

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

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 31,146	\$ 61,065
VAT receivables and other	9,824	3,951
Inventories (Note 4)	52,639	35,898
	93,609	100,914
Investments	972	2,500
Plant and equipment (Note 5)	147,396	167,576
Mineral properties (Note 6)	106,541	90,559
Intangible assets (Note 3 and 7)	22,570	-
Other non-current assets	3,957	4,261
<b>TOTAL ASSETS</b>	<b>\$ 375,045</b>	<b>\$ 365,810</b>
<b>LIABILITIES</b>		
Current liabilities		
Trade payables and accrued liabilities	\$ 21,090	\$ 16,780
Taxes payable	2,393	494
	23,483	17,274
Restoration provisions	18,671	18,941
Deferred income taxes	74,872	72,919
<b>TOTAL LIABILITIES</b>	<b>117,026</b>	<b>109,134</b>
<b>EQUITY</b>		
Share capital	313,913	290,846
Contributed surplus	7,450	7,832
Deficit	(8,095)	(3,043)
Accumulated other comprehensive loss	(55,249)	(38,959)
<b>TOTAL EQUITY</b>	<b>258,019</b>	<b>256,676</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 375,045</b>	<b>\$ 365,810</b>

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

Approved on Behalf of the Board of Directors:

"Marie Inkster"  
 Director

"Brian Edgar"  
 Director

**LUCARA DIAMOND CORP.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited - in thousands of U.S. Dollars, except for share and per share amounts)**

	Three months ended September 30,			Nine months ended September 30,				
	2018	2017	2018	2017	2018	2017		
<b>Revenues</b>	\$	45,669	\$	77,911	\$	135,582	\$	183,620
<b>Cost of goods sold</b>								
Operating expenses		18,756		15,352		49,976		44,103
Royalty expenses		4,567		7,791		13,558		18,362
Depletion and amortization		8,852		3,870		20,134		10,896
		32,175		27,013		83,668		73,361
<b>Income from mining operations</b>		13,494		50,898		51,914		110,259
<b>Other expenses</b>								
Administration (Note 9)		2,849		3,163		12,022		9,163
Exploration expenditures		785		1,332		2,630		3,130
Finance expenses		330		486		1,383		1,438
Foreign exchange (gain) / loss		391		(839)		1,391		2,372
Sales and marketing		450		496		1,679		2,434
		4,805		4,638		19,105		18,537
<b>Net income before tax</b>		8,689		46,260		32,809		91,722
<b>Income tax expense</b>								
Current income tax		2,844		7,168		7,468		14,830
Deferred income tax		709		6,189		7,464		13,346
		3,553		13,357		14,932		28,176
<b>Net income for the period</b>	\$	5,136	\$	32,903	\$	17,877	\$	63,546
<b>Earnings per common share</b>								
Basic	\$	0.01	\$	0.09	\$	0.05	\$	0.17
Diluted	\$	0.01	\$	0.09	\$	0.05	\$	0.17
<b>Weighted average common shares outstanding</b>								
Basic		396,446,895		382,613,316		393,163,221		382,458,562
Diluted		397,265,013		384,140,300		394,398,739		384,105,176

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

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**LUCARA DIAMOND CORP.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(Unaudited - in thousands of U.S. Dollars, except for share and per share amounts)**

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	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<b>Net income for the period</b>	\$ 5,136	\$ 32,903	\$ 17,877	\$ 63,546
<b>Other comprehensive income</b>				
<b>Items that may subsequently be reclassified to net income</b>				
Change in fair value of marketable securities	(779)	(228)	(1,274)	(34)
Currency translation adjustment	(3,001)	(3,211)	(15,016)	6,664
	(3,780)	(3,439)	(16,290)	6,630
<b>Comprehensive income (loss)</b>	\$ 1,356	\$ 29,464	\$ 1,587	\$ 70,176

