-term economic benefits to Botswana and the communities in which we operate.

Production: Operations in the second quarter of 2021 were consistent with expectations, with 1.0 million tonnes of ore mined and 0.7 million tonnes of waste mined. Ore mining was prioritized over waste mining to enable de-stacking of benches in the northern part of the pit. A total of 0.73 million tonnes of ore was processed at an average grade of 13.9 cph and just over 101,000 carats were recovered.

During Q2 2021, ore processed was entirely from the South Lobe. A total of 261 Specials were recovered, including 3 diamonds greater than 300 carats in weight (1,174 ct, 471 ct, 470 ct). Recovered Specials equated to 10.2% weight percentage of total recovered carats from ore processed during Q2 2021 (Q2 2020 – 6.4%), one of the highest production quarters to-date in terms of volume of specials.

Overall performance during the second quarter remains consistent with the strong operational results achieved over the past two years. Mining and processing results were on plan during Q2 2021.

Karowe's operating cash cost: Karowe's year to date operating cash cost (see page 13 Non-IFRS measures) was \$28.79 per tonne of ore processed (YTD 2020: \$27.14 per tonne of ore processed) in line with the forecast of \$28-\$32 per tonne processed and approximately 6% higher than the same period in 2020. The current period increase is reflective of cost reductions implemented in Q2 2020 owing to the uncertainty of the impact of the global pandemic that have been lifted in Q2 2021, offset by a 4% decrease in tonnes processed as compared to Q2 2020.

Significant diamond recoveries: In June 2021, a 1,174 carat diamond, described as a clivage gem of variable quality with significant domains of high-quality white gem material, was recovered. The 1,174 carat diamond represents the third +1,000 carat diamond recovered from the South Lobe of the AK6 kimberlite since 2015 following the recovery of the 1,758 carat Sewelô in 2019 and the 1,109 carat Lesedi La Rona in 2015.

In May 2021, a 470 carat top light brown clivage diamond was recovered along with a series of top quality gem and clivage quality diamonds including 5 diamonds greater than 100 carats (265ct, 183ct, 161ct, 116ct, 106ct).

The significant diamonds recovered in Q2 2021, as noted above, were recovered from milling of ore sourced from South Lobe EM/PK(S) unit. The recovery of large gem quality diamonds from this unit is in line with expectations and historical recoveries. This consistent recovery of large diamonds is a testament to the continued strong resource and plant performance at Karowe.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2021, the Company had cash and cash equivalents of \$13.7 million. Cash flow from operating activities totalled \$22.5 million, a significant increase from the \$2.5 million loss from operating activities in the first half of 2020. The sale of diamonds greater than 10.8 carats in size, a stronger diamond price environment, combined with top-up payments from the HB agreement, were the main drivers for this difference. Capital spending during the six months ended June 30, 2021 was focused on the underground expansion project (H1 2021: \$32.6 million; H1 2020: \$5.6 million).

During Q2 2021, the Company's \$50 million working capital facility was fully drawn (December 31, 2020 - \$30.5 million drawn) to manage fluctuations in working capital. This facility was refinanced on May 5, 2021.

Working capital as at June 30, 2021 was \$56.2 million as compared to \$46.7 million as at December 31, 2020. Despite a very challenging year in 2020, the Company's working capital began to improve in 2021 to a level more consistent with previous periods.

Short-term liabilities increased to \$67.7 million as of June 30, 2021 from \$47.6 million at December 31, 2020. The increase is almost entirely attributable to the higher amount drawn from the working capital facility. Long-term liabilities consist of restoration provisions of \$21.7 million (December 31, 2020: \$21.2 million), deferred income taxes of \$62.7 million (December 31, 2020: \$55.9 million), and other non-current liabilities of \$1.2 million (December 31, 2020: \$1.0 million) which consist of leases classified under *IFRS 16: Leases*.

Total shareholders' equity increased to \$219.0 million from \$208.2 million at December 31, 2020 with the reduction in the deficit owing to earnings during the six months ended June 30, 2021. Other minor changes to share capital and contributed surplus were related to share units vesting and the recording of share-based compensation during the first half of 2021.

COMMITMENTS

As at June 30, 2021, commitments of \$34.3 million (December 31, 2020 - \$9.9 million) relate to purchase orders and contracts for services to be provided related to the underground expansion project. Most of the commitments relate to shaft pre-sink procurement expenses. Of the committed amount, \$22.6 million relates to expenditures planned for 2021, \$10.1 million relates to expenditures in 2022, \$1.6 million relates to expenditures in 2023-2026.

2021 OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2021. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements. A change to the allocation between ore and waste mining has been adjusted in the 2021 guidance to reflect ore gains realized in the first half of the year and adjustments in the mine plan to support dewatering activities. Ore gains realized are of lower quality material and will be stockpiled. There are no other changes from the guidance previously released in February 2021.

Karowe Mine, Botswana

Table 6: 2021 Diamond Sales, Production and Outlook

Karowe Diamond Mine	Full Year – 2021
<i>In millions of U.S. dollars unless otherwise noted</i>	
Diamond revenue (millions)	\$180 to \$210
Diamond sales (thousands of carats)	350 to 390
Diamonds recovered (thousands of carats)	340 to 370
Ore tonnes mined (millions) <i>(revised)</i>	3.8 to 4.2
Waste tonnes mined (millions) <i>(revised)</i>	2.2 to 2.6
Ore tonnes processed (millions)	2.6 to 2.9
Total operating cash costs ⁽¹⁾ including waste mined ⁽²⁾ (per tonne processed)	\$28.00 to \$32.00
Botswana general & administrative expenses including marketing costs (per tonne processed)	\$3.00 to \$4.00
Effective tax rate ⁽³⁾	0% or 25%
Average exchange rate – USD/Pula	11.0

⁽¹⁾ Operating cash costs are a non-IFRS measure. See "Non-IFRS Measures" on page 13.

⁽²⁾ Includes ore and waste mined cash costs of \$5.00 to \$5.50 (per tonne mined) and processing cash costs of \$11.15 to \$12.15 (per tonne processed).

⁽³⁾ 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). Capital expenditures are deductible when incurred. With planned capital expenditures, a tax rate of 0% is forecasted. Should capital expenditures vary from plan, the tax rate will increase from 0% to 25%.

In 2021, the Company's revenue forecast incorporates an increase in the proportion of carats recovered from the higher value M/PK(S) and EM/PK(S) units within the South Lobe in accordance with the mine plan. The assumptions for carats recovered and sold are consistent with achieved performance in

recent years. The number of tonnes processed is also consistent with recent achievements. The estimated processing cost per tonne processed is lower than previous years, reflecting a combination of strong operating performance in the plant and insourcing of the process plant contract as of July 1, 2020.

The proposed underground expansion at the Karowe Mine has an estimated capital cost of \$534 million and a five year development period. Total expenditures on the UGP in 2021 are expected to be up to \$120 million. See “Karowe Underground Update” above.

Lucara Botswana’s progressive tax rate computation allows for the immediate deduction of operating costs, including capital expenditures, in the year in which they are incurred. Based on 2021 revenue guidance of \$180 million to \$210 million and assuming the underground development expenditures are incurred, no taxable income is expected for 2021. Changes to the timing and amount of capital expenditures may result in a tax rate of up to 25% for 2021 payable on taxable income.

Sustaining capital and project expenditures are expected to be up to \$21.0 million in 2021, excluding capital on the underground expansion. This includes expenditures associated with further upgrades to the XRT recovery circuit and implementation of body scanning technology (to enhance security) which had originally been planned for 2020 but was delayed whilst regulatory approval was pending (required approvals were received in Q4 2020).

