LUCARA DIAMOND

Management's Discussion and Analysis
And
Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2018
(Unaudited)

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

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 period ended June 30, 2018, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as applicable to interim financial reporting. All amounts are expressed in U.S. dollars unless otherwise indicated.

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

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

The effective date of this MD&A is August 8, 2018.

ABOUT LUCARA

Lucara is a leading independent producer of large exceptional quality Type IIa diamonds from its 100% owned Karowe Mine in Botswana, which has been in production since 2012 and is the focus of the Company's operations, development and exploration activities. In addition, in February 2018 the Company acquired Clara Diamond Solutions ("Clara"). Clara, now a wholly-owned subsidiary of Lucara, is developing 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. The Company has an experienced board and management team with extensive diamond development and operations expertise. The Company operates 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, 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".

HIGHLIGHTS

- Karowe's overall performance with respect to ore mined, processed and carats recovered was within forecast for the second quarter ended June 30, 2018:
  - Ore and waste mined was 0.7 million tonnes and 4.4 million tonnes respectively
  - Ore processed totaled 0.7 million tonnes
  - 253 specials (single diamonds larger than 10.8 carats) were recovered during the second quarter, representing 10.5% of the total recovered carats by weight and the highest number of specials recovered by quarter since initiating production
  - 100 of 253 specials recovered were sold during the quarter, the remainder having been recovered after the cut-off date to prepare goods for sale
  - 11 diamonds were recovered greater than 100 carats in weight, including 3 diamonds > 300 carats (5 of which were sold during the period, including 2 diamonds> 300 carats)
  - 12 diamonds sold in excess of $1 million each
- Updated resource estimate announced for the AK06 kimberlite increasing Indicated Mineral Resources for the South Lobe (as at end 2017) by 54% from 4.4 million carats to 6.8 million carats.

- Commercialization efforts at Clara tracking according to schedule and plan with inaugural sales expected to commence in Q3

- Quarterly sales revenue of $64.5 million (Q2 2017: $79.6 million) or $856 per carat (Q2 2017: $1,336 per carat) recognized during the quarter. This revenue excludes $3.9 million of proceeds received in July 2018 related to the Company's June tender.

- The operating cash cost for the six months ended June 30, 2018 was $37.53 per tonne processed (Q2 2017: $30.14 per tonne processed) compared to the full year forecast cash cost of $38-$42 per tonne processed.

- Q2 2018 EBITDA of $36.1 million (Q2 2017: $51.8 million) reflects lower revenues attributable to a smaller volume and lower average price of exceptional stones sold, as compared to Q2 2017.

- Net income for the three months ended June 30, 2018 was $19.7 million ($0.05 per share) as compared to net income of $32.2 million ($0.08 per share) in the comparative quarter of 2017.

- As at June 30, 2018, the Company had cash and cash equivalents of $49.6 million. The $50 million credit facility remains undrawn on June 30, 2018.

KAROWE DIAMOND SALES

Diamonds are heterogeneous by nature, with thousands of different price points depending on weight, colour, shape, and quality. Diamond production from Karowe is characterised by a coarse diamond size frequency distribution and is positively impacted by the regular recovery of diamonds in excess of 10.8 carats in size, referred to as "specials." Karowe production is further distinguished by the consistent recovery of high value, gem quality specials. Based on a production profile of 270,000 to 290,000 carats per annum, primarily sourced from the South Lobe, Lucara expects to consistently achieve average diamond values of between $625 to $680 per carat. This average diamond value excludes contributions from the less frequent and less predictable recovery of very large, high quality gem diamonds like the historic 1109 carat Lesedi La Rona and the 813 carat Constellation.

Regular Stone Tenders versus Exceptional Stone Tenders

Historically, Lucara has sold diamonds through both regular stone tenders (RSTs) and exceptional stone tenders (ESTs). Diamonds that qualify for ESTs are rare, selected on a range of criteria including weight, quality, color, and, often achieve sales prices in excess of $1 million per diamond. On average, Lucara has held between 4 and 5 RSTs and 1 to 2 ESTs per annum.

Lucara continues to adjust its sales strategy to maximize client participation and achieve best possible revenue. Lucara intends to move to a blended tender process starting in September 2018, whereby a greater number of exceptional stones will be sold as part of RSTs. This will decrease the inventory time for large, high value diamonds and will generate a smoother revenue profile, that better supports price guidance on a per sale basis. In addition, certain stones from the Karowe production will be offered for sale through the Clara platform during the second half of 2018.

As part of this new approach, Lucara will retain the optionality of tendering truly unique and high value diamonds through special tenders, outside of the scheduled RSTs.

FINANCIAL HIGHLIGHTS

Table 1:

In millions of U.S. dollars unless otherwise noted		**Three months ended June 30 2018**		**2017**		**Six months ended June 30 2018**		**2017**
Revenues	$	64.5	$	79.6	$	89.9	$	105.7
Net income for the period		19.7		32.2		12.7		30.6
Earnings per share (basic and diluted)		0.05		0.08		0.03		0.08
Cash on hand		49.6		62.7		49.6		62.7
Average price per carat sold ($/carat)*		856		1,336		648		852
Operating expenses per carat sold ($/carat)*		220		247		225		232
Operating margin per carat sold ($/carat)*		636		1,089		423		620

(*) Average price per carat sold, operating expenses per carat sold and operating margin per carat sold are Non-IFRS measures, see table 2: results of operations for reconciliations and page 11 for Non-IFRS measures.

The Company achieved revenues of $64.5 million or $856 per carat for its two tenders in the quarter, yielding an operating margin of 74% during the period. Lower revenues reflect natural variability in the number and quality of exceptional diamonds recovered in any quarter and the recent decision not to inventory exceptional diamonds over multiple production periods. Though 253 exceptional diamonds were recovered during the period, 148 of those diamonds were recovered after the cut-off date for inclusion in the June sale and will be sold in Q3. Overall, a smaller volume and lower average price of exceptional diamonds were sold in Q2 2018, as compared to Q2 2017. The Q2 2017 EST included a number of exceptional diamonds held in inventory and included the sale of a 374 carat diamond for $17 million. Revenue from the Q2 2018 regular tender was 29% greater than Q2 2017, with increased carat volumes (+28%) and a similar year on year average price.

