



Lucara Diamond
Corp.

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

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 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 this MD&A, it should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016 and unaudited condensed interim consolidated financial statements of the Company for the three and nine months ended September 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 November 2, 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 revenue of \$77.9 million during the quarter (Q3 2016: \$38.1 million) including the sale of the Lesedi La Rona ("LLR") for \$53 million (\$47,777 per carat), a regular diamond tender of \$24.6 million and \$0.3 million of proceeds received from the Company's Q2 regular tender. The Q3 average price was \$389 per carat (excluding the sale of the LLR) compared to Q3 2016 average sales price of \$332 per carat, an increase of 17%. The Company has achieved strong year to date rough diamond prices at \$687 per carat excluding the sale of the LLR (year to date 2016: \$618 per carat excluding the sale of the 813 carat Constellation diamond). Year to date sales prices achieved an increase of 11% compared to the sales prices in the same period in 2016.

The value of the Karowe diamonds remain high as the south lobe continues to perform with 108 specials (single diamonds larger than 10.8 carats), including two poor quality stones in excess of 100 carats, equating to a 4.1% weight percentage of carats recovered during Q3.

Karowe sales remain strong compared to the diamond sector which is experiencing influx of new production, increasing weakness in the smaller and poorer quality stones as well as low colour brown diamonds. Average diamond prices, as reported by other diamond producers are estimated to have decreased by up to 8% compared to the prior year in certain size and quality fractions. This price decrease has been compounded by an increase in diamond production from new producers. The high quality south lobe and rarity of some of the Karowe diamonds has created strong demand for its diamonds leading to price increases. These strong prices and a continued focus on costs have resulted in a year to date operating margin of 80% (year to date operating margin of 67% excluding the sale of the LLR).

Karowe's operating cash cost: Karowe's total operating year to date cash cost (see page 8 Non-IFRS measures) is \$32 per tonne processed (2016: \$25.00 per tonne processed) and is expected to end the year within guidance of \$36-\$40 per tonne processed. The Company's expenditures remain well controlled with mining and processing cost per tonne and all site costs within forecast.

Net cash position: The Company's Q3 cash balance was \$91.4 million (Q3 2016: \$49.7 million and FY 2016 \$53.3 million). The increase in cash during the period is primarily due to the LLR sale, which was partially offset by the Company's capital expenditures of \$20.3 million and dividend payments of \$7.7 million. The Company's \$50 million credit facility remains undrawn.

Earnings per share: Earnings per share were \$0.09 for Q3 2017 (Q3 2016: \$0.01 loss per share) and \$0.17 for year to date September 30, 2017 (year to date September 30, 2016: \$0.16).

Dividend: In Q3 2017, the Company paid its quarterly dividend of CDN 2.5 cents per share or \$7.7 million on September 14, 2017 bringing the total dividend paid in 2017 to \$21.9 million.

OPERATIONAL UPDATE

Karowe operating performance: Ore mined in Q3 2017 was 0.4 million tonnes and waste mined was 5.5 million tonnes. Processing volumes were largely on forecast for the quarter as the lower volume of ore mined was replaced with lower grade stockpile ore. The south lobe continued to perform as 108 specials (single diamonds larger than 10.8 carats), including two poor quality stones in excess of 100 carats, which equated to a 4.1% weight percentage of recovered carats were recovered during Q3.

The Company's two capital projects, the Mega Diamond Recovery ('MDR') and the Sub-middles XRT capital projects to improve diamond recovery and maintain design throughput were completed during the quarter, on schedule and within the forecasted budget of \$48 million.

Botswana Prospecting Licenses: During Q3 2017, the Company completed three large diameter drilling holes at AK11. Extension applications from the Ministry of Mines were received in Q4 for each of the Prospecting Licenses ("PL's") (PL367/2014 and PL371/2014). Work programs at AK11 and AK13 continue to progress. Microdiamond samples from AK13 are at the laboratory and positive results may lead to a further drilling program.

