



Lucara Diamond
Corp.

Management's Discussion and Analysis
And
Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2017
(Unaudited)

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. (the "Company") and its subsidiaries performance and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three and six months ended June 30, 2017, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements. All amounts are expressed in U.S. dollars unless otherwise indicated. The effective date of this MD&A is August 3, 2017.

Some of the statements in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary note contained herein.

Additional information about the Company and its business activities is available on SEDAR at www.sedar.com.

FINANCIAL UPDATE

Revenues and operating margins: The Company achieved revenues of \$79.6 million during the quarter (Q2 2016: \$140.8 million or \$77.7 million excluding the sale of Constellation – 813 carat stone for \$63.1 million) or revenue per carat of \$1,336 per carat (Q2 2016: \$1,017 per carat excluding the sale of the Constellation diamond). This revenue excludes \$0.3 million of proceeds received post Q2 for the Company's June tender. The Company's Q2 2017 operating margins were \$1,089 per carat or 82%, which is largely due to the Company's first exceptional stone tender in 2017, which achieved proceeds of \$54.8 million or \$31,010 per carat. Year to date revenue was \$105.7 million or \$852 per carat achieving a 73% operating margin.

Net cash position: The Company's ending Q2 cash balance was \$62.7 million (FY 2016: \$53.3 million). The increase in cash is due to the Company's exceptional stone tender and regular tender during the quarter and was partially offset by operating costs, royalty payments and capital expenditures of \$17.0 million. The Company's \$50 million credit facility remains undrawn.

Earnings per share: Earnings per share were \$0.08 for H1 2017 (H1 2016: \$0.17 earnings per share). The Company's prior year earnings per share were largely impacted by the sale of the Constellation diamond. Excluding the sale of the Constellation diamond 2016 earnings per share was \$0.08.

Dividend Paid: In Q2 2017, the Company paid its quarterly dividend of CDN 2.5 cents per share or \$7.1 million on June 15, 2017 bringing the total dividend paid in 2017 to \$14.2 million.

OPERATIONAL UPDATE

Karowe Operating Performance: The Company's mining contractor, Aveng Moolmans experienced equipment availability issues during the beginning of the quarter which resulted in lower than planned ore and waste mined. Mining, therefore, focussed on mining waste and remains on schedule to ensure increased flexibility for mining south lobe ore in the future. Processing volumes were largely on forecast as the lower volume of ore mined was replaced with stockpile ore, largely from the south lobe. The mining contractor's mined volumes have improved during Q2/Q3 with productivity issues being largely addressed. The Company's two capital projects to improve diamond recovery and maintain design throughput remain on schedule and within approved budget. During Q2, the Company recovered 113 specials (single diamonds larger than 10.8 carats) which equated to 5.9% weight percentage of recovered carats.

Botswana Prospecting Licenses: During the second quarter of 2017, the Company initiated a large diameter drilling sampling program at AK11. Extension applications were submitted for each of the PL's

(PL367/2014 and PL371/2014), responses from the Ministry of Mines are expected in Q3 2017. Microdiamond work is being conducted at AK13 which may lead to a further drilling program based on the overall results.

FINANCIAL HIGHLIGHTS

Table 1:

<i>In millions of U.S. dollars unless otherwise noted</i>	Three months ended		Six months ended	
	2017	June 30 2016	2017	June 30 2016
Revenues (*)	\$ 79.6	\$ 140.8	\$ 105.7	\$ 191.4
Average price per carat sold(**) (\$/carat)	1,336	1,824	852	1,233
Operating expenses per carat sold(**) (\$/carat)	247	141	232	139
Operating margin per carat sold(**) (\$/carat)	1,089	1,683	620	1,094
Net income for the period	32.2	46.1	30.6	63.3
Earnings per share (basic and diluted)	0.08	0.12	0.08	0.17
Cash on hand	62.7	210.8	62.7	210.8

(*) Revenue is presented based on cash receipts received during the period and excludes tender proceeds received after each quarter end. See results of operations (page 3) for reconciliation of revenue and total proceeds for tenders received for each quarter.

(**) Non-IFRS measures, see page 7 for definitions.

2017 OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2017. These are "forward-looking statements" and are subject to the cautionary note regarding the risks associated with forward-looking statements.

Karowe Mine, Botswana

Operating guidance:

The Company continues to forecast revenue between \$200 million and \$220 million for the year ending December 31, 2017. This excludes the sale of Lesedi La Rona currently held in inventory.

The Company has ensured waste mining remains on schedule, opening up the pit to allow increased flexibility for mining south lobe ore in the future and has also continued to process volumes at forecast levels with a blend of pit ore and stockpile material. As a result, waste mining remains on schedule with a forecast of between 17-18 million tonnes mined for the full year. A reduction in ore mined has led to a revised forecast from 2.4-2.7 million tonnes to 1.8-2.0 million tonnes.