SELECT FINANCIAL INFORMATION

<i>Table 7:</i> <i>In millions of U.S. dollars unless otherwise noted</i>	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Revenues	\$ 46.3	\$ 7.5	\$ 99.4	\$ 41.6
Operating expenses	(15.1)	(12.0)	(34.8)	(29.3)
Operating earnings (loss) ⁽¹⁾	31.2	(4.5)	64.6	12.3
Royalty expenses	(4.7)	(0.7)	(10.5)	(4.2)
Exploration expenditures	-	(0.5)	-	(1.1)
Administration	(3.7)	(3.7)	(8.1)	(7.7)
Sales and marketing	(0.6)	(0.6)	(1.5)	(1.1)
Adjusted EBITDA ⁽²⁾	22.2	(10.0)	44.5	(1.8)
Depletion and amortization	(10.3)	(8.0)	(23.0)	(18.5)
Finance expenses	(1.4)	(0.8)	(2.1)	(1.6)
Foreign exchange loss (gain)	(0.3)	0.3	(1.2)	0.6
Current income tax expense (recovery)	(1.2)	1.7	(1.5)	(0.3)
Deferred income tax expense (recovery)	(3.1)	2.9	(7.3)	4.5
Net income (loss) for the period	6.0	(13.9)	9.4	(17.1)
Change in cash during the period	(14.2)	(13.7)	8.8	2.5
Cash on hand	13.7	13.7	13.7	13.7
Earnings (loss) per share (basic and diluted)	0.02	(0.04)	0.02	(0.04)
Per carat sold:				
Sales price	\$ 671	\$ 109	\$ 618	\$ 268
Operating expenses	219	174	217	189
Average grade (carats per hundred tonnes) ⁽³⁾	13.9	14.3	13.0	14.3

⁽¹⁾ Operating earnings is a non-IFRS measure (see page 13) defined as revenues less operating expenses.

⁽²⁾ Adjusted EBITDA is a non-IFRS measure (see page 13) defined as earnings before interest, taxation, depreciation and amortization.

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

Please refer to the “Financial Highlights” and “Second Quarter Overview – Karowe Mine” above for an explanation of the Company’s financial results for the three and six months ended June 30, 2021 and 2020.

SUMMARY OF QUARTERLY RESULTS

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

Table 8: The following table provides highlights, extracted from the Company's financial statements, of quarterly results for the past eight quarters:

Three months ended	Jun-21	Mar-21	Dec-20	Sept-20	Jun-20	Mar-20	Dec-19	Sept-19
A. Revenues	46,334	53,097	42,387	41,297	7,462	34,117	55,993	45,317
B. Administration expenses	(3,659)	(4,395)	(4,205)	(4,387)	(3,653)	(4,071)	(4,993)	(3,921)
C. Net income (loss)	5,998	3,407	(3,834)	(5,368)	(13,915)	(3,161)	8,635	(4,012)
D. Earnings (loss) per share (basic and diluted)	0.02	0.01	(0.01)	(0.01)	(0.04)	(0.01)	0.02	(0.01)

The Company's quarterly results, including net income (loss) and earnings (loss) per share are most directly affected by the sale of special diamonds, greater than 10.8 carats, but more particularly the unique and high value diamonds. In July 2020, the Company announced a supply agreement with HB for all stones sized above +10.8 carats. This agreement was subsequently extended for a 24-month period, from January 1, 2021 to December 31, 2022. Under the terms of the amended supply agreement, the purchase price paid shall be based on the estimated polished outcome, with an adjustment paid on actual achieved polished sales thereafter, less a fee and the cost of manufacturing. The +10.8 carat diamonds of poorer quality (clivage low, rejection goods) are sold as rough parcels and do not enter the polishing pipeline at HB. This change provides a more stable monthly cash flow stream, with access to price improvements along the value chain, when compared to previous quarters where all diamonds recovered were typically sold in the quarterly tender or through Clara. The Company's quarterly revenue is also affected by the number and quality of stones available for sale in any given quarter.

Revenue in the quarter ending June 30, 2021 totaled \$46.3 million from the sale of 68,961 carats for an average price per carat of \$671. The significant change in revenue from Q2 2020 to Q2 2021 reflects a return to sale of all production from the Karowe mine after a decision was made in Q2 2020 to not tender any stones greater than 10.8 carats in size. The Company's +10.8 carat production is a significant driver of revenue for the Company. The change in revenue also reflects a recovery of pricing in the smaller stones following a decrease in the realised market price for the Company's goods in 2020.

Revenue in the quarter ending March 31, 2021 totaled \$53.1 million from the sale of 91,760 carats for an average price per carat of \$579. Included in this amount is variable consideration of \$4.9 million which relates to top-up payments from diamonds delivered to HB during fiscal 2020. Top-up payments arise from polished diamond sales which are in excess of the initial purchase price paid to Lucara.

Revenue in the quarter ended December 31, 2020 totaled \$42.4 million or \$402 per carat from the sale of 105,648 carats in Q4 2020, resulting in an operating margin of 49%. In comparison, the Company achieved revenues of \$56.0 million or \$568 per carat for its sales in Q4 2019. The last tender of 2019 was the strongest tender that year due to a stabilization of rough pricing in all size classes.

Revenue in the quarter ended September 30, 2020 included sales proceeds for +10.8 carat stones delivered to HB earlier in the year pursuant to the diamond sales agreement. The initial purchase price paid by HB to Lucara was based on the estimated polished outcome from each +10.8 carat rough diamond delivered. Beginning in Q3 2020, revenue was recognized from three separate sales channels: through committed sales of +10.8 carat diamonds to HB, sales on Clara, our secure web based digital sales platform, and, through regular tenders of our smaller stones.

Revenue recognized in the quarter ended June 30, 2020 represented the sale of smaller stones only (less than 10.8 carats) through two sales channels: Clara and a tender held in June 2020. The decrease in revenue was reflective of a deliberate decision not to sell any diamonds +10.8 carats in size during Q2 2020 due to extremely challenging market conditions amidst the global pandemic.

Revenue of \$34.1 million recognized in the quarter ended March 31, 2020 was significantly lower than previous quarters, resulting from a combination of lower overall prices and the quality of goods available for sale. Early impacts of COVID-19 were observed in the lower pricing achieved in the Q1 2020 tender.

Similarly, the availability of large, high-quality stones in the Q4 2019 tender and significant improvement in rough diamond pricing prior to the onset of Covid-19 resulted in a higher revenue achieved when compared to the quarter ended March 31, 2020.

The quarter ended December 31, 2019 was representative of a stronger pricing environment combined with a better blend of stones available for sale. The end of 2019 saw a return to a more stable pricing environment for most of the Company's goods available for sale, following several challenging quarters in 2018 and 2019 where the rough diamond market struggled with inventory builds and liquidity issues in the mid-stream of the industry and saw significant downward pressure on large high quality polished goods.

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

NON-IFRS FINANCIAL MEASURES

This MD&A refers to certain financial measures, such as adjusted EBITDA, operating cash flow per share, operating cost per carat sold, and operating cost per tonne of ore processed, which are not measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. These measures may differ from those made by other corporations and accordingly may not be comparable to such measures as reported by other corporations. These measures have been derived from the Company's financial statements, and applied on a consistent basis, because the Company believes they are of assistance in the understanding of the results of operations and financial position.