FINANCIAL HIGHLIGHTS

Table 1: <i>In millions of U.S. dollars unless otherwise noted</i>	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Revenues *	\$ 77.9	\$ 38.1	\$ 183.6	\$ 229.4
Average price per carat sold (\$/carat)**	1,161	332	960	850
Operating expenses per carat sold (\$/carat)**	229	149	231	143
Operating margin per carat sold (\$/carat)**	932	183	729	707
Net income (loss) for the period	32.9	(3.8)	63.5	59.5
Earnings (Loss) per share (basic and diluted)	0.09	(0.01)	0.17	0.16
Cash on hand	91.4	49.7	91.4	49.7

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

(**) Average price per carat sold, operating expenses per carat sold and operating margin per carat sold are Non-IFRS measures, see table 3: results of operations for reconciliations and page 8 for Non-IFRS measures.

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 has revised its revenue guidance to between \$165 million and \$175 million (previously \$200-\$220 million) for the year ending December 31, 2017, excluding the sale of the 1,109 carat Lesedi La Rona which sold for \$53 million. The Company has experienced a longer than anticipated ramp up of its new mining contractor, Aveng Moolman as well as contractor operating inefficiencies which are being addressed and improved. The contractor mining issues have led to a reduction in planned fresh south lobe ore being mined and processed during the year resulting in the substitution of lower grade stockpile being processed. The processing of lower grade stockpile has caused a decrease in carats recovered and forecast carats sold which are now between 260,000 and 270,000 carats compared to initial guidance of between 290,000 to 310,000 carats. The south lobe ore not mined during the year is planned to be mined and carats recovered in 2018.

The south lobe ore mined continues to meet expectations in terms of both grade and sales prices achieved. Year to date average sales price achieved is \$687 per carat (excluding the sale of the Lesedi La Rona). This compares to the same period in 2016 prices of \$618 per carat excluding the

sale of the 813 carat Constellation diamond, and full year prices of \$649, \$593 and \$644 per carat in 2016, 2015 and 2014 respectively. The increase in price reflects an increasing proportion of south lobe diamonds compared to prior years, the continued recovery of specials (+10.8 carats) at 5.0% weight percentage of total production in 2017 and the continued strong demand for Karowe's south lobe diamonds.

The Company continues to forecast tonnes processed at between 2.4 to 2.7 million tonnes and is forecasting carats recovered of between 260,000 and 265,000 carats from 265,000 and 285,000 forecast in Q2. Ore mined is forecast between 1.4 to 1.6 million tonnes, a decrease from the 1.8 to 2.0 forecast in Q2. Waste mining is forecast at between 15 to 17 million tonnes from 17 to 20 million tonnes forecast in Q2.

The two capital projects: MDR and Sub-middles XRT were completed during the quarter on schedule and within budget. This is expected to complete the Company's major capital expenditures to address comminution and diamond recovery at the mine and improve future cash flows. Sustaining capital is unchanged and forecast to be between \$7-\$9 million in 2017.

Karowe's total cash operating costs are well controlled and remain unchanged and are expected to be between \$36.00 and \$40.00 per tonne. A budget of up to \$10.0 million remains unchanged to advance resource evaluation work on the AK06 kimberlite at Karowe Mine and the completion of a Preliminary Economic Assessment on the potential of an Underground Mine at Karowe as well as initial hydrogeological modeling to support a pre-feasibility level underground study.

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.

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Table 2: Company's current land holdings:

Country	Name	Interest Held	Area (km²)
Botswana	Karowe Diamond License	100%	15.3
Botswana	Prospecting License No. 371/2014 (AK11,12,13,14)	100%	55.4
Botswana	Prospecting License No. 367/2014 (BK02)	100%	1.1