The Company continues to forecast tonnes processed at between 2.4-2.7 million tonnes. Reduced mined ore volumes offset by increased volume from the lower grade south lobe stockpile which has reduced the forecast of carats recovered to between 265,000-285,000 carats (previous guidance: 290,000-310,000) and carats sold to 260,000-275,000 carats (previous guidance: 290,000-310,000). Revenue guidance is maintained at between \$200 to \$220 million, however, as south lobe ore generally returns larger, higher value diamonds contributing to higher overall rock value. Revenue guidance forecast does carry increased risk based on the challenge in predicting the overall timing of the recovery of these large, high value stones.

The two capital projects comprising of the Mega Diamond Recovery ("MDR") and -8+4mm sub-middles XRT are expected to enhance diamond recovery and maintain design throughput. Both projects remain on schedule and on forecast for a spend of between \$33-\$35 million during 2017 for a total project spend of between \$15-\$18 million and up to \$30 million respectively. The projects are forecast to be fully commissioned in Q3 2017.

Sustaining capital is unchanged and forecast to be between \$7-\$9 million in 2017.

Karowe's operating cash costs (see pages 5 and 7 Non-IFRS measures) remain unchanged and are expected to be between \$36.00 and \$40.00 per tonne processed following a planned increase in waste

mining as the Company advances toward early completion of a major Cut 2 push back to open up the south lobe by the end of 2018.

A budget of up to \$10.0 million is unchanged to advance resource evaluation work on the AK6 kimberlite at Karowe Mine and the completion of a pre-feasibility level underground study and to advance its exploration program. A 10,000 metre deep drilling program on the Karowe Mine to test the AK06 kimberlite south lobe was completed in Q1 2017 with the aim of converting inferred resources below 400 metres depth to an indicated resource and to determine the economic viability of the Karowe mine resource extension. Detailed logging and sampling was initiated in Q2 2017 and continues into Q3 2017. Mineral Services Canada has been contracted to assist in the development of the sampling program and internal geology updates that will be utilized for an updated resource estimate for the current inferred portion of the Karowe Mine to a depth of approximately 600m. The resource update is expected to be completed in Q4 2017.

The USD/Pula outlook foreign exchange rate is 10.3.

BUSINESS OVERVIEW

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

Table 2: Company's current land holdings:

Country	Name	Interest Held	Area (km ²)
Botswana	Karowe Diamond License	100%	15.3
Botswana	Prospecting License No. 371/2014	100%	55.4
Botswana	Prospecting License No. 367/2014	100%	1.1

RESULTS OF OPERATIONS

Table 3: Karowe Mine, Botswana

	UNIT	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16
Sales						
Revenues	US\$M	79.6	26.1	66.0	38.1	140.8
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US\$M	79.9	26.1	66.0	29.8	149.1
Sales proceeds received during the quarter	US\$M	79.6	26.1	66.0	38.1	140.8
Q2 2017 tender proceeds received post Q2 2017	US\$M	0.3	-	-	-	-
Q2 2016 tender proceeds received post Q2 2016	US\$M	-	-	-	(8.3)	8.3
Carats sold for proceeds generated during the period	Carats	62,434	64,444	88,957	84,059	107,801
Carats sold for revenues recognized during the period	Carats	59,598	64,444	88,957	114,659	77,200
Average price per carat for proceeds generated during the period**	US\$	1,280	405	743	355	1,383
Average price per carat for proceeds received during the period***	US\$	1,336	405	743	332	1,824
Production						
Tonnes mined (ore)(****)	Tonnes	432,017	131,380	582,169	650,290	884,212
Tonnes mined (waste)(****)	Tonnes	4,992,196	587,177	2,728,915	3,092,110	2,868,798
Tonnes processed	Tonnes	513,643	598,934	630,471	650,646	680,190
Average grade processed	cpht (*)	11.2	10.9	13.0	12.5	14.6
Carats recovered	Carats	57,624	65,241	82,272	81,423	99,582
Costs						
Operating costs per carats sold (see page 7 Non-IRFS measures)	US\$	247	217	197	149	141
Capital expenditures						
-8+4mm sub-middles XRT project	US\$M	1.8	2.8	7.2	-	-
LDR and MDR circuit	US\$M	4.9	1.6	0.8	2.3	2.9
Sustaining capital	US\$M	2.2	0.5	2.0	5.8	1.7
Total	US\$M	8.9	5.0	10.0	8.1	4.6

(*) carats per hundred tonnes

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

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

(****) restated following Q3 2016 survey

OPERATIONS: KAROWE MINE

Karowe had one lost time injury during Q2 resulting in a twelve month rolling Lost Time Injuries Frequency Rate ("LTIFR") of 0.13. The incident resulting in the loss time injury involved a hand injury during equipment repair. Actions have been taken on site to improve safety awareness.

The Company's mining contractor, Aveng Moolman, experienced equipment availability issues during the beginning of the quarter that resulted in lower than planned ore mined. Mining activity therefore focused on waste material movement that is on schedule to ensure increased flexibility for mining south lobe ore in the future.

While ore mined was lower than forecast, processed volumes were largely on forecast as ex-pit ore feed was replaced with south lobe stockpile material. Due to the south lobe being of lower grade when compared to the centre and north lobes, but of higher value, carats recovered to date were lower than forecast, however the Company continues to maintain its revenue forecast due to the processing of higher value south lobe ore.