Adjusted EBITDA (see "Select Financial Information") is the term the Company uses as an approximate measure of the Company's pre-tax operating cash flow and is generally used to measure performance and evaluate trends of individual assets. Adjusted EBITDA comprises earnings before deducting interest and other financial charges, income taxes, depreciation and amortization.

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

Table 9: Operating cash flow per share reconciliation:

<i>In millions of U.S. dollars with the exception of weighted average common shares outstanding and operating cash flow per share</i>	Three months ended		Six months ended	
	June 30		June 30	
	2021	2020	2021	2020
Cash flows from operating activities	\$ 8,257	\$ (4,898)	\$ 22,473	\$ (2,541)
Changes in non-cash working capital	11,930	(2,687)	20,342	1,860
Total cash flow from operating activities before changes in non-cash working capital	20,187	(7,585)	42,815	(681)
Weighted average common shares outstanding	397,117,648	396,896,733	397,029,117	396,881,900
Operating cash flow per share⁽¹⁾	\$0.05	\$(0.02)	\$0.11	\$0.00

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

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

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

Table 10: Operating cost per tonne of ore processed reconciliation:

<i>In millions of U.S. dollars with the exception of tonnes processed and operating cost per tonne processed</i>	Six months ended June 30,	
	2021	2020
Operating expenses	\$ 34.8	\$ 29.3
Net change rough diamond inventory, excluding depletion and amortization ⁽¹⁾	1.5	5.1
Net change ore stockpile inventory, excluding depletion and amortization ⁽²⁾	4.0	2.1
Total operating costs for ore processed	40.3	36.5
Tonnes processed	1,400,025	1,344,851
Operating cost per tonne of ore processed ⁽³⁾	\$ 28.79	\$ 27.14

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

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

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

RELATED PARTY TRANSACTIONS

A description of key management compensation can be found in Note 10 of the condensed interim consolidated financial statements for the three and six months ended June 30, 2021.

In relation to the acquisition of Clara in February 2018, certain related parties may receive additional shares of Lucara if Clara, now a wholly-owned subsidiary of Lucara, achieves certain levels of revenue generated by sales on the platform (the "Performance Milestones"). The Performance Milestones are detailed in Note 9 of the audited consolidated financial statements for the year ended December 31, 2020. As of June 30, 2021, none of the revenue milestones had been achieved.

A profit-sharing mechanism also exists, the details of which can be found in Note 9 of the audited consolidated financial statements for the year ended December 31, 2020. As at June 30, 2021, no amounts have been paid under this profit sharing mechanism.

FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

In the normal course of business, the Company is inherently exposed to currency and commodity price risk. The Company's financial instruments are exposed to certain financial risks, including currency, credit, 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 June 30, 2021, the Company is exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately \$0.9 million in net income for the period.

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. Most of the Company's cash and cash equivalents are held through a large Canadian financial institution with a high investment grade rating. Considering the nature of the Company's ultimate customers and the relevant terms and conditions entered into with such customers, the Company believes that credit risk is limited as goods are not released until full payment is received when goods are sold through tender or on Clara.

Under the supply agreement with HB Antwerp, a larger proportion of the Company's goods, by value, are sold through HB Antwerp to buyers of polished diamonds. The credit risk associated with these

sales is concentrated with one individual customer and payment terms are longer (60 to 120 days) than the Company's traditional tender sales (5 days).

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

Price risk

The Company derives its income from the sale of rough diamonds mined in Botswana, a majority of which are sold through a quarterly tender process from Botswana. The price and marketability of these diamonds can be significantly impacted by international economic trends, global or regional consumption, demand and supply patterns and the availability of capital for diamond manufacturers, all factors that are not within the Company's control. Under the supply agreement with HB Antwerp, the ultimate achieved sales prices of stones larger than 10.8 carats in size is based on a polished diamond pricing mechanism. This pricing mechanism results in the Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than it is currently through its traditional sales processes for rough diamonds. During the year ended December 31, 2020, the COVID-19 pandemic negatively impacted global demand for luxury commodities, which includes jewelry containing diamonds however, both demand and prices have been strong during the first six months of 2021. Restrictions on international travel have also disrupted the diamond supply chain. To the extent that the supply of rough or polished diamonds exceeds demand, this is likely to result in price deterioration and negatively impact the Company's revenue, thereby increasing the risk that not only will operations not be profitable, the Company may not have sufficient liquidity to meet its financial obligations as they come due.

Liquidity risk

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

As at June 30, 2021, the Company had a \$50 million revolving term credit facility with FirstRand Bank Limited (London Branch), a division of Rand Merchant Bank which was fully drawn (December 31, 2020 - \$30.5 million drawn). 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 June 30, 2021, the Company was in compliance with all financial and non-financial covenants. Outstanding amounts under the facility bear interest at LIBOR or an alternative base rate plus an applicable margin based on the Company's adjusted leverage ratio.

The Company has provided security for the facility by way of a charge over the Company's Karowe assets and a guarantee by the Company's subsidiaries, which hold the Karowe assets. The interest rate on the amount drawn was LIBOR plus a margin of 3.50%.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 453,034,981 common shares outstanding, 5,234,848 share units, 1,065,968 deferred share units, and 6,189,000 stock options outstanding under its share-based incentive plans. See "Equity Financings" above for a description of the common shares issued on July 15, 2021.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business which includes the acquisition, financing, exploration, development and operation of diamond properties, the construction of an underground mine at Karowe and the continued commercialization of Clara. The material risk factors and uncertainties, which should be taken into account in assessing the Company's activities, are described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form (the "AIF") and in the Prospectus dated July 12, 2021. Both of these documents are available under Lucara's Issuer Profile on SEDAR at: <http://www.sedar.com> Any one or more of these risks and uncertainties could have a material adverse effect on the Company.

COVID-19 Global pandemic risk

On March 11, 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) a global pandemic and on April 2, 2020 the Government of Botswana declared an initial state of emergency. Mining was declared an essential service and as a result, the Karowe Mine continued to operate with additional health and safety protocols implemented. Quarterly diamond tenders were held in Antwerp for the balance of 2020 and in the first half of 2021 due to varying international travel restrictions. The Government of Botswana has since extended the state of emergency several times, and the most recent extension is expected to remain in place until September 30, 2021. Concern remains over how governments across the jurisdictions in which Lucara and many of its customers operate will respond to increasing infection numbers and variants of COVID-19, even as mass vaccination campaigns are in progress in many countries. Due to the ongoing uncertainty resulting from the global pandemic, Lucara’s operations could be impacted in a number of ways including, but not limited to: a suspension of operations at the Karowe Mine, disruptions to supply chains, worker absenteeism due to illness, disruption to the progress of the Karowe Mine underground expansion project and an inability to ship or sell rough and/or polished diamonds during this period. These possible impacts could result from government directives, the need to modify work practices to meet appropriate health and safety standards, a lack of demand for rough and/or polished diamonds, a lack of available liquidity to meet ongoing operational expenses and, due to or by other COVID-19 related impacts on the availability of labour or to the supply chain.

COVID-19 negatively impacted both demand and prices for rough and polished diamonds through much of 2020 although in the first six months of 2021 the market has recovered to pre-pandemic levels. As an ongoing risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of government and central bank interventions in the jurisdictions in which Lucara and its clients operate, the Company’s business continuity plan and other mitigating measures. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on our business operations, including the duration and impact that it may have on our ability to ship and sell diamonds, on demand for rough and polished diamonds, on our suppliers, on our employees and on global financial markets, cannot be reasonably estimated at this time. Accordingly, estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Company’s operations, financial results and condition in future periods are also subject to significant uncertainty.

