



LUCARA

DIAMOND

Management's Discussion and Analysis

and

Condensed Interim Consolidated Financial Statements
for the Three and Nine Months ended September 30, 2019
(Unaudited)

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

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected the performance of Lucara Diamond Corp. and its subsidiaries (the "Company") and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the period ended September 30, 2019, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as applicable to interim financial reporting. All amounts are expressed in U.S. dollars unless otherwise indicated.

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

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

The effective date of this MD&A is November 4, 2019.

ABOUT LUCARA

Lucara is a leading independent producer of large exceptional quality Type IIa diamonds from its 100% owned Karowe Diamond Mine in Botswana. The Karowe Mine has been in production since 2012 and is the focus of the Company's operations, development and exploration activities. In February 2018, the Company acquired Clara Diamond Solutions Corp. ("Clara"). Clara, a wholly-owned subsidiary of Lucara, has developed a secure, digital sales platform that uses proprietary analytics together with cloud and blockchain technologies to modernize the existing diamond supply chain, driving efficiencies, unlocking value and ensuring diamond provenance from mine to finger. Lucara has an experienced board and management team with extensive diamond development and operations expertise. Lucara and its subsidiaries operate transparently and in accordance with international best practices in the areas of sustainability, health and safety, environment and community relations.

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

HIGHLIGHTS

- A strong operating environment prevailed at the Karowe Mine in Q3 2019 with guidance met or exceeded with respect to all mining and processing activities including:
 - Ore and waste mined of 0.8 million tonnes and 1.5 million tonnes respectively
 - 0.68 million tonnes of ore processed for a recovered grade of 13.9 carats per hundred tonnes
 - Carats recovered of 104,990 (including 10,646 carats recovered from re-processing historic recovery tailings from previous milling)
 - 211 Specials were recovered from direct milling during the third quarter, representing 6.1% weight percentage of total direct milling recovered carats, in line with mine plan expectations
 - 7 diamonds were recovered greater than 100 carats in weight
 - A 9.74 carat gem quality blue diamond and a 4.13 carat gem quality pink diamond were recovered in September 2019

- During Q3 2019, revenue recognized totalled \$45.3 million (Q3 2018: \$45.7 million) or \$390 per carat (Q3 2018: \$450 per carat) from the sale of 116,200 carats (Q3 2018: 101,600 carats). Better recoveries in smaller, lower value diamonds resulted in a 14% increase in the number of carats sold. While still profitable, the smaller goods impact the average price per carat sold.
- The Company recorded a net loss of \$4.0 million for Q3 2019 resulting in a \$0.01 loss per share for the quarter. This compares to net income of \$5.1 million for Q3 2018 and earnings per share of \$0.01. An increase in operating expenses and depletion and amortization (a non-cash expense) had the most significant impact on the current quarter's results.
- Cash flow from operations in Q3 2019 totalled \$13.8 million compared to cash flow from operations of \$3.7 million in Q3 2018.
- The value of the rough diamonds sold through the Clara platform doubled in Q3 2019 with \$2.4 million of goods transacted and five sales held, which brings the total value transacted on the platform as of September 30, 2019 to \$6.0 million since sales began in December 2018. Clara's customer base has grown another 35% in the third quarter, from twenty to twenty-seven and sales continue to ramp up according to plan.
- Changes in guidance: total revenue in 2019 is expected to be at the lower end of guidance, between \$170 million and \$180 million; operating cost per tonne processed is also expected to be at the lower end of guidance, between \$32-\$34/tonne. Total carats recovered and sold is expected to be between 400,000 and 425,000 carats and total tonnes mined is expected to be between 9.5 and 11.0 million tonnes.
- Revenue of \$136.5 million for the nine months ended September 30, 2019 ("YTD 2019") from three tenders and sales through Clara. This is comparable to revenue of \$135.6 million for the nine months ended September 30, 2018 ("YTD 2018") in which three regular stone tenders and one exceptional stone tender were held.
- The operating cash cost⁽¹⁾ for the nine months ended September 30, 2019 was \$31.06 per tonne processed (YTD 2018: \$38.98 per tonne processed) compared to the revised full year forecast cash cost of \$32-\$34 per tonne processed. Operating cash cost per tonne processed was positively impacted by the completion of a significant waste stripping campaign in 2018, an increase in tonnes processed in 2019 and foreign exchange.
- A continued focus on operational discipline at Karowe has resulted in a strong operating margin of 58% year to date (YTD 2018: 63%) and adjusted EBITDA⁽¹⁾ year to date of \$50.2 million (YTD 2018: \$55.7 million). Operating expenses per carat sold have decreased to \$182 per carat in the nine months ended September 30, 2019, from \$208 per carat in the comparable period in 2018, due to a 30% higher volume of carats sold period to period.
- Net income for the nine months ended September 30, 2019 was \$4.1 million, resulting in earnings per share of \$0.01. This compares to net income of \$17.9 million and earnings per share of \$0.05 for the nine months ended September 30, 2018.
- As at September 30, 2019, the Company had cash and cash equivalents of \$4.8 million. All draws on the Company's working capital facility were repaid during Q3 2019, leaving \$50 million available for use at September 30, 2019.
- Cash flow from operations for the nine months ended September 30, 2019 totalled \$31.0 million as compared to \$35.7 million for the nine months ended September 30, 2018.
- The Company paid a quarterly dividend of CA\$0.025 per share on September 19, 2019.

(1) Non IFRS measure (see pages 10- 11 for details)

CHANGE IN DIVIDEND POLICY

With the announcement of a positive feasibility study for development of an underground mine at Lucara's 100% owned Karowe Diamond Mine, Lucara's Board of Directors has determined that it is in the best interest of the Company and its shareholders to suspend the quarterly dividend payment of C\$0.025 per share, effective immediately. The feasibility study demonstrates the potential to extend the mine life at Karowe to 2040 while generating significant economic benefits for the Company, its shareholders, and employees, the communities surrounding the mine and the country of Botswana. In anticipation of a decision to proceed with construction of an underground mine at Karowe, the Board of Directors are of the view that it would be prudent to re-direct the Company's available cash so that those funds can be available for early works including detailed engineering, procurement initiatives and project financing.

FINANCIAL HIGHLIGHTS

Table 1:

<i>In millions of U.S. dollars unless otherwise noted</i>	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenues	\$ 45.3	\$ 45.7	\$ 136.5	\$ 135.6
Net income (loss) for the period	(4.0)	5.1	4.1	17.9
Earnings (loss) per share (basic and diluted)	(0.01)	0.01	0.01	0.05
Cash on hand	4.8	31.1	4.8	31.1
Average price per carat sold (\$/carat)*	390	450	436	564
Operating expenses per carat sold (\$/carat)*	201	185	182	208
Operating margin per carat sold (\$/carat)*	189	265	254	356

(*Average price per carat sold, operating expenses per carat sold and operating margin per carat sold are Non-IFRS measures, see Table 2: Results of Operations for reconciliations and page 11 for "Non-IFRS measures" below.