Costs remain well controlled at \$30 per tonne processed and are forecast to be between \$36-\$40 per tonne processed for the year.

The two capital projects to enhance diamond recovery and maintain design throughput continued to advance on schedule and within approved budget. The MDR project is forecast to be complete during Q3 2017, with commissioning and ramp up in the same period. Construction is essentially complete and first stage commissioning has commenced.

The -8+4mm sub-middles XRT project's construction progressed on plan during the quarter. The project is on schedule for completion in Q3 2017. This project will further enhance the processing facilities ability to treat the high yielding, high value south lobe ore at depth and is anticipated to result in an efficient and cost effective methodology for processing this ore.

An underground study at Karowe has commenced with the firm, Royal HaskoningDHV being appointed to lead the work. A Preliminary Economic Assessment is expected in Q4 2017 and, following hydro geotechnical work, a Pre-Feasibility Study is expected to be completed in H1 2018.

EXPLORATION AND RESOURCE UPGRADE

Karowe Resource Upgrade

During Q2 2017 specific sampling of drill core was initiated for density, petrography, and microdiamond analysis. Drilling was completed in Q1 2017 on a planned 10,000 metre drill program at the Karowe Mine to test the AK06 kimberlite at depth. A total of 12 drill holes (9,750 metres) were completed with approximately 2,770 linear metres within the south lobe of the AK6 kimberlite being drilled. The program is designed to increase confidence in the geological model for the south lobe of the AK06 kimberlite and provide sufficient data and material for an updated resource to be utilized in an underground option study for the Karowe mine. Core logging is complete and a program of core sampling for density, petrography, and microdiamond analysis is underway. Mineral Services Canada has been contracted to assist in the development of the sampling program and internal geology updates that will be utilized for an updated resource estimate for the current inferred portion of the Karowe Mine and is expected to be completed in Q4 2017.

Botswana Prospecting Licenses:

In 2014, the Company was awarded two precious stone prospecting licenses (PL367/2014 and PL371/2014) that are known to host kimberlites, BK02, AK11 and AK12, AK13 and AK14. The prospecting licenses are located within a distance of 15 km and 30 km from the Karowe mine. Extension applications were submitted for each of the prospecting licenses ("PL") (PL367/2014 and PL371/2014), responses from the Ministry of Mines are expected in Q3 2017.

AK11

During Q2 2017, the Company initiated large diameter drilling ("LDD") sampling program at the AK11 kimberlite. Drilling has commenced on the pilot drill-hole aspect of the program. Material recovered from the LDD samples will be processed at the Company's Bulk Sample Plant located at the Karowe Mine.

AK13

During Q2 2017 logging and sampling of AK13 was completed and microdiamond samples shipped for analysis. Results are expected during H2 2017.

SELECT FINANCIAL INFORMATION

Table 4:
In millions of U.S. dollars unless otherwise noted

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Revenues	\$ 79.6	\$ 140.8	\$ 105.7	\$ 191.4
Operating expenses	(14.7)	(10.9)	(28.8)	(21.5)
Operating earnings⁽¹⁾	64.9	129.9	76.9	169.9
Royalty expenses	(7.9)	(14.1)	(10.6)	(19.1)
Administration	(3.0)	(2.7)	(5.9)	(5.2)
Sales and marketing	(1.4)	(2.5)	(1.9)	(3.3)
Exploration expenditures	(0.8)	(0.9)	(1.8)	(1.8)
EBITDA⁽²⁾	51.8	109.7	56.7	140.5
Depletion and amortization	(3.5)	(3.4)	(7.0)	(6.5)
Finance expense	(0.8)	(0.2)	(1.0)	(0.6)
Foreign exchange loss	(1.3)	(0.1)	(3.2)	(3.1)
Loss from disposition of Mothae	-	-	-	(1.2)
Current income tax expense	(7.1)	(52.1)	(7.7)	(63.6)
Deferred income tax expense	(6.9)	(7.8)	(7.2)	(2.2)
Net income for the period	32.2	46.1	30.6	63.3
Change in cash during the period	19.2	66.5	9.3	76.1
Cash on hand	62.7	210.8	62.7	210.8
Earnings per share (basic and diluted)	0.08	0.12	0.08	0.17
Per carats sold				
Sales price	\$ 1,336	\$ 1,824	\$ 852	\$ 1,233
Operating expenses	247	141	232	139
Average grade (cpht)	11.2	14.6	11.0	14.3

⁽¹⁾ Operating earnings is a non-IFRS measure defined as sales less operating expenses.

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

Table 5: Operating cost per tonne ore processed reconciliation:

	Six months ended June 30	
	2017	2016
Operating expenses	\$ 28.8	\$ 21.5
Capitalized production stripping costs ⁽¹⁾	8.2	4.3
Net change rough diamond inventory ⁽²⁾	0.1	7.2
Net change ore stockpile inventory ⁽³⁾	(3.6)	1.5
Total cash operating costs for ore processed	33.5	34.5
Tonnes processed	1,112,577	1,332,099
Cash operating cost per tonne ore processed⁽⁴⁾	30.1	25.9

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

⁽²⁾ Net change in rough diamond inventory for the periods ended June 30, 2017 and June 30, 2016.