RESULTS OF OPERATIONS

Table 3: Karowe Mine, Botswana

	UNIT	YTD-17	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16
Sales							
Revenues	US\$M	183.6	77.9	79.6	26.1	66.0	38.1
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US\$M	183.6	77.6	79.9	26.1	66.0	29.8
Sales proceeds received during the quarter	US\$M	183.6	77.9	79.6	26.1	66.0	38.1
Q2 2017 tender proceeds received post Q2 2017	US\$M	-	(0.3)	0.3	-	-	-
Q2 2016 tender proceeds received post Q2 2016	US\$M	-	-	-	-	-	(8.3)
Carats sold for proceeds generated during the period	Carats	191,167	64,289	62,434	64,444	88,957	84,059
Carats sold for revenues recognized during the period	Carats	191,167	67,125	59,598	64,444	88,957	114,659
Average price per carat for proceeds generated during the period**	US\$	960	1,207	1,280	405	743	355
Average price per carat for proceeds received during the period***	US\$	960	1,161	1,336	405	743	332
Production							
Tonnes mined (ore)	Tonnes	950,303	386,906	432,017	131,380	582,169	650,290
Tonnes mined (waste)	Tonnes	11,119,512	5,540,139	4,992,196	587,177	2,728,915	3,092,110
Tonnes processed	Tonnes	1,703,773	591,196	513,643	598,934	630,471	650,646
Average grade processed	cpht ^(*)	10.9	10.6	11.2	10.9	13.0	12.5
Carats recovered	Carats	185,290	62,425	57,624	65,241	82,272	81,423
Costs							
Operating costs per carats sold (see page 7 Non-IRFS measures)	US\$	231	229	247	217	197	149
Capital expenditures							
-8+4mm sub-middles XRT project	US\$M	13.0	5.3	4.9	2.8	7.2	-
LDR and MDR circuit	US\$M	7.0	3.6	1.8	1.6	0.8	2.3
Sustaining capital	US\$M	4.6	1.9	2.2	0.5	2.0	5.8
Total	US\$M	24.6	10.8	8.9	4.9	10.0	8.1

(*) 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

OPERATIONS KAROWE MINE

Karowe had no lost time injuries during Q3 resulting in a twelve month rolling Lost Time Injuries Frequency Rate ("LTIFR") of 0.68.

The Company's mining contractor, Aveng Moolman, experienced equipment availability issues during the quarter that resulted in lower than planned south lobe ore being mined. To address this issue the contractor has delivered additional trucks, shovels, excavators and drill rigs to the mine. The contractor has also strengthened its site senior management team and is focussed on improving overall mining methods to achieve sustainable, long term operating efficiencies. Improved performance is now being realized and is expected to steadily improve during the next quarter.

Tonnes processed were largely on forecast as stockpile material provided plant feed. The Company continues to focus on waste mining to create additional options for ore availability and access to south lobe material in the future.

Karowe's total operating cash costs are at \$32 per tonne processed and is forecast to be between \$36-\$40 per tonne processed for the year. Year to date cash mining cost per tonne was \$2.45 compared to guidance of \$2.70 to \$2.90 per tonne and processing cost per tonne was \$11.50 compared to guidance of \$11.0 to \$12.0 per tonne.

The two capital projects: MDR project and Sub-middles XRT project to enhance diamond recovery and maintain design throughput were completed within the quarter with total expenditure during the past two years for both projects within forecast of \$48 million. The primary purpose of the MDR is to recover diamonds larger than 50mm prior to unit processes where the diamond may incur breakage resulting in a lower diamond value. The Sub-middles XRT circuit, which processes +4-8mm material has shown consistent recoveries when compared to those recorded when processing low yield material through a standard Dense Medium Separation circuit. An audit system which is designed to process ~20% of the coarse plant tailings above 4mm is expected to be commissioned in Q1/2018

and forms part of the budget for the Sub-middles project. These costs are forecast to be paid in 2018.

The Company's mine processing contract with Dowding Raynard & Associates's ("DRA") 100% subsidiary, Minopex Botswana (Proprietary) Limited has been transitioned to a new DRA Company which has increased capabilities on the operation of Karowe's new technology. The new subsidiary will also be focused on improving operating efficiencies, achieving cost reductions and increasing operational utilization.

The results of an Underground Preliminary Economic Assessment prepared in accordance with National Instrument 43-101 demonstrates the quality of the south lobe and the economic viability for the development of an underground mine at Karowe (see press release dated November 2, 2017). A NI43-101 Preliminary Economic Assessment was completed early in Q4 2017. A Pre-Feasibility Study is expected to be completed in H1 2018.

