LUCARA

DIAMOND

Management's Discussion and Analysis

and

Condensed Interim Consolidated Financial Statements

For the Three Months ended March 31, 2019

(Unaudited)

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2019

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. and its subsidiaries (the "Company") performance and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the period ended March 31, 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 May 9, 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 Diamond 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

- Q1 2019 was characterized by a continuation of the strong operating performance observed during the latter half of 2018, having met or exceeded guidance with respect to all mining and processing activities including:
    - A record 0.76 million tonnes of ore processed, the best quarter in Karowe's history
    - Ore and waste mined of 1.0 million tonnes and 2.5 million tonnes respectively
    - Carats recovered of 132,336 (including 10,899 carats recovered from re-processing historic recovery tailings from previous milling) achieving a recovered grade of 15.9 carats per hundred tonnes processed (direct milling carats)
    - Recoveries of a 240 carat top white gem and a 223 carat high white gem
    - 170 Specials were recovered during the first quarter, representing 4.1% weight percentage of total recovered carats, in line with mine plan expectations; 7 diamonds were recovered greater than 100 carats in weight

- In April 2019, the largest diamond to be mined at Karowe to date, an unbroken 1,758 carat near gem quality diamond was recovered. This recovery is the largest diamond recovered in Botswana and one of the largest diamonds in recorded history, superseding the spot held by the 1,109 carat Lesedi La Rona recovered from Karowe in 2015

- Several large, high-value Specials (single diamonds larger than 10.8 carats) were sold in the Company's first tender of 2019 which resulted in quarterly sales revenue of $48.7 million (Q1 2018: $25.4 million) or $512 per carat (Q1 2018: $401 per carat) recognized during the quarter, consistent with management expectations

- The operating cash cost(1) for the three months ended March 31, 2019 was $30.52 per tonne processed (Q1 2018: $39.97 per tonne processed) compared to the full year forecast cash cost of $32-$37 per tonne processed. Operating cash cost per tonne processed was positively impacted by a reduction in waste mined and an increase in tonnes processed during the first quarter

- Q1 2019 Adjusted EBITDA(1) of $23.4 million (Q1 2018: $1.4 million) reflects the move to a blended tender process. Goods sold include both regular stones and exceptional stones which previously may have been set aside for separate tender events

- Net income for the three months ended March 31, 2019 was $7.4 million ($0.02 per share) as compared to a net loss of $7.0 million ($0.02 loss per share) in the comparative quarter of 2018

- As at March 31, 2019, the Company had cash and cash equivalents of $17.9 million. The funds drawn on the credit facility were repaid in full during Q1 2019, leaving the $50 million facility fully available at March 31, 2019

- The Company accrued a quarterly dividend of CA$0.025 per share on the record date of March 22, 2019 and paid the dividend on April 11, 2019

- Clara has continued to focus on building its customer base through the first quarter after its inaugural sale in Q4 2018. Two sales were completed during Q1 2019 with rough diamond sales of $1.4 million transacted through the platform. Clara expects to continue to grow its supply and demand concurrently through 2019 by adding third-party production to the platform as well as increasing the number of manufacturers who are buying on the platform

(1) Non IFRS measure (see page 10 for details)

FINANCIAL HIGHLIGHTS

Table 1:

In millions of U.S. dollars unless otherwise noted	**Three months ended March 31 2019**	**2018**
Revenues	$ 48.7	$ 25.4
Net income (loss) for the period	7.4	(7.0)
Earnings (loss) per share (basic and diluted)	0.02	(0.02)
Cash on hand	17.9	43.6
Average price per carat sold ($/carat)*	512	401
Operating expenses per carat sold ($/carat)*	169	231
Operating margin per carat sold ($/carat)*	343	170

(*) 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 10 for Non-IFRS measures.

The Company achieved revenues of $48.7 million or $512 per carat for its sales in the first quarter, yielding an operating margin of $343 per carat. In Q1 2019, the Company held a blended tender in which diamonds recovered in the period December 2018 – February 2019 were sold. The blended tender process decreases the inventory time to market of higher value diamonds. A total of 95,057 carats were sold (Q1

2018: 63,317 carats) achieving a strong first quarter average price of $512 and with 50% more carats sold than Q1 2018.

Historically, Lucara has sold diamonds through both regular stone tenders (RSTs) and exceptional stone tenders (ESTs). In September 2018, the Company modified its tender sales to a blended tender process, combining the sale of exceptional stones with the balance of run of mine production into one sale. This change was made to decrease the inventory time for large, high value diamonds and to generate a smoother revenue profile that better supports price guidance on a per sale basis. Beginning in December 2018, certain stones from the Karowe production were offered for sale through the Clara platform.