In preparing our condensed interim consolidated financial statements, we make judgments in applying our accounting policies. The areas of policy judgement are consistent with those reported in our 2020 annual consolidated financial statements. In addition, we make assumptions about the future in deriving estimates used in preparing our condensed interim consolidated financial statements. As disclosed in our 2020 annual consolidated financial statements, the most significant sources of estimation uncertainty include estimated variable consideration (revenue), estimated recoverable reserves and resources, valuation of mineral properties and plant and equipment, the provision for deferred taxes and the valuation of decommissioning and site restoration provisions.

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

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

OFF-BALANCE SHEET ARRANGEMENTS

Except for short-term leases with a term of 12 months or less, the Company is not party to any off-balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

There have been no changes to accounting policies during the three months ended June 30, 2021. Note 3 to the audited consolidated financial statements for the year ended December 31, 2020 includes a summary of the significant accounting policies adopted by the Company.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of this document along with the unaudited condensed interim consolidated financial statements. Management is responsible for the integrity and objectivity of this document, ensuring the fair presentation of its financial results. The Audit Committee is responsible for reviewing the contents of this document along with the condensed interim consolidated financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended June 30, 2021.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

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

Internal controls over financial reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, due to inherent limitations, internal controls over financial reporting may not prevent or detect all misstatements and fraud.

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

There have been no changes in the Company's internal control over financial reporting during the three months ended June 30, 2021 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain of the statements made in this MD&A contain certain "forward-looking information" and "forward-looking statements" as defined in applicable securities laws. Generally, any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance and often (but not always) using forward-looking terminology such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "budgets", "scheduled", "forecasts", "assumes", "intends", "strategy", "goals", "objectives", "potential", "possible" or variations thereof or stating that certain actions, events, conditions or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements.

In particular, forward-looking information and forward-looking statements may include, but are not limited to, information or statements with respect to the equity and project debt financings, the intended use of proceeds, the Company's ability to comply with the terms of the Facilities which are required to construct the Karowe UGP, that expected cash flow from operations, combined with external financing will be sufficient to complete construction of the UGP, the economic potential of a mineralized area, the size and tonnage of a mineralized area, anticipated sample grades or bulk sample diamond content, future production activity, the future price and demand for diamonds, future forecasts of revenue and variable consideration in determining revenue, estimation of mineral resources, exploration and development

plans, cost and timing of the development of deposits and estimated future production, permitting time lines, currency exchange rates, success of exploration, requirements for and availability of additional capital, capital expenditures, operating costs, timing of completion of technical reports and studies, tax rates, timing of drill programs, government regulation of operations, environmental risks and ability to comply with all environmental regulations, reclamation expenses, title matters including disputes or claims, limitations on insurance coverage, negotiations and agreements among the Company and the Botswana Mine Workers Union, the completion of transactions and timing and possible outcome of pending litigation, the profitability of Clara and the Clara Platform, and the scaling and commercialization of the digital platform for the sale of rough diamonds owned by Clara, the benefits to the Company of diamond supply agreements with HB and the ability to generate better prices from the sale of the Company's +10.8 carat production as a polished stone.

Forward-looking information and statements are based on the opinions and estimates of management as of the date such statements are made, and they are subject to several 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. 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. The Company is subject to the following risks and uncertainties, among others:

- general global financial and economic conditions;
- future market prices for diamonds;
- the supply and demand for rough and polished diamonds and in particular, the demand for diamonds greater than +10.8 carats;
- potential to achieve better prices by selling +10.8 carat stones under the terms of the agreement with HB;
- reliance on one counter-party to acquire a significant percentage of the Karowe production (by value);
- ability to access capital and liquidity risk;
- fluctuations in interest rates, foreign currency exchange rates and tax rates;
- inherent hazards and risks associated with mining operations, places of work, and within Lucara's supply chain;
- estimations of Lucara's production and sales volume for the Karowe Mine;
- the assumptions raised in the December 2019 Technical Report for the feasibility of constructing and operating an underground diamond mine at Karowe, including the expected development costs, start-up timing, exploration and development plans, projected tax benefits and/or expected production costs;
- operational costs, including costs of power and diesel, compensation of employees and consultants, etc.;
- operational difficulties, including power failures, failure of plant, equipment or processes to operate in accordance with specifications or expectations and labour disputes;
- widespread diamond industry adoption of the Clara Platform;
- the regulatory regime governing blockchain technologies and the degree of development and acceptance of blockchain technologies;
- the Company's ability to protect its intellectual property;
- risks inherent in the implementation of new technologies, including the Clara Platform and potential intellectual property infringement claims and cyber-security risks;
- recovered grade, size distribution and quality of diamonds;
- the successful mitigation of issues inherent in the mining of diamonds, such as theft and diamond breakage;
- environmental and other regulatory requirements, including changes in the same and ability to obtain all necessary regulatory approvals;
- acts of the governments where Lucara's operations are located;
- obtaining, maintaining and renewing governmental approvals and permits including but not limited to mining licenses;
- variation in mineral resources and estimation of mineral resources, including the continuity of grade of diamondiferous mineralization;

- risks related to property titles;
- the effect of the coronavirus outbreak as a global pandemic and new variants of COVID-19 on the Company's business and operations;
- the dependence on transportation facilities, infrastructure and information technology systems;
- the Company is required to carry uninsurable risks and the risk that the Company's insurance does not cover all risks;
- the mining industry is competitive;
- risks associated with current and future legal proceedings;
- conflicts of interest;
- dependence on management and technical personnel;
- the failure to secure and maintain skilled employees and maintain key relationships with financing partners, local communities and other stakeholders;
- risks associated with volatility in the securities market;
- risks associated with reliance on secure information technology systems that could be compromised;
- risks associated with climate change including the impact of extreme weather events on mining operations;
- risks associated with the production and increased consumer demand for synthetic gem-quality diamonds;
- ability to maintain obligations or comply with the Facilities;
- risks associated with financing requirements;
- capital costs relating to the development of the Underground Project may increase;
- in 2020, the Company experienced a period of negative operating cash flow;
- discretion in the use of proceeds from the equity financings completed on July 15, 2021;
- volatility of the trading price for the Shares;
- investors may lose their entire investment;
- sales of a significant number of Shares in the public markets, or the perception of such sales, could depress the market price of the Shares;
- holders of Shares will be diluted;
- global financial conditions can reduce prices of the Shares and limit access to financing;
- the Shares do not currently pay dividends;
- difficulty in enforcing judgements and effecting service of process on directors; and
- active liquid trading market for the Shares.

Certain of these risks are discussed in the section "Risk Factors" in the Prospectus dated July 12, 2021. The foregoing list is not exhaustive of the factors that may affect any of our forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and our actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in this MD&A.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The forward-looking statements contained in this MD&A are based on the beliefs, expectations and opinions of management as of the date of this MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers and investors should not place undue reliance on forward-looking statements. Forward-looking information and statements are made as of the date of this MD&A and accordingly are subject to change after such date. Except as required by law, we disclaim any obligation to revise any forward-looking information and statements to reflect events or circumstances after the date of such information and statements. All of the forward-looking information and statements contained or incorporated by reference in this MD&A are qualified by the foregoing cautionary statements.