EXPLORATION AND RESOURCE UPGRADE

Karowe Resource (AK06 kimberlite) Upgrade Drilling

During the quarter specific sampling of drill core was completed for density, petrography, and microdiamond analysis. Limited additional infill sampling was initiated in early Q4 to compliment the existing data and provide additional data points at depth. 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 AK06 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. 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) which 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 Diamond mine. Extension applications were received from the Ministry of Mines in Q4 for prospecting licenses ("PL") (PL367/2014 and PL371/2014).

AK11

During Q3 2017, the Company completed all pilot holes and three of the planned eight large diameter drilling ("LDD") holes at the AK11 kimberlite. Material recovered from the LDD samples commenced processing at the Company's Bulk Sample Plant located at the Karowe Mine in early Q4 2017.

AK13

During Q3 2017 logging and sampling of AK13 was completed and microdiamond samples shipped for analysis. Results are expected during Q4 2017.

SELECT FINANCIAL INFORMATION

Table 4:

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
<i>In millions of U.S. dollars unless otherwise noted</i>				
Revenues	\$ 77.9	\$ 38.1	\$ 183.6	\$ 229.4
Operating expenses	(15.4)	(17.1)	(44.1)	(38.6)
Operating earnings ⁽¹⁾	62.5	21.0	139.5	190.8
Royalty expenses	(7.8)	(3.8)	(18.4)	(22.9)
Administration	(3.1)	(3.2)	(9.2)	(8.4)
Sales and marketing	(0.5)	(0.4)	(2.4)	(3.7)
Exploration expenditures	(1.3)	(1.2)	(3.1)	(2.9)
EBITDA ⁽²⁾	49.8	12.4	106.4	152.9
Depletion and amortization	(3.9)	(5.3)	(10.9)	(12.7)
Finance expense	(0.5)	(0.3)	(1.4)	(0.1)
Foreign exchange gain (loss)	0.8	(7.6)	(2.4)	(10.7)
Loss on disposal of Mothae	-	-	-	(1.2)
Current income tax expense	(7.1)	(9.3)	(14.8)	(72.8)
Deferred income tax recovery (expense)	(6.2)	6.3	(13.3)	4.1
Net income (loss) for the period	32.9	(3.8)	63.6	59.5
Change in cash during the period	28.8	(161.2)	38.1	(85.1)
Cash on hand	91.4	49.7	91.4	49.7
Earnings (Loss) per share (basic and diluted)	0.09	(0.01)	0.17	0.16
Per carats sold				
Sales price	\$ 1,161	\$ 332	\$ 960	\$ 850
Operating expenses	229	149	231	143
Average grade (carats per hundred tonnes)	10.6	12.5	10.9	13.7

⁽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: Cash operating cost per tonne ore processed reconciliation:

	Nine months ended September 30,	
	2017	2016
<i>In millions of U.S. dollars with the exception of tonnes processed and cash operating cost per tonne processed</i>		
Operating expenses	\$ 44.1	\$ 38.6
Capitalized production stripping costs ⁽¹⁾	17.6	6.9
Net change rough diamond inventory ⁽²⁾	(0.7)	2.2
Net change ore stockpile inventory ⁽³⁾	(5.8)	1.9
Total cash operating costs for ore processed	55.2	49.6
Tonnes processed	1,703,773	1,982,746
Cash operating cost per tonne ore processed⁽⁴⁾	32.40	25.00

⁽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 9 month period ended September 30, 2017 and September 30, 2016.

⁽³⁾ Net change in ore stockpile inventory for the 9 month period ended September 30, 2017 and September 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 rough diamond and stockpile inventory divided by the tonnes ore processed for the period.

Revenues

During Q3, the Company completed one regular diamond tender totalling 63,180 carats and the sale of the 1,109 carat Lesedi La Rona diamond. The sales achieved gross proceeds of \$77.9 million including proceeds of \$0.3 million from the June 2017 regular diamond tender. Overall, during Q3, the Company recognized an average sales price of \$1,161 per carat (\$389 per carat excluding the sale of the Lesedi La Rona) compared to Q3 2016 average sales price of \$332 per carat.

Operating earnings

Operating earnings before royalty payments for Q3 were \$62.5 million resulting in an operating margin (before royalties and depletion, amortization and accretion) of 80%. The year to date operating margin is 76% compared to prior year of 83%.