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

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

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from (used in):</b>				
<b>Operating Activities</b>				
Net income for the period	\$ 5,136	32,903	\$ 17,877	\$ 63,546
Items not involving cash and cash equivalents:				
Depletion and amortization	9,357	4,027	20,611	11,365
Unrealized foreign exchange (gain) / loss	391	(839)	1,391	2,372
Stock-based compensation	218	345	1,152	1,128
Deferred income taxes	709	6,189	7,464	13,346
Finance costs	401	516	1,425	1,356
	16,212	43,141	49,920	93,113
Net change in working capital items:				
VAT receivables and other	(3,998)	151	(6,391)	2,743
Inventories	(12,060)	2,510	(16,440)	5,840
Trade payables and other current liabilities	2,791	4,312	6,449	2,777
Taxes payable	765	6,671	2,170	(859)
	3,710	56,785	35,708	103,614
<b>Financing Activities</b>				
Proceeds from exercise of stock options	219	88	327	632
Dividends paid	(7,534)	(7,701)	(22,850)	(21,947)
Withholding tax for share units vested	-	-	(362)	-
	(7,315)	(7,613)	(22,885)	(21,315)
<b>Investing Activities</b>				
Acquisition of plant and equipment	(2,194)	(10,765)	(9,214)	(24,615)
Capitalized mineral property expenditures	(8,721)	(204)	(15,029)	(947)
Capitalized production stripping costs	(3,248)	(9,374)	(16,724)	(17,602)
Development of intangible assets	(693)	-	(1,420)	-
Acquisition of other assets	-	-	-	(1,247)
	(14,856)	(20,343)	(42,387)	(44,411)
<b>Effect of exchange rate change on cash and cash equivalents</b>	(30)	(63)	(355)	206
<b>Increase (decrease) in cash and cash equivalents during the period</b>	(18,491)	28,766	(29,919)	38,094
<b>Cash and cash equivalents, beginning of period</b>	49,637	62,673	61,065	53,345
<b>Cash and cash equivalents, end of period<sup>(1)</sup></b>	\$ 31,146	\$ 91,439	\$ 31,146	\$ 91,439
<b>Supplemental Information</b>				
Interest received	61	138	227	240
Taxes paid	(2,334)	(425)	(5,060)	(15,857)
Changes in accounts payable and accrued liabilities related to plant and equipment	275	217	467	692

<sup>(1)</sup> Cash and cash equivalents are composed of 100% cash deposits held with accredited financial institutions as at the end of the period.

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

**LUCARA DIAMOND CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(Unaudited - in thousands of U.S. Dollars, except for share amounts)**

	Number of shares issued and outstanding	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive loss	Total
<b>Balance, January 1, 2017</b>	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
Change in fair value of available-for-sale securities	-	-	-	-	(34)	(34)
Effect of foreign currency translation	-	-	-	-	6,664	6,664
Dividends paid <sup>(1)</sup>	-	-	79	(22,026)	-	(21,947)
Net income for the period	-	-	-	63,546	-	63,546
<b>Balance, September 30, 2017</b>	382,619,334	\$ 290,846	\$ 7,450	\$ 2,880	\$ (51,197)	\$ 249,979
<b>Balance, January 1, 2018</b>	382,619,334	\$ 290,846	\$ 7,832	\$ (3,043)	\$ (38,959)	\$ 256,676
Exercise of stock options	200,000	441	(114)	-	-	327
Stock-based compensation	-	-	1,152	-	-	1,152
Change in fair value of available-for-sale securities	-	-	-	-	(1,274)	(1,274)
Effect of foreign currency translation	-	-	-	-	(15,016)	(15,016)
Shares issued for Clara acquisition (Note 3)	13,100,000	21,489	-	-	-	21,489
Shares issued from SUs vested	590,053	1,137	(1,137)	-	-	-
Withholding tax for SUs vested	-	-	(362)	-	-	(362)
Dividends paid <sup>(2)</sup>	-	-	79	(22,929)	-	(22,850)
Net income for the period	-	-	-	17,877	-	17,877
<b>Balance, September 30, 2018</b>	396,509,387	\$ 313,913	\$ 7,450	\$ (8,095)	\$ (55,249)	\$ 258,019

(1) On March 31, June 15, and September 14, 2017 the Company paid a cash dividend of CA\$0.025 per share.

(2) On April 12, June 21, and September 20, 2018 the Company paid a cash dividend of CA\$0.025 per share.

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

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# **LUCARA DIAMOND CORP.**

## **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018**

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

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### **1. NATURE OF OPERATIONS**

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

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

### **2. SIGNIFICANT ACCOUNTING POLICIES**

(i) Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, *IAS 34: Interim Financial Statements*, and do not contain all of the information required for annual financial statements. These statements follow the same accounting policies and methods of application of the most recent annual audited financial statements except for adoption of IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company. The Company has also adopted additional accounting policies as listed below. These financial statements were approved by the Board of Directors for issue on November 8, 2018.