The Company recognized revenue of \$136.5 million or \$436 per carat for its sales in the first nine months of 2019, yielding an operating margin of \$254 per carat (58%). Starting in September 2018, the Company moved to a blended sales tender, combining the sale of exceptional stones with the balance of run of mine production into one tender, held quarterly. This change was made to decrease the inventory time for large, high value diamonds and to generate a smoother revenue profile that better supports price guidance on a per sale basis. During 2019, diamonds recovered between November 2018 and July 2019 were sold either in a blended sales tender or through the Clara digital sales platform. The one exception to this new practise was the retention of the 1,758 carat diamond named Sewelō. Due to the unique and complex nature of the Sewelō, additional analysis of the diamond is being undertaken while the Company considers how best to maximize value from this unique and rare diamond.

In the first nine months of 2019, a total of 313,189 carats were sold (YTD 2018: 240,245 carats) achieving a year-to-date average sales price of \$436/carat (YTD 2018: \$564/carat). The number of carats sold was 30% higher than in the comparative period driven by better recoveries in the smaller, lower value sizes. While still profitable, the smaller goods impact the average price per carat sold when compared to the prior year. The significant increase in carats is due to the continued strong performance of the plant which processed 2.16 million tonnes during the nine months ended September 30, 2019 (YTD 2018: 2.03 million tonnes milled). An improved mine call factor also contributed to higher recoveries of diamonds.

While most of Karowe's diamond production is sold through a blended sales tender, beginning in late 2018 certain stones from Karowe's production sized between 1 and 4 carats and of better quality were offered for sale on Clara, Lucara's revolutionary, web based, digital sales platform that allows customers to purchase rough diamonds individually, based on specific demand. The first sale through Clara took place in December 2018. Five sales were completed on the platform during the first six months of 2019 and a further five sales through Clara were completed in Q3 2019, with \$2.4 million in value transacted in Q3 2019 and a total of \$6.0 million transacted since sales began. Continued growth of the platform is expected in the fourth quarter based on increasing demand from a growing customer base, which expanded from twenty to twenty-seven participants in Q3 2019. The Company's objective is to begin

adding third-party production to the platform before the end of the year in order to meet anticipated demand.

Operating expenses increased from \$50.0 million in the nine months ended September 30, 2018 to \$57.1 million in the nine months ended September 30, 2019 mainly due to a combination of an increase in the average cost per tonne mined (related to the new mining contractor) and lower volumes of total tonnes mined as well as higher volumes of total tonnes processed. Waste tonnes mined decreased as compared to the same period in 2018 as the significant waste stripping campaign ("Cut 2") undertaken between 2017 and 2018 was substantially complete by the end of 2018. In addition, ore mining was stronger than expected early in 2019 due to resource gains in the North Lobe that offset planned waste mining. Due to the higher volume of ore mined during the first few months of 2019, no waste stripping costs were capitalized and the strip ratio was reduced to below the life of mine average of 2.46. As a result, no capitalized stripping is now expected during 2019 (versus a strip ratio of 2.84 in 2019 guidance). In 2018, costs relating to waste mining in excess of the life of mine average strip ratio were capitalized. Additionally, due to higher plant availability, a 6% increase in total tonnes processed was achieved in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. An increase in carats processed and sold resulted in a decrease in the operating expense per carat sold from \$208/carat in the nine months ended September 30, 2018 to \$182/carat in the nine months ended September 30, 2019.

Depletion and amortization, a non-cash expense, increased from \$20.1 million in YTD 2018 to \$38.1 million in YTD 2019 due to a combination of factors including a 30% higher volume of carats sold (313,189 carats YTD 2019 vs. 240,245 carats YTD 2018). The increase in this expense has been driven by several things: a larger number of fine diamonds recovered following improvements to the processing circuit implemented in late 2017, a higher mineral property balance from the waste stripping campaign between 2017 and 2018, and a corresponding increase in the rate of unit of production depletion from a change to the reserve base in Q3 2018. With depletion and amortization expense almost double what it was in the same period last year, net income decreased to \$4.1 million for the nine months ended September 30, 2019 as compared to net income of \$17.9 million in the same period in 2018. Earnings per share decreased to \$0.01 as compared to earnings per share of \$0.05 for YTD 2018. Adjusted Earnings Before Interest, Tax, Depletion and Amortization ("Adjusted EBITDA") for YTD 2019 was \$50.2 million (YTD 2018: \$55.7 million) (see page 11 Non-IFRS measures).

The first nine months of 2019 were characterized by a continued, strong, stable operating environment at the Karowe Mine. Following record production achieved during the first two quarters of the year, the operations continued to deliver strong performance through Q3 2019, with 0.8 and 1.5 million tonnes of ore and waste mined respectively, and 0.68 million tonnes of ore processed. As a result, production yielded higher carat recoveries against plan and contributed to the sale of 116,200 carats during Q3 2019 at an average sales price of \$390/carat (Q3 2018: 101,600 carats sold at an average price of \$450/carat). The main driver for the differential in the average sales price per carat quarter to quarter was a 14% increase in the number of carats sold.

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

While the pricing environment for both polished and rough diamonds remains challenging, during 2019 several large diamond producers have reduced the number of diamonds offered for sale and have provided greater flexibility to their customers, which has provided some stability to the marketplace. Further, US polished demand remains strong. Karowe's annual production (expected to be between 400,000 and 425,000 carats in 2019) represents a small fraction of the global rough diamond supply that is mined and sold each year. Diamonds mined from Karowe are sold either through a quarterly tender or through the Clara digital sales platform. Buyers of Karowe diamonds do not have firm purchasing commitments in either sales channel, so they are free to bid only on the diamonds which are of interest to them. This system benefits both Lucara and its customers and results in competitive pricing for Karowe goods. As a result, Lucara has not held back any goods in inventory (with the exception of the 1,758 carat Sewelô) and expects to be able to achieve its 2019 revenue guidance, albeit at the lower end (\$170 million to \$180 million) of the 2019 guidance.

RESULTS OF OPERATIONS – KAROWE MINE

Table 2:

	UNIT	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18
Sales						
Revenues	US\$M	45.3	42.5	48.7	40.6	45.7
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US\$M	45.3	42.5	48.7	40.6	41.8
Sales proceeds received during the quarter	US\$M	45.3	42.5	48.7	40.6	45.7
Q2 2018 tender proceeds received post Q2 2018	US\$M	-	-	-	-	(3.9)
Carats sold for proceeds generated during the period	Carats	116,200	101,931	95,057	110,553	89,461
Carats sold for revenues recognized during the period	Carats	116,200	101,931	95,057	110,553	101,600
Average price per carat for proceeds generated during the period	US\$	390	417	512	367	467
Average price per carat for proceeds received during the period	US\$	390	417	512	367	450
Production						
Tonnes mined (ore)	Tonnes	823,875	773,861	1,011,048	563,279	1,217,016
Tonnes mined (waste)	Tonnes	1,489,668	1,826,972	2,485,548	2,743,586	3,850,225
Tonnes processed	Tonnes	680,665	713,037	763,313	602,376	728,962
Average grade processed	cpht ⁽¹⁾	13.9 ¹	14.2 ²	15.9 ³	13.3 ⁴	17.4
Carats recovered	Carats	104,990 ¹	109,312 ²	132,336 ³	81,850 ⁴	127,031
Costs						
Operating costs per carat sold (see page 11 Non-IRFS measures)	US\$	201	174	169	233	185
Capital expenditures	US\$M	0.7	1.4	2.4	6.5	2.4

(*) carats per hundred tonnes

- (1) Carats recovered during the period included 10,646 carats recovered from re-processing historic recovery tailings from previous milling and are excluded from the average grade processed.
- (2) Carats recovered during the period included 8,172 carats recovered from re-processing historic recovery tailings from previous milling and are excluded from the average grade processed.
- (3) Carats recovered during the period included 10,899 carats recovered from re-processing historic recovery tailings from previous milling and are excluded from the average grade processed.
- (4) Carats recovered during the period included 1,505 carats recovered from re-processing historic recovery tailings from previous milling and are excluded from the average grade processed.