As the number of carats increases from better recovery in the smaller, lower value sizes, the average sales price per carat is reduced accordingly. The significant increase in carats is due to continued strong performance in the plant which had a record quarter of production of 0.76 million tonnes and an improved mine call factor. The plant also achieved record high availability during Q1 2019. The increase in the number of carats available for sale in the Q1 2019 tender follows commissioning of the sub-middles circuit in Q3 2017 and increased efficiency in diamond recovery in the smaller sizes and improved mill throughput. The number of carats recovered in Q1 2019 (121,437 carats) processed from the mine was 60% higher than the number of carats recovered in Q1 2018 (75,698 carats).

Operating expenses increased from $14.6 million in Q1 2018 to $16.1 million in Q1 2019 due to a combination of higher volumes of ore mined and processed and an increase in the average cost per tonne mined.

Depletion and amortization expense increased from $5.1 million in Q1 2018 to $11.6 million in Q1 2019 due to the 50% higher volume of carats sold during the period. Depletion and amortization expense has increased significantly as compared to prior periods for several reasons: an increasing number of fine diamonds recovered following improvements to the processing circuit implemented in late 2017, a larger mineral property balance from the waste stripping campaign between 2017 and 2018, and a corresponding increase in the rate of unit of production depletion from an update to the reserve base of the mine plan in Q3 2018.

Net income and earnings per share performance were as expected and reflect the stronger carat recoveries being achieved due to the investments in the plant as well as the transition to a blended sales tender process in 2019 creating a smoother revenue profile.

RESULTS OF OPERATIONS – KAROWE MINE

Table 2:

	UNIT	Q1-19	Q4-18	Q3-18	Q2-18	Q1-18
Sales						
Revenues	US$M	48.7	40.6	45.7	64.5[3]	25.4
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US$M	48.7	40.6	41.8	68.4[3]	25.4
Sales proceeds received during the quarter	US$M	48.7	40.6	45.7	64.5	25.4
Q2 2018 tender proceeds received post Q2 2018	US$M	-	-	(3.9)	3.9	-
Carats sold for proceeds generated during the period	Carats	95,057	110,553	89,461	87,467	63,317
Carats sold for revenues recognized during the period	Carats	95,057	110,553	101,600	75,329	63,317
Average price per carat for proceeds generated during the period	US$	512	367	467	782[3]	401
Average price per carat for proceeds received during the period	US$	512	367	450	856[3]	401
Production						
Tonnes mined (ore)	Tonnes	1,011,048	563,279	1,217,016	702,825	630,242
Tonnes mined (waste)	Tonnes	2,485,548	2,743,586	3,850,225	4,416,361	3,991,648
Tonnes processed	Tonnes	763,313	602,376	728,962	698,303	599,407
Average grade processed	cpht (*)	15.9[1]	13.3[2]	17.4	11.7	12.6
Carats recovered	Carats	132,336[1]	81,850[2]	127,031	81,507	75,698
Costs						
Operating costs per carats sold (see page 10 Non-IRFS measures)	US$	169	233	185	220	231
Capital expenditures	US$M	2.4	6.5	2.4	2.7	3.9

(*) carats per hundred tonnes

(1) 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.

(2) 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.

(3) This includes one EST sale of $32.4 million in addition to an RST during the quarter

FIRST QUARTER OVERVIEW – OPERATIONS - KAROWE MINE

Safety: Karowe had no lost time injuries during the three months ended March 31, 2019 resulting in a twelve-month rolling Lost Time Injuries Frequency Rate ("LTIFR") of 0. As of April 30, 2019, the mine has achieved 713 days Lost Time Injury free.

Production: Ore and waste mined during the three months ended March 31, 2019 totaled 1.0 million tonnes and 2.5 million tonnes respectively. Tonnage processed was a mine quarterly record at 0.76 million tonnes, with a total of 132,336 carats recovered. Included in the total 132,336 carats recovered were 10,899 carats recovered from the re-processing of material previously milled. During Q1 2019, ore processed was blended from the North, Central and South lobes. During Q1 2019, a total of 170 Specials were recovered including 7 diamonds greater than 100 carats in weight. Recovered Specials equated to 4.1% weight percentage of total recovered carats during the quarter, in line with expectations.