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

	June 30, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13,721	\$ 4,916
Receivables and other (Note 3)	32,015	20,933
Inventories (Note 4)	78,125	68,374
	123,861	94,223
Investments	3,106	1,651
Plant and equipment (Note 5)	90,424	107,224
Mineral properties (Note 6)	128,339	104,002
Intangible assets (Note 7)	21,913	21,986
Other non-current assets	4,658	4,763
TOTAL ASSETS	\$ 372,301	\$ 333,849
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	\$ 14,018	\$ 14,874
Credit facility (Note 12)	50,066	30,528
Tax and royalties payable	2,914	1,376
Lease liabilities	691	781
	67,689	47,559
Restoration provisions	21,669	21,229
Deferred income taxes	62,729	55,905
Other non-current liabilities	1,214	963
TOTAL LIABILITIES	153,301	125,656
EQUITY		
Share capital (unlimited common shares, no par value)	315,526	314,924
Contributed surplus	8,667	8,646
Deficit	(48,367)	(57,772)
Accumulated other comprehensive loss	(56,826)	(57,605)
TOTAL EQUITY	219,000	208,193
TOTAL LIABILITIES AND EQUITY	\$ 372,301	\$ 333,849

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

Commitments – Note 13

Subsequent Events – Note 14

Approved on Behalf of the Board of Directors:

“Marie Inkster”
Director

“Catherine McLeod-Seltzer”
Director

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

	Three months ended			Six months ended				
	June 30,		June 30,					
	2021	2020	2021	2020				
Revenues	\$	46,334	\$	7,462	\$	99,431	\$	41,579
Cost of goods sold								
Operating expenses		15,095		12,020		34,815		29,300
Royalty expenses (Note 6)		4,650		734		10,520		4,230
Depletion and amortization		10,343		7,972		23,013		18,464
		30,088		20,726		68,348		51,994
Income (loss) from mining operations		16,246		(13,264)		31,083		(10,415)
Other expenses								
Administration (Note 9)		3,659		3,653		8,054		7,724
Exploration		-		493		-		1,085
Finance expenses		1,367		799		2,066		1,639
Foreign exchange loss (gain)		304		(272)		1,188		(637)
Sales and marketing		636		610		1,537		1,100
		5,966		5,283		12,845		10,911
Net income (loss) before tax		10,280		(18,547)		18,238		(21,326)
Income tax expense (recovery)								
Current income tax		1,163		(1,728)		1,548		251
Deferred income tax		3,119		(2,904)		7,285		(4,501)
		4,282		(4,632)		8,833		(4,250)
Net income (loss) for the period	\$	5,998	\$	(13,915)	\$	9,405	\$	(17,076)
Earnings (loss) per common share								
Basic	\$	0.02	\$	(0.04)	\$	0.02	\$	(0.04)
Diluted	\$	0.01	\$	(0.04)	\$	0.02	\$	(0.04)
Weighted average common shares outstanding								
Basic		397,117,648		396,896,733		397,029,117		396,881,900
Diluted		403,473,196		396,896,733		402,563,956		396,881,900

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

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Net income (loss) for the period	\$ 5,998	\$ (13,915)	\$ 9,405	\$ (17,076)
Other comprehensive income (loss)				
<i>Items that will not be reclassified to net income</i>				
Change in fair value of marketable securities	689	75	1,455	55
<i>Items that may be subsequently reclassified to net income</i>				
Currency translation adjustment	3,776	2,424	(676)	(21,680)
	4,465	2,499	779	(21,625)
Comprehensive income (loss) for the period	\$ 10,463	\$ (11,416)	\$ 10,184	\$ (38,701)

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

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Cash flows from (used in):				
Operating activities				
Net income (loss) for the period	\$ 5,998	\$ (13,915)	\$ 9,405	\$ (17,076)
Items not involving cash and cash equivalents:				
Depletion and amortization	10,651	8,523	23,667	19,591
Unrealized foreign exchange (gain) loss	(454)	(272)	575	(637)
Share-based compensation	485	328	1,125	644
Deferred income taxes	3,119	(2,904)	7,285	(4,501)
Finance costs	388	655	758	1,298
	20,187	(7,585)	42,815	(681)
Net changes in working capital:				
Receivables and other	(3,277)	1,591	(11,434)	257
Inventories	(6,491)	(4,726)	(7,087)	(6,821)
Trade payables and other current liabilities	(877)	(611)	(3,363)	(4,450)
Deposits on future sales	-	13,500	-	13,500
Tax and royalties payable	(1,285)	(7,067)	1,542	(4,346)
	8,257	(4,898)	22,473	(2,541)
Financing activities				
Proceeds from credit facility, net	-	-	19,500	19,000
Withholding tax for share units vested	(21)	-	(107)	(8)
Interest paid	(18)	(35)	(36)	(70)
Principal elements of lease payments	(143)	(435)	(275)	(830)
	(182)	(470)	19,082	18,092
Investing activities				
Acquisition and disposition of plant and equipment	(2,389)	(4,514)	(2,752)	(6,626)
Mineral property expenditure	(19,999)	(3,950)	(29,958)	(5,630)
Development of intangible assets	(14)	(2)	(18)	(52)
	(22,402)	(8,466)	(32,728)	(12,308)
Effect of exchange rate change on cash and cash equivalents	139	109	(22)	(749)
Increase (decrease) in cash and cash equivalents during the period	(14,188)	(13,725)	8,805	2,494
Cash and cash equivalents, beginning of period	27,909	27,416	4,916	11,197
Cash and cash equivalents, end of period⁽¹⁾	\$ 13,721	\$ 13,691	\$ 13,721	\$ 13,691

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

Supplemental information

Interest received	\$	64	\$	59	\$	137	\$	123
Taxes paid		(6)		(4,602)		(408)		(4,995)
Changes in trade payables and accrued liabilities related to plant and equipment		1,767		(8)		2,440		111

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

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

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

	Number of shares issued and outstanding	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive loss	Total
Balance, January 1, 2020	396,858,168	\$ 314,820	\$ 7,679	\$ (31,494)	\$ (54,070)	\$ 236,935
Share-based compensation	-	-	521	-	-	521
Effect of foreign currency translation	-	-	-	-	(21,680)	(21,680)
Change in fair value through other comprehensive income securities	-	-	-	-	55	55
Shares issued from SUs vested	38,565	104	(104)	-	-	-
Withholding tax for SUs vested	-	-	(8)	-	-	(8)
Net loss for the period	-	-	-	(17,076)	-	(17,076)
Balance, June 30, 2020	396,896,733	\$ 314,924	\$ 8,088	\$ (48,570)	\$ (75,695)	\$ 198,747
Balance, January 1, 2021	396,896,733	\$ 314,924	\$ 8,646	\$ (57,772)	\$ (57,605)	\$ 208,193
Share-based compensation	-	-	730	-	-	730
Effect of foreign currency translation	-	-	-	-	(676)	(676)
Change in fair value through other comprehensive income securities	-	-	-	-	1,455	1,455
Shares issued from SUs vested	228,607	602	(602)	-	-	-
Withholding tax for SUs vested	-	-	(107)	-	-	(107)
Net income for the period	-	-	-	9,405	-	9,405
Balance, June 30, 2021	397,125,340	\$ 315,526	\$ 8,667	\$ (48,367)	\$ (56,826)	\$ 219,000

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

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2021

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

1. NATURE OF OPERATIONS

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

The Company’s common shares are listed on the TSX, NASDAQ Stockholm and Botswana Stock Exchanges. The Company was continued into the Province of British Columbia under the Business Corporations Act (British Columbia) in August 2004 and its registered office is located at Suite 2600 - 595 Burrard Street, Vancouver, British Columbia, V7X 1L3.