THIRD QUARTER OVERVIEW – OPERATIONS - KAROWE MINE

Safety: Karowe had one lost time injury during the three months ended September 30, 2019 resulting in a twelve-month rolling Lost Time Injury Frequency Rate (“LTIFR”) of 0.12. In May 2019, Lucara Botswana and the Karowe Mine achieved a significant milestone, passing two years without a lost time injury.

Production: Ore and waste mined during the three months ended September 30, 2019 totaled 0.8 million tonnes and 1.5 million tonnes respectively. Tonnage processed was 0.68 million tonnes, with a total of 104,990 carats recovered. Approximately 10% of total carats (10,646 carats) were recovered from the re-processing of material previously milled, prior to the implementation of XRT technology, which is now a standard part of the recovery circuit at Karowe. During Q3 2019, ore processed was almost entirely from the South lobe. During Q3 2019, a total of 211 Specials were recovered including 7 diamonds greater than 100 carats in weight. Recovered Specials equated to 6.1% weight percentage of total recovered carats from ore processed (direct milling) during Q3 2019, in line with expectations.

Overall performance during the third quarter is consistent with the strong operational results achieved in the first half of 2019 and continues to build upon the significant operational improvements executed in late 2018 following a transition between mining contractors. In addition, investments made in the plant during 2017 and 2018 are being realized through increased diamond recoveries and higher plant availability. Improvements to maintenance scheduling and equipment are expected to support this strong production trend and ore and waste mining are expected to meet or exceed planned volumes. Due to the higher volume of ore mined earlier in 2019 (resulting from ore gains on the waste contact), no waste stripping costs have been or are expected to be capitalized in 2019. Ore mining is expected to be above guidance for the year due to the resource gains in the North and Centre pipes, previously categorized as waste. Total waste mining volumes are expected to be at the lower end of guidance for the year, while total tonnes mined should be between 9.5 million and 11.0 million tonnes.

Karowe's operating cash cost: Karowe's year to date operating cash cost (see page 11 Non-IFRS measures) was \$31.06 per tonne processed (YTD 2018: \$38.98 per tonne processed) below the revised full year forecast of \$32-\$34 per tonne processed. The decrease in cost per tonne processed compared to the nine months ended September 30, 2018 reflects lower volumes of waste tonnes mined following a significant waste stripping campaign undertaken between 2017 and 2018 as well as a 6% increase in tonnes processed from ongoing plant improvements.

Significant diamond recoveries: In April 2019, an unbroken, 1,758 carat stone was mined from the EM/PK(S) unit of the South Lobe and was recovered using XRT technology. In July 2019, following a contest open to all citizens of Botswana, this unique diamond was named Sewelô, meaning "rare find" in Setswana. In September 2019, a 123 carat gem quality top white Type II diamond was recovered from direct milled ore sourced from the EM/PK(S) unit of the South Lobe. Coloured stones of note recovered in the quarter included a 9.74 gem quality blue diamond and a 4.13 carat gem quality pink diamond from direct milled ore (not from re-processed material) sourced from the South Lobe. High quality, coloured diamonds typically command higher prices due to their relative rarity. One of the earliest examples of this was a 9.46 carat blue diamond named the "Aven Blue" which was recovered from Karowe in 2012 and which sold for \$477,000/carat. These three diamonds recovered in September will be sold in the tender scheduled for December 2019. The Company continues to evaluate the Sewelô and will provide an update on its plans for this stone, in the near term.

KAROWE UNDERGROUND UPDATE

Karowe Underground Update

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

During YTD 2019, \$10.9 million was spent to complete the geotechnical drilling program, geotechnical and geological logging, downhole geophysical survey, hyperspectral analysis of core, geotechnical modeling, hydrogeological drilling and studies, and mine planning activities in support of the ongoing feasibility study. Field programs were completed in late April 2019 and the results have been incorporated into the feasibility study.

On November 4, 2019, the Company announced the results of a Feasibility Study ("FS") for an underground mine at Karowe. A copy of the Company's news release has been filed on Sedar (www.sedar.com) and is available on the Company's website at: www.lucaradiamond.com.

Key findings of the feasibility study include:

- The Karowe Mine has produced 2.5 million carats since 2012 and generated \$1.5 billion USD in revenue. The FS looks to double the mine life from the original mine design of 2010 and add net cash flow of \$1.22 billion and gross revenue of \$5.25 billion.
- After-tax NPV_(5%) of \$718 M with no real diamond price escalation
- Updated Resource confirms increasing value with depth. Indicated resource now stands at 35 million tonnes at 15 carats per hundred tonnes for a contained diamond resource of 5.1 million carats
- Long hole shrinkage underground bulk mining method selected will provide early access to higher value ore and allows for a short pay back period of 2.8 years and low operating costs of \$28.43 per tonne processed.
- On the basis of a construction start in mid-2020, ore from underground mining will seamlessly integrate into current operations providing mill feed starting in 2023 with a ramp up to 2.7Mtpa to the processing plant by 2026, and the opportunity to increase throughput. Current production rates will be maintained through the underground ramp up period.

- The Underground is designed to access the South lobe kimberlite resource below the current planned bottom of the open pit (which is expected to be at approximately 700 meters above sea level (“masl”)), to a depth of 310 masl. Access to the South Lobe underground will be via two vertical shafts (production and ventilation) of approximately 765 and 715 meters deep respectively
- Identified key risk areas of hydrogeology, geotechnical constraints of the kimberlite and host rocks have been addressed through an intensive set of work programs and data collection that commenced during the Preliminary Economic Assessment completed in November 2017 and were substantially updated and augmented by the FS study.

Next steps

In the first half of 2020, the Company will focus on detailed engineering and early procurement initiatives. The Company will also be reviewing financing options and will update the market when such decisions are reached. The anticipated capital requirements in 2020 represent less than 10% of the initial capex estimate and can be funded out of the Company’s anticipated cash flow, as financing options are explored.

2019 OUTLOOK

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

Karowe Mine, Botswana

Table 3: 2019 Diamond Sales, Production and Outlook

2019 Guidance has been updated for diamond revenue, diamonds recovered and sold, ore and waste tonnes mined and operating cash cost per tonne processed.