Mine performance during the first quarter is reflective of the significant operational improvements being executed at the mine following the transition to a new mining contractor, Trollope Mining Services Pty ("Trollope"), in Q3 2018. Plant performance is benefiting from an improving mine call factor and increased recoveries of fine diamonds. Ore mining was stronger than expected in the first quarter due to resource gains in the North Lobe that offset planned waste mining in the North Lobe. Due to the higher volume of ore mined in Q1 2019, no waste stripping costs were capitalized during the first quarter. Total ore and waste mining volumes are expected to be within guidance for the year, with ore mined expected to be at the higher end of guidance. A higher than expected percentage of ore mining will likely reduce the strip ratio to near or below the life of mine average of 2.46. As a result, capitalized stripping during 2019 is expected to be significantly lower than previously expected.

Karowe's operating cash cost: Karowe's year to date operating cash cost (see page 10 Non-IFRS measures) was $30.52 per tonne processed (2018: $39.97 per tonne processed) compared to the full year forecast of $32-$37 per tonne processed. The decrease in cost per tonne processed compared to the three months ended March 31, 2018 reflects lower volumes of waste tonnes mined during the quarter as the significant stripping campaign undertaken between 2017 and 2018 was largely completed in 2018, as well as an increase in tonnes processed from ongoing plant improvements. Forecast costs for the 2019 fiscal year are expected to be within guidance.

Labour relations update: In April 2019, the Botswana Mine Workers Union and Lucara Botswana entered into a Memorandum of Agreement which governs the working relationship between the two parties. The parties have entered into a period of formal wage negotiations which should be concluded in 2019. In Botswana, a majority of currently operating mines are unionized.

MINERAL RESOURCE UPDATE AND BOTSWANA EXPLORATION

Karowe Resource (AK06 kimberlite) Update

During Q2 2018, an updated mineral resource was announced for the AK06 kimberlite. The updated Mineral Resource Estimate was completed by Mineral Services Canada Inc. The estimate is based on historical evaluation data combined with new sampling results (microdiamond, bulk density and petrography) from recent deep core drilling and from historical drill cores. New delineation drill coverage and review of historical drill cores supported an update of the internal geological model. Production data (including a controlled production run from the Eastern magmatic/pyroclastic kimberlite ((“EM/PK(S)”) unit) and recent sales and valuation results have been incorporated into the grade and value estimates, which have been made based on an updated model of process plant recovery efficiency. The updated Mineral Resource is reported based on the Canadian Institute of Mining Definition Standards for Mineral Resources and Reserves as incorporated by National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (“NI-43-101”).

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 the above noted mineral resource update, 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 2018, 33 core holes totaling 20,283 metres were drilled representing approximately 83% of the originally planned drilling. During Q1 2019, $4.2 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. Results of the Q1 2019 analyses will be incorporated into the feasibility study with a planned completion date in Q4 2019.

Sunbird Exploration Generative Project:

The Company's exploration program in 2019 is focused on the Sunbird generative project. During Q2 2018, an agreement was signed with a Botswana company, Sunbird, to focus on the discovery of new kimberlites within the country using a proprietary UAV magnetometer platform to identify targets. Data acquisition commenced during Q2 2018 and continued through Q4 2018 incorporating over 50,000 line kilometres of high resolution magnetics. During Q1 2019, geophysical data interpretation continued and a total of 1,933 line km of high resolution magnetics was flown, with field season commencing in late March 2019. A total of 12 rotary air blast holes were drilled (613m) and no kimberlite was intersected. Sunbird will continue to focus on identifying new targets through 2019.

Lucara Botswana Prospecting License:

In Q3 2018, the AK11/24 license (PL371/2014) was reduced by 50% in area and extended for two periods until the third quarter of 2019. During Q1 2019, a total of 7 rotary air blast holes (364 metres) were drilled in selected geophysical anomalies and no kimberlite was intersected.

CORPORATE UPDATE

Annual General and Special Meeting

The Company's annual general and special meeting of shareholders will be held on Friday, May 10, 2019, at 2:00 p.m. Eastern Standard Time (11:00 am Pacific) at the offices of Blake, Cassels & Graydon, LLP, Suite 4000, 199 Bay Street, Toronto, Ontario, M5L 1A9.

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. No changes have been made to our 2019 outlook previously provided.

Karowe Mine, Botswana

Table 3: 2019 Diamond Sales, Production and Outlook

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

(1) Operating cash costs are a non-IFRS measure. See "Non-IFRS Measures" on page 10.
(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).

Following the substantial completion of a significant waste stripping campaign in 2017 and 2018, total tonnes mined in 2019 are expected to be between 8.5 million and 11.8 million tonnes, of which the Company expects to mine between 2.5 million to 2.8 million tonnes of ore and between 6.0 and 9.0 million tonnes of waste. While guidance is unchanged, the average strip ratio in 2019 is now expected to be lower than originally anticipated due to a higher percentage of ore mined during the first quarter of 2019.