⁽³⁾ Net change in ore stockpile inventory for the periods ended June 30, 2017 and June 30, 2016.

⁽⁴⁾ Cash operating cost per tonne processed for the period is a non-IFRS measure defined as the sum of operating expenses, capitalized production stripping costs, and net change in working capital items for diamond inventories divided by the tonnes ore processed for the period.

Revenues

During Q2 2017, the Company completed one exceptional stone tender totalling 1,766 carats and one regular diamond tender totalling 60,668 carats. The sales achieved revenue of \$79.6 million excluding proceeds of \$0.3 million from the June 2016 regular diamond tender, which were received post end of Q2. Overall, the Company's Q2 exceptional stone sale resulted in an average price of \$31,010 per carat (Q2 2016 exceptional stone sale: \$34,301 per carat from the sale of 2,624 carats) and with the Q2 regular tender achieving \$415 per carat (2016 Q2 regular tender: \$400 per carat).

Operating earnings

Operating earnings before royalty payments for Q2 were \$64.9 million resulting in an operating margin (before royalties and depletion and amortization) of 82%. Operating margin for Q2 2017 was impacted by higher per carat operating expenses. Operating expenses per carat during the quarter were \$247 per carat (Q2 2016: \$141 per carat), which resulted in an operating margin of \$1,089 per carat. The increase in operating expense per carat recovered is due to the increase in waste stripping and the reductions of carats recovered due to the lower grades from the south lobe. Operating margins remain strong at over 80% based upon prices received for the higher value south lobe stones and a continued focus on cost control.

Income tax expense

Total income tax expense was \$14.0 million during the three month period ended June 30, 2017, which includes a current income tax charge of \$7.1 million and a deferred income tax expense of \$6.9 million. The current tax expense has been calculated at an annualized tax rate of approximately 22%, which reflects the current year forecast tax rate based on the Company's sales guidance. The deferred income tax charge during the quarter is largely due to the tax deductions created by the Company's capital expenditures which are fully applied against taxable income, while these costs are depreciated for accounting purposes, resulting in a temporary accounting difference.

Net income

For the three months ended June 30, 2017, the Company had a net income of \$32.2 million compared to \$46.1 million of net income in the three month period ended June 30, 2016. The decrease in net income between the two periods is largely due to the sale of the Constellation in 2016 for \$63.1 million.

Earnings before interest, tax, depreciation and amortization (EBITDA)

The three months ended June 30, 2017 EBITDA was \$51.8 million compared to \$109.7 million in the three month period ended June 30, 2016. The decrease in EBITDA as compared to the prior year was largely due to the decreased revenues received for the Constellation diamond tender in Q2 2016.

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

Operating cost per tonne ore processed

The six months ended June 30, 2017 cash operating cost per tonne processed was \$30.1 per tonne processed compared to \$25.9 per tonne processed in the six month period ended June 30, 2016. The higher cost compared to the prior year is largely due to the Company's ramp up of waste mining during the quarter as anticipated in the Company's forecast.

Cash operating cost per tonne processed is a non-IFRS measure and is reconciled in the table on table 5 to the most directly comparable measure calculated in accordance with IFRS, which is operating expenses.

Liquidity and Capital Resources

As at June 30, 2017, the Company had cash of \$62.7 million compared to \$53.3 million at December 31, 2016.

Cash increased by \$19.2 million during the quarter. This increase reflects cash operating earnings during the period, which partially offset the Company's second quarterly dividend to its shareholders of \$7.1 million, its capital projects of \$8.9 million and capitalized waste stripping of \$7.6 million.

The Company has renegotiated its revolving term credit facility with Scotiabank. The new agreement is for a three year \$50.0 million operating line.

The facility contains financial and non-financial covenants customary for a facility of this size and nature. The applicable interest rate of any loan advances under the facility will be determined by the Company's leverage ratio at that time. The Company has maintained the same level of security on the three year facility by way of a charge over the Company's Karowe assets and a guarantee by the Company's subsidiaries, which hold the Karowe assets. As at June 30, 2017 the full amount under this facility was available.

Dividends

The Company paid its second 2017 quarterly dividend of CDN 2.5 cents per share on June 15, 2017. Effective today's date, August 3, 2017, the Company is declaring its third quarter dividend of CDN 2.5 cents per share. The dividend is expected to be paid on September 14, 2017 to holders of securities on the record of the Company's common shares at the close of business on September 3, 2017. The Company anticipates that it will declare one further payment of CDN 2.5 cents per share in 2017 at the end of the fourth quarter for a total yearly dividend of CDN 10 cents per share however the declaration of all dividends remains in the discretion of the Board of Directors and is subject to the requirements of the Company's dividend policy.

SUMMARY OF QUARTERLY RESULTS

(All amounts expressed in thousands of U.S. dollars, except per share data).