Karowe Diamond Mine <i>In millions of U.S. dollars unless otherwise noted</i>	Full Year – 2019
Diamond revenue (millions)	\$170 to \$180
Diamond sales (thousands of carats)	400 to 425
Diamonds recovered (thousands of carats)	400 to 425
Ore tonnes mined (millions)	3.0 to 3.4
Waste tonnes mined (millions)	6.5 to 7.5
Ore tonnes processed (millions)	2.5 to 2.8
Total operating cash costs ⁽¹⁾ including waste mined ⁽²⁾ (per tonne processed)	\$32.00 to \$34.00
Operating cash costs excluding waste mined (per tonne processed)	\$21.00 to \$24.00
Botswana general & administrative expenses including marketing costs (per tonne processed)	\$2.00 to \$3.00
Tax rate	22% to 29%
Average exchange rate – USD/Pula	10.5

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

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

Revenues for 2019 are expected to be at the lower end of guidance, between \$170 million and \$180 million (previously \$170 million to \$200 million). The Company’s revenue guidance is intentionally quite broad at the beginning of the year because of the Karowe Mine’s unique production profile, which is characterized by a consistent, high contribution of Specials (individual stones greater than 10.8 carats each). Those Specials which are gem-quality contribute to a significant percentage of the Company’s annual revenue. Through September 2019, a total of 19 diamonds have sold for more than \$1 million each, including 7 diamonds which sold for more than \$2 million each and 1 diamond which sold for over \$8 million.

Sustaining capital and project expenditures are expected to be approximately \$12.0 million, slightly lower than the original forecast of up to \$14.0 million in 2019. These expenditures include the construction of an additional slimes dam and design improvements related to the XRT recovery circuit. This does not include investments being made on the underground feasibility study noted below.

A budget of \$14.8 million was approved to complete a feasibility study that was initiated in 2018, evaluating the potential for an underground mining operation at Karowe. In 2019, efforts have focused on follow up geotechnical and hydrogeological drilling and related studies, with the results of the feasibility study. The feasibility study is expected to be completed on budget.

SELECT FINANCIAL INFORMATION

<i>Table 4:</i> <i>In millions of U.S. dollars unless otherwise noted</i>	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenues	\$ 45.3	\$ 45.7	\$ 136.5	\$ 135.6
Operating expenses	(23.3)	(18.8)	(57.1)	(50.0)
Operating earnings ⁽¹⁾	22.0	26.9	79.4	85.6
Royalty expenses	(4.5)	(4.6)	(13.6)	(13.6)
Exploration expenditures	(1.3)	(0.8)	(3.3)	(2.6)
Administration	(3.9)	(2.8)	(10.7)	(12.0)
Sales and marketing	(0.5)	(0.5)	(1.6)	(1.7)
Adjusted EBITDA ⁽²⁾	11.8	18.2	50.2	55.7
Depletion and amortization	(14.4)	(8.9)	(38.1)	(20.1)
Finance expenses	(1.3)	(0.3)	(2.9)	(1.4)
Foreign exchange loss	(0.9)	(0.4)	(2.1)	(1.4)
Current income tax expense	(2.5)	(2.8)	(11.3)	(7.5)
Deferred income tax expense (recovery)	3.3	(0.7)	8.2	(7.5)
Net income (loss) for the period	(4.0)	5.1	4.0	17.8
Change in cash during the period	(2.3)	(18.5)	(19.6)	(29.9)
Cash on hand	4.8	31.1	4.8	31.1
Earnings (loss) per share (basic and diluted)	(0.01)	0.01	0.01	0.05
Per carat sold:				
Sales price	\$ 390	\$ 450	\$ 436	\$ 564
Operating expenses	201	185	182	208
Average grade (carats per hundred tonnes) ⁽³⁾	13.9	17.4	14.7	14.0

⁽¹⁾ Operating earnings is a non-IFRS measure (see pages 10-11) defined as revenues less operating expenses.

⁽²⁾ Adjusted EBITDA is a non-IFRS measure (see pages 10-11) defined as earnings before interest, taxation, depreciation and amortization.

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

Revenues

During Q3 2019, Lucara sold 116,200 carats at an average price of \$390/carat, resulting in total revenue of \$45.3 million. This compares to revenue of \$45.7 million or \$450/carat sold for the third quarter in 2018. On August 29th, 2019 Lucara closed its third diamond tender sale of the year. Despite challenging market conditions, the tender was well attended with a total of 123 companies viewing, 47 companies winning one or more tender lots and five Specials selling for in excess of \$1 million each.

For the nine months ended September 30, 2019, Lucara sold 313,189 carats at an average price of \$436/carat, resulting in total revenue of \$136.5 million. This compares to revenue of \$135.6 million from the sale of 240,245 carats (\$564/carat) achieved for YTD 2018. In the three completed tenders of the year, a total of 19 diamonds have sold for in excess of \$1 million, including seven diamonds sold for more than \$2 million and one diamond that sold for more than \$8 million. A significant percentage of the Company's revenue is derived from the sale of large, high value diamonds.

The value of the rough diamonds sold through the Clara platform doubled in Q3 2019 with \$2.4 million of goods transacted and five sales held. Clara's customer base also grew by 35%, from twenty to twenty-seven and sales continue to ramp up according to plan. Clara expects to continue to grow its supply and demand concurrently through 2019 by adding third-party production to the platform,

increasing the number of manufacturers who are buying on the platform and by increasing the frequency of sales. As of September 1, 2019, Management determined that the Clara platform was operating as intended. As a result, all costs incurred subsequent to September 1, 2019 have been recorded to the Statement of Operations. Prior to this date, development expenditures of \$0.4 million incurred in 2019 were capitalized to Intangible Assets. The balance of the Intangible Asset will be amortized over the remaining life of the related patents, which is 20 years.

Operating Earnings and Expenses

Operating earnings for the three months ending September 30, 2019 were \$22.0 million (Q3 2018: \$26.9 million) after operating expenses during the period of \$23.3 million or \$201/carats (Q3 2018: \$18.8 million or \$185/carats). The 24% increase in quarterly operating expenses as compared to Q3 2018 is attributable to a combination of an increase in the average cost per tonne mined, lower volumes of total tonnes mined, an increase in tonnes processed and anticipated increases in certain consumables and labour. Despite these increases, cost per tonne processed (see Table 6 on the following pages) of \$31.06 is significantly less than the YTD 2018 cost per tonne processed of \$38.98 following the end of a two-year waste stripping campaign in late 2018 and is trending to the lower end of 2019 guidance (\$32/tonne processed).

Lucara achieved an average grade processed of 13.9 carats per hundred tonnes ("cpht") during Q3 2019 compared to an average grade of 17.4 cpht in the comparable quarter. Recoveries of 96,818 carats (excluding 10,646 carats recovered from re-processing tailings previously milled) were 24% less as compared to the 127,031 carats recovered in Q3 2018. Total carats recovered in Q3 2018 represented a record high for quarterly carat recoveries.

Operating earnings for YTD 2019 were \$79.4 million (YTD 2018: \$85.6 million) after operating expenses during the period of \$57.1 million or \$182/carats (YTD 2018: \$50.0 million or \$208/carats), which resulted in an operating margin (before royalties, depletion and amortization) of \$254/carats or 58% (YTD 2018: \$356/carats or 63%).

Operating earnings is a non-IFRS measure and is reconciled in Table 4 above.

Depletion and Amortization

The Company incurred a depletion and amortization charge of \$14.4 million (Q3 2018: \$8.9 million) for Q3 2019. Following a change to the reserve base in Q3 2018, the rate of depletion on assets amortized over the unit of production method increased materially. A depletion and amortization charge for YTD 2019 of \$38.1 million compared to a charge of \$20.1 million for YTD 2018 results from this change, as well as a 30% increase in carats sold between the periods. Higher capitalized production stripping through 2018 also contributed to an increase in this expense for the quarter and year to date as the ore accessed as a result of the stripping campaign begins to be extracted.