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

In 2019, the Company forecasts revenues between $170 million and $200 million, consistent with the forecast for 2018. In 2019, diamonds recovered are expected to be between 300,000 carats and 330,000 carats and diamonds sold are expected to be between 300,000 carats and 320,000 carats. These projections include "Specials" which are diamonds that are 10.8 carats and larger but exclude the sale of any truly unique diamonds such as the 1,109 carat LLR (sold in 2017 for $53 million) and the 813 carat Constellation (sold in 2016 for $63.1 million). Specials are consistently recovered from the Karowe

Diamond Mine and those Specials which are gem-quality contribute a significant percentage of the Company's annual revenue.

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

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

SELECT FINANCIAL INFORMATION

Table 4:	Three months ended March 31	
In millions of U.S. dollars unless otherwise noted	**2019**	2018
Revenues	$ 48.7	$ 25.4
Operating expenses	(16.1)	(14.6)
Operating earnings [(1)]	**32.6**	**10.8**
Royalty expenses	(4.9)	(2.5)
Exploration expenditures	(1.0)	(0.6)
Administration	(2.8)	(5.8)
Sales and marketing	(0.5)	(0.5)
Adjusted EBITDA [(2)]	**23.4**	**1.4**
Depletion and amortization	(11.6)	(5.1)
Finance expenses	(0.8)	(0.5)
Foreign exchange loss	(0.8)	(2.1)
Current income tax expense	(4.5)	(0.7)
Deferred income tax expense	1.8	-
Net income (loss)for the period	**7.4**	**(7.0)**
Change in cash during the period	**(6.4)**	**(17.5)**
Cash on hand	**17.9**	**43.6**
Earnings per share (basic and diluted)	**0.02**	**(0.02)**
Per carats sold:		
Sales price	**$ 512**	**$ 401**
Operating expenses	**169**	**231**
Average grade (carats per hundred tonnes)	**15.9**	**12.6**

(1) Operating earnings is a non-IFRS measure (see page 10) defined as sales less operating expenses.
(2) Adjusted EBITDA is a non-IFRS measure (see page 10) defined as earnings before interest, taxation, depreciation and amortization.

Revenues

During Q1 2019, Lucara sold 95,057 carats at an average price of $512 per carat, resulting in total sales of $48.7 million. The March 2019 tender included a total of 31 single stones greater than +10.8ct, including two diamonds in excess of 100 carats and two diamonds in excess of 200 carats. A total of seven diamonds sold for > $1 million, including four diamonds that that sold for in excess of $3 million.

This compares to revenue of $25.4 million or $401 per carat sold for the same period in 2018. The change to a blended tender process resulted in the significant increase to revenue during the period as compared to Q1 2018 and a smoother revenue profile is expected to continue in 2019.

During Q1 2019, the Company also transacted $1.4 million in sales through the Clara platform.

Operating Earnings and Expenses

Operating earnings for the three months ending March 31, 2019 were $32.6 million (Q1 2018: $10.8 million) and operating expenses during the period totalled $16.1 million or $169 per carat (Q1 2018: $14.6 million or $231 per carat), which resulted in an operating margin (before royalties, depletion and amortization) of $343 per carat or 67% (Q1 2018: $170 per carat or 42%).

Operating expenses decreased about 27% on a per carat basis which is a reflection of the improved performance at the plant resulting in higher carats recovered, especially in the smaller sizes following the commissioning of the sub-middles circuit in Q3 2017.

Lucara achieved an average grade processed of 15.9 carats per hundred tonnes (“cpht”) during Q1 2019 compared to an average grade of 12.6 cpht in the comparable quarter; recoveries of 121,437 carats (excluding carats recovered from re-processing tailings previously milled) were 60% greater as compared to the 75,698 carats recovered in Q1 2019. A total of 132,336 carats were recovered including 10,899 carats from re-processing tailings from historical milled material. Adjusting for the carats recovered through reprocessing, Lucara achieved an average grade of 15.9 cpht from material processed from the mine.

Depletion and amortization

The Company incurred a depletion and amortization charge of $11.6 million (Q1 2018: $5.1 million) which is due to the doubling of the number of carats sold in the quarter (95,057 carats in Q1 2019 vs. 63,317 carats in Q1 2018) and a change in the reserve base in Q3 2018 which increased the rate of depletion on assets amortized over the unit of production method. Higher capitalized production stripping through 2018 also contributed to an increase in this expense for the quarter.

