

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 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 September 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 November 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. The Karowe Mine has been in production since 2012 and is the focus of the Company's operations, development and exploration activities. In February 2018, the Company acquired Clara Diamond Solutions ("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, 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 and waste mined, ore processed and carats recovered was within forecast for the third quarter ended September 30, 2018:
 - Ore and waste mined was 1.2 million tonnes and 3.9 million tonnes respectively
 - Ore processed totaled 0.73 million tonnes with a record 0.26 million tonnes processed in the month of September 2018
 - 197 specials (single diamonds larger than 10.8 carats) were recovered during the third quarter, representing 4.7% weight percentage of total recovered carats, in line with expectations; 10 diamonds were recovered greater than 100 carats in weight
- Commercialization efforts at Clara are tracking according to budget and plan with inaugural sales expected to commence in November
- Quarterly sales revenue of \$45.7 million (Q3 2017: \$77.9 million) or \$450 per carat (Q3 2017: \$1,161 per carat) recognized during the quarter. This revenue includes proceeds of \$3.9 million received in

July 2018 related to the Company's June tender. Third quarter sales from 2017 included the sale of the Lesedi La Rona ("LLR") for \$53 million (\$47,777 per carat), adjusting for the sale of the LLR, the Q3 2017 average sales price was \$389 per carat.

- The operating cash cost for the nine months ended September 30, 2018 was \$41.20 per tonne processed (2017: \$32.40 per tonne processed) compared to the full year forecast cash cost of \$38-\$42 per tonne processed. Year to date operating cash cost per tonne processed was impacted by higher than expected tonnes mined and processed, and an increase in the cost per tonne mined due to the mining contractor transition which commenced mid-year. Forecast costs for the 2018 fiscal year are still expected to be within guidance.
- Q3 2018 EBITDA of \$18.2 million (Q3 2017: \$49.8 million) reflects lower revenues attributable to a smaller volume and lower average price of exceptional stones sold, as compared to Q3 2017 which included the sale of the 1,109 carat LLR.
- Net income for the three months ended September 30, 2018 was \$5.1 million (\$0.01 per share) as compared to net income of \$32.9 million (\$0.09 per share) in the comparative quarter of 2017.
- As at September 30, 2018, the Company had cash and cash equivalents of \$31.1 million. The \$50 million credit facility remains undrawn on September 30, 2018.
- 2018 guidance has been increased for tonnes of ore mined and carats recovered; the remainder of the Company's guidance remains unchanged for 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. 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. In September 2018, the Company held its first blended tender process, combining the sale of exceptional stones with the balance of run of mine production into one sale. This change was made to decrease the inventory time for large, high value diamonds and to generate a smoother revenue profile, that better supports price guidance on a per sale basis. Certain stones from the Karowe production will be offered for sale through the Clara platform in Q4 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:

<i>In millions of U.S. dollars unless otherwise noted</i>	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Revenues	\$ 45.7	\$ 77.9	\$ 135.6	\$ 183.6
Net income for the period	5.1	32.9	17.9	63.5
Earnings per share (basic and diluted)	0.01	0.09	0.05	0.17
Cash on hand	31.1	91.4	31.1	91.4
Average price per carat sold (\$/carat)*	450	1,161	564	960
Operating expenses per carat sold (\$/carat)*	185	229	208	231
Operating margin per carat sold (\$/carat)*	265	932	356	729

(*) 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 \$45.7 million or \$450 per carat for its sales in the third quarter, yielding an operating margin of 59% during the period. Included in the Q3 2018 revenue are proceeds of \$3.9 million from the June RST which were received in July 2018. The third quarter of 2018 saw Lucara host its first blended tender process in which both regular and exceptional diamonds, recovered in the period May-August, were sold achieving an average price per carat of \$467 from the sale of 89,461 carats (Q3 2017: 64,289 carats), a 39% increase in the number of carats sold as compared to the same quarter last year. Overall lower revenues reflect natural variability in the number and quality of exceptional diamonds recovered in any quarter. Lucara sold the LLR during the third quarter of 2017 recognizing revenue of \$53 million (\$47,777 per carat). Adjusting for the sale of the LLR, the Q3 2017 average price per carat sold was \$389.