Net Income

The Company recorded a net loss for Q3 2019 of (\$4.0) million (Q3 2018: net income of \$5.1 million). Lower net income in the current period is due to higher expenses overall, particularly (non-cash) depletion and amortization expense, as compared to Q3 2018.

Net income for YTD 2019 was \$4.0 million compared to net income of \$17.8 million in YTD 2018. The decrease in net income when compared to the prior period is most attributable to significantly higher depletion and amortization expense, as well as higher operational and finance expenses and foreign exchange losses.

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

Adjusted EBITDA for the three months ended September 30, 2019 was \$11.8 million compared to \$18.2 million for the comparable period in 2018. The decrease in Adjusted EBITDA is largely attributable to an increase in operating expenses which was anticipated, following a change in the mining contractor mid-2018, the conclusion of a significant waste stripping campaign at the end of 2018 and increases in the cost of certain consumables and labour.

Adjusted EBITDA for the nine months ended September 30, 2019 was about 10% less than YTD 2018 at \$50.2 million compared to \$55.7 million with the main driver of this difference being an increase in operating expenses.

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

Operating Cost Per Tonne of Ore Processed

YTD 2019, operating cost per tonne of ore processed was \$31.06 (YTD 2018: \$38.98). The significant decrease in 2019 is as expected, due to a lower volume of waste mined as in 2018 the Company was still in the middle of a significant waste stripping campaign (Q3 2019 – 1.5 million tonnes; Q3 2018 – 3.9 million tonnes). This was partially offset by significant net increases in both the operating expenses of rough diamond inventory (+ \$3.0 million) and the ore stockpile inventory (+ \$ 6.9 million) as compared to the balances at December 31, 2018.

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

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2019, the Company had cash and cash equivalents of \$4.8 million compared to \$7.1 million at the end of the second quarter and \$24.4 million as at December 31, 2018. Cash decreased by \$2.3 million during the three months ended September 30, 2019 and decreased by \$19.6 million year to date. Cash flow from operations provided \$13.8 million for the quarter and \$31.0 million year to date. Financing activities, including dividends paid of \$7.5 million (Q3) and \$22.4 million (YTD) and repayments on the credit facility of \$5.0 million (Q3) and \$10.0 million (YTD) reduced available cash by \$12.5 million for the quarter and \$32.8 million year to date. Available cash was further reduced by \$3.2 million expended on investing activities during Q3 (\$17.6 million year to date), consisting mainly of capitalized mineral property expenditures (Q3 - \$2.4 million; YTD - \$10.9 million) and the acquisition of plant, equipment and other assets (Q3 - \$0.8 million; YTD - \$6.7 million).

Working capital as at September 30, 2019 was \$52.2 million as compared to \$48.8 million as at December 31, 2018. The increase in working capital results from higher inventory balances, decreases in both receivables and payables in the normal course of business and a decrease in short-term liabilities from the repayment of amounts outstanding on the working capital facility in 2019. As at September 30, 2019 there were no amounts owing on the credit facility, with \$50 million available.

Long-term liabilities consist of restoration provisions of \$21.5 million (2018: \$20.2 million), deferred income taxes of \$63.5 million (2018: \$73.5 million), and other non-current liabilities of \$1.2 million (2018: \$nil) which consist of leases reclassified under *IFRS 16: Leases* as of January 1, 2019.

Total shareholders' equity has decreased from \$241.9 million as at December 31, 2018 to \$219.6 million as at September 30, 2019, mainly due to increases in the deficit and accumulated other comprehensive loss. Other minor changes to share capital and contributed surplus were related to share units vesting and the recording of stock-based compensation during the period.

Since the inception of a regular dividend payment in June 2014, a total of \$271.1 million (C\$348.8 million) has been returned to shareholders. In January 2019, the Board of Directors announced an annual dividend of C\$0.10 per share, to be paid quarterly. Three of the four payments have been made to date. However, in light of the positive feasibility study for development of an underground mine at Karowe and after careful consideration of the best use of the Company's available cash, the Board of Directors has elected to suspend the quarterly dividend payment, effective immediately.

SUMMARY OF QUARTERLY RESULTS

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

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

Three months ended	Sept-19	Jun-19	Mar-19	Dec-18	Sept-18	Jun-18	Mar-18	Dec-17
A. Revenues	45,317	42,541	48,690	40,609	45,669	64,539	25,374	37,143
B. Administration expenses	(3,921)	(3,960)	(2,777)	(4,369)	(2,849)	(3,342)	(5,831)	(6,071)
C. Net income (loss)	(4,012)	675	7,416	(6,225)	5,136	19,698	(6,957)	1,571
D. Earnings (loss) per share (basic and diluted)	(0.01)	0.00	0.02	(0.02)	0.01	0.05	(0.02)	-

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

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

The Company's only Exceptional Stone Tender of 2018 occurred during the three months ended June 30, 2018 and contributed \$32.4 million of the total revenues of \$64.5 million recognized during the quarter.

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

Administration expense was higher during the quarter ended March 31, 2018 due to the payment of severance.

NON-IFRS FINANCIAL MEASURES

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

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

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

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

directly comparable measure calculated in accordance with IFRS is operating expenses. A table reconciling the two measures is presented below.

Table 6: Operating cost per tonne of ore processed reconciliation:

<i>In millions of U.S. dollars with the exception of tonnes processed and operating cost per tonne processed</i>	Nine months ended September 30,	
	2019	2018⁽¹⁾
Operating expenses	\$ 57.1	\$ 50.0
Capitalized production stripping costs ⁽²⁾	-	16.7
Net change rough diamond inventory, excluding depletion and amortization ⁽³⁾	3.0	3.6
Net change ore stockpile inventory, excluding depletion and amortization ⁽⁴⁾	6.9	8.7
Total operating costs for ore processed	67.0	79.0
Tonnes processed	2,157,015	2,026,672
Operating cost per tonne of ore processed⁽⁵⁾	\$ 31.06	\$ 38.98

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

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

⁽³⁾ Net change in rough diamond inventory, excluding depletion and amortization for the periods ended September 30, 2019 and 2018.

⁽⁴⁾ Net change in ore stockpile inventory for the periods ended September 30, 2019 and 2018.

⁽⁵⁾ Operating cost per tonne processed for the period is a non-IFRS measure defined as the sum of operating expenses, capitalized production stripping costs, and the net changes in rough diamond inventories and ore stockpiles divided by the tonnes of ore processed for the period.

RELATED PARTY TRANSACTIONS

A description of key management compensation can be found in Note 9 of the condensed interim consolidated financial statements for the three and nine months ended September 30, 2019.

In relation to the acquisition of Clara in February 2018, certain related parties may receive additional shares of Lucara if Clara, now a wholly-owned subsidiary of Lucara, achieves certain levels of revenue generated by sales on the platform (the "Performance Milestones"). The Performance Milestones are detailed in Note 6 of the condensed interim consolidated financial statements for the three and Nine months ended September 30, 2019. As of September 30, 2019, none of the revenue milestones have been achieved.

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

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

FINANCIAL INSTRUMENTS

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

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 396,858,168 common shares outstanding, 1,084,990 share units and 4,522,000 stock options outstanding under its stock-based incentive plans.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business which includes the acquisition, financing, exploration, development and operation of diamond properties and the acquisition of Clara Diamond Solutions Corporation in February 2018. The material risk factors and uncertainties, which should be taken into account in assessing the Company's activities, are described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form available at <http://www.sedar.com> (the "AIF"). Any one or more of these risks and uncertainties could have a material adverse effect on the Company.