Net income

Net income for the three months ending March 31, 2019 was $7.4 million (2018: net loss of $7.0 million). Higher net revenue reflective of a smoother revenue profile offset by higher depletion and amortization expense and tax expense accounted for the increase in net income as compared to the same period in 2018.

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

Adjusted EBITDA for the three months ended March 31, 2019 was $23.4 million compared to $1.4 million in the first quarter of 2018 and is largely attributable to the increase in revenue this quarter. An increase in operating expenses from higher mining costs is offset by decreases in administration expenses.

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

Operating Cost Per Tonne of Ore Processed

For the three months ended March 31, 2019, operating cost per tonne processed was $30.52 (2018: $39.97). This significant decrease in cost is due to the 27% higher volume of ore processed during the period. The operating cost per tonne processed decreased in 2019 as expected due to: decreases in the volume of waste mined (in 2018 the Company was still in the middle of a significant waste stripping campaign (Q1 2019 - 2.5 million tonnes; Q1 2018 - 4.0 million tonnes)) and a change in the mining contractor in 2018. This was partially offset by significant net increases in both the rough diamond inventory (+ $2.9 million) and the ore stockpile inventory (+ $ 4.3 million).

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 March 31, 2019, the Company had cash and cash equivalents of $17.9 million. Spending during the three months ended March 31, 2019 was focused on operating expenses and investments in the business including mineral property expenditures of $4.2 million and acquisition of plant and equipment assets of $2.4 million.

Working capital as at March 31, 2019 was $58.6 million as compared to $48.8 million as at December 31, 2018. The increase in working capital results from an increase in inventory due to a larger number of carats recovered in the first quarter compared to the fourth quarter and a decrease in short-term liabilities from the repayment of the credit facility in Q1.

The Company repaid $10.0 million on its working capital facility during the first quarter that was drawn to facilitate timing of working capital needs at December 31, 2018. No amounts were outstanding under the $50 million credit facility as of March 31, 2019. Long-term liabilities consist of restoration provisions of $20.6 million (2018: $20.2 million), deferred income taxes of $71.4 million (2018: $73.5 million), and other liabilities of $1.2 million (2018: nil).

Total shareholders' equity is substantially consistent from $241.9 million as at December 31, 2018 to $241.8 million as at March 31, 2019. There was minimal movement in the deficit resulting from net income of $7.4 million offset by dividends accrued of $7.4 million. Other minor changes to share capital and contributed surplus were related to share units vesting and the recording of stock-based compensation during the period. Accumulated other comprehensive loss increased to $58.2 million from $58.0 million at December 31, 2018, primarily from currency translation adjustments.

SUMMARY OF QUARTERLY RESULTS

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

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

Three months ended	Mar-19	Dec-18	Sept-18	Jun-18	Mar-18	Dec-17	Sept-17	Jun-17
A. Revenues	48,690	40,609	45,669	64,539	25,374	37,143	77,911	79,615
B. Administration expenses	(2,777)	(4,369)	(2,849)	(3,342)	(5,831)	(6,071)	(3,163)	(2,975)
C. Net income (loss)	7,416	(6,225)	5,136	19,698	(6,957)	1,571	32,903	32,174
D. Earnings (loss) per share (basic and diluted)	0.02	(0.02)	0.01	0.05	(0.02)	-	0.09	0.08

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

Revenues for the three months ended March 31, 2019 included proceeds from the Company's first sales tender of 2019 achieving an average sales price of $512 per carat.

The Company's only Exceptional Stone Tender ("EST") of 2018 occurred during the three months ended June 30, 2018 and contributed $32.5 million of the total revenues of $64.5 million recognized during the quarter. This compares to the first EST of 2017 which occurred during the three months ended June 30, 2017 and contributed $54.8 million out of total revenues of $79.6 million.

In December 2018, the Company commenced rough diamond sales on the Clara platform. Revenue from the sale of diamonds from Karowe sold on the Clara platform is included in total revenue of $40.6 million for the three months ended December 31, 2018 and in total revenue of $48.7 million for the three months ended March 31, 2019.

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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

Table 6: Operating cost per tonne of ore processed reconciliation:
In millions of U.S. dollars with the exception of tonnes processed and operating cost per tonne processed

	Three months ended March 31,	
	2019	2018[1]
Operating expenses	$ 16.1	$ 14.6
Capitalized production stripping costs[2]	-	6.8
Net change rough diamond inventory, excluding depletion and amortization [3]	2.9	0.9
Net change ore stockpile inventory, excluding depletion and amortization [4]	4.3	1.7
Total operating costs for ore processed	23.3	24.0
Tonnes processed	763,313	599,407
Operating cost per tonne of ore processed[5]	**$ 30.52**	**$ 39.97**

[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 March 31, 2019 and 2018.