COVID-19 Global pandemic

On March 11, 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) a global pandemic and on April 2, 2020 the Government of Botswana declared an initial state of emergency. Mining was declared an essential service and as a result, the Karowe Mine continued to operate with additional health and safety protocols implemented. Quarterly diamond tenders were held in Antwerp for the balance of 2020 and in the first half of 2021 due to varying international travel restrictions. The Government of Botswana has since extended the state of emergency several times, and the most recent extension is expected to remain in place until September 30, 2021. Concern remains over how governments across the jurisdictions in which Lucara and many of its customers operate will respond to increasing infection numbers and variants of COVID-19, even as mass vaccination campaigns are in progress in many countries. Due to the ongoing uncertainty resulting from the global pandemic, Lucara’s operations could be impacted in a number of ways including, but not limited to: a suspension of operations at the Karowe Mine, disruptions to supply chains, worker absenteeism due to illness, disruption to the progress of the Karowe Mine underground expansion project and an inability to ship or sell rough and/or polished diamonds during this period. These possible impacts could result from government directives, the need to modify work practices to meet appropriate health and safety standards, a lack of demand for rough and/or polished diamonds, a lack of available liquidity to meet ongoing operational expenses and, due to or by other COVID-19 related impacts on the availability of labour or to the supply chain.

COVID-19 negatively impacted both demand and prices for rough and polished diamonds through much of 2020 although in the first six months of 2021 the market has recovered to pre-pandemic levels. As an ongoing risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of government and central bank interventions in the jurisdictions in which Lucara and its clients operate, the Company’s business continuity plan and other mitigating measures. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on our business operations, including the duration and impact that it may have on our ability to ship and sell diamonds, on demand for rough and polished diamonds, on our suppliers, on our employees and on global financial markets, cannot be reasonably estimated at this time. Accordingly, estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Company’s operations, financial results and condition in future periods are also subject to significant uncertainty.

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

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2021****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS**(i) Basis of presentation**

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, IAS 34: Interim Financial Statements, and do not contain all of the information required for annual financial statements. These statements follow the same accounting policies and methods of application as the most recent annual audited financial statements. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company. These financial statements were approved by the Board of Directors for issue on August 10, 2021.

(ii) Adoption of new accounting policies

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.

IAS 12

Amendments were issued to IAS 12 Income Taxes to introduce an exception to the initial recognition exemption. Applying this exception, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company is currently assessing the effect of this amendment on our financial statements.

3. RECEIVABLES AND OTHER

	June 30, 2021	December 31, 2020
Trade	\$ 23,067	\$ 13,396
VAT	5,037	4,493
Deferred financing costs	2,144	-
Prepayments	1,587	2,450
Other	180	594
	\$ 32,015	\$ 20,933

Trade receivables at June 30, 2021 were \$23.1 million (December 31, 2020 – \$13.4 million) due from one customer, HB Antwerp, under the Company’s sales agreement. All amounts receivable due from HB Antwerp are current. The amounts receivable relate to the timing difference between revenue recognized under the sales agreement and the receipt of payment.

4. INVENTORIES

	June 30, 2021	December 31, 2020
Rough diamonds	\$ 30,507	\$ 25,956
Ore stockpile	33,302	29,572
Parts and supplies	14,316	12,846
	\$ 78,125	\$ 68,374

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2021

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

Inventory expensed during the six months ended June 30, 2021 totaled \$34.8 million (six months ended June 30, 2020 – \$29.3 million). There were no inventory write-downs during the six months ended June 30, 2021 and 2020.

5. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Leased assets	Total
Balance, January 1, 2020	\$ 11,388	\$ 216,398	\$ 2,654	\$ 9,173	\$ 3,723	\$ 243,336
Additions	14,655	43	-	138	551	15,387
Reclassification	(15,790)	11,984	360	3,446	-	-
Disposals and other ¹	-	(5,750)	(123)	-	(1,784)	(7,657)
Translation differences	(235)	(2,713)	(24)	82	(128)	(3,018)
Balance, December 31, 2020	\$ 10,018	\$ 219,962	\$ 2,867	\$ 12,839	\$ 2,362	\$ 248,048
Additions	2,900	-	-	3	-	2,903
Reclassification	(4,608)	3,703	154	751	-	-
Disposals and other	-	-	-	(231)	(37)	(268)
Translation differences	(84)	(1,702)	(22)	(93)	(14)	(1,915)
Balance, June 30, 2021	\$ 8,226	\$ 221,963	\$ 2,999	\$ 13,269	\$ 2,311	\$ 248,768
Accumulated amortization						
Balance, January 1, 2020	\$ -	\$ 104,173	\$ 1,871	\$ 5,600	\$ 1,584	\$ 113,228
Depletion and amortization	-	29,269	343	1,685	987	32,284
Disposals and other ¹	-	(3,116)	(123)	-	(1,460)	(4,699)
Translation differences	-	51	(14)	25	(51)	11
Balance, December 31, 2020	\$ -	\$ 130,377	\$ 2,077	\$ 7,310	\$ 1,060	\$ 140,824
Depletion and amortization	-	17,081	206	1,287	295	18,869
Disposals and other	-	-	-	(230)	(37)	(267)
Translation differences	-	(1,005)	(16)	(52)	(9)	(1,082)
Balance, June 30, 2021	\$ -	\$ 146,453	\$ 2,267	\$ 8,315	\$ 1,309	\$ 158,344
Net book value						
As at December 31, 2020	\$ 10,018	\$ 89,585	\$ 790	\$ 5,529	\$ 1,302	\$ 107,224
As at June 30, 2021	\$ 8,226	\$ 75,510	\$ 732	\$ 4,954	\$ 1,002	\$ 90,424

(1) During the year ended December 31, 2020, a loss on disposal of assets of \$2,620 was recorded related to the replacement of several XRT machines.

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2021****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

6. MINERAL PROPERTIES

Cost	Capitalized production stripping asset	Karowe Mine	Total
Balance, January 1, 2020	\$ 73,028	\$ 84,677	\$ 157,705
Additions	-	18,749	18,749
Adjustment to restoration asset	-	(3,199)	(3,199)
Translation differences	(1,083)	(348)	(1,431)
Balance, December 31, 2020	\$ 71,945	\$ 99,879	\$ 171,824
Additions	-	32,549	32,549
Adjustment to restoration asset	-	92	92
Translation differences	(600)	(834)	(1,434)
Balance, June 30, 2021	\$ 71,345	\$ 131,686	\$ 203,031
Accumulated depletion			
Balance, January 1, 2020	\$ 24,425	\$ 28,037	\$ 52,462
Depletion	10,250	4,998	15,248
Translation differences	236	(124)	112
Balance, December 31, 2020	\$ 34,911	\$ 32,911	\$ 67,822
Depletion	5,740	1,696	7,436
Translation differences	(291)	(275)	(566)
Balance, June 30, 2021	\$ 40,360	\$ 34,332	\$ 74,692
Net book value			
As at December 31, 2020	\$ 37,034	\$ 66,968	\$ 104,002
As at June 30, 2021	\$ 30,985	\$ 97,354	\$ 128,339

Karowe Mine

A royalty of 10% of the gross sales value of diamonds produced from Karowe is payable to the government of Botswana, regardless of whether the diamond is sold as rough or polished. During the six months ended June 30, 2021, the Company incurred a royalty expense of \$10.5 million (2020: \$4.2 million).