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

Three months ended	Jun-17	Mar-17	Dec-16	Sept-16	Jun-16	Mar-16	Dec-15	Sept-15
A. Revenues	79,615	26,094	66,017	38,098	140,785	50,566	65,212	90,878
B. Administration expenses	(2,975)	(3,025)	(6,429)	(3,226)	(2,678)	(2,448)	(5,214)	(3,005)
C. Net income (loss)	32,174	(1,531)	11,204	(3,804)	46,116	17,141	18,958	44,181
D. Earnings (loss) per share (basic and diluted)	0.08	(-)	0.03	(0.01)	0.12	0.05	0.05	0.12

NON-IFRS FINANCIAL MEASURES

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

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

Operating cost per tonne ore processed (see "Select Financial Information") is the term the Company uses to describe operating expenses per tonne processed on a cash basis. This is calculated as operating cost divided by tonnes of ore processed for the period. This ratio provides the user with the total 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 on table 5.

FINANCIAL INSTRUMENTS

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

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

In the normal course of business, the Company is inherently exposed to currency and commodity price risk.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 382,619,334 common shares outstanding, 1,374,027 share units and 3,833,337 stock options outstanding under its stock-based incentive plan.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business which includes acquisition, financing, exploration, development and operation of diamond properties. These risk factors could materially affect the Company's future operations and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

The risk factors which should be taken into account in assessing the Company's activities, include, but are not necessarily limited to, those set out in the Management's Discussion and Analysis for the year ended December 31, 2016.

OFF-BALANCE SHEET ARRANGEMENTS

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

FINANCIAL INFORMATION

The report for the quarter ended September 30, 2017 is expected to be published on November 2, 2017.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Audit Committee is responsible for reviewing the contents of this document along with the interim quarterly financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months and six months ended June 30, 2017.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2016, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting

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

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of December 31, 2016, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

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

As required under Multilateral Instrument 52-109, management advises that there have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period, beginning April 1, 2017 and ending June 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

In particular, this MD&A may contain forward looking information pertaining to the following: the estimates of the Company's mineral reserves and resources; estimates of the Company's production and sales volumes for the Karowe Mine; estimated costs for capital expenditures related to the Karowe Mine; start-up, exploration and development plans and objectives; production costs; exploration and development expenditures and reclamation costs; expectation of diamond price and changes to foreign currency exchange rates; expectations regarding the need to raise capital; possible impacts of disputes or litigation; and other risks and uncertainties described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form available at <http://www.sedar.com> (the "AIF").

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

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

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

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

	June 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 62,673	\$ 53,345
VAT receivables and other	5,347	7,967
Inventories (Note 4)	37,330	40,852
	105,350	102,164
Investments	3,507	3,153
Plant and equipment (Note 5)	147,041	131,505
Mineral properties (Note 6)	72,396	62,158
Other non-current assets	4,303	3,020
TOTAL ASSETS	\$ 332,597	\$ 302,000
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	\$ 25,684	\$ 26,617
Taxes payable	1,676	9,198
	27,360	35,815
Restoration provisions	17,134	15,679
Deferred income taxes	60,321	50,516
TOTAL LIABILITIES	104,815	102,010
EQUITY		
Share capital	290,729	289,969
Contributed surplus	7,106	6,488
Retained earnings (deficit)	(22,295)	(38,640)
Accumulated other comprehensive loss	(47,758)	(57,827)
TOTAL EQUITY	227,782	199,990
TOTAL LIABILITIES AND EQUITY	\$ 332,597	\$ 302,000

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

"William Lamb"
Director

LUCARA DIAMOND CORP.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**

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

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenues	\$ 79,615	\$ 140,785	\$ 105,709	\$ 191,351
Cost of goods sold				
Operating expenses	14,704	10,911	28,751	21,463
Royalty expenses	7,962	14,078	10,571	19,135
Depletion and amortization	3,497	3,358	7,026	6,509
	26,163	28,347	46,348	47,107
Income from mining operations	53,452	112,438	59,361	144,244
Other expenses				
Administration (Note 8)	2,975	2,678	6,000	5,213
Exploration expenditures	809	890	1,798	1,764
Finance expenses	796	194	952	623
Foreign exchange loss	1,324	72	3,211	3,055
Sales and marketing	1,406	2,544	1,938	3,336
Loss on disposition of Mothae	-	-	-	1,196
	7,310	6,378	13,899	15,187
Net income before tax	46,142	106,060	45,462	129,057
Income tax expense				
Current income tax	7,094	52,097	7,662	63,597
Deferred income tax	6,874	7,847	7,157	2,203
	13,968	59,944	14,819	65,800
Net income for the period	\$ 32,174	\$ 46,116	\$ 30,643	\$ 63,257
Earnings per common share				
Basic	\$ 0.08	\$ 0.12	\$ 0.08	\$ 0.17
Diluted	\$ 0.08	\$ 0.12	\$ 0.08	\$ 0.17
Weighted average common shares outstanding				
Basic	382,505,778	381,203,771	382,379,901	380,697,616
Diluted	384,354,315	383,373,850	384,095,564	382,433,068