Income tax expense

Total income tax expense was \$13.4 million during Q3 2017, which includes a current income tax charge of \$7.2 million and a deferred income tax charge of \$6.2 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 revenue guidance including the LLR sale. The Company is subject to a variable tax rate in Botswana that increases as profit, as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55%.

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

Q3 2017 EBITDA was \$49.8 million compared to \$12.4 million in Q3 2016. The increase in EBITDA as compared to the prior year was due to the sale of the LLR in Q3 2017.

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

Net Income

The Company reported a net income of \$32.9 million in Q3 compared to a net loss of \$3.8 million in the prior year. This is due to the sale of the LLR sale and a regular tender in Q3 2017. The Company also reported a large foreign exchange loss in Q3 2016 compared to a minor foreign exchange gain in the current year.

Cash operating cost per tonne ore processed

The nine months ended September 30, 2017 cash operating cost per tonne processed was \$32.40 per tonne processed compared to \$25.00 per tonne processed in 2016. The higher cost compared to the prior year is largely due to the Company's increase in waste mining during 2017 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 September 30, 2017, the Company had cash of \$91.4 million compared to \$49.7 million at September 30, 2016 and \$53.3 million at December 31, 2016.

Cash increased by \$28.8 million during Q3. This increase is mainly due to the Company's LLR sale which partially offset the Company's third quarterly dividend to its shareholders of \$7.7 million and capital expenditure of \$20.3 million.

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	Sept-17	Jun-17	Mar-17	Dec-16	Sept-16	Jun-16	Mar-16	Dec-15
A. Revenues	77,911	79,615	26,094	66,017	38,098	140,785	50,566	65,212
B. Administration expenses	(3,163)	(2,975)	(3,025)	(6,429)	(3,226)	(2,678)	(2,448)	(5,214)
C. Net income (loss)	32,903	32,174	(1,531)	11,204	(3,804)	46,116	17,141	18,958
D. Earnings (loss) per share (basic and diluted)	0.09	0.08	(-)	0.03	(0.01)	0.12	0.05	0.05

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.

Average price per carat sold is the term the Company uses to describe the revenue generated by a single carat of diamond sold and it is calculated by the dividing revenue over number of carats sold in the same period. Operating costs per carat sold 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 margin is the term the Company uses to describe the net profit generated after mining, processing and site administration costs generated by a single carat of diamond sold and it is calculated by subtracting the average price per carat sold by operating costs per carat sold.

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 better measure performance and evaluate trends of individual assets. EBITDA comprises earnings before deducting interest and other financial charges, income taxes, depreciation and amortization and net loss attributable to non-controlling interests.

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

Cash 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 cash 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

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

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 and 3,738,337 stock options outstanding and 1,388,042 share units 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.

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 ended September 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 July 1, 2017 and ending September 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, 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)**

	September 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 91,439	\$ 53,345
VAT receivables and other	5,185	7,967
Inventories (Note 4)	34,695	40,852
	131,319	102,164
Investments	3,214	3,153
Plant and equipment (Note 5)	153,156	131,505
Mineral properties (Note 6)	79,715	62,158
Other non-current assets	4,161	3,020
TOTAL ASSETS	\$ 371,565	\$ 302,000
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	\$ 30,326	\$ 26,617
Taxes payable	8,425	9,198
	38,751	35,815
Restoration provisions	17,226	15,679
Deferred income taxes	65,609	50,516
TOTAL LIABILITIES	121,586	102,010
EQUITY		
Share capital	290,846	289,969
Contributed surplus	7,450	6,488
Retained earnings (Deficit)	2,880	(38,640)
Accumulated other comprehensive loss	(51,197)	(57,827)
TOTAL EQUITY	249,979	199,990
TOTAL LIABILITIES AND EQUITY	\$ 371,565	\$ 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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues	\$ 77,911	\$ 38,098	\$ 183,620	\$ 229,449
Cost of goods sold				
Operating expenses	15,352	17,119	44,103	38,582
Royalty expenses	7,791	3,810	18,362	22,945
Depletion and amortization	3,870	5,274	10,896	11,783
	27,013	26,203	73,361	73,310
Income from mining operations	50,898	11,895	110,259	156,139
Other expenses				
Administration (Note 8)	3,163	3,226	9,163	8,439
Exploration expenditures	1,332	1,167	3,130	2,931
Finance expenses	486	343	1,438	966
Foreign exchange (gain) loss	(839)	7,604	2,372	10,659
Sales and marketing	496	353	2,434	3,689
Loss on disposition of Mothae	-	-	-	1,196
	4,638	12,693	18,537	27,880
Net income(loss) before tax	46,260	(798)	91,722	128,259
Income tax expense				
Current income tax	7,168	9,283	14,830	72,880
Deferred income tax	6,189	(6,277)	13,346	(4,074)
	13,357	3,006	28,176	68,806
Net income (loss) for the period	\$ 32,903	\$ (3,804)	\$ 63,546	\$ 59,453
Earnings (loss) per common share				
Basic	\$ 0.09	\$ (0.01)	\$ 0.17	\$ 0.16
Diluted	\$ 0.09	\$ (0.01)	\$ 0.17	\$ 0.16
Weighted average common shares outstanding				
Basic	382,613,316	381,729,698	382,458,562	381,044,155
Diluted	384,140,300	383,998,319	384,105,176	382,862,552