The increase in the number of carats available for sale in the September tender follows commissioning of the sub-middles circuit in Q3 2017 and increased efficiency in diamond recovery in the smaller sizes during 2018. The number of carats recovered in Q3 2018 (127,031 carats) was more than double the number of carats recovered in Q3 2017 (62,425 carats). In Q3, Lucara also began setting aside diamonds in the one to fifteen carat size range in the better colors and qualities, for sale on Clara, Lucara's secure digital rough diamond sales platform. The removal of these diamonds from traditional tender sales will have an impact on the overall achieved average sales price, however, these differences will be captured and reconciled in the results reported through Clara. The inaugural sale on Clara is planned and tracking on schedule to take place later in November, 2018.

Operating expenses increased from \$15.4 million in Q3 2017 to \$18.8 million in Q3 2018 due to a combination of higher volumes of ore mined and processed and an increase in the average cost per tonne mined resulting from the transition between mining contractors during the third quarter.

Revenue, EBITDA and earnings per share performance were as expected and reflect the overall timing of the Company's sales tenders and its transition to a blended sales tender process in September 2018. Proceeds of \$3.9 million from the June sale were received in July 2018. The Company expects its 2018 revenue to be between \$180 million and \$190 million (2018 guidance: \$170 million to \$200 million).

RESULTS OF OPERATIONS
Table 2: Karowe Mine, Botswana

	UNIT	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17
Sales						
Revenues	US\$M	45.7	64.5	25.4	37.1	77.9
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US\$M	41.8	68.4	25.4	37.1	77.6
Sales proceeds received during the quarter	US\$M	45.7	64.5	25.4	37.1	77.9
Q2 2018 tender proceeds received post Q2 2018	US\$M	(3.9)	3.9	-	-	-
Q2 2017 tender proceeds received post Q2 2017	US\$M	-	-	-	-	(0.3)
Carats sold for proceeds generated during the period	Carats	89,461	87,467	63,317	69,358	64,289
Carats sold for revenues recognized during the period	Carats	101,600	75,329	63,317	69,358	67,125
Average price per carat for proceeds generated during the period**	US\$	467 ³	782 ²	401	535	1,207 ¹
Average price per carat for proceeds received during the period***	US\$	450 ³	856 ²	401	535	1,161 ¹
Production						
Tonnes mined (ore)	Tonnes	1,217,016	702,825	630,242	624,749	386,906
Tonnes mined (waste)	Tonnes	3,850,225	4,416,361	3,991,648	4,745,609	5,540,139
Tonnes processed	Tonnes	728,962	698,303	599,407	631,777	591,196
Average grade processed	cpht (*)	17.4	11.7	12.6	10.2	10.6
Carats recovered	Carats	127,031	81,507	75,698	64,477	62,425
Costs						
Operating costs per carats sold (see page 11 Non-IRFS measures)	US\$	185	220	231	255	229
Capital expenditures	US\$M	2.5	3.0	4.0	9.6	10.8

(*) carats per hundred tonnes

(**) Average price per carat of \$467 includes all sales tendered during the quarter for proceeds of \$41.8 million

(***) Average price per carat of \$450 includes all sales proceeds collected during the quarter totalling \$45.7 million, of which \$3.9 million was received from sales generated in the second quarter

- (1) This includes the sale of the 1,109 carat LLR for US\$53 million
- (2) This includes one EST sale of \$32.4 million in addition to an RST during the quarter
- (3) This includes the first blended sales tender in September 2018.

THIRD QUARTER OVERVIEW – OPERATIONS - KAROWE MINE

Safety: Karowe had no lost time injuries during the three months ended September 30, 2018 resulting in a twelve-month rolling Lost Time Injuries Frequency Rate ("LTIFR") of 0.