[4] Net change in ore stockpile inventory for the periods ended March 31, 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 months ended March 31, 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 months ended March 31, 2019.

Name	Position	Lucara shares issued as consideration for Clara	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 three months ended March 31, 2019.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 396,858,168 common shares outstanding, 1,045,066 share units and 5,675,336 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 months ended March 31, 2019.

MANAGEMENT'S RESPONSIBILTY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of this document along with the unaudited condensed interim consolidated financial statements. Management is responsible for the integrity and objectivity of this document, ensuring the fair presentation of its financial results. The Audit Committee is responsible for reviewing the contents of this document along with the condensed interim consolidated financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended March 31, 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 March 31, 2019 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

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

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

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

		March 31, 2019		December 31, 2018
ASSETS				
Current assets				
Cash and cash equivalents	$	17,939	$	24,355
VAT receivables and other		7,141		11,583
Inventories (Note 3)		60,915		48,146
		85,995		84,084
Investments		622		920
Plant and equipment (Note 4)		138,782		147,246
Mineral properties (Note 5)		111,010		113,109
Intangible assets (Note 6)		22,442		21,798
Other non-current assets		3,554		3,738
TOTAL ASSETS	$	362,405	$	370,895
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities	$	12,647	$	21,204
Credit facility		-		10,111
Dividend payable		7,431		-
Taxes payable		7,313		3,999
		27,391		35,314
Restoration provisions		20,615		20,184
Deferred income taxes		71,423		73,482
Other non-current liabilities		1,220		-
TOTAL LIABILITIES		120,649		128,980
EQUITY				
Share capital (unlimited common shares, no par value)		314,485		313,913
Contributed surplus		7,202		7,766
Deficit		(21,752)		(21,767)
Accumulated other comprehensive loss		(58,179)		(57,997)
TOTAL EQUITY		241,756		241,915
TOTAL LIABILITIES AND EQUITY	$	362,405	$	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 March 31, 2019		2018
Revenues	$	48,690	$	25,374
Cost of goods sold				
Operating expenses		16,080		14,592
Royalty expenses		4,869		2,537
Depletion and amortization		11,585		5,123
		32,534		22,252
Income from mining operations		16,156		3,122
Other expenses				
Administration (Note 8)		2,777		5,831
Exploration expenditures		1,049		595
Finance expenses		802		459
Foreign exchange loss		825		2,099
Sales and marketing		528		485
		5,981		9,469
Net income (loss) before tax		10,175		(6,347)
Income tax expense				
Current income tax		4,530		643
Deferred income tax		(1,771)		(33)
		2,759		610
Net income (loss) for the period	$	7,416	$	(6,957)
Earnings (loss) per common share				
Basic	$	0.02	$	(0.02)
Diluted	$	0.02	$	(0.02)
Weighted average common shares outstanding				
Basic		396,558,556		386,840,445
Diluted		397,878,940		386,840,445

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 March 31, 2019		2018
Net income (loss) for the period	$	7,416	$	(6,957)
Other comprehensive income (loss)				
Items that will not be reclassified to net income				
Change in fair value of marketable securities		(350)		(95)
Items that may be subsequently reclassified to net income				
Currency translation adjustment		168		7,328
		(182)		7,233
Comprehensive income	$	7,234	$	276

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 March 31, 2019	2018
Cash flows from (used in):		
Operating Activities		
Net income (loss) for the period	$ 7,416	$ (6,957)
Items not involving cash and cash equivalents:		
Depletion and amortization	11,718	5,364
Unrealized foreign exchange loss	168	2,099
Stock-based compensation	289	377
Deferred income taxes	(1,771)	(33)
Finance costs	560	522
	18,380	1,372
Net change in working capital items:		
VAT receivables and other	5,049	(3,730)
Inventories	(8,152)	(1,708)
Trade payables and other current liabilities	(8,036)	(652)
Taxes payable	3,396	(1,128)
	10,637	(5,846)
Financing Activities		
Withholding tax for share units vested	(281)	-
Repayments of credit facility, net	(10,000)	-
	(10,281)	-
Investing Activities		
Acquisition of plant and equipment	(2,385)	(3,975)
Capitalized mineral property expenditures	(4,199)	(651)
Capitalized production stripping costs	-	(6,757)
Acquisition and development of intangible assets	(196)	(438)
	(6,780)	(11,821)
Effect of exchange rate change on cash and cash equivalents	8	208
Decrease in cash and cash equivalents during the period	(6,416)	(17,459)
Cash and cash equivalents, beginning of period	24,355	61,065
Cash and cash equivalents, end of period[(1)]	$ 17,939	$ 43,606
Supplemental Information		
Interest received	53	110
Taxes paid	(1,891)	(2,847)
Changes in accounts payable and accrued liabilities related to plant and equipment	1,291	128