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7. INTANGIBLE ASSETS

Cost	
Balance, January 1, 2020	\$ 23,203
Development expenditures	83
Translation differences	512
Balance, December 31, 2020	\$ 23,798
Development expenditures	18
Translation differences	663
Balance, June 30, 2021	\$ 24,479
Accumulated Depreciation	
Balance, January 1, 2020	\$ (429)
Depreciation	(1,298)
Translation differences	(85)
Balance, December 31, 2020	\$ (1,812)
Depreciation	(699)
Translation differences	(55)
Balance, June 30, 2021	\$ (2,566)
Net book value	
As at December 31, 2020	\$ 21,986
As at June 30, 2021	\$ 21,913

In 2018, the Company acquired the Clara platform, a secure, digital sales platform for rough diamonds. The consideration paid was allocated entirely to the intangible assets. As part of the purchase, contingent consideration was agreed to and will be recognized as additional purchase consideration for the intangible asset, if the obliging events occur. The contingent consideration consists of a profit-sharing allocation: cash payments based on 3.45% of the annual EBITDA generated by the sales platform and a pre-existing 13.3% annual EBITDA performance based contingent payments payable to the founders of the technology, to a maximum of \$20.9 million per year for 10 years and additional Lucara share payments to a combined maximum of 13.4 million shares if certain revenue triggers are reached beginning at \$200 million of cumulative revenue to \$1.6 billion of cumulative revenue.

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

The Company's stock option plan (the 'Option Plan') was approved by the Company's shareholders initially on May 13, 2015, with amendments approved on May 10, 2019. At the 2020 Shareholder meeting, the maximum number of shares reserved for issuance upon the exercise of stock options was reduced from 20,000,000 to 10,000,000 shares, with the difference allocated for issuance under the Company's share unit plans as described in note 8 (b) below. The Option Plan provides the Board of Directors with discretion to determine the vesting period for each stock option grant. Options typically vest in thirds over a three-year period beginning on the first anniversary of the date of grant and expire four years from the date of grant.

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8. SHARE BASED COMPENSATION (continued)

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

	Number of shares issuable pursuant to stock options	Weighted average exercise price per share (CA\$)
Balance at January 1, 2020	4,522,000	2.19
Granted	1,604,000	0.77
Expired	(1,480,000)	2.45
Forfeited	(223,000)	1.52
Balance at December 31, 2020	4,423,000	\$ 1.62
Granted	2,247,000	0.79
Expired	(325,000)	2.80
Forfeited	(156,000)	0.78
Balance at June 30, 2021	6,189,000	\$ 1.28

Options to acquire common shares have been granted and are outstanding at June 30, 2021 as follows:

Range of exercise prices CA\$	Outstanding Options			Exercisable Options		
	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CA\$)	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price (CA\$)
\$0.50 - \$1.00	3,623,000	3.26	0.78	486,667	2.66	0.77
\$1.51 - \$2.00	1,341,000	1.66	1.64	894,000	1.66	1.64
\$2.01 - \$2.50	1,175,000	0.79	2.33	1,116,667	0.77	2.34
\$2.51 - \$3.00	50,000	0.20	2.51	50,000	0.20	2.51
	6,189,000	2.42	\$ 1.28	2,547,334	1.43	\$ 1.80

During the six months ended June 30, 2021, an amount of \$0.2 million (2020 – \$0.2 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:

	2021	2020
Assumptions:		
Risk-free interest rate (%)	0.33	1.33
Expected life (years)	3.02	3.63
Expected volatility (%)	50.72	35.04
Expected dividend	Nil	Nil
Results:		
Weighted average fair value of options granted (per option)	CA\$0.27	CA\$0.21

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8. SHARE BASED COMPENSATION (continued)

b. Restricted and performance share units

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

For the six month period ended June 30, 2021, the Company recognized a share-based payment charge against income of \$0.5 million (2020: \$0.3 million) for the SUs granted during the period.

	Number of share units	Estimated fair value at date of grant (CA\$)
Balance at January 1, 2020	1,084,990	\$ 1.95
February 26, 2020 grant	1,918,000	0.77
March 8, 2020 vesting	(56,463)	2.57
Balance at December 31, 2020	2,946,527	\$ 1.17
February 25, 2021 grant	2,854,000	0.75
February 27, 2021 vesting	(276,576)	2.29
April 1, 2021 vesting	(137,195)	2.01
Balance at June 30, 2021	5,386,756	\$ 0.87

c. Deferred share units

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

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8. SHARE BASED COMPENSATION (continued)

	Number of share units	Estimated fair value (CA\$)	
February 26, 2020 grant	278,000	\$	0.77
May 7, 2020 vesting	(74,000)		0.51
July 2, 2020 grant	90,923		0.62
September 30, 2020 grant	159,312		0.50
December 31, 2020 grant	159,312		0.50
Balance at December 31, 2020	613,547	\$	0.52
February 25, 2021 grant	251,000		0.75
March 31, 2021 grant	102,738		0.73
June 30, 2021 grant	98,683		0.75
Balance at June 30, 2021	1,065,968	\$	0.75

For the six month period ended June 30, 2021, the Company recognized a share-based payment charge against income of \$0.4 million (2020: \$0.2 million) for the DSUs granted during the period.

9. ADMINISTRATION

	Three months ended		Six months ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Salaries and benefits	\$ 2,056	\$ 1,264	\$ 3,719	\$ 2,664
Professional fees	126	348	666	818
Insurance, office and general	265	831	1,062	1,438
Marketing	186	124	412	376
Stock exchange, transfer agent, shareholder communication	56	39	185	190
Travel	44	98	71	276
Share-based compensation (Note 8)	485	328	1,125	644
Management fees	24	71	48	169
Depreciation	333	550	634	1,127
Sustainability and donations	84	-	132	22
	\$ 3,659	\$ 3,653	\$ 8,054	\$ 7,724

10. RELATED PARTY TRANSACTIONS*a) Key management compensation*

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's named executive officers and members of its Board of Directors. The remuneration of key management personnel was as follows:

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10. RELATED PARTY TRANSACTIONS (continued)

		Six months ended June 30,	
		2021	2020
Salaries and wages	\$	874	\$ 796
Short term benefits		23	20
Share based compensation		858	457
	\$	1,755	\$ 1,273

b) Clara acquisition

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

Pursuant to the profit sharing described in Note 7, a total of 3.45% of the EBITDA generated by the platform has been assigned to two directors of Lucara, each of whom was a founder of Clara. A further 3.22% of the EBITDA generated by the platform may be distributed to members of management, at the discretion of Lucara's Compensation Committee, based on the achievement of key performance targets. As at June 30, 2021, no amounts have been paid under this profit sharing mechanism to date.

11. SEGMENT INFORMATION

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

	Three months ended June 30, 2021		
	Karowe Mine	Corporate and other	Total
Revenues	\$ 45,934	\$ 400	\$ 46,334
Income (loss) from mining operations ⁽¹⁾	16,848	(602)	16,246
Finance expenses	(700)	(667)	(1,367)
Foreign exchange (gain) loss	(325)	21	(304)
Administration and other	(1,804)	(2,491)	(4,295)
Taxes	(4,282)	-	(4,282)
Net income (loss) for the period	9,737	(3,739)	5,998
Capital expenditures	\$ 22,388	\$ 14	\$ 22,402

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11. SEGMENT INFORMATION (continued)

Three months ended June 30, 2020			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 7,336	\$ 126	\$ 7,462
Loss from mining operations ⁽¹⁾	(13,041)	(223)	(13,264)
Exploration	(493)	-	(493)
Finance expenses	(697)	(102)	(799)
Foreign exchange (gain) loss	298	(26)	272
Administration and other	(1,937)	(2,326)	(4,263)
Taxes	4,632	-	4,632
Net loss for the period	(11,238)	(2,677)	(13,915)
Capital expenditures	\$ 8,159	\$ 2	\$ 8,161

(1) Karowe Mine's depletion and amortization expense during the three months ended June 30, 2021 totaled \$10.3 million (three months ended June 30, 2020 – \$8.0 million).