Production: Ore and waste mined during the three months ended September 2018 totaled 1.2 million tonnes and 3.9 million tonnes respectively. Tonnage processed was within forecast at 0.73 million tonnes, with a total of 127,031 carats recovered. Ore processed was predominantly from the South lobe. During Q3, a total of 197 specials (single diamonds larger than 10.8 carats) were recovered including 10 diamonds greater than 100 carats in weight and two near-gem quality diamonds greater than 300 carats. Recovered specials equated to 4.7% weight percentage of total recovered carats during the quarter, in line with expectations.

During the quarter, Lucara worked cooperatively with Aveng Moolmans and Trollope Mining Services Pty ("Trollope") to implement a transition of all mining services to Trollope. August was the first month in which Trollope was responsible for all waste and ore mining. Performance improved considerably through the third quarter and has continued. 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. A change in the mine plan following the Mineral Resource update mid-year has resulted in a larger volume of ore mined than originally anticipated. The additional ore results from waste mining in the north lobe. This ore is lower-grade and has been stockpiled for processing at a later date.

Karowe's operating cash cost: Karowe's year to date operating cash cost (see page 11 Non-IFRS measures) was \$41.20 per tonne processed (2017: \$32.40 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 nine months ended September 30, 2017 reflects an increase in year-to-date tonnes mined (2018: 14,808,317 tonnes mined vs. 2017: 12,069,815 tonnes mined) and an increase in tonnes processed (2018: 2,026,672 tonnes processed vs. 2017: 1,703,773 tonnes processed), combined with an increase in the cost per tonne mined due to the mining contractor transition which commenced mid-year. Forecast costs for the 2018 fiscal year are still expected to be within guidance, albeit at the higher end.

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. In Botswana, a majority of currently operating mines are unionized. During the third quarter, a number of meetings and joint training between the union and Karowe management have taken place and an experienced facilitator was appointed. Next steps will include a Memorandum of Agreement which will govern the working relationship between the two parties, followed by negotiation of a collective agreement in 2019.

MINERAL RESOURCE UPDATE AND BOTSWANA EXPLORATION

Karowe Resource (AK06 kimberlite) Update

During Q2 2018, an updated mineral resource was announced for the AK06 kimberlite. The updated Mineral Resource Estimate was completed by Mineral Services Canada Inc. The estimate is based on historical evaluation data combined with new sampling results (microdiamond, bulk density and petrography) from recent deep core drilling and from historical drill cores. New delineation drill coverage and review of historical drill cores supported an update of the internal geological model. Production data (including a controlled production run from the Eastern magmatic/pyroclastic kimberlite ("EM/PK(S)") unit) and recent sales / 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 \$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 an 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 \$716 per carat between 400 masl to 256 masl (base of current geological and resource model).

During Q3 2018, an updated Open Pit Mineral Reserve was declared and a National Instrument 43-101 Technical Report was filed on the SEDAR website (www.sedar.com). The in situ Mineral Reserve for AK06 with an effective date of May 25, 2018 is within the probable category containing 19.84 Million tonnes with a recoverable grade of 13.08 carats per hundred tonne for 2.60 Million carats with an average price per carat of \$ 624/ct. Life of Mine and Working stockpiles contribute an additional 5.56 Million tonnes with a recoverable grade of 6.7 carats per hundred tonne with an average price of \$625/ct. The recoverable grade is based on the updated Mineral Resource estimate as presented in the technical report (1.25 mm bottom cut off size - BCOS) at 70% of in situ carats at 1.00 mm bottom cut off size.