The increase in the number of carats available for sale in the RST follows commissioning of the sub-middles circuit in Q3 2017 and processing of Eastern Magmatic Pyroclastic Kimberlite (South) ("EMPK(S)") material during 2018.

Operating expenses increased as a result of higher depletion and amortization expense ($6.2 million versus $3.5 million in Q2 2017) which is due to higher capitalized production stripping and production assets commissioned in Q3 2017.

Revenue, EBITDA and earnings per share performance were as expected and reflect the overall timing of the Company's sales tenders, with an RST held during the first quarter and an RST and an EST held in June. Proceeds of $3.9 million from the June sale were received in July 2018. The Company maintains its 2018 revenue forecast.

RESULTS OF OPERATIONS

Table 2: Karowe Mine, Botswana

	UNIT	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17
Sales						
Revenues	US$M	64.5	25.4	37.1	77.9	79.6
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US$M	68.4	25.4	37.1	77.6	79.9
Sales proceeds received during the quarter	US$M	64.5	25.4	37.1	77.9	79.6
Q2 2018 tender proceeds received post Q2 2018	US$M	3.9	-	-	-	-
Q2 2017 tender proceeds received post Q2 2017	US$M	-	-	-	(0.3)	0.3
Carats sold for proceeds generated during the period	Carats	87,467	63,317	69,358	64,289	62,434
Carats sold for revenues recognized during the period	Carats	75,329	63,317	69,358	67,125	59,598
Average price per carat for proceeds generated during the period**	US$	782[3]	401	535	1,207[2]	1,280[1]
Average price per carat for proceeds received during the period***	US$	856[3]	401	535	1,161[2]	1,336[1]
Production						
Tonnes mined (ore)	Tonnes	702,825	630,242	624,749	386,906	432,017
Tonnes mined (waste)	Tonnes	4,416,361	3,991,648	4,745,609	5,540,139	4,992,196
Tonnes processed	Tonnes	698,303	599,407	631,777	591,196	513,643
Average grade processed	cpht (*)	11.7	12.6	10.2	10.6	11.2
Carats recovered	Carats	81,507	75,698	64,477	62,425	57,624
Costs						
Operating costs per carats sold (see page 11 Non-IRFS measures)	US$	220	231	255	229	247
Capital expenditures						
-8+4mm sub-middles XRT project	US$M	1.6	3.6	5.4	5.3	4.9
Sustaining capital	US$M	1.4	0.4	4.1	1.9	2.2
LDR and MDR circuit	US$M	-	-	0.1	3.6	1.8
Total	US$M	3.0	4.0	9.6	10.8	8.9

(*) carats per hundred tonnes

(**) Average price per carat of $782 includes all sales tendered during the quarter for proceeds of $68.4 million, of which $3.9 million was received after the quarter end

(***) Average price per carat of $856 includes all sales proceeds collected during the quarter totalling $64.5 million

(1) This includes one EST sale of $54.8 million in addition to an RST during the quarter

(2) This includes the sale of the 1103 carat Lesedi La Rona for US$53 million

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

SECOND QUARTER OVERVIEW – OPERATIONS - KAROWE MINE

Safety: Karowe had no lost time injuries during the three months ended June 30, 2018 resulting in a twelve-month rolling Lost Time Injuries Frequency Rate ("LTIFR") of 0.13.

Production: Ore and waste mined during the three months ended June 30, 2018 totaled 0.7 million tonnes and 4.4 million tonnes respectively. Tonnage processed was within forecast at 0.7 million tonnes, with a total of 81,507 carats recovered. Ore processed was predominantly from the South lobe. During Q2, a total of 253 specials (single diamonds larger than 10.8 carats) were recovered including 11 diamonds greater than 100 carats in weight. Recovered specials equated to 10.5% weight percentage of total recovered carats during the first quarter. The number of specials recovered is the highest by quarter since initiation of production.

During the second quarter, Lucara and the mining contractor Aveng Moolmans ("Moolmans") continued to work to find a solution to the equipment availability issues and difficulties with waste mining production experienced during the first quarter of 2018. Following extensive discussions in May and June, both parties executed an addendum to the existing mining contract to provide for an amicable termination of the mining contract as of December 31, 2018. The addendum provides for a transition period of up to six months to allow for a new mining contractor, Trollope Mining Services (Pty) Limited ("Trollope") to gradually assume responsibility for both ore and waste mining from Moolmans, with full responsibility for all mining activities to be the responsibility of Trollope as of January 1, 2019. In the first quarter, ore mined volumes and carats recovered were as expected, but waste mining was lower than forecast. Performance improved considerably during the second quarter and continued through the month of July, the first full month of transition between Moolmans and Trollope. Given the improved performance realized during this period, waste mining is still expected to be within guidance (13.0 to 16.0 million tonnes) for the year.

Karowe's operating cash cost: Karowe's year to date operating cash cost (see page 11 Non-IFRS measures) was $37.53 per tonne processed (Q2 2017: $30.14 per tonne processed) compared to the full year forecast of $38-$42 per tonne processed. The increase in cost per tonne processed compared to the six months ended June 30, 2017 reflects an increase in waste mined during the period which was 8.4 million tonnes mined as compared to H1 2017: 5.6 million tonnes mined. Waste stripping volumes are expected to significantly reduce by the end of the fourth quarter. Cost per tonne processed during the second quarter is lower than the full year guidance due to depreciation of the Botswana Pula against the US Dollar during the period. However, forecast costs for the 2018 fiscal year are still expected to be within guidance.

Labour relations update: In July, the Botswana Mine Workers Union notified Karowe management that a sufficient number of eligible Karowe employees had been recruited to join the union, thereby requiring the employer to recognize the union pursuant to Section 48 of the Trade Unions & Employers' Organizations' Act in Botswana. Management intends to work constructively with the union over the coming months to develop a Memorandum of Agreement which will govern the working relationship between the employees and the employer.