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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net income (loss) for the period	\$ 32,903	\$ (3,804)	\$ 63,546	\$ 59,453
Other comprehensive income				
Items that may be subsequently reclassified to net income				
Change in fair value of available-for-sale securities	(228)	-	(34)	-
Currency translation adjustment	(3,211)	10,463	6,664	16,229
Item that was reclassified to net income				
Currency translation adjustment – Mothae disposition	-	-	-	3,310
	(3,439)	10,463	6,630	19,539
Comprehensive income	\$ 29,464	\$ 6,659	\$ 70,176	\$ 78,992

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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Cash flows from (used in):				
Operating Activities				
Net income (loss) for the period	\$ 32,903	\$ (3,804)	\$ 63,546	\$ 59,453
Items not involving cash and cash equivalents:				
Depletion and amortization	4,027	5,370	11,365	12,063
Foreign exchange (gain) loss	(839)	6,252	2,372	8,867
Stock-based compensation	345	445	1,128	1,299
Deferred income taxes	6,189	(6,277)	13,346	(4,074)
Finance costs	516	284	1,356	1,079
Loss on disposition of Mothae	-	-	-	1,196
	43,141	2,270	93,113	79,883
Net changes in working capital items:				
VAT receivables and other current assets	151	(3,085)	2,743	(3,849)
Inventories	2,510	(279)	5,840	(7,382)
Trade payables and other current liabilities	4,312	(203)	2,777	529
Taxes payable	6,671	(12,973)	(859)	9,282
	56,785	(14,270)	103,614	78,463
Financing Activities				
Proceeds from exercise of stock options	88	56	632	1,628
Dividends paid	(7,701)	(136,550)	(21,947)	(145,369)
	(7,613)	(136,494)	(21,315)	(143,741)
Investing Activities				
Acquisition of plant and equipment	(10,765)	(8,103)	(24,615)	(13,278)
Capitalized mineral property expenditure	(204)	-	(947)	-
Capitalized production stripping costs	(9,374)	(2,576)	(17,602)	(6,920)
Acquisition of other assets	-	-	(1,247)	-
	(20,343)	(10,679)	(44,411)	(20,198)
Effect of exchange rate change on cash and cash equivalents				
	(63)	287	206	378
Increase (decrease) in cash and cash equivalents during the period	28,766	(161,156)	38,094	(85,098)
Cash and cash equivalents, beginning of period	62,673	210,834	53,345	134,776
Cash and cash equivalents, end of period	\$ 91,439	\$ 49,678	\$ 91,439	\$ 49,678
Supplemental Information				
Interest received	138	189	240	399
Taxes paid	(425)	(24,286)	(15,857)	(64,683)
Changes in accounts payable and accrued liabilities related to plant and equipment	217	(117)	692	(186)