[(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
Stock-based compensation	-	-	377	-	-	377
Change in fair value through other comprehensive income securities	-	-	-	-	(95)	(95)
Effect of foreign currency translation	-	-	-	-	7,328	7,328
Dividends payable[(1)]	-	-	-	(7,674)	-	(7,674)
Net income (loss) for the period	-	-	-	(6,957)	-	(6,957)
Balance, March 31, 2018	395,719,334	$ 312,335	$ 8,209	$ (17,674)	$ (31,726)	$ 271,144
Balance, January 1, 2019	396,509,387	$ 313,913	$ 7,766	$ (21,767)	$ (57,997)	$ 241,915
Stock-based compensation	-	-	289	-	-	289
Change in fair value through other comprehensive income securities	-	-	-	-	(350)	(350)
Effect of foreign currency translation	-	-	-	-	168	168
Shares issued from SUs vested	222,662	572	(572)	-	-	-
Withholding tax for SUs vested	-	-	(281)	-	-	(281)
Dividends payable[(2)]	-	-	-	(7,401)	-	(7,401)
Net income for the period	-	-	-	7,416	-	7,416
Balance, March 31, 2019	396,732,049	$ 314,485	$ 7,202	$ (21,752)	$ (58,179)	$ **241,756**

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

(2) On the record date, March 22, 2019, the Company accrued the Q1 2019 dividend payable of CA$ 0.025 per share. The Q1 2019 dividend was paid on April 11, 2019.

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

1. NATURE OF OPERATIONS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(i) Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, *IAS 34: Interim Financial Statements*, and do not contain all of the information required for annual financial statements. These statements follow the same accounting policies and methods of application as the most recent annual audited financial statements except for the adoption of IFRS 16, Leases. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company. These financial statements were approved by the Board of Directors for issue on May 9, 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. 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.

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

3. INVENTORIES

		March 31, 2019		December 31, 2018
Rough diamonds	$	24,342	$	16,847
Ore stockpile		24,782		20,435
Parts and supplies		11,791		10,864
	$	60,915	$	48,146

Inventory expensed during the three months ended March 31, 2019 totaled $16.1 million (three months ended March 31, 2018 – $14.6 million). There were no inventory write-downs during the three months ended March 31, 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
Reclassification	-	-	-	(47)	(47)
Disposals and other	(19,756)	16,131	804	1,520	(1,301)
Translation differences	(581)	(17,856)	(198)	(551)	(19,186)
Balance, December 31, 2018	$ 5,661	$ 206,424	$ 2,524	$ 6,729	$ 221,338
Additions[1]	1,068	23	-	1,600	2,691
Reclassification[2]	(2,874)	1,764	4	929	(177)
Translation differences	8	(895)	(11)	(71)	(969)
Balance, March 31, 2019	$ 3,863	$ 207,316	$ 2,517	$ 9,187	$ 222,883
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	-	10,077	89	338	10,504
Translation differences	-	(468)	(8)	(19)	(495)
Balance, March 31, 2019	$ -	$ 78,120	$ 1,578	$ 4,403	$ 84,101
Net book value					
As at December 31, 2018	$ 5,661	$ 137,913	$ 1,027	$ 2,645	$ 147,246
As at March 31, 2019	$ 3,863	$ 129,196	$ 939	$ 4,784	$ 138,782

(1) Additions include $1,600 recorded to furniture and office equipment upon the adoption of IFRS 16, Leases.

(2) Karowe mine related expenditure of $177 was reclassified to mineral properties in 2019 from construction in progress.

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

5. MINERAL 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		-		4,199		4,199
Reclassification[1]		-		177		177
Translation differences		(332)		(421)		(753)
Balance, March 31, 2019	$	72,020	$	77,327	$	149,347
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		3,684		2,300		5,984
Translation differences		(123)		(139)		(262)
Balance, March 31, 2019	$	15,145	$	23,192	$	38,337
Net book value						
As at December 31, 2018	$	60,768	$	52,341	$	113,109
As at March 31, 2019	$	56,875	$	54,135	$	111,010

(1) Karowe mine related expenditure of $177 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.