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

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net income for the period	\$ 32,174	\$ 46,116	\$ 30,643	\$ 63,257
Other comprehensive income				
Items that may be subsequently reclassified to net income				
Change in fair value of available-for-sale securities	(396)	-	194	-
Currency translation adjustment	4,042	(591)	9,875	5,766
Item that was reclassified to net income				
Currency translation adjustment – Mothae disposition	-	-	-	3,310
	3,646	(591)	10,069	9,076
Comprehensive income	\$ 35,820	\$ 45,525	\$ 40,712	\$ 72,333

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

LUCARA DIAMOND CORP.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Cash flows from (used in):				
Operating Activities				
Net income for the period	\$ 32,174	\$ 46,116	\$ 30,643	\$ 63,257
Items not involving cash and cash equivalents:				
Depletion and amortization	3,606	3,453	7,338	6,693
Unrealized Foreign exchange loss	1,324	317	3,211	2,615
Stock-based compensation	414	467	783	854
Deferred income taxes	6,874	7,847	7,157	2,203
Finance costs	756	385	840	795
Loss on disposition of Mothae	-	-	-	1,196
	45,148	58,585	49,972	77,613
Net changes in working capital items:				
VAT receivables and other current assets	3,220	(2,017)	2,593	(764)
Inventories	(1,318)	(5,615)	3,330	(7,103)
Trade payables and other current liabilities	3,484	(2,018)	(1,535)	732
Taxes payable	(7,530)	27,175	(7,530)	22,255
	43,004	76,110	46,830	92,733
Financing Activities				
Proceeds from exercise of stock options	208	1,110	544	1,572
Dividends paid	(7,076)	(4,423)	(14,247)	(8,819)
	(6,868)	(3,313)	(13,703)	(7,247)
Investing Activities				
Acquisition of plant and equipment	(8,854)	(4,572)	(13,850)	(5,175)
Capitalized mineral property expenditure	(276)	-	(743)	-
Capitalized production stripping costs	(7,635)	(1,332)	(8,228)	(4,344)
Acquisition of other assets	(280)	-	(1,247)	-
	(17,045)	(5,904)	(24,068)	(9,519)
Effect of exchange rate change on cash and cash equivalents				
	121	(406)	269	91
Increase in cash and cash equivalents during the period	19,212	66,487	9,328	76,058
Cash and cash equivalents, beginning of period	43,461	144,347	53,345	134,776
Cash and cash equivalents, end of period	\$ 62,673	\$ 210,834	\$ 62,673	\$ 210,834
Supplemental Information				
Interest received	64	126	102	210
Taxes paid	(14,267)	(24,189)	(15,432)	(40,397)
Changes in accounts payable and accrued liabilities related to plant and equipment	304	(1)	475	(69)

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

LUCARA DIAMOND CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Number of shares issued and outstanding	Share capital	Contributed surplus	Retained earnings (Deficit)	Accumulated other comprehensive loss	Non- controlling interests	Total
Balance, January 1, 2016	379,979,413	\$ 286,658	\$ 5,270	\$ 40,847	\$ (76,103)	12	\$ 256,684
Exercise of stock options	1,734,999	2,194	(622)	-	-	-	1,572
Stock-based compensation	-	-	854	-	-	-	854
Effect of foreign currency translation	-	-	-	-	9,076	-	9,076
Free-carried non-controlling interests	-	-	-	-	-	(12)	(12)
Dividends paid	-	-	27	(8,846)	-	-	(8,819)
Net income for the period	-	-	-	63,257	-	-	63,257
Balance, June 30, 2016	381,714,412	\$ 288,852	\$ 5,529	\$ 95,258	\$ (67,027)	-	\$ 322,612
Balance, January 1, 2017	382,246,001	\$ 289,969	\$ 6,488	\$ (38,640)	\$ (57,827)	-	\$ 199,990
Exercise of stock options	323,333	760	(216)	-	-	-	544
Stock-based compensation	-	-	783	-	-	-	783
Unrealized gain on investment	-	-	-	-	194	-	194
Effect of foreign currency translation	-	-	-	-	9,875	-	9,875
Dividends paid ⁽¹⁾	-	-	51	(14,298)	-	-	(14,247)
Net income for the period	-	-	-	30,643	-	-	30,643
Balance, June 30, 2017	382,569,334	\$ 290,729	\$ 7,106	\$ (22,295)	\$ (47,758)	-	\$ 227,782

⁽¹⁾ On March 31, 2017, the Company paid a cash dividend of CA\$0.025 per share. On June 15, 2017, the Company paid a 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 SIX MONTHS ENDED JUNE 30, 2017

(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 (previously named AK6 Diamond Project) located in Botswana.

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

2. BASIS OF PRESENTATION

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 and should be read in conjunction with the most recent annual audited financial statements of the Company. These statements follow the same accounting policies and methods of application of the most recent annual audited financial statements.

These financial statements were approved by the Board of Directors for issue on August 3, 2017.

3. ADOPTION OF IFRS PRONOUNCEMENTS

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

IFRS 2 - Share-based payments

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

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

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017

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

3. ADOPTION OF NEW IFRS PRONOUNCEMENTS (continued)

IFRS 9 - Financial Instruments

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

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

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

IFRS 15 - Revenue from Contracts with Customers

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

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

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

IFRS 16 - Leases

The new Leases standard requires lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases.

IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently assessing the effect of this standard on our financial statements.

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017

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

4. INVENTORIES

	June 30, 2017	December 31, 2016
Rough diamonds	\$ 14,177	\$ 14,116
Ore stockpile	13,539	17,089
Parts and supplies	9,614	9,647
	\$ 37,330	\$ 40,852

Inventory expensed during the six months ended June 30, 2017 totaled \$28.8 million (Six months ended June 30, 2016 – \$21.5 million).

5. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2016	\$ 2,930	\$ 136,615	\$ 1,165	\$ 3,249	\$ 143,959
Additions	22,037	59	2	260	22,358
Disposals and other	-	-	-	(29)	(29)
Reclassification	(10,527)	9,627	125	775	-
Translation differences	326	6,550	56	166	7,098
Balance, December 31, 2016	14,766	152,851	1,348	4,421	173,386
Additions	14,280	-	-	46	14,326
Disposals and other	-	-	-	(3)	(3)
Translation differences	1,000	7,509	68	215	8,792
Balance, June 30, 2017	\$ 30,046	\$ 160,360	\$ 1,416	\$ 4,679	\$ 196,501
Accumulated depreciation					
Balance, January 1, 2016	\$ -	\$ 25,473	\$ 1,005	\$ 1,791	\$ 28,269
Depletion and amortization	-	11,564	78	480	12,122
Disposals and other	-	-	-	(16)	(16)
Translation differences	-	1,370	48	88	1,506
Balance, December 31, 2016	-	38,407	1,131	2,343	41,881
Depletion and amortization	-	4,961	49	417	5,427
Disposals and other	-	-	-	(3)	(3)
Translation differences	-	1,978	56	121	2,155
Balance, June 30, 2017	\$ -	\$ 45,346	\$ 1,236	\$ 2,878	\$ 49,460
Net book value					
As at December 31, 2016	\$ 14,766	\$ 114,444	\$ 217	\$ 2,078	\$ 131,505
As at June 30, 2017	\$ 30,046	\$ 115,014	\$ 180	\$ 1,801	\$ 147,041

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

6. MINERAL PROPERTIES

Cost	Capitalized Production stripping asset	Karowe Mine	Total
Balance, January 1, 2016	\$ 16,254	\$ 47,569	\$ 63,823
Additions	10,983	1,940	12,923
Revision in estimate of restoration provision	-	(295)	(295)
Translation differences	946	2,270	3,216
Balance, December 31, 2016	28,183	51,484	79,667
Additions	8,228	743	8,971
Translation differences	1,549	2,560	4,109
Balance, June 30, 2017	\$ 37,960	\$ 54,787	\$ 92,747
Accumulated depletion			
Balance, January 1, 2016	\$ 1,025	\$ 11,120	\$ 12,145
Depletion	1,724	2,990	4,714
Translation differences	76	574	650
Balance, December 31, 2016	2,825	14,684	17,509
Depletion	872	1,069	1,941
Translation differences	154	747	901
Balance, June 30, 2017	\$ 3,851	\$ 16,500	\$ 20,351
Net book value			
As at December 31, 2016	\$ 25,358	\$ 36,800	\$ 62,158
As at June 30, 2017	\$ 34,109	\$ 38,287	\$ 72,396

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****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

7. SHARE BASED COMPENSATION

(i) Stock options

The Company's stock option plan (the 'Option Plan') was approved by the shareholders of the Company on May 13, 2015 which reserves 20,000,000 as the aggregate number of shares issuable upon the exercise of all Options granted under the Option Plan. The Option Plan is subject to the Board of Directors discretion, options granted may have a vesting period of up to three years, with 1/3 of the options vesting 12 months from the date of grant; 1/3 of the options vesting 24 months from the date of grant; and the remaining 1/3 vesting 36 months from the date of grant.

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

	Number of shares issuable pursuant to stock options	Weighted average exercise price per share (CA\$)
Balance at December 31, 2015	3,191,669	\$ 1.63
Granted	2,160,000	2.53
Exercised ⁽¹⁾	(2,004,999)	1.33
Balance at December 31, 2016	3,346,670	2.39
Granted	860,000	2.80
Exercised ⁽¹⁾	(323,333)	2.27
Balance at June 30, 2017	3,883,337	\$ 2.49

(1) The weighted average share price on the exercise dates for the 2017 stock option exercises was CA\$3.00 (2016: CA\$3.35).

Options to acquire common shares have been granted and are outstanding at June 30, 2017 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\$
\$1.00 - \$2.00	33,334	2.14	\$ 1.80	-	-	\$ -
\$2.01 - \$3.00	3,730,003	2.69	2.45	1,190,009	2.36	2.34
\$3.01 - \$4.00	120,000	2.87	3.94	40,000	2.87	3.94
	3,883,337	2.69	\$ 2.49	1,230,009	2.38	\$ 2.39

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017

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

7. SHARE BASED COMPENSATION (continued)

During the six months ended June 30, 2017, an amount of \$0.5 million (2016 – \$0.6 million) was charged to operations in recognition of stock-based compensation expense, based on the vesting schedule for the options granted.