MINERAL RESOURCE UPDATE AND BOTSWANA EXPLORATION

Karowe Resource (AK06 kimberlite) Update

During Q2, 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 EM/PK(S) unit) and recent sales / 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*.

The updated Mineral Resource, valid at the cut-off date of December 26, 2017, includes a recoverable Indicated Mineral Resource at a 1.25 mm bottom cut off size of 7.9 million carats hosted in 57.85 million tonnes at an average grade of 13.7 cpht with an average modeled diamond value of US$ 673 per carat. The new base of the Indicated Mineral Resource is 400 metres above sea level ("masl") (600 metres below surface). The updated Mineral Resource also includes a recoverable Inferred Mineral Resource of approximately 1.17 million carats hosted in 5.84 million tonnes at an average grade of 20 cpht with an average modeled diamond value of US$716 per carat between 400 masl to 256 masl (base of current geological model).

These new results will be used for mine planning and to support the preparation of current feasibility-level studies for the potential development of an underground mine, after the completion of the current open pit mine.

Botswana Prospecting Licenses:

In 2014, the Company was awarded two precious stone prospecting licenses (PL367/2014 and PL371/2014). The prospecting licenses are located within a distance of 15 km and 30 km from the Karowe Diamond mine. The BK02 license was extended to Q3 2018 and the AK11/24 license was reduced by 50% in area and extended for two periods until the third quarter of 2019.

AK11 & AK24

For AK11, during the second quarter, the Company continued to process the large diameter drilling sample (estimated in-situ tonnage of 490 tonnes) at the Company's Bulk Sample Plant located at the Karowe Mine. Due to maintenance issues with the Bulk Sample Plant, results are expected in Q3 2018. At AK24, a four holes core drilling programme was competed at AK24 for a total of 659 metres of drilling. Kimberlite was intersected in each hole, detailed logging and sampling for microdiamonds is underway. Microdiamond results are expected in early Q4 2018.

Sunbird Exploration Generative Project:

During Q2 2018, an agreement was signed with a Botswana company to focus on new kimberlite discoveries within Botswana using a proprietary UAV magnetometer platform to identify potential targets. Data acquisition commenced during the three months ended June 30, 2018 and will continue for the remainder of the year, with drilling planned for late in Q3 2018. This work is being funded from the original exploration budget of $6.0 million for fiscal 2018.

CORPORATE UPDATE

Acquisition of Clara Diamond Solutions Corp.

In February 2018, Lucara completed the acquisition of Clara (see announcement February 26, 2018), a company whose primary asset is a secure, digital diamond sales platform that combines proprietary analytics with existing cloud and blockchain technologies to transform how rough diamonds are sold. This transaction was accounted for as an asset acquisition and the consideration paid was categorized as intangible assets. As up-front consideration for the acquisition, Lucara issued 13.1 million shares with a value of $21.5 million and paid acquisition costs of $0.4 million. Further staged equity payments totalling 13.4 million shares become payable upon the achievement of performance milestones related to total revenues (revenues from rough diamonds bought and sold) generated through the platform. Lucara has also agreed to a profit sharing mechanism whereby the founders and facilitators of the Clara technology, as well as the Clara management team, will retain 13.33% and 6.67%, respectively, of the annual EBITDA generated by the platform, to a maximum of US$25 million per year, for ten years. This contingent consideration will be recognized as additional purchase consideration for the intangible asset, if the performance milestones are reached.

Commercialization efforts for Clara, Lucara's wholly-owned, secure, digital diamond sales platform continue on budget and schedule with first sales of select diamonds from the Karowe diamond mine anticipated in Q3. Thereafter, Clara aims to on-board production from other sources and open the platform to a broad range of customers, including diamond manufacturers and jewelry houses. Testing on the platform has demonstrated the potential to unlock greater than 18-23% of value throughout the diamond pipeline to the benefit of all participants.Clara's revenue model will be based on capturing a portion of this incremental value. During the three months ended June 30, 2018, the Company capitalized $0.3 million to intangible assets related to the development of the Clara platform.

Management Change

On June 13, 2018, the Company announced the appointment of Ayesha Hira as Lucara's Vice President of Corporate Development and Strategy. Ayesha Hira is an experienced executive who began her career as a Canadian geologist. Working initially in diamond, base metals and gold exploration, she transitioned to capital markets working with mining companies listed in North America, Australia, South Africa, UK and Europe, and dealing with a global buy side client base. As Lucara's Vice President of Corporate Development and Strategy, Ms. Hira's primary responsibilities will be investigating strategic growth opportunities including mergers and acquisitions. She will also be integral in assisting the CEO with corporate communications and shareholder relations.

2018 OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2018. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements.

The Company's 2018 forecast remains unchanged as of June 30, 2018.

Karowe Mine, Botswana

Table 3: 2018 Diamond Sales, Production and Outlook

Karowe Mine *In millions of U.S. dollars unless otherwise noted*	**Full Year – 2018**
Diamond revenue (millions)	\$170 to \$200
Diamond sales (thousands of carats)	270 to 290
Diamonds recovered (thousands of carats)	270 to 290
Ore tonnes mined (millions)	2.5 to 2.8
Waste tonnes mined (millions)	13.0 to 16.0
Ore tonnes processed (millions)	2.4 to 2.7
Total operating cash costs(1) including waste mined(2) (per tonne processed)	\$38.00 to \$42.00
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%
Average exchange rate – USD/Pula	9.8

(1) Operating cash costs are a non-IFRS measure. See "Non-IFRS Measures" on page 11.
(2) Includes ore and waste mined cash costs of \$2.90 to \$3.20; processing cash costs of \$13.75 to \$15.00 and mine-site departmental costs (security, technical services, mine planning, health & safety, geology) of \$4.50 to \$5.50 (all dollar figures in per tonne mined or processed).