(ii) Contingent consideration

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

(iii) Intangible assets

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

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# **LUCARA DIAMOND CORP.**

## **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018**

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

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### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(iv) Capitalization of development expenditure

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

(v) Adoption of new accounting policies

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

#### IFRS 9 - Financial Instruments

##### Cash and cash equivalents

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

##### Investments in marketable equity securities

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

##### Trade payables

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

#### IFRS 15 - Revenue from Contracts with Customers

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

(vi) New accounting pronouncements

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

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## LUCARA DIAMOND CORP.

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

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

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### 3. INVESTMENT IN CLARA

On March 2, 2018, the Company completed the acquisition of 100% of the issued and outstanding common shares of Clara Diamond Solutions Corporation ("Clara"), a company whose primary asset is a secure, digital sales platform for rough diamonds.

The purchase consideration was as follows:

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

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

The contingent considerations will be recognized as additional purchase consideration for the intangible asset, if and when the obliging events occur (Note 10).

The total initial purchase consideration was \$21.5 million, based on the closing price of the Company's common shares on the acquisition date, plus transaction costs and other adjustments of \$0.4 million. The Company concluded the acquired assets and assumed liabilities of Clara did not constitute a business and accordingly the transaction was accounted for as an asset acquisition. The consideration paid was allocated entirely to the intangible assets (Note 7).

### 4. INVENTORIES

	September 30, 2018		December 31, 2017	
Rough diamonds	\$	21,248	\$	13,171
Ore stockpile		20,692		12,037
Parts and supplies		10,699		10,690
	\$	52,639	\$	35,898

Inventory expensed during the nine months ended September 30, 2018 totaled \$50.0 million (Nine months ended September 30, 2017 – \$44.1 million). There were no inventory write-downs during the nine months ended September 30, 2018 and 2017.

# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

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

### 5. PLANT AND EQUIPMENT

<b>Cost</b>	<b>Construction in progress</b>	<b>Mine and plant facilities</b>	<b>Vehicles</b>	<b>Furniture and office equipment</b>	<b>Total</b>
<b>Balance, January 1, 2017</b>	\$ 14,766	\$ 152,851	\$ 1,348	\$ 4,421	\$ 173,386
Additions	34,522	113	42	177	34,854
Reclassification	(41,675)	40,281	444	950	-
Disposals and other	-	(547)	(56)	(183)	(786)
Translation differences	947	15,451	140	432	16,970
<b>Balance, December 31, 2017</b>	8,560	208,149	1,918	5,797	224,424
Additions	9,459	-	-	-	9,459
Reclassification <sup>1</sup>	(12,783)	10,809	389	265	(1,320)
Translation differences	(434)	(15,531)	(159)	(422)	(16,546)
<b>Balance, September 30, 2018</b>	\$ 4,802	\$ 203,427	\$ 2,148	\$ 5,640	\$ 216,017
<b>Accumulated depreciation</b>					
<b>Balance, January 1, 2017</b>	\$ -	\$ 38,407	\$ 1,131	\$ 2,343	\$ 41,881
Depletion and amortization	-	10,414	122	848	11,384
Disposals and other	-	(392)	(56)	(183)	(631)
Translation differences	-	3,875	103	236	4,214
<b>Balance, December 31, 2017</b>	-	52,304	1,300	3,244	56,848
Depletion and amortization	-	15,618	249	885	16,752
Translation differences	-	(4,599)	(106)	(274)	(4,979)
<b>Balance, September 30, 2018</b>	\$ -	\$ 63,323	\$ 1,443	\$ 3,855	\$ 68,621
<b>Net book value</b>					
<b>As at December 31, 2017</b>	\$ 8,560	\$ 155,845	\$ 618	\$ 2,553	\$ 167,576
<b>As at September 30, 2018</b>	\$ 4,802	\$ 140,104	\$ 705	\$ 1,785	\$ 147,396

<sup>(1)</sup> Karowe mine related expenditure of \$608 was reclassified to mineral properties and \$713 was reclassified to inventory (parts and supplies) in 2018.

# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

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

### 6. MINERAL PROPERTIES

<b>Cost</b>	<b>Capitalized production stripping asset</b>	<b>Karowe Mine</b>	<b>Total</b>
<b>Balance, January 1, 2017</b>	\$ 28,183	\$ 51,484	\$ 79,667
Additions	24,752	1,223	25,975
Revision in estimate of restoration provision	-	275	275
Translation differences	3,733	4,627	8,360
<b>Balance, December 31, 2017</b>	56,668	57,609	114,277
Additions	16,724	15,029	31,753
Reclassification <sup>1</sup>	-	608	608
Translation differences	(5,051)	(5,057)	(10,108)
<b>Balance, September 30, 2018</b>	\$ 68,341	\$ 68,189	\$ 136,530
<b>Accumulated depletion</b>			
<b>Balance, January 1, 2017</b>	\$ 2,825	\$ 14,684	\$ 17,509
Depletion for the period	2,244	2,195	4,439
Translation differences	362	1,408	1,770
<b>Balance, December 31, 2017</b>	5,431	18,287	23,718
Depletion	4,877	3,591	8,468
Translation differences	(670)	(1,527)	(2,197)
<b>Balance, September 30, 2018</b>	\$ 9,638	\$ 20,351	\$ 29,989
<b>Net book value</b>			
<b>As at December 31, 2017</b>	\$ 51,237	\$ 39,322	\$ 90,559
<b>As at September 30, 2018</b>	\$ 58,703	\$ 47,838	\$ 106,541

<sup>(1)</sup> Karowe mine related expenditure of \$608 was reclassified from plant and equipment to mineral properties in 2018.

#### *Karowe Mine*

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

### 7. INTANGIBLE ASSETS

<b>Balance, December 31, 2017</b>	\$	-
Acquisition of intangible assets (Note 3)		21,868
Development expenditures		1,143
Translation differences		(441)
<b>Balance, September 30, 2018</b>	\$	22,570

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**8. SHARE BASED COMPENSATION**

## a. Stock options

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

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

	Number of shares issuable pursuant to stock options	Weighted average exercise price per share (CA\$)
<b>Balance at December 31, 2016</b>	<b>3,346,670</b>	<b>\$ 2.39</b>
Granted	910,000	2.78
Exercised <sup>(1)</sup>	(373,333)	2.27
Forfeited	(145,000)	2.75
<b>Balance at December 31, 2017</b>	<b>3,738,337</b>	<b>2.48</b>
Granted	1,415,000	2.36
Exercised <sup>(1)</sup>	(200,000)	2.15
Forfeited	(643,334)	2.86
<b>Balance at September 30, 2018</b>	<b>4,310,003</b>	<b>\$ 2.40</b>

(1) The weighted average share price on the exercise dates for the 2018 stock option exercises was CA\$2.19 (2017: CA\$2.97).

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

Range of exercise prices CA\$	Outstanding Options			Exercisable Options		
	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price CA\$	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price CA\$
\$1.50 - \$2.00	33,334	0.89	1.80	33,334	0.89	1.80
\$2.01 - \$2.50	3,725,002	1.98	2.35	1,873,340	1.09	2.33
\$2.51 - \$3.00	551,667	2.48	2.77	195,002	2.48	2.78
	4,310,003	2.04	\$ 2.40	2,101,676	1.21	\$ 2.36

# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

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

#### 8. SHARE BASED COMPENSATION (continued)

During the nine months ended September 30, 2018, an amount of \$0.3 million (2017 – \$0.6 million) was charged to operations in recognition of stock-based compensation expense, based on the vesting schedule for the options granted.

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

	2018	2017
Assumptions:		
Risk-free interest rate (%)	2.02	1.02
Expected life (years)	3.72	3.63
Expected volatility (%)	39.30	41.78
Expected dividend	CA\$0.025/share quarterly	CA\$0.025/share quarterly
Results:		
Weighted average fair value of options granted (per option)	CA\$ 0.50	CA\$ 0.69

#### b. Share units

The Company has a share unit ('SU') plan that provides for the issuance of SUs as a long-term incentive for certain members of the management team. SUs vest three years from the date of grant. Each SU entitles the holder to receive one common share and the cumulative dividend equivalent SU earned during the SU's vesting period. The value of each SU at the vesting date is equal to the closing value of one Lucara common share plus the cumulative dividend equivalent which was earned over the vesting period.

For the nine month period ended September 30, 2018, the Company recognized a share-based payment charge against income of \$0.8 million (2017: \$0.5 million) for the SUs granted during the period.