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

6. INTANGIBLE ASSETS

Balance, January 1, 2018	$	-
Acquisition of intangible assets		21,868
Development expenditures		1,139
Translation differences		(1,209)
Balance, December 31, 2018	$	21,798
Development expenditures		196
Translation differences		448
Balance, March 31, 2019	$	22,442

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

The purchase consideration was as follows:

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

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

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

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

7. SHARE BASED COMPENSATION

a. Stock options

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

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

	Number of shares issuable pursuant to stock options	Weighted average exercise price per share (CA$)
Balance at December 31, 2017	**3,738,337**	**$ 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
Forfeited	(40,000)	2.15
Balance at March 31, 2019	**5,675,336**	**$ 2.21**

(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 March 31, 2019 as follows:

	Outstanding Options			Exercisable Options		
Range of exercise prices CA$	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CA$)	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price (CA$)
$1.50 - $2.00	1,470,334	3.83	1.64	33,334	0.39	1.80
$2.01 - $2.50	3,670,002	1.16	2.36	2,595,002	0.36	2.37
$2.51 - $3.00	535,000	1.99	2.77	340,000	1.96	2.79
	5,675,336	2.19	$ 2.21	2,968,336	1.05	$ 2.41

During the three months ended March 31, 2019, an amount of $0.1 million (2018 – $0.3 million) was charged to operations in recognition of stock-based compensation expense, based on the vesting schedule for the options granted.

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

7. SHARE BASED COMPENSATION (continued)

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

	2019	2018
Assumptions:		
Risk-free interest rate *(%)*	1.82	2.01
Expected life *(years)*	3.63	3.63
Expected volatility *(%)*	38.20	39.59
Expected dividend	CA$0.025/share quarterly	CA$0.025/share quarterly
Results:		
Weighted average fair value of options granted *(per option)*	CA$0.30	CA$0.52

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 three month period ended March 31, 2019, the Company recognized a share-based payment charge against income of $0.2 million (2017: $0.1 million) for the SUs granted during the period.

	Number of share units	Estimated fair value at date of grant (CA$)	
Balance at December 31, 2017	**1,401,590**	**$**	**2.53**
February 27, 2018 grant	364,000		2.36
April 2, 2018 grant	125,000		2.05
April 12, 2018 dividend	21,213		2.08
May 14, 2018 vesting	(490,661)		2.30
May 31, 2018 vesting	(327,049)		2.66
June 21, 2018 dividend	12,601		2.17
June 29, 2018 grant	140,000		2.11
September 20, 2018 dividend	13,848		2.25
December 20, 2018 dividend	22,503		1.40
Balance at December 31, 2018	**1,283,045**	**$**	**2.41**
February 25, 2019 grant	439,000		1.63
February 26, 2019 vesting	(445,567)		2.57
Balance at March 31, 2019	**1,276,478**	**$**	**2.09**

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

8. ADMINISTRATION

	Three months ended March 31, 2019	2018
Salaries, benefits and severance	$ 830	$ 3,618
Professional fees	388	228
Office and general	482	339
Marketing	217	465
Stock exchange, transfer agent, shareholder communication	124	144
Travel	168	260
Stock-based compensation (Note 7)	289	377
Management fees	124	108
Depreciation	93	155
Donation	62	137
	$ 2,777	$ 5,831

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:

	Three months ended March 31, 2019	2018
Salaries and wages	$ 1,195	$ 1,462
Severance	-	2,311
Short term benefits	20	71
Share based compensation	205	310
	$ 1,420	$ 4,154

b) Clara acquisition

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

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

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

10. SEGMENT INFORMATION

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

Three months ended March 31, 2019

	Karowe Mine	Corporate and other	Total
Revenues	$ 48,690	$ -	$ 48,690
Income (loss) from mining operations(1)	16,351	(195)	16,156
Exploration expenditures	(1,049)	-	(1,049)
Finance expenses	(586)	(216)	(802)
Foreign exchange loss	(803)	(22)	(825)
Other expenses	(1,583)	(1,722)	(3,305)
Tax expense	(2,384)	(375)	(2,759)
Net income (loss) for the period	9,946	(2,530)	7,416
Capital expenditures	$ 6,584	$ 196	$ 6,780
Total assets	$ 335,208	$ 27,197	$ 362,405

Three months ended March 31, 2018

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

(1) Karowe Mine's depletion and amortization expense during the three months ended March 31, 2019 totaled $11.6 million (three months ended March 31, 2018 – $5.1 million).