During 2018, efforts to fully gain access to the Cut 2 South lobe ore will require a large volume of waste to be mined which impacts operating cash costs. The strip ratio is forecast to be approximately 5.0-6.0 in 2018, decreasing in the fourth quarter of 2018. A more significant decrease in the stripping ratio is forecast in 2019 (approximately 2.9 – 3.1), followed by a forecast stripping ratio of 2.0 from 2020 onwards. The decrease in waste mining is expected to add to free cash flow once the Cut 2 push back is complete between late 2018 and early 2019. The average strip ratio during the six months ended June 30, 2018 was 6.31 and capitalized production stripping costs totaled \$13.8 million.

Sustaining capital expenditures in 2018 are forecast to be up to \$11 million, which includes final expenditures for the sub-middles XRT project audit facility (completed during the three months ending March 31, 2018). As of June 30, 2018, a total of \$7.0 million had been incurred.

A budget of up to \$3.0 million was approved for the completion of a pre-feasibility level study ("PFS") of the Karowe AK06 underground development. In support of this study, geotechnical and hydrogeological drilling under a budget of \$26 million has been initiated and as of June 30, 2018, a total of \$6.3 million had been incurred. In addition, the Company completed and reported an updated mineral resource estimate on June 26, 2018, re-classifying as an Indicated Resource kimberlite within the AK06 kimberlite from 600 to 400masl. In conjunction with the successful resource update and given the scope of the currently budgeted work programs the Company has elected to convert the PFS to a feasibility level study with results expected in H1 2019.

The Company also budgeted \$6.0 million for advanced exploration work on the Company's prospecting licenses in Botswana, of which \$1.8 million had been incurred as of June 30, 2018. Please see "Mineral Resource Update and Botswana Exploration" above.

SELECT FINANCIAL INFORMATION

Table 4: *In millions of U.S. dollars unless otherwise noted*	Three months ended June 30 **2018**	2017	Six months ended June 30 **2018**	2017
Revenues	$ 64.5	$ 79.6	$ 89.9	$ 105.7
Operating expenses	(16.6)	(14.7)	(31.2)	(28.8)
Operating earnings [1]	**47.9**	**64.9**	**58.7**	**76.9**
Royalty expenses	(6.5)	(7.9)	(9.0)	(10.6)
Exploration expenditures	(1.3)	(0.8)	(1.8)	(1.8)
Administration	(3.3)	(3.0)	(9.2)	(5.9)
Sales and marketing	(0.7)	(1.4)	(1.2)	(1.9)
EBITDA [2]	**36.1**	**51.8**	**37.5**	**56.7**
Depletion and amortization	(6.1)	(3.5)	(11.3)	(7.0)
Finance expenses	(0.6)	(0.8)	(1.1)	(1.0)
Foreign exchange loss (gain)	1.1	(1.3)	(1.0)	(3.2)
Current income tax expense	(4.0)	(7.1)	(4.6)	(7.7)
Deferred income tax expense	(6.8)	(6.9)	(6.8)	(7.2)
Net income for the period	**19.7**	**32.2**	**12.7**	**30.6**
Change in cash during the period	**6.0**	**19.2**	**(11.4)**	**9.3**
Cash on hand	**49.6**	**62.7**	**49.6**	**62.7**
Earnings per share (basic and diluted)	**0.05**	**0.08**	**0.03**	**0.08**
Per carats sold:				
Sales price	**$ 856**	**$ 1,336**	**$ 648**	**$ 852**
Operating expenses	**220**	**247**	**225**	**232**
Average grade (carats per hundred tonnes)	**11.7**	**11.2**	**12.1**	**11.0**

(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 of ore processed reconciliation: *In millions of U.S. dollars with the exception of tonnes processed and operating cost per tonne processed*	Six months ended June 30, **2018**	2017
Operating expenses	$ 31.2	$ 28.8
Capitalized production stripping costs[1]	13.5	8.2
Net change rough diamond inventory[2]	2.8	0.1
Net change ore stockpile inventory[3]	1.2	(3.6)
Total operating costs for ore processed	48.7	33.5
Tonnes processed	1,297,710	1,112,577
Operating cost per tonne of ore processed[4]	**37.53**	**30.14**

(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 six months ended June 30, 2018 and 2017.

(3) Net change in ore stockpile inventory for the six months ended June 30, 2018 and 2017.

(4) 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.

Revenues

During Q2 2018, the Company completed one exceptional stone tender totalling 1,453 carats and one regular diamond tender totalling 86,014 carats. The sales achieved revenue of $64.5 million excluding proceeds of $3.9 million from the June 2018 regular diamond tender, which were received in July 2018. Overall, the Company's Q2 exceptional stone sale resulted in an average price of $22,356 per carat. Excluding the 472 carat top light brown diamond, the average price achieved was $30,712 per carat (Q2 2017 exceptional stone sale: $31,010 per carat). The regular tender in the second quarter achieved an average price of $418 per carat (2017 Q2 regular tender: $415 per carat).

Operating Earnings

Operating earnings for the three months ending June 30, 2018 were $47.9 million (Q2 2017: $64.9 million) and operating expenses during the period totalled $16.6 million or $220 per carat (Q2 2017: $14.7 million or $247 per carat), which resulted in an operating margin (before royalties, depletion and amortization) of $636 per carat or 74% (Q2 2017: $1,089 per carat or 82%). Scheduled increases in waste mining together with cost escalation associated with deepening of the open pit resulted in increased operating expenses and lower operating margins in Q2 2018.

Depletion and amortization

The Company incurred a depletion and amortization charge of $6.2 million (Q2 2017: $3.5 million). The change is a result of an increase in depletion expense due to additional capitalized production stripping (asset balance of $66.5 million as of June 30, 2018) and a higher amortization charge following completion of the Diamond Recovery Capital projects in the third quarter of 2017.

Net income

Net income for the three months ending June 30, 2018 was $19.7 million (2017: net income of $32.2 million). Lower revenue from diamond sales, higher operating expenses and higher depletion and amortization expense had the most significant impact on the $12.5 million decrease in net income as compared to the same period in 2017.