These new results are being 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 relinquished in 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 third quarter, the Company completed processing of the large diameter drilling ("LDD") sample (estimated in-situ tonnage of 490 tonnes) at the Company's Bulk Sample Plant located at the Karowe Mine. No diamonds were recovered during processing and no further work will be conducted at AK11. At AK24, four holes were sampled for microdiamonds and samples were shipped to the Saskatchewan Research Council. 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 Q2 2018 and continued through Q3 2018 with the drilling of selected targets commencing in late 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 the Clara digital diamond sales platform continue on budget and on schedule with its first sale anticipated in November 2018. Rough diamonds offered in Clara's first sale will include a selection of diamonds from Lucara's Karowe mine and additional aggregated third-party rough diamonds consisting of stones between one and fifteen carats in size in the better colors and qualities. Thereafter, Clara's objective is 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 nine months ended September 30, 2018, the Company capitalized \$0.7 million to intangible assets related to the development of the Clara platform.

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 is increasing its 2018 forecast for ore mined from 2.5 – 2.8 million tonnes to 2.9 – 3.1 million tonnes. The 2018 mine plan was amended following the Mineral Reserve update mid-year and additional, lower-grade ore has been mined and stockpiled. The Company is also increasing the 2018 forecast for diamonds recovered and sold, from 270,000 – 290,000 carats to 325,000 – 350,000 carats. This increase is due to better plant performance resulting in a higher recovery of smaller diamonds, which do not contribute materially to the Company's revenue. Despite the increase in carats recovered, revenue is expected to be in the range of \$180 - \$190 million (2018 guidance: \$170 – \$200 million). The remainder of the Company's 2018 forecast remains unchanged as of September 30, 2018.

Karowe Mine, Botswana

Table 3: 2018 Diamond Sales, Production and Outlook

Karowe Mine	Full Year – 2018
<i>In millions of U.S. dollars unless otherwise noted</i>	
Diamond revenue (millions)	\$180 to \$190 (revised)
Diamond sales (thousands of carats)	325 to 350 (revised)
Diamonds recovered (thousands of carats)	325 to 350 (revised)
Ore tonnes mined (millions)	2.9 – 3.1 (revised)
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 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; the average strip ratio during the nine months ended September 30, 2018 was 4.81 and capitalized production stripping costs totaled \$16.7 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 September 30, 2018, a total of \$9.5 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 was initiated and as of September 30, 2018, a total of \$15.6 million had been incurred. In addition, the Company completed and reported an updated mineral resource estimate on June 26, 2018, re-classifying Inferred Resources within the AK06 kimberlite from 600 to 400 masl to Indicated Resources. It was subsequently determined that the updated 2018 resource in conjunction with the currently budgeted work programs are sufficiently detailed to support conversion of the PFS to a feasibility study ("FS"), which is now underway and expected to complete in H2 2019. The geotechnical drilling program is 66% complete with approximately 15,000 metres of drilling undertaken to the end of Q3 2018. Detailed geotechnical and geological logging and sampling is continuing and an update on progress and results will be reported before the end of the year.

The Company also budgeted \$6.0 million for advanced exploration work on the Company's prospecting licenses in Botswana, of which \$2.6 million had been incurred as of September 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 September 30		Nine months ended September 30	
	2018	2017	2018	2017
Revenues	\$ 45.7	\$ 77.9	\$ 135.6	\$ 183.6
Operating expenses	(18.8)	(15.4)	(50.0)	(44.1)
Operating earnings⁽¹⁾	26.9	62.5	85.6	139.5
Royalty expenses	(4.6)	(7.8)	(13.6)	(18.4)
Exploration expenditures	(0.8)	(1.3)	(2.6)	(3.1)
Administration	(2.8)	(3.1)	(12.0)	(9.2)
Sales and marketing	(0.5)	(0.5)	(1.7)	(2.4)
EBITDA⁽²⁾	18.2	49.8	55.7	106.4
Depletion and amortization	(8.9)	(3.9)	(20.1)	(10.9)
Finance expenses	(0.3)	(0.5)	(1.4)	(1.4)
Foreign exchange loss (gain)	(0.4)	0.8	(1.4)	(2.4)
Current income tax expense	(2.8)	(7.1)	(7.5)	(14.8)
Deferred income tax expense	(0.7)	(6.2)	(7.5)	(13.3)
Net income for the period	5.1	32.9	17.8	63.5
Change in cash during the period	(18.5)	28.8	(29.9)	38.1
Cash on hand	31.1	91.4	31.1	91.4
Earnings per share (basic and diluted)	0.01	0.05	0.05	0.17
Per carats sold:				
Sales price	\$ 450	\$ 1,161	\$ 564	\$ 960
Operating expenses	185	229	208	231
Average grade (carats per hundred tonnes)	17.4	10.6	14.0	10.9