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	Surplus (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	1,771,665	2,267	(639)	-	-	-	1,628
Stock-based compensation	-	-	1,299	-	-	-	1,299
Effect of foreign currency translation	-	-	-	-	19,539	-	19,539
Free-carried non-controlling interests	-	-	-	-	-	(12)	(12)
Dividends paid	-	-	451	(145,820)	-	-	(145,369)
Net income for the period	-	-	-	59,453	-	-	59,453
Balance, September 30, 2016	381,751,078	\$ 288,925	\$ 6,381	\$ (45,520)	\$ (56,564)	-	\$ 193,222
Balance, January 1, 2017	382,246,001	\$ 289,969	\$ 6,488	\$ (38,640)	\$ (57,827)	-	\$ 199,990
Exercise of stock options	373,333	877	(245)	-	-	-	632
Stock-based compensation	-	-	1,128	-	-	-	1,128
Unrealized gain on Investment	-	-	-	-	(34)	-	(34)
Effect of foreign currency translation	-	-	-	-	6,664	-	6,664
Dividends paid ⁽¹⁾	-	-	79	(22,026)	-	-	(21,947)
Net income for the period	-	-	-	63,546	-	-	63,546
Balance, September 30, 2017	382,619,334	\$ 290,846	\$ 7,450	\$ 2,880	\$ (51,197)	-	\$ 249,979

⁽¹⁾ The Company paid cash dividends of CA\$ 0.025 per share on March 31, 2017, June 15, 2017 and September 14, 2017.

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

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 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 November 2, 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 NINE MONTHS ENDED SEPTEMBER 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 and disclosure 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 and disclosure 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 NINE MONTHS ENDED SEPTEMBER 30, 2017

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

4. INVENTORIES

	September 30, 2017		December 31, 2016	
Rough diamonds	\$	13,398	\$	14,116
Ore stockpile		11,329		17,089
Parts and supplies		9,968		9,647
	\$	34,695	\$	40,852

Inventory expensed during the nine months ended September 30, 2017 totaled \$44.1 million (2016 – \$38.6 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	25,137	-	119	50	25,306
Disposals and other	-	-	(22)	(182)	(204)
Reclassification	(33,773)	33,773	-	-	-
Translation differences	526	5,379	50	164	6,119
Balance, September 30, 2017	\$ 6,656	\$ 192,003	\$ 1,495	\$ 4,453	\$ 204,607
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	-	7,560	83	628	8,271
Disposals and other	-	-	(22)	(182)	(204)
Translation differences	-	1,371	41	91	1,503
Balance, September 30, 2017	\$ -	\$ 47,338	\$ 1,233	\$ 2,880	\$ 51,451
Net book value					
As at December 31, 2016	\$ 14,766	\$ 114,444	\$ 217	\$ 2,078	\$ 131,505
As at September 30, 2017	\$ 6,656	\$ 144,665	\$ 262	\$ 1,573	\$ 153,156

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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	17,602	947	18,549
Translation differences	944	1,780	2,724
Balance, September 30, 2017	\$ 46,729	\$ 54,211	\$ 100,940
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	1,487	1,628	3,115
Translation differences	95	506	601
Balance, September 30, 2017	\$ 4,407	\$ 16,818	\$ 21,225
Net book value			
As at December 31, 2016	\$ 25,358	\$ 36,800	\$ 62,158
As at September 30, 2017	\$ 42,322	\$ 37,393	\$ 79,715

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 NINE MONTHS ENDED SEPTEMBER 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 and 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	(2,004,999)	1.33
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 September 30, 2017	3,738,337	\$ 2.48

(1) The weighted average share price on the exercise dates for the 2017 stock option exercises was CA\$2.97 (2016: CA\$3.32).

Options to acquire common shares have been granted and are outstanding and exercisable at September 30, 2017 as follows:

Range of exercise prices CA\$	Number of options outstanding	Outstanding Options		Exercisable Options		
		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	1.89	\$ 1.80	16,667	1.89	\$ 1.80
\$2.01 - \$3.00	3,585,003	2.43	2.44	1,070,009	2.05	2.31
\$3.01 - \$4.00	120,000	2.62	3.94	40,000	2.62	3.94
	3,738,337	2.43	\$ 2.48	1,126,676	2.07	\$ 2.36

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

7. SHARE BASED COMPENSATION (continued)

During the nine months ended September 30, 2017, an amount of \$0.6 million (2016 – \$0.7 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 (<i>per option</i>)	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 period ended September 30, 2017, the Company recognized a share-based payment charge against income of \$0.5 million (2016: \$0.5 million) for the SUs granted during the period.