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

EBITDA for the three months ended June 30, 2018 was $36.1 million compared to $51.8 million in the three month period ended June 30, 2017. The decrease reflects lower revenues attributable to a smaller volume and lower average price of exceptional stones sold, as compared to Q2 2017.

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

Operating Cost Per Tonne of Ore Processed

During the second quarter of 2018, operating cost per tonne processed was $37.53 as compared to $30.14 per tonne processed during the six months ending June 30, 2017. This increase is consistent with the Company's expectations and forecast as the increase is mainly due to a higher volume of waste mining incurred in the six months ended June 30, 2018 as compared with the same period last year.

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

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2018, the Company had cash and cash equivalents of $49.6 million, an increase of $6.0 million from the cash and cash equivalents balance of $43.6 million at March 31, 2018. This increase is mainly due to sales in the quarter, less capital expenditures of $1.6 million primarily for the sub-middles XRT project audit facility, capitalized production stripping of $6.7 million, capitalized mineral property expenditures of $5.7 million related to the underground study work and $15.3 million of dividend payments declared for Q1 and Q2 2018 and paid during Q2 2018. The $50 million credit facility remains undrawn on June 30, 2018.

Working capital as at June 30, 2018 was $73.3 million as compared to $83.6 million as at December 31, 2017. The decrease in working capital reflects a smaller cash balance as at June 30, 2018 and a higher payables balance.

The Company has no long-term debt and the credit facility of $50 million was undrawn as of June 30, 2018. Long-term liabilities consist of restoration provisions of $18.7 million (2017: $18.9 million) and deferred income taxes of $75.5 million (2017: $72.9 million).

Total shareholder's equity increased from $256.7 million as at December 31, 2017 to $263.8 million as at June 30, 2018, due to an increase in share capital of $21.5 million for the common shares issued to acquire Clara, $1.1 million from share units vested, $0.1 million from the exercise of stock options and a decrease in the deficit to $5.7 million resulting from year to date income of $12.7 million, less dividends paid of $15.4 million. Accumulated other comprehensive loss increased to $51.5 million, primarily from a $12.0 million currency translation adjustment.

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

Three months ended	**Jun-18**	**Mar-18**	**Dec-17**	**Sept-17**	**Jun-17**	**Mar-17**	**Dec-16**	**Sept-16**
A. Revenues	64,539	25,374	37,143	77,911	79,615	26,094	66,017	38,098
B. Administration expenses	(3,342)	(5,831)	(6,071)	(3,163)	(2,975)	(3,025)	(6,429)	(3,226)
C. Net income (loss)	19,698	(6,957)	1,571	32,903	32,174	(1,531)	11,204	(3,804)
D. Earnings (loss) per share (basic and diluted)	0.05	(0.02)	-	0.09	0.08	(-)	0.03	(0.01)

The Company's quarterly results are most directly affected by the sale of unique and high value diamonds.

The Company's revenues for the first six months of 2018 were approximately $15.8 million less than the same period in 2017, mainly due to a lower achieved price per carat between the two periods resulting primarily from the ESTs in each quarter, as described above. The achieved average price per carat of $648 for the six months ended June 30, 2018 is consistent with the Company's expectations for that period. Revenues for the three months ended September 30, 2017 include proceeds from the sale of the 1,103 carat Lesedi La Rona for US$53 million ($47,777 per carat). The Company's first 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.

NON-IFRS FINANCIAL MEASURES

This MD&A refers to certain financial measures, such as 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.

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

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 in table 5.

RELATED PARTY TRANSACTIONS

A description of key management compensation can be found in Note 10 of the condensed interim consolidated financial statements for the six months ended June 30, 2018.

In relation to the acquisition of Clara in February 2018, certain related parties were issued Lucara shares and will 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 3 of the condensed interim consolidated financial statements for the three and six months ended June 30, 2018.

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

Pursuant to the profit sharing mechanism described above, a total of 3.45% of the EBITDA generated by the platform has been assigned to Ms. Thomas and Ms. McLeod-Seltzer with the remaining 3.22% of the EBITDA generated by the platform to be distributed to management, including Mr. Armstrong and Ms. Boldt, at the discretion of Lucara's compensation committee based on key performance targets.

FINANCIAL INSTRUMENTS

The Company amended its financial instrument accounting policy as a result of the adoption of IFRS 9, no adjustments were required from this adoption. IFRS 9, Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: those measured at fair value through profit and loss, those measured at fair value through other comprehensive income and those measured at amortized cost. Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, there is an irrevocable option to present fair value changes in other comprehensive income. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

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

In the normal course of business, the Company is inherently exposed to currency and commodity price risk. For a discussion of certain risks and assumptions that relate commodity price risk, currency risk, liquidity risk and credit risk, refer to Note 19 in the Company's audited consolidated financial statements for the year ending December 31, 2017. Note 19 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 six months ended June 30, 2018.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 396,398,854 common shares outstanding, 1,246,694 share units and 4,688,870 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 recent acquisition of Clara Diamond Solutions Corporation. 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

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

CHANGES IN ACCOUNTING POLICIES

As of January 1, 2018, the Company adopted new accounting policies for contingent consideration, intangible assets, capitalization of development expenditures, financial instruments – IFRS 9 and revenue from contracts with customers – IFRS 15. A description of these accounting policies can be found in Note 2 of the condensed interim consolidated financial statements for the three and six months ended June 30, 2018.

New accounting pronouncements

In 2016, the IASB issued IFRS 16 Leases, which requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently developing a transition plan for this new standard. A preliminary review of the Company's leases commenced in 2017 with further analysis and quantification of impacts to be completed in 2018.

MANAGEMENT'S RESPONSIBILTY 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, 2018.