⁽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:

	Nine months ended September 30,	
	2018	2017
<i>In millions of U.S. dollars with the exception of tonnes processed and operating cost per tonne processed</i>		
Operating expenses	\$ 50.0	\$ 44.1
Capitalized production stripping costs ⁽¹⁾	16.7	17.6
Net change rough diamond inventory ⁽²⁾	8.1	(0.7)
Net change ore stockpile inventory ⁽³⁾	8.7	(5.8)
Total operating costs for ore processed	83.5	55.2
Tonnes processed	2,026,672	1,703,773
Operating cost per tonne of ore processed⁽⁴⁾	\$ 41.20	\$ 32.40

⁽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 nine months ended September 30, 2018 and 2017.

⁽³⁾ Net change in ore stockpile inventory for the nine months ended September 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 Q3 2018, Lucara hosted its first blended sales process, selling 89,461 carats at an average price of \$467 per carat, resulting in total sales generated during the period of \$41.8 million. Revenue of \$3.9 million from the June tender was received in July, increasing revenue for the third quarter to \$45.7 million. The September tender included a total of 42 single stones greater than +10.8ct, including two diamonds in excess of 200 carats. A total of 5 diamonds sold for > \$1 million, including two diamonds that that sold for in excess of \$3 million.

For the nine months ended September 30, 2018, Lucara recognized revenue of \$135.6 million or \$564 per carat sold. This compares to revenue of \$183.6 million or \$960 per carat sold for the same period in 2017. The sale of the LLR for \$53 million in Q3 2017 had a significant impact on 2017 revenue.

Operating Earnings and Expenses

Operating earnings for the three months ending September 30, 2018 were \$26.9 million (Q3 2017: \$62.5 million) and operating expenses during the period totalled \$18.8 million or \$185 per carat (Q3 2017: \$15.4 million or \$229 per carat), which resulted in an operating margin (before royalties, depletion and amortization) of \$265 per carat or 59% (Q3 2017: \$932 per carat or 80%).

Operating earnings for the nine months ending September 30, 2018 were \$85.6 million (2017: \$139.5 million) and operating expenses during the period totalled \$50.0 million or \$208 per carat (2017: \$44.1 million or \$231 per carat), which resulted in an operating margin (before royalties, depletion and amortization) of \$356 per carat or 63% (2017: \$729 per carat or 76%). Operating expenses increased about 13% on a year-to-date basis, which is a reflection of the higher cost per tonne mined and one-time costs related to the mining contractor transition.

Lucara achieved an average grade of 17.4 carats per hundred tonnes ("cpht") during the third quarter compared to 10.6 cpht in the comparable quarter; recoveries of 127,031 carats more than doubled as compared to the 62,425 carats recovered in Q3 2017. Due to the significant increase in carat recoveries, the average operating expense per carat decreased when compared to Q3 2017.

Depletion and amortization

The Company incurred a depletion and amortization charge of \$8.9 million (Q3 2017: \$3.9 million) which is due to a change in the reserve base and a significant increase in the number of carats recovered during the quarter (127,031 carats in Q3 2018 vs. 62,425 carats in Q3 2017). Higher capitalized production stripping and amortization expense on production assets which were commissioned in Q3 2017 also contributed to an increase in this expense for the quarter. On a year-to-date basis, depletion and amortization expense totaled \$20.1 million (2017: \$10.9 million).