OFF-BALANCE SHEET ARRANGEMENTS

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

CHANGES IN ACCOUNTING POLICIES

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

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of this document along with the unaudited condensed interim consolidated financial statements. Management is responsible for the integrity and objectivity of this document, ensuring the fair presentation of its financial results. The Audit Committee is responsible for reviewing the contents of this document along with the condensed interim consolidated financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended September 30, 2019.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

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

Internal controls over financial reporting

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

in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, due to inherent limitations, internal controls over financial reporting may not prevent or detect all misstatements and fraud.

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

There have been no changes in the Company's internal control over financial reporting during the three months ended September 30, 2019 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

In particular, this MD&A may contain forward looking information pertaining to the following: the estimates of the Company's mineral reserves and resources; estimates of the Company's production and sales volumes for the Karowe Diamond Mine; estimated costs for capital expenditures related to the Karowe Diamond Mine, including the potential for development of an underground mine and estimates related to the economic benefits of an underground mine; start-up, exploration and development plans and objectives; production costs; exploration and development expenditures and reclamation costs; expectation of diamond price and changes to foreign currency exchange rates; expectations in respect of the development and functionality of the technology related to the Clara platform, the intended benefits and performance of the Clara platform, including achieved margins in pricing, the timing and cost of commercialization and operation of the Clara platform, the timing and frequency of sales on the Clara Platform, and future participation of third parties on the Clara platform; expectations regarding the need to raise capital; possible impacts of disputes or litigation; and other risks and uncertainties described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form available at <http://www.sedar.com> (the "AIF").

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

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

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

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

	September 30, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,763	\$ 24,355
VAT receivables and other	6,847	11,583
Inventories (Note 3)	63,974	48,146
	<u>75,584</u>	<u>84,084</u>
Investments	304	920
Plant and equipment (Note 4)	119,778	147,246
Mineral properties (Note 5)	105,782	113,109
Intangible assets (Note 6)	22,688	21,798
Other non-current assets	5,053	3,738
TOTAL ASSETS	\$ 329,189	\$ 370,895
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	\$ 12,902	\$ 21,204
Credit facility	-	10,111
Taxes payable	10,463	3,999
	<u>23,365</u>	<u>35,314</u>
Restoration provisions	21,545	20,184
Deferred income taxes	63,495	73,482
Other non-current liabilities	1,190	-
TOTAL LIABILITIES	109,595	128,980
EQUITY		
Share capital (unlimited common shares, no par value)	314,820	313,913
Contributed surplus	7,464	7,766
Deficit	(40,130)	(21,767)
Accumulated other comprehensive loss	(62,560)	(57,997)
TOTAL EQUITY	219,594	241,915
TOTAL LIABILITIES AND EQUITY	\$ 329,189	\$ 370,895

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

Approved on Behalf of the Board of Directors:

"Marie Inkster"
Director

"Brian Edgar"
Director

LUCARA DIAMOND CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited - in thousands of U.S. Dollars, except for share and per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenues	\$ 45,317	\$ 45,669	\$ 136,548	\$ 135,582
Costs of goods sold				
Operating expenses	23,313	18,756	57,050	49,976
Royalty expenses	4,502	4,567	13,625	13,558
Depletion and amortization	14,422	8,852	38,132	20,134
	42,237	32,175	108,807	83,668
Income from mining operations	3,080	13,494	27,741	51,914
Other expenses				
Administration (Note 8)	3,921	2,849	10,658	12,022
Exploration expenditures	1,258	785	3,261	2,630
Finance expenses	1,265	330	2,905	1,383
Foreign exchange loss	877	391	2,141	1,391
Sales and marketing	494	450	1,570	1,679
	7,815	4,805	20,535	19,105
Net income (loss) before tax	(4,735)	8,689	7,206	32,809
Income tax expense (recovery)				
Current income tax	2,529	2,844	11,279	7,468
Deferred income tax	(3,252)	709	(8,151)	7,464
	(723)	3,553	3,128	14,932
Net income (loss) for the period	\$ (4,012)	\$ 5,136	\$ 4,078	\$ 17,877
Earnings (loss) per common share				
Basic	\$ (0.01)	\$ 0.01	\$ 0.01	\$ 0.05
Diluted	\$ (0.01)	\$ 0.01	\$ 0.01	\$ 0.05
Weighted average common shares outstanding				
Basic	396,858,168	396,446,895	396,768,297	393,163,221
Diluted	397,919,875	397,265,013	397,903,131	394,398,739

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

LUCARA DIAMOND CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited - in thousands of U.S. Dollars, except for share and per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net income (loss) for the period	\$ (4,012)	\$ 5,136	\$ 4,078	\$ 17,877
Other comprehensive income (loss)				
<i>Items that will not be reclassified to net income</i>				
Change in fair value of marketable securities	(106)	(779)	(615)	(1,274)
<i>Items that may be subsequently reclassified to net income</i>				
Currency translation adjustment	(7,309)	(3,001)	(3,948)	(15,016)
	(7,415)	(3,780)	(4,563)	(16,290)
Comprehensive income (loss)	\$ (11,427)	\$ 1,356	\$ (485)	\$ 1,587

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Cash flows from (used in):				
Operating Activities				
Net income (loss) for the period	\$ (4,012)	\$ 5,136	\$ 4,078	\$ 17,877
Items not involving cash and cash equivalents:				
Depletion and amortization	14,679	9,357	38,852	20,611
Unrealized foreign exchange loss	877	391	2,141	1,391
Share-based compensation	252	218	971	1,152
Deferred income taxes	(3,252)	709	(8,151)	7,464
Finance costs	979	401	2,091	1,425
	9,523	16,212	39,982	49,920
Net change in working capital items:				
VAT receivables and other	(1,367)	(3,998)	3,946	(6,391)
Inventories	1,706	(12,060)	(13,557)	(16,440)
Trade payables and other current liabilities	(1,853)	2,791	(6,174)	6,449
Taxes payable	5,801	765	6,785	2,170
	13,810	3,710	30,982	35,708
Financing Activities				
Proceeds from exercise of stock options	-	219	-	327
Dividends paid	(7,520)	(7,534)	(22,380)	(22,850)
Withholding tax for share units vested	-	-	(427)	(362)
Repayments of credit facility, net	(5,000)	-	(10,000)	-
	(12,520)	(7,315)	(32,807)	(22,885)
Investing Activities				
Acquisition of plant and equipment	(761)	(2,194)	(4,519)	(9,214)
Capitalized mineral property expenditures	(2,408)	(8,721)	(10,853)	(15,029)
Capitalized production stripping costs	-	(3,248)	-	(16,724)
Acquisition and development of intangible assets	(71)	(693)	(380)	(1,420)
Acquisition of other assets	69	-	(1,810)	-
	(3,171)	(14,856)	(17,562)	(42,387)
Effect of exchange rate change on cash and cash equivalents	(460)	(30)	(205)	(355)
Decrease in cash and cash equivalents during the period	(2,341)	(18,491)	(19,592)	(29,919)
Cash and cash equivalents, beginning of period	7,104	49,637	24,355	61,065
Cash and cash equivalents, end of period ⁽¹⁾	\$ 4,763	\$ 31,146	\$ 4,763	\$ 31,146
Supplemental information				
Interest received	27	61	117	227
Taxes paid	(681)	(2,334)	(5,019)	(5,060)
Changes in accounts payable and accrued liabilities related to plant and equipment	47	275	1,385	467