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 and six months ended June 30, 2018 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, 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)

		June 30, 2018		December 31, 2017
ASSETS				
Current assets				
Cash and cash equivalents	$	49,637	$	61,065
VAT receivables and other		6,152		3,951
Inventories (Note 4)		39,844		35,898
		95,633		100,914
Investments		1,711		2,500
Plant and equipment (Note 5)		156,343		167,576
Mineral properties (Note 6)		101,121		90,559
Intangible assets (Note 3 and 7)		21,762		-
Other non-current assets		3,670		4,261
TOTAL ASSETS	$	380,240	$	365,810
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities	$	20,443	$	16,780
Taxes payable		1,925		494
		22,368		17,274
Restoration provisions		18,662		18,941
Deferred income taxes		75,450		72,919
TOTAL LIABILITIES		116,480		109,134
EQUITY				
Share capital		313,618		290,846
Contributed surplus		7,279		7,832
Deficit		(5,668)		(3,043)
Accumulated other comprehensive loss		(51,469)		(38,959)
TOTAL EQUITY		263,760		256,676
TOTAL LIABILITIES AND EQUITY	$	380,240	$	365,810

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 June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Revenues	$ 64,539	$ 79,615	$ 89,913	$ 105,709
Cost of goods sold				
Operating expenses	16,628	14,704	31,220	28,751
Royalty expenses	6,454	7,962	8,991	10,571
Depletion and amortization	6,159	3,497	11,282	7,026
	29,241	26,163	51,493	46,348
Income from mining operations	35,298	53,452	38,420	59,361
Other expenses				
Administration (Note 9)	3,342	2,975	9,173	6,000
Exploration expenditures	1,250	809	1,845	1,798
Finance expenses	595	796	1,053	952
Foreign exchange (gain) / loss	(1,100)	1,324	1,000	3,211
Sales and marketing	744	1,406	1,229	1,938
	4,831	7,310	14,300	13,899
Net income before tax	30,467	46,142	24,120	45,462
Income tax expense				
Current income tax	3,981	7,094	4,624	7,662
Deferred income tax	6,788	6,874	6,755	7,157
	10,769	13,968	11,379	14,819
Net income for the period	$ 19,698	$ 32,174	$ 12,741	$ 30,643
Earnings per common share				
Basic	$ 0.05	$ 0.08	$ 0.03	$ 0.08
Diluted	$ 0.05	$ 0.08	$ 0.03	$ 0.08
Weighted average common shares outstanding				
Basic	395,980,852	382,505,778	391,435,179	382,379,901
Diluted	397,663,901	384,354,315	393,073,114	384,095,564

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 June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Net income for the period	$ 19,698	$ 32,174	$ 12,741	$ 30,643
Other comprehensive income				
Items that may subsequently be reclassified to net income				
Change in fair value of available-for-sale securities	(400)	(396)	(495)	194
Currency translation adjustment	(19,343)	4,042	(12,015)	9,875
	(19,743)	3,646	(12,510)	10,069
Comprehensive income (loss)	$ (45)	$ 35,820	$ 231	$ 40,712

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

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

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Cash flows from (used in):				
Operating Activities				
Net income for the period	$ 19,698	$ 32,174	$ 12,741	$ 30,643
Items not involving cash and cash equivalents:				
Depletion and amortization	5,890	3,606	11,254	7,338
Unrealized foreign exchange (gain) / loss	(1,100)	1,324	1,000	3,211
Stock-based compensation	557	414	934	783
Deferred income taxes	6,788	6,874	6,755	7,157
Finance costs	503	756	1,024	840
	32,336	45,148	33,708	49,972
Net change in working capital items:				
VAT receivables and other	1,337	3,220	(2,393)	2,593
Inventories	(2,672)	(1,318)	(4,380)	3,330
Trade payables and other current liabilities	4,310	3,484	3,658	(1,535)
Taxes payable	2,533	(7,530)	1,405	(7,530)
	37,844	43,004	31,998	46,830
Financing Activities				
Proceeds from exercise of stock options	108	208	108	544
Dividends paid	(15,311)	(7,076)	(15,311)	(14,247)
Withholding tax for share units vested	(367)	-	(367)	-
	(15,570)	(6,868)	(15,570)	(13,703)
Investing Activities				
Acquisition of plant and equipment	(3,045)	(8,854)	(7,020)	(13,850)
Capitalized mineral property expenditures	(5,657)	(276)	(6,308)	(743)
Capitalized production stripping costs	(6,719)	(7,635)	(13,476)	(8,228)
Acquisition of intangible assets	(289)	-	(727)	-
Acquisition of other assets	-	(280)	-	(1,247)
	(15,710)	(17,045)	(27,531)	(24,068)
Effect of exchange rate change on cash and cash equivalents	(533)	121	(325)	269
Increase (decrease) in cash and cash equivalents during the period	6,031	19,212	(11,428)	9,328
Cash and cash equivalents, beginning of period	43,606	43,461	61,065	53,345
Cash and cash equivalents, end of period(1)	$ 49,637	$ 62,673	$ 49,637	$ 62,673
Supplemental Information				
Interest received	56	64	166	102
Taxes paid	-	(14,267)	(2,726)	(15,432)
Changes in accounts payable and accrued liabilities related to plant and equipment	64	304	192	475

(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, 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
Change in fair value of available-for-sale securities	-		-		-		-		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
Balance, January 1, 2018	382,619,334	$	290,846	$	7,832	$	(3,043)	$	(38,959)	$	256,676
Exercise of stock options	66,667		146		(38)		-		-		108
Stock-based compensation	-		-		934		-		-		934
Change in fair value of available-for-sale securities	-		-		-		-		(495)		(495)
Effect of foreign currency translation	-		-		-		-		(12,015)		(12,015)
Shares issued for Clara acquisition (Note 3)	13,100,000		21,489		-		-		-		21,489
Shares issued from SUs vested	590,053		1,137		(1,137)		-		-		-
Withholding tax for SUs vested	-		-		(367)		-		-		(367)
Dividends paid[(2)]	-		-		55		(15,366)		-		(15,311)
Net income for the period	-		-		-		12,741		-		12,741
Balance, June 30, 2018	396,376,054	$	313,618	$	7,279	$	(5,668)	$	(51,469)	$	263,760

(1) On March 31 and June 15, 2017 the Company paid a cash dividend of CA$0.025 per share.