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

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

(ii) Share units

The Company has a share unit ("SU") plan that provides for the issuance of SUs. The value of a SU at the issuance date is equal to the closing value of one Lucara common share. The SU vests in three years and each SU entitles the recipient to receive one common share and the cumulative dividend equivalent SU earned during the SU's vesting period.

For the six month period ended June 30, 2017, the Company recognized a share-based payment charge against income of \$0.3 million (2016: \$0.2 million) for the SUs granted during the period.

	Number of shares issuable pursuant to share units	Weighted average exercise price per share (CA\$)
Balance at January 1, 2016	529,889	\$ 2.07
February 26, 2016 grant	645,000	2.43
March 31, 2016 dividend	6,380	2.76
June 16, 2016 dividend	4,550	3.89
September 15, 2016 dividend	137,847	4.00
November 8, 2016 vesting	(261,589)	2.44
December 15, 2016 dividend	5,416	2.94
Balance at December 31, 2016	1,067,493	2.46
March 8, 2017 grant	283,500	2.75
March 30, 2017 dividend	10,924	3.09
June 15, 2017 dividend	12,110	2.81
Balance at June 30, 2017	1,374,027	\$ 2.53

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

8. ADMINISTRATION

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Salaries and benefits	\$ 880	\$ 1,093	\$ 1,653	\$ 1,757
Professional fees	406	112	800	303
Office and general	187	124	431	623
Marketing	143	244	510	309
Membership	279	65	381	130
Stock exchange, transfer agent, shareholder communication	61	73	275	209
Travel	101	134	302	265
Stock-based compensation (Note 7)	417	467	783	854
Management fees	98	154	198	224
Depreciation	109	95	312	184
Donation (Note 9b)	294	117	355	355
	\$ 2,975	\$ 2,678	\$ 6,000	\$ 5,213

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 executive officers, vice-presidents and members of its Board of Directors.

The remuneration of key management personnel were as follows:

	Six months ended June 30,	
	2017	2016
Salaries and wages	\$ 1,658	\$ 1,904
Short term benefits	94	58
Stock-based compensation	425	651
	\$ 2,177	\$ 2,613

b) Other related parties

For the six months ended June 30, 2017, the Company donated \$0.2 million (2016 – \$0.2 million) to a charitable foundation directed by certain of the Company's directors to carry out social programs on behalf of the Company.

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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 June 30, 2017

	Karowe Mine	Corporate and other	Total
Revenues	\$ 79,615	\$ -	\$ 79,615
Income from mining operations	53,478	(26)	53,452
Exploration expenditures	(809)	-	(809)
Finance expenses	(316)	(480)	(796)
Foreign exchange	(1,208)	(116)	(1,324)
Other expenses	(1,568)	(2,813)	(4,381)
Tax expenses	(13,539)	(429)	(13,968)
Net income (loss) for the period	36,038	(3,864)	32,174
Capital expenditures	\$ 17,045	\$ -	\$ 17,045

Three months ended June 30, 2016

	Karowe Mine	Corporate and other	Total
Revenues	\$ 140,785	\$ -	\$ 140,785
Income from mining operations	112,474	(36)	112,438
Exploration expenditures	(890)	-	(890)
Finance expenses	(67)	(127)	(194)
Foreign exchange	95	(167)	(72)
Other expenses	(2,499)	(2,723)	(5,222)
Tax expenses	(52,218)	(7,726)	(59,944)
Net income (loss) for the period	56,895	(10,779)	46,116
Capital expenditures	\$ 5,904	\$ -	\$ 5,904

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

10. SEGMENT INFORMATION (continued)

Six months ended June 30, 2017			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 105,709	\$ -	\$ 105,709
Income (loss) from mining operations	59,416	(55)	59,361
Exploration expenditures	(1,798)	-	(1,798)
Finance expenses	(608)	(344)	(952)
Foreign exchange	(3,001)	(210)	(3,211)
Other expenses	(3,145)	(4,793)	(7,938)
Tax expenses	(13,970)	(849)	(14,819)
Net income (loss) for the period	36,894	(6,251)	30,643
Capital expenditures	24,068	-	24,068
Total assets	\$ 321,655	\$ 10,942	\$ 332,597

Six months ended June 30, 2016			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 191,351	\$ -	\$ 191,351
Income (loss) from mining operations	144,314	(70)	144,244
Exploration expenditures	(1,764)	-	(1,764)
Finance expenses	(368)	(255)	(623)
Foreign exchange	(2,765)	(290)	(3,055)
Other expenses	(3,915)	(5,830)	(9,745)
Tax expenses	(57,637)	(8,163)	(65,800)
Net income (loss) for the period	77,865	(14,608)	63,257
Capital expenditures	9,519	-	9,519
Total assets	\$ 427,864	\$ 8,640	\$ 436,504

11. FINANCIAL INSTRUMENTS*Measurement categories and fair values*

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

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



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