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

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

LUCARA DIAMOND CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited - in thousands of U.S. Dollars, except for share amounts)

	Number of shares issued and outstanding	Share Capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive loss	Total
Balance, January 1, 2018	382,619,334	\$ 290,846	\$ 7,832	\$ (3,043)	\$ (38,959)	\$ 256,676
Shares issued for Clara acquisition	13,100,000	21,489	-	-	-	21,489
Exercise of stock options	200,000	441	(114)	-	-	327
Share-based compensation	-	-	1,152	-	-	1,152
Change in fair value through other comprehensive income securities	-	-	-	-	(1,274)	(1,274)
Effect of foreign currency translation	-	-	-	-	(15,016)	(15,016)
Shares issued from SUs vested	590,053	1,137	(1,137)	-	-	-
Withholding tax for SUs vested	-	-	(362)	-	-	(362)
Dividends paid ⁽¹⁾	-	-	79	(22,929)	-	(22,850)
Net income for the period	-	-	-	17,877	-	17,877
Balance, September 30, 2018	396,509,387	\$ 313,913	\$ 7,450	\$ (8,095)	\$ (55,249)	\$ 258,019
Balance, January 1, 2019	396,509,387	\$ 313,913	\$ 7,766	\$ (21,767)	\$ (57,997)	\$ 241,915
Share-based compensation	-	-	971	-	-	971
Change in fair value through other comprehensive income securities	-	-	-	-	(615)	(615)
Effect of foreign currency translation	-	-	-	-	(3,948)	(3,948)
Shares issued from SUs vested	348,781	907	(907)	-	-	-
Withholding tax for SUs vested	-	-	(427)	-	-	(427)
Dividends paid ⁽²⁾	-	-	61	(22,441)	-	(22,380)
Net income for the period	-	-	-	4,078	-	4,078
Balance, September 30, 2019	396,858,168	\$ 314,820	\$ 7,464	\$ (40,130)	\$ (62,560)	\$ 219,594

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

⁽²⁾ On April 11, June 20, and September 19, 2019 the Company paid a cash dividend of CA\$0.025 per share.

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

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

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

1. NATURE OF OPERATIONS

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

The Company’s common shares are listed on the TSX, NASDAQ Stockholm and Botswana Stock Exchanges. The Company was continued into the Province of British Columbia under the Business Corporations Act (British Columbia) in August 2004 and its registered office is located at Suite 2000 - 885 West Georgia Street, Vancouver, British Columbia, V6C 3E8.

2. SIGNIFICANT ACCOUNTING POLICIES

(i) Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, IAS 34: Interim Financial Statements, and do not contain all of the information required for annual financial statements. These statements follow the same accounting policies and methods of application as the most recent annual audited financial statements except for the adoption of *IFRS 16, Leases*. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company. These financial statements were approved by the Board of Directors for issue on November 4, 2019.

(ii) Adoption of new accounting policy

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

IFRS 16 – Leases

Leases

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

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

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

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

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

3. INVENTORIES

	September 30, 2019		December 31, 2018	
Rough diamonds	\$	25,053	\$	16,847
Ore stockpile		27,326		20,435
Parts and supplies		11,595		10,864
	\$	63,974	\$	48,146

Inventory expensed during the nine months ended September 30, 2019 totaled \$57.1 million (nine months ended September 30, 2018 – \$50.0 million). There were no inventory write-downs during the nine months ended September 30, 2019 and 2018.

4. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2018	\$ 8,560	\$ 208,149	\$ 1,918	\$ 5,797	\$ 224,424
Additions	17,438	-	-	10	17,448
Disposals and other	-	-	-	(47)	(47)
Reclassification	(19,756)	16,131	804	1,520	(1,301)
Translation differences	(581)	(17,856)	(198)	(551)	(19,186)
Balance, December 31, 2018	\$ 5,661	\$ 206,424	\$ 2,524	\$ 6,729	\$ 221,338
Additions ¹	2,903	224	-	1,584	4,711
Disposals and other	-	-	-	(3)	(3)
Reclassification ²	(2,863)	1,750	4	936	(173)
Translation differences	(167)	(5,909)	(72)	(256)	(6,404)
Balance, September 30, 2019	\$ 5,534	\$ 202,489	\$ 2,456	\$ 8,990	\$ 219,469
Accumulated depreciation					
Balance, January 1, 2018	\$ -	\$ 52,304	\$ 1,300	\$ 3,244	\$ 56,848
Depletion and amortization	-	21,595	320	1,167	23,082
Disposals and other	-	-	-	(2)	(2)
Translation differences	-	(5,388)	(123)	(325)	(5,836)
Balance, December 31, 2018	-	68,511	1,497	4,084	74,092
Depletion and amortization	-	27,174	265	1,075	28,514
Disposals and other	-	-	-	(3)	(3)
Translation differences	-	(2,726)	(51)	(135)	(2,912)
Balance, September 30, 2019	\$ -	\$ 92,959	\$ 1,711	\$ 5,021	\$ 99,691
Net book value					
As at December 31, 2018	\$ 5,661	\$ 137,913	\$ 1,027	\$ 2,645	\$ 147,246
As at September 30, 2019	\$ 5,534	\$ 109,530	\$ 745	\$ 3,969	\$ 119,778

⁽¹⁾ Additions include \$1,577 recorded to furniture and office equipment upon the adoption of IFRS 16, Leases.

⁽²⁾ Karowe mine related expenditure of \$173 was reclassified to mineral properties in 2019 from construction in progress.

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

5. MINERAL PROPERTIES

Cost	Capitalized production stripping asset	Karowe Mine	Total
Balance, January 1, 2018	\$ 56,668	\$ 57,609	\$ 114,277
Additions	21,425	20,990	42,415
Reclassification	-	599	599
Translation differences	(5,741)	(5,826)	(11,567)
Balance, December 31, 2018	72,352	73,372	145,724
Additions	-	10,853	10,853
Reclassification ¹	-	173	173
Translation differences	(2,120)	(2,481)	(4,601)
Balance, September 30, 2019	\$ 70,232	\$ 81,917	\$ 152,149
Accumulated depletion			
Balance, January 1, 2018	\$ 5,431	\$ 18,287	\$ 23,718
Depletion	6,955	4,471	11,426
Translation differences	(802)	(1,727)	(2,529)
Balance, December 31, 2018	11,584	21,031	32,615
Depletion	9,928	5,235	15,163
Translation differences	(637)	(774)	(1,411)
Balance, September 30, 2019	\$ 20,875	\$ 25,492	\$ 46,367
Net book value			
As at December 31, 2018	\$ 60,768	\$ 52,341	\$ 113,109
As at September 30, 2019	\$ 49,357	\$ 56,425	\$ 105,782

(¹) Karowe mine related expenditure of \$173 was reclassified from plant and equipment to mineral properties in 2019.