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

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

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 two prospecting licenses located in Botswana. The Company is also currently 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 of the most recent annual audited financial statements except for adoption of IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company. The Company has also adopted additional accounting policies as listed below. These financial statements were approved by the Board of Directors for issue on August 8, 2018.

(ii) Contingent consideration

Contingent consideration relating to an asset acquisition is recognized using the cost accumulation method when: (a) the conditions associated with the contingent payment are met; (b) the Company has a present legal or constructive obligation that can be estimated reliably; and (c) it is probable that an outflow of economic benefits will be required to settle the obligation.

(iii) Intangible assets

Intangible assets with finite lives consist of acquired trademarks, copyrights, patents and intellectual property that are initially capitalized at the purchase price plus any other directly attributable costs. These assets are amortized using the straight-line method over their estimated useful lives. Amortization of intangible assets will be included in cost of sales, administrative expenses and/or research and development expenses, as appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Capitalization of development expenditure

Development expenditures are capitalized only if the expenditure can be measured reliably, the process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Judgment is required in determining the technical and commercial feasibility and in assessing the probability of future economic benefits. Amortization related to capitalized development costs is classified within amortization and depreciation under operating expenses.

(v) Adoption of new accounting policies

The following are the significant accounting policies that have been amended as a result of the adoption of IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers. These amendments were applied retroactively and no adjustments were required from the adoption of these new standards.

IFRS 9 - Financial Instruments

Cash and cash equivalents
Cash and cash equivalents include cash on account, demand deposits and money market investments with maturities from the date of acquisition of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant changes in value. Cash is classified as subsequently measured at amortized cost. Cash equivalents are classified as subsequently measured at amortized cost.

Investments in marketable equity securities
Investments in marketable equity securities are classified at fair value through other comprehensive income. Investment transactions are recognized on the trade date with transaction costs included in the underlying balance. Fair values are determined by reference to quoted market prices at the balance sheet date. When investments in marketable equity securities are disposed of the cumulative gains and losses recognized in other comprehensive income are not recycled to profit and loss and remain within equity.

Trade payables
Trade payables are non-interest bearing if paid when due and are recognized at face amount, except when fair value is materially different. Trade payables are subsequently measured at amortized cost.

IFRS 15 - Revenue from Contracts with Customers

Revenues from diamond sales are recognized when the purchaser obtains control of the diamond. Control is achieved when proceeds are received and title is transferred to the purchaser according to contract terms.

(vi) New accounting pronouncements

In 2016, the IASB issued IFRS 16 Leases, which requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently developing a transition plan for this new standard. A preliminary review of the Company's leases commenced in 2017 with further analysis and quantification of impacts to be completed in 2018.

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

3. INVESTMENT IN CLARA

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 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 10).

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 Company concluded the acquired assets and assumed liabilities of Clara did not constitute a business and accordingly the transaction was accounted for as an asset acquisition. The consideration paid was allocated entirely to the intangible assets (Note 7).

4. INVENTORIES

	June 30, 2018	December 31, 2017
Rough diamonds	$ 15,997	$ 13,171
Ore stockpile	13,272	12,037
Parts and supplies	10,575	10,690
	$ 39,844	$ 35,898

Inventory expensed during the six months ended June 30, 2018 totaled $31.2 million (Six months ended June 30, 2017 – $28.8 million). There were no inventory write-downs during the six months ended June 30, 2018 and June 30, 2017.

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

5. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2017	$ 14,766	$ 152,851	$ 1,348	$ 4,421	$ 173,386
Additions	34,522	113	42	177	34,854
Reclassification	(41,675)	40,281	444	950	-
Disposals and other	-	(547)	(56)	(183)	(786)
Translation differences	947	15,451	140	432	16,970
Balance, December 31, 2017	8,560	208,149	1,918	5,797	224,424
Additions	8,309	-	-	-	8,309
Reclassification[1]	(1,593)	(162)	322	78	(1,355)
Translation differences	(883)	(11,262)	(124)	(318)	(12,587)
Balance, June 30, 2018	$ 14,393	$ 196,725	$ 2,116	$ 5,557	$ 218,791
Accumulated depreciation					
Balance, January 1, 2017	$ -	$ 38,407	$ 1,131	$ 2,343	$ 41,881
Depletion and amortization	-	10,414	122	848	11,384
Disposals and other	-	(392)	(56)	(183)	(631)
Translation differences	-	3,875	103	236	4,214
Balance, December 31, 2017	-	52,304	1,300	3,244	56,848
Depletion and amortization	-	8,427	186	630	9,243
Translation differences	-	(3,349)	(82)	(212)	(3,643)
Balance, June 30, 2018	$ -	$ 57,382	$ 1,404	$ 3,662	$ 62,448
Net book value					
As at December 31, 2017	$ 8,560	$ 155,845	$ 618	$ 2,553	$ 167,576
As at June 30, 2018	$ 14,393	$ 139,343	$ 712	$ 1,895	$ 156,343

(1) Karowe mine related expenditure of $624 was reclassified to mineral properties and $759 was reclassified to inventory (parts and supplies) in 2018.

(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, 2017	$ 28,183	$ 51,484	$ 79,667
Additions	24,752	1,223	25,975
Revision in estimate of restoration provision	-	275	275
Translation differences	3,733	4,627	8,360
Balance, December 31, 2017	56,668	57,609	114,277
Additions	13,802	6,308	20,110
Reclassification[1]	-	624	624
Translation differences	(3,938)	(3,561)	(7,499)
Balance, June 30, 2018	$ 66,532	$ 60,980	$ 127,512
Accumulated depletion			
Balance, January 1, 2017	$ 2,825	$ 14,684	$ 17,509
Depletion for the period	2,244	2,195	4,439
Translation differences	362	1,408	1,770
Balance, December 31, 2017	5,431	18,287	23,718
Depletion	2,436	1,788	4,224
Translation differences	(446)	(1,105)	(1,551)
Balance, June 30, 2018	$ 7,421	$ 18,970	$ 26,391
Net book value			
As at December 31, 2017	$ 51,237	$ 39,322	$ 90,559
As at June 30, 2018	$ 59,111	$ 42,010	$ 101,121

(1) Karowe mine related expenditure of $624 was reclassified from plant and equipment to mineral properties in 2018.