	Number of share units	Weighted average exercise price per share (CA\$)
<b>Balance at December 31, 2016</b>	<b>1,067,493</b>	<b>\$ 2.46</b>
March 8, 2017 grant	283,500	2.75
March 30, 2017 dividend	10,924	3.09
June 15, 2017 dividend	12,110	2.81
September 14, 2017 dividend	14,015	2.45
December 14, 2017 dividend	13,548	2.56
<b>Balance at December 31, 2017</b>	<b>1,401,590</b>	<b>2.53</b>
February 27, 2018 grant	364,000	2.36
April 2, 2018 grant	125,000	2.05
April 12, 2018 dividend	21,213	2.08
May 14, 2018 vesting	(490,661)	2.07
May 31, 2018 vesting	(327,049)	2.56
June 21, 2018 dividend	12,601	2.17
June 29, 2018 grant	140,000	2.11
September 20, 2018 dividend	13,848	2.25
<b>Balance at September 30, 2018</b>	<b>1,260,542</b>	<b>\$ 2.56</b>

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**9. ADMINISTRATION**

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Salaries, benefits and severance	\$ 936	\$ 1,038	\$ 5,649	\$ 2,691
Professional fees	393	571	1,067	1,371
Office and general	412	268	1,072	700
Marketing	118	230	477	740
Membership	117	270	352	650
Stock exchange, transfer agent, shareholder communication	76	58	360	335
Travel	181	112	854	414
Stock-based compensation (Note 8)	218	345	1,152	1,128
Management fees	142	105	340	303
Depreciation	134	158	436	469
Donation	122	8	263	362
	\$ 2,849	\$ 3,163	\$ 12,022	\$ 9,163

**10. RELATED PARTY TRANSACTIONS***a) Key management compensation*

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

	<b>Nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Salaries and wages	\$ 2,360	\$ 2,206
Severance	2,311	-
Short term benefits	243	114
Share based compensation	1,009	872
	\$ 5,923	\$ 3,192

*b) Clara acquisition*

At the time of Lucara's acquisition of Clara, a current director and a current officer of the Company were also shareholders of Clara and received 1,192,000 common shares and 50,000 common shares, respectively, of Lucara. If all of the Clara performance milestones (Note 3) are reached, these individuals will receive an additional 1,788,001 common shares and 74,999 common shares, respectively, of Lucara. Following the acquisition of Clara, Lucara appointed a new director and a new officer, each of whom had been a shareholder of Clara at the time of its acquisition by the Company. If all of the Clara performance milestones are reached, these individuals will be entitled to receive an additional 600,000 common shares and 74,999 common shares of Lucara.

# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

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

### b) Clara acquisition (continued)

Pursuant to the profit sharing mechanism described in note 3, a total of 3.45% of the EBITDA generated by the platform has been assigned to two directors of Lucara, each of whom was a founder of Clara. A further 3.22% of the EBITDA generated by the platform may be distributed to members of management, at the discretion of Lucara's Compensation Committee, based on the achievement of key performance targets.

## 11. SEGMENT INFORMATION

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

### Three months ended September 30, 2018

	Karowe Mine	Corporate and other	Total
Revenues	\$ 45,669	\$ -	45,669
Income (loss) from mining operations <sup>(1)</sup>	13,494	-	13,494
Exploration expenditures	(785)	-	(785)
Finance expenses	(297)	(33)	(330)
Foreign exchange	(193)	(198)	(391)
Other expenses	1,512	(4,812)	(3,300)
Tax expenses	(3,003)	(550)	(3,553)
Net income (loss) for the period	10,729	(5,593)	5,136
Capital expenditures	\$ 14,163	\$ 693	\$ 14,856

### 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

<sup>(1)</sup> Karowe Mine's depletion and amortization expense during the three months ended September 30, 2018 totaled \$8.9 million (three months ended September 30, 2017 – \$3.9 million).

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

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**11. SEGMENT INFORMATION (continued)**

<b>Nine months ended September 30, 2018</b>			
	<b>Karowe Mine</b>	<b>Corporate and other</b>	<b>Total</b>
Revenues	\$ 135,582	\$ -	\$ 135,582
Income (loss) from mining operations <sup>(1)</sup>	51,988	(74)	51,914
Exploration expenditures	(2,630)	-	(2,630)
Finance expenses	(1,036)	(347)	(1,383)
Foreign exchange	(1,517)	126	(1,391)
Other expenses	(1,679)	(12,022)	(13,701)
Tax expenses	(14,382)	(550)	(14,932)
Net income (loss) for the period	30,744	(12,867)	17,877
Capital expenditures	40,967	1,420	42,387
Total assets	\$ 346,244	\$ 28,801	\$ 375,045
<b>Nine months ended September 30, 2017</b>			
	<b>Karowe Mine</b>	<b>Corporate and other</b>	<b>Total</b>
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

<sup>(1)</sup> Karowe Mine's depletion and amortization expense during the nine months ended September 30, 2018 totaled \$20.1 million (nine months ended September 30, 2017 – \$10.9 million).