Net income

Net income for the three months ending September 30, 2018 was \$5.1 million (2017: net income of \$32.9 million, including proceeds of \$53 million from the sale of LLR in Q3 2017). On a year-to-date basis, net income was \$17.9 million (2017: \$63.5 million). Higher operating expenses and higher depletion and amortization expense offset by lower tax movements accounted for the remaining impact on the decrease in net income as compared to the same periods in 2017.

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

EBITDA for the three months ended September 30, 2018 was \$18.2 million compared to \$49.8 million in Q3 2017. EBITDA for the nine months ended September 30, 2018 was \$55.7 million (2017: \$106.4 million). The period to period change is largely attributable to the sale of the LLR during Q3 2017.

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

Operating Cost Per Tonne of Ore Processed

For the nine months ended September 30, 2018, operating cost per tonne processed was \$41.20 (2017: \$32.40). This increase is consistent with the Company's expectations following a change in the mining contractor mid-year. A higher volume of waste mined (2018: 14.8 million tonnes; 2017 - 12.0 million tonnes), and significant net changes in both the rough diamond inventory (+ \$8.1 million) and the ore stockpile inventory (+ \$ 8.7 million) contributed to the significant increase in the operating cost per tonne processed as compared to the same nine-month period in 2017.

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 September 30, 2018, the Company had cash and cash equivalents of \$31.1 million. Spending during the three months ended September 30, 2018 was focused on mineral property expenditures of \$8.7 million (YTD: \$15.0 million), capitalized production stripping of \$3.2 million (YTD: \$16.7 million), acquisition of plant and equipment assets of \$2.2 million (YTD: \$9.2 million) and dividends paid of \$7.5 million (YTD: \$22.9 million).

Working capital as at September 30, 2018 was \$70.1 million as compared to \$83.6 million as at December 31, 2017. The decrease in working capital reflects a smaller cash balance as at September 30, 2018 partially offset by a higher inventory balance due to a larger number of ore tonnes processed and carats recovered during the nine months ended September 30, 2018.

The Company has no long-term debt and no amounts were outstanding under the credit facility of \$50 million as of September 30, 2018. Long-term liabilities consist of restoration provisions of \$18.7 million (2017: \$18.9 million) and deferred income taxes of \$74.9 million (2017: \$72.9 million).

Total shareholders' equity increased from \$256.7 million as at December 31, 2017 to \$258.0 million as at September 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, \$0.3 million from the exercise of stock options and a decrease in the deficit to \$8.1 million resulting from year to date income of \$17.9 million, less dividends paid of \$22.9 million. Accumulated other comprehensive loss increased to \$55.2 million, primarily from a \$15.0 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	Sept-18	Jun-18	Mar-18	Dec-17	Sept-17	Jun-17	Mar-17	Dec-16
A. Revenues	45,669	64,539	25,374	37,143	77,911	79,615	26,094	66,017
B. Administration expenses	(2,849)	(3,342)	(5,831)	(6,071)	(3,163)	(2,975)	(3,025)	(6,429)
C. Net income (loss)	5,136	19,698	(6,957)	1,571	32,903	32,174	(1,531)	11,204
D. Earnings (loss) per share (basic and diluted)	0.01	0.05	(0.02)	-	0.09	0.08	(-)	0.03

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

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

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 nine months ended September 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 nine months ended September 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 nine months ended September 30, 2018.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 396,509,387 common shares outstanding, 1,260,542 share units and 4,385,002 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 nine months ended September 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 Q4 2018.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Audit Committee is responsible for reviewing the contents of this document along with the interim quarterly financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months and nine months ended September 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 nine months ended September 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 in respect of the development and functionality of the technology related to the Clara platform, the intended benefits and performance of the Clara platform, including achieved margins in pricing, the timing and cost of commercialization and operation of the Clara platform, the timing and frequency of sales on the Clara Platform, and future participation of third parties on the Clara platform; expectations regarding the need to raise capital; possible impacts of disputes or litigation; and other risks and uncertainties described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form available at <http://www.sedar.com> (the "AIF").

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

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

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