Six months ended June 30, 2021			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 98,946	\$ 485	\$ 99,431
Income (loss) from mining operations ⁽¹⁾	32,236	(1,153)	31,083
Finance expenses	(1,325)	(741)	(2,066)
Foreign exchange (gain) loss	(1,295)	107	(1,188)
Administration and other	(4,052)	(5,539)	(9,591)
Taxes	(8,833)	-	(8,833)
Net income (loss) for the period	16,731	(7,326)	9,405
Capital expenditures	\$ 32,710	\$ 18	\$ 32,728
Total assets	\$ 341,823	\$ 30,478	\$ 372,301

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11. SEGMENT INFORMATION (continued)

	Six months ended June 30, 2020		
	Karowe Mine	Corporate and other	Total
Revenues	\$ 41,115	\$ 464	\$ 41,579
Loss from mining operations ⁽²⁾	(10,138)	(277)	(10,415)
Exploration	(1,085)	-	(1,085)
Finance expenses	(1,460)	(179)	(1,639)
Foreign exchange (gain) loss	789	(152)	637
Administration and other	(3,719)	(5,105)	(8,824)
Taxes	4,250	-	4,250
Net loss for the period	(11,363)	(5,713)	(17,076)
Capital expenditures	\$ 12,256	\$ 52	\$ 12,308
Total assets	\$ 296,085	\$ 25,061	\$ 321,146

(2) Karowe Mine's depletion and amortization expense during the six months ended June 30, 2021 totaled \$23.0 million (six months ended June 30, 2020 – \$18.5 million).

12. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT**a) Measurement categories and fair values**

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

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

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).

	June 30, 2021	December 31, 2020
Level 1: Fair value through other comprehensive income – Investments	\$ 3,106	\$ 1,651
Level 2: N/A		
Level 3: N/A		

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12. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

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 June 30, 2021, the Company is exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately \$0.9 million in net income for the period.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. A majority of the Company's cash and cash equivalents are held through a large Canadian financial institution with a high investment grade rating. Considering the nature of the Company's ultimate customers and the relevant terms and conditions entered into with such customers, the Company believes that credit risk is limited as goods are not released until full payment is received when goods are sold through tender or on Clara.

Under the supply agreement with HB Antwerp, a larger proportion of the Company's goods, by value, are sold through HB Antwerp to buyers of polished diamonds. The credit risk associated with these sales is concentrated with one individual customer and payment terms are longer (60 to 120 days) than the Company's traditional tender sales (5 days).

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

Price risk

The Company derives its income from the sale of rough diamonds mined in Botswana, a majority of which are sold through a quarterly tender process from Botswana. The price and marketability of these diamonds can be significantly impacted by international economic trends, global or regional consumption, demand and supply patterns and the availability of capital for diamond manufacturers, all factors that are not within the Company's control. Under the supply agreement with HB Antwerp, the ultimate achieved sales prices of stones larger than 10.8 carats in size is based on a polished diamond pricing mechanism. This pricing mechanism results in the Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than it is currently through its traditional sales processes for rough diamonds. During the year ended December 31, 2020, the COVID-19 pandemic negatively impacted global demand for luxury commodities, which includes jewelry containing diamonds however, both demand and prices have been strong during the first six months of 2021. Restrictions on international travel have also disrupted the diamond supply chain. To the extent that the supply of rough or polished diamonds exceeds demand, this is likely to result in price deterioration and negatively impact the Company's revenue, thereby increasing the risk that not only will operations not be profitable, the Company may not have sufficient liquidity to meet its financial obligations as they come due.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. To manage liquidity risk, regular cash flow forecasting is performed in the operating entities of the Company and aggregated in the head office to understand what level of capital is required. Rolling forecasts of the Company's liquidity requirements are prepared and monitored to

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12. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

assess whether there is sufficient cash available to meet the Company's short and longer-term operational needs. Such forecasting takes into consideration the Company's ability to generate cash from the sale of diamonds and additional liquidity which can be accessed through the revolving term credit facility.

Revolving credit facility

As at June 30, 2021, the Company had a \$50 million revolving term credit facility with a maturity date of the earlier of completion of the underground expansion project financing or November 5, 2021. In May 2021, this facility was extended with one of the Company's existing lenders, FirstRand Bank Limited (London Branch), a division of Rand Merchant Bank. 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 June 30, 2021, the Company was in compliance with all financial and non-financial covenants. Outstanding amounts under the facility bear interest at LIBOR or an alternative base rate plus an applicable margin based on the Company's adjusted leverage ratio.

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

As at June 30, 2021, \$50.0 million was drawn on the facility for working capital purposes (December 31, 2020 - \$30.5 million). The interest rate on the amount drawn was LIBOR plus a margin of 3.50%.

13. COMMITMENTS

As at June 30, 2021, \$34.3 million (December 31, 2020 - \$9.9 million) in commitments relates to purchase orders and contracts for services to be provided related to the underground expansion project. Of the committed amount, \$22.6 million relates to expenditures in 2021, \$10.1 million relates to expenditures in 2022, \$0.9 million relates to expenditures in 2023, and \$0.7 million relates to expenditures in 2024-2026.

14. SUBSEQUENT EVENTS

On July 12, 2021, the Company announced the execution of a senior secured project financing debt package of \$220 million between Lucara Botswana Proprietary Limited as the Borrower and a syndicate of five mandated lead arrangers: African Export-Import Bank (Afreximbank), Africa Finance Corp., ING, Natixis, and Societe Generale, London Branch. The debt package includes two tranches: a project finance facility of \$170 million to fund the development of the underground project, and a \$50 million working capital facility which will be used initially to re-finance the Company's existing debt (Note 12) and will then be used to support on-going operations. This debt package is secured by first ranking security over all assets of Lucara Botswana, subordination of shareholder loans to Lucara Botswana and a guarantee from the Company and each intermediary holding company between the Company and Lucara Botswana. The Company's largest shareholder, Nemesia S.a.r.l., agreed to provide a standby undertaking in the event of a funding shortfall occurring up to thirty-six months from financial close. As consideration for providing this undertaking, the Company issued 600,000 common shares to Nemesia S.a.r.l. on July 15, 2021. Further share issuances will be required if the Company calls upon the standby undertaking.

On July 15, 2021, the Company closed a bought deal financing and concurrent private placement for aggregate gross proceeds of C\$41.4 million or approximately \$33.1 million. A total of 33,810,000 common shares of the Company, including 4,410,000 common shares issued pursuant to the over-allotment option, which was exercised in full, were sold at a price of C\$0.75 per common share, for

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14. SUBSEQUENT EVENTS (continued)

aggregate gross proceeds of approximately C\$25.4 million (approximately \$20.3 million). Pursuant to the concurrent private placement, a total of 21,347,733 common shares were sold at a price of C\$0.75 per share for additional aggregate gross proceeds of approximately C\$16 million (approximately \$12.8 million).