Karowe Mine

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

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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6. INTANGIBLE ASSETS

Cost	\$	-
Acquisition of intangible assets		21,868
Development expenditures		1,139
Translation differences		(1,209)
Balance, December 31, 2018		21,798
Development expenditures		380
Translation differences		617
Balance, September 30, 2019	\$	22,795
Accumulated Depletion		(107)
Net book value, September 30, 2019	\$	22,688

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

The purchase consideration was as follows:

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

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

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

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

6. INTANGIBLE ASSETS (continued)

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

7. SHARE BASED COMPENSATION

a. Stock options

The Company's stock option plan (the 'Option Plan') was approved by the shareholders of the Company initially on May 13, 2015, with amendments approved on May 10, 2019. Under the terms of the Option Plan, a maximum of 20,000,000 shares are reserved for issuance upon the exercise of stock options. The Option Plan provides the Board of Directors with discretion to determine the vesting period for each stock option grant. Options typically vest in thirds over a three-year period and expire four years from the date of grant.

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

	Number of shares issuable pursuant to stock options	Weighted average exercise price per share (CA\$)
Balance at December 31, 2017	3,738,337	\$ 2.48
Granted	1,490,000	2.36
Exercised ⁽¹⁾	(200,000)	2.15
Forfeited	(750,001)	2.79
Balance at December 31, 2018	4,278,336	2.40
Granted	1,437,000	1.64
Expired	(703,336)	2.13
Forfeited	(490,000)	2.55
Balance at September 30, 2019	4,522,000	\$ 2.19

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

Options to acquire common shares have been granted and are outstanding at September 30, 2019 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\$)
\$1.50 - \$2.00	1,437,000	3.41	1.64	-	-	-
\$2.01 - \$2.50	2,700,000	1.38	2.39	1,861,667	0.84	2.43
\$2.51 - \$3.00	385,000	1.50	2.76	256,667	1.50	2.76
	4,522,000	2.03	\$ 2.19	2,118,334	0.92	\$ 2.47

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

7. SHARE BASED COMPENSATION (continued)

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

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

	2019	2018
Assumptions:		
Risk-free interest rate (%)	1.82	2.02
Expected life (<i>years</i>)	3.63	3.72
Expected volatility (%)	38.20	39.30
Expected dividend	CA\$0.025/share quarterly	CA\$0.025/share quarterly
Results:		
Weighted average fair value of options granted (<i>per option</i>)	CA\$0.30	CA\$0.50

b. Share units

The Company has a share unit ('SU') plan that provides for the issuance of SUs as a long-term incentive for certain members of the management team. SUs vest three years from the date of grant. Each SU entitles the holder to receive one common share and the cumulative dividend equivalent SU earned during the SU's vesting period. The value of each SU at the vesting date is equal to the closing value of one Lucara common share plus the cumulative dividend equivalent which was earned over the vesting period.

For the nine month period ended September 30, 2019, the Company recognized a share-based payment charge against income of \$0.6 million (2018: \$0.8 million) for the SUs granted during the period.

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

7. SHARE BASED COMPENSATION (continued)

	Number of share units	Estimated fair value at date of grant (CA\$)
Balance at December 31, 2017	1,401,590	\$ 2.53
February 27, 2018 grant	364,000	2.36
April 2, 2018 grant	125,000	2.05
April 12, 2018 dividend	21,213	2.08
May 14, 2018 vesting	(490,661)	2.30
May 31, 2018 vesting	(327,049)	2.66
June 21, 2018 dividend	12,601	2.17
June 29, 2018 grant	140,000	2.11
September 20, 2018 dividend	13,848	2.25
December 20, 2018 dividend	22,503	1.40
Balance at December 31, 2018	1,283,045	\$ 2.41
February 25, 2019 grant	439,000	1.63
February 26, 2019 vesting	(445,567)	2.57
April 2, 2019 vesting	(247,393)	2.52
April 11, 2019 dividend	19,822	1.61
April 11, 2019 vesting	(3,841)	1.61
June 20, 2019 dividend	16,641	1.57
September 19, 2019 dividend	23,283	1.14
Balance at September 30, 2019	1,084,990	\$ 1.95

8. ADMINISTRATION

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Salaries, benefits and severance	\$ 1,670	\$ 936	\$ 4,063	\$ 5,649
Professional fees	665	393	1,722	1,067
Office and general	385	412	1,277	1,072
Marketing	208	235	621	829
Stock exchange, transfer agent, shareholder communication	100	76	317	360
Travel	214	181	581	854
Share based compensation (Note 7)	252	218	971	1,152
Management fees	124	142	371	340
Depreciation	301	134	657	436
Donation	2	122	78	263
	\$ 3,921	\$ 2,849	\$ 10,658	\$ 12,022

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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

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

	Nine months ended September 30,			
		2019		2018
Salaries and wages	\$	1,332	\$	2,360
Severance		-		2,311
Short term benefits		62		243
Share based compensation		496		1,009
	\$	1,890	\$	5,923

b) Clara acquisition

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

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

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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10. SEGMENT INFORMATION

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

Three months ended September 30, 2019

	Karowe Mine	Corporate and other	Total
Revenues	\$ 45,021	\$ 297	\$ 45,317
Income (loss) from operations ⁽¹⁾	3,102	(22)	3,080
Exploration expenditures	(1,258)	-	(1,258)
Finance expenses	(1,162)	(103)	(1,265)
Foreign exchange loss	(782)	(95)	(877)
Other expenses	(1,627)	(2,788)	(4,415)
Tax expense	723	-	723
Net loss for the period	(1,004)	(3,008)	(4,012)
Capital expenditures	\$ (3,169)	\$ (71)	\$ (3,240)

Three months ended September 30, 2018

	Karowe Mine	Corporate and other	Total
Revenues	\$ 45,669	\$ -	\$ 45,669
Income from operations ⁽¹⁾	13,494	-	13,494
Exploration expenditures	(785)	-	(785)
Finance expenses	(297)	(33)	(330)
Foreign exchange loss	(193)	(198)	(391)
Other expenses	1,512	(4,812)	(3,300)
Tax expense	(3,003)	(550)	(3,553)
Net income (loss) for the period	10,729	(5,593)	5,136
Capital expenditures	\$ 14,163	\$ 693	\$ 14,856

⁽¹⁾ Karowe Mine's depletion and amortization expense during the three months ended September 30, 2019 totaled \$14.4 million (three months ended September 30, 2018 – \$8.9 million).

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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10. SEGMENT INFORMATION (continued)

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

	Nine months ended September 30, 2018		
	Karowe Mine	Corporate and other	Total
Revenues	\$ 135,582	\$ -	\$ 135,582
Income (loss) from operations ⁽¹⁾	51,988	(74)	51,914
Exploration expenditures	(2,630)	-	(2,630)
Finance expenses	(1,036)	(347)	(1,383)
Foreign exchange loss	(1,517)	126	(1,391)
Other expenses	(1,679)	(12,022)	(13,701)
Tax expense	(14,382)	(550)	(14,932)
Net income (loss) for the period	30,744	(12,867)	17,877
Capital expenditures	\$ 40,967	\$ 1,420	\$ 42,387
Total assets	\$ 346,244	\$ 28,801	\$ 375,045

⁽¹⁾ Karowe Mine's depletion and amortization expense during the nine months ended September 30, 2019 totaled \$38.1 million (nine months ended September 30, 2018 – \$20.1 million).