	Number of shares issuable pursuant to share units	Weighted average fair value at date of grant 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
September 14, 2017 dividend	14,015	2.45
Balance at September 30, 2017	1,388,042	\$ 2.53

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

8. ADMINISTRATION

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Salaries and benefits	\$ 1,038	\$ 769	\$ 2,691	\$ 2,526
Office and general	268	873	700	1,496
Professional fees	571	108	1,371	408
Marketing	230	117	740	426
Membership	270	66	650	196
Share-based compensation (Note 7)	345	445	1,128	1,299
Stock exchange, transfer agent, shareholder communication	58	61	335	270
Travel	112	457	414	723
Depreciation	158	95	469	279
Donation (Note 9b)	8	113	362	468
Management fees	105	122	303	348
	\$ 3,163	\$ 3,226	\$ 9,163	\$ 8,439

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 was as follows:

	Nine months ended	
	September 30,	
	2017	2016
Salaries and wages	\$ 2,206	\$ 2,845
Short term benefits	114	80
Stock-based compensation	872	1,008
	\$ 3,192	\$ 3,931

b) Other related parties

For the nine months ended September 30, 2017, the Company donated \$0.2 million (2016 – 0.2 million) to a charitable foundation directed by members 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 NINE MONTHS ENDED SEPTEMBER 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 September 30, 2017

	Karowe Mine	Corporate and other	Total
Revenues	\$ 77,911	\$ -	\$ 77,911
Income from mining operations	50,928	(30)	50,898
Exploration expenditures	(1,332)	-	(1,332)
Finance income (expenses)	(223)	(263)	(486)
Foreign exchange	1,219	(380)	839
Other expenses	(1,709)	(1,950)	(3,659)
Tax expenses	(13,022)	(335)	(13,357)
Net income (loss) for the period	35,861	(2,958)	32,903
Capital expenditures	\$ 20,343	\$ -	\$ 20,343

Three months ended September 30, 2016

	Karowe Mine	Corporate and other	Total
Revenues	\$ 38,098	\$ -	\$ 38,098
Income from mining operations	11,644	(53)	11,591
Exploration expenditures	(1,167)	-	(1,167)
Finance income (expenses)	70	(109)	(39)
Foreign exchange	(5,285)	(2,319)	(7,604)
Other expenses	(2,019)	(1,561)	(3,579)
Tax expenses	(3,006)	-	(3,006)
Net income (loss) for the period	237	(4,042)	(3,804)
Capital expenditures	\$ 10,679	\$ -	\$ 10,679

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

10. SEGMENT INFORMATION (continued)

Nine months ended September 30, 2017			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 183,620	\$ -	\$ 183,620
Income from mining operations	110,344	(85)	110,259
Exploration expenditures	(3,130)	-	(3,130)
Finance income (expenses)	(831)	(607)	(1,438)
Foreign exchange	(1,783)	(589)	(2,372)
Other expenses	(4,854)	(6,743)	(11,597)
Tax expenses	(26,992)	(1,184)	(28,176)
Net income (loss) for the period	72,754	(9,208)	63,546
Capital expenditures	44,411	-	44,411
Total assets	\$ 363,380	\$ 8,185	\$ 371,565

Nine months ended September 30, 2016			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 229,449	\$ -	\$ 229,449
Income from mining operations	155,381	(123)	155,258
Exploration expenditures	(2,931)	-	(2,931)
Finance income (expenses)	278	(363)	(85)
Foreign exchange	(8,050)	(2,609)	(10,659)
Other expenses	(5,936)	(7,388)	(13,324)
Tax expenses	(59,830)	(8,976)	(68,806)
Net income (loss) for the period	78,912	(19,459)	59,453
Capital expenditures	20,198	-	20,198
Total assets	\$ 271,272	\$ 17,913	\$ 289,185

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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