Karowe Mine

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

7. INTANGIBLE ASSETS

Balance, December 31, 2017	$ -
Acquisition of intangible assets (Note 3)	21,868
Development expenditures	289
Translation differences	(395)
Balance, June 30, 2018	$ 21,762

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

8. 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$)
Balance at December 31, 2016	**3,346,670**	**$ 2.39**
Granted	910,000	2.78
Exercised[1]	(373,333)	2.27
Forfeited	(145,000)	2.75
Balance at December 31, 2017	**3,738,337**	**2.48**
Granted	1,270,000	2.38
Exercised[1]	(66,667)	2.15
Forfeited	(173,333)	3.22
Balance at June 30, 2018	**4,768,337**	**$ 2.44**

(1) The weighted average share price on the exercise dates for the 2018 stock option exercises was CA$2.26 (2017: CA$2.97).

Options to acquire common shares have been granted and are outstanding at June 30, 2018 as follows:

	Outstanding Options			**Exercisable Options**		
Range of exercise prices CA$	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price CA$	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price CA$
$1.00 - $2.00	33,334	1.14	$ 1.80	16,667	1.14	$ 1.80
$2.01 - $3.00	4,695,003	2.15	2.43	2,351,677	1.47	2.34
$3.01 - $4.00	40,000	1.87	3.94	40,000	1.87	3.94
	4,768,337	2.14	$ 2.44	2,408,344	1.47	$ 2.39

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

8. SHARE BASED COMPENSATION (continued)

During the six months ended June 30, 2018, an amount of $0.3 million (2017 – $0.5 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:

		2018		2017
Assumptions:				
Risk-free interest rate *(%)*		2.00		1.02
Expected life *(years)*		3.72		3.63
Expected volatility *(%)*		39.48		41.78
Expected dividend		CA$0.025/share quarterly		CA$0.025/share quarterly
Results:				
Weighted average fair value of options granted *(per option)*	CA$	0.50	CA$	0.69

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 six month period ended June 30, 2018, the Company recognized a share-based payment charge against income of $0.6 million (2017: $0.3 million) for the SUs granted during the period.

	Number of share units		Weighted average exercise price per share (CA$)
Balance at December 31, 2016	**1,067,493**	**$**	**2.46**
March 8, 2017 grant	283,500		2.75
March 30, 2017 dividend	10,924		3.09
June 15, 2017 dividend	12,110		2.81
September 14, 2017 dividend	14,015		2.45
December 14, 2017 dividend	13,548		2.56
Balance at December 31, 2017	1,401,590		2.53
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)		2.07
May 31, 2018 vesting	(327,049)		2.56
June 21, 2018 dividend	12,601		2.17
June 29, 2018 grant	140,000		2.11
Balance at June 30, 2018	**1,246,694**	**$**	**2.56**

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

9. ADMINISTRATION

	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Salaries, benefits and severance	$ 1,095	$ 880	$ 4,714	$ 1,653
Professional fees	446	406	674	800
Office and general	321	187	660	431
Marketing	78	143	359	510
Membership	52	279	235	381
Stock exchange, transfer agent, shareholder communication	140	61	284	275
Travel	413	101	673	302
Stock-based compensation (Note 8)	557	417	934	783
Management fees	90	98	198	198
Depreciation	148	109	302	312
Donation	2	294	140	355
	$ 3,342	$ 2,975	$ 9,173	$ 6,000

10. RELATED PARTY TRANSACTIONS

a) Key management compensation

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

	Six months ended June 30, 2018	2017
Salaries and wages	$ 1,903	$ 1,658
Severance	2,311	-
Short term benefits	228	94
Share based compensation	800	425
	$ 5,242	$ 2,177

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 3) 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.)

b) Clara acquisition (continued)

Pursuant to the profit sharing mechanism described in note 3, 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.

11. SEGMENT INFORMATION

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

Three months ended June 30, 2018

	Karowe Mine	Corporate and other	Total
Revenues	$ 64,539	$ -	$ 64,539
Income (loss) from mining operations[1]	35,369	(71)	35,298
Exploration expenditures	(1,250)	-	(1,250)
Finance expenses	(294)	(301)	(595)
Foreign exchange	676	424	1,100
Other expenses	(1,780)	(2,306)	(4,086)
Tax expenses	(11,413)	644	(10,769)
Net income (loss) for the period	21,308	(1,610)	19,698
Capital expenditures	$ (15,421)	$ (289)	$ (15,710)

Three months ended June 30, 2017

	Karowe Mine	Corporate and other	Total
Revenues	$ 79,615	$ -	$ 79,615
Income (loss) from mining operations[1]	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

(1) Karowe Mine's depletion and amortization expense during the three months ended June 30, 2018 totaled $6.2 million (three months ended June 30, 2017 – $3.5 million).

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

11. SEGMENT INFORMATION (continued)

Six months ended June 30, 2018

	Karowe Mine	Corporate and other	Total
Revenues	$ 89,913	$ -	$ 89,913
Income (loss) from mining operations[1]	38,494	(74)	38,420
Exploration expenditures	(1,845)	-	(1,845)
Finance expenses	(741)	(312)	(1,053)
Foreign exchange	(1,324)	324	(1,000)
Other expenses	(3,193)	(7,210)	(10,403)
Tax expenses	(11,379)	-	(11,379)
Net income (loss) for the period	20,012	(7,272)	12,740
Capital expenditures	(26,804)	(727)	(27,531)
Total assets	$ 352,377	$ 27,863	$ 380,240

Six months ended June 30, 2017

	Karowe Mine	Corporate and other	Total
Revenues	$ 105,709	$ -	$ 105,709
Income (loss) from mining operations[1]	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

[1] Karowe Mine's depletion and amortization expense during the six months ended June 30, 2018 totaled $11.3 million (six months ended June 30, 2017 – $7.0 million).

LUCARA

DIAMOND

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