

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

	September 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,066	\$ 11,197
VAT receivables and other	7,300	6,248
Inventories (Note 3)	64,859	65,052
	82,225	82,497
Investments	268	241
Plant and equipment (Note 4)	103,949	130,108
Mineral properties (Note 5)	95,318	105,243
Intangible assets (Note 6)	21,276	22,774
Other non-current assets	4,490	5,168
TOTAL ASSETS	\$ 307,526	\$ 346,031
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	\$ 9,755	\$ 15,880
Credit facility (Note 11)	20,010	-
Tax and royalties payable	3,408	4,397
Lease liabilities	700	1,347
	33,873	21,624
Restoration provisions	23,256	23,629
Deferred income taxes	52,141	63,015
Other non-current liabilities	903	828
TOTAL LIABILITIES	110,173	109,096
EQUITY		
Share capital (unlimited common shares, no par value)	314,924	314,820
Contributed surplus	8,363	7,679
Deficit	(53,938)	(31,494)
Accumulated other comprehensive loss	(71,996)	(54,070)
TOTAL EQUITY	197,353	236,935
TOTAL LIABILITIES AND EQUITY	\$ 307,526	\$ 346,031

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

"Catherine McLeod-Seltzer"
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,	
	2020	2019	2020	2019
Revenues	\$ 41,297	\$ 45,317	\$ 82,876	\$ 136,548
Cost of goods sold				
Operating expenses	21,675	23,313	50,975	57,050
Royalty expenses (Note 5)	4,610	4,502	8,840	13,625
Depletion and amortization	13,451	14,422	31,915	38,132
	39,736	42,237	91,730	108,807
Income (loss) from mining operations	1,561	3,080	(8,854)	27,741
Other expenses				
Administration (Note 8)	4,387	3,921	12,111	10,658
Exploration	171	1,258	1,256	3,261
Finance expenses	869	1,265	2,508	2,905
Foreign exchange (gain) loss	(574)	877	(1,211)	2,141
Loss on disposal of plant and equipment (Note 4)	2,663	-	2,663	-
Sales and marketing	475	494	1,575	1,570
	7,991	7,815	18,902	20,535
Net income (loss) before tax	(6,430)	(4,735)	(27,756)	7,206
Income tax expense (recovery)				
Current income tax expense	3	2,529	254	11,279
Deferred income tax recovery	(1,065)	(3,252)	(5,566)	(8,151)
	(1,062)	(723)	(5,312)	3,128
Net income (loss) for the period	\$ (5,368)	\$ (4,012)	\$ (22,444)	\$ 4,078
Earnings (loss) per common share				
Basic	\$ (0.01)	\$ (0.01)	\$ (0.06)	\$ 0.01
Diluted	\$ (0.01)	\$ (0.01)	\$ (0.06)	\$ 0.01
Weighted average common shares outstanding				
Basic	396,896,733	396,858,168	396,886,881	396,768,297
Diluted	396,896,733	396,858,168	396,886,881	397,903,131

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net income (loss) for the period	\$ (5,368)	\$ (4,012)	\$ (22,444)	\$ 4,078
Other comprehensive income (loss)				
<i>Items that will not be reclassified to net income</i>				
Change in fair value of marketable securities	(28)	(106)	27	(615)
<i>Items that may be subsequently reclassified to net income</i>				
Currency translation adjustment	3,727	(7,309)	(17,953)	(3,948)
	3,699	(7,415)	(17,926)	(4,563)
Comprehensive income (loss) for the period	\$ (1,669)	\$ (11,427)	\$ (40,370)	\$ (485)

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Cash flows from (used in):				
Operating activities				
Net income (loss) for the period	\$ (5,368)	\$ (4,012)	\$ (22,444)	\$ 4,078
Items not involving cash and cash equivalents:				
Depletion and amortization	14,037	14,679	33,627	38,852
Unrealized foreign exchange (gain) loss	(574)	877	(1,211)	2,141
Share-based compensation	344	252	989	971
Deferred income taxes	(1,065)	(3,252)	(5,566)	(8,151)
Loss on disposal of plant and equipment (Note 4)	2,663	-	2,663	-
Finance costs	577	979	1,875	2,091
	10,614	9,523	9,933	39,982
Net changes in working capital:				
VAT receivables and other Inventories	735	(1,367)	992	3,946
Deposits on future sales	(13,500)	-	-	-
Trade payables and other current liabilities	(3,885)	(1,853)	(8,334)	(6,174)
Taxes payable	3,728	5,801	(618)	6,785
	3,648	13,810	1,108	30,982
Financing activities				
Proceeds (repayments) of credit facility, net	1,000	(5,000)	20,000	(10,000)
Dividends paid	-	(7,520)	-	(22,380)
Withholding tax for share units vested	-	-	(8)	(427)
Interest paid	(17)	-	(87)	-
Principal elements of lease payments	(60)	-	(890)	-
	923	(12,520)	19,015	(32,807)
Investing activities				
Acquisition and disposition of plant and equipment, net	(4,216)	(761)	(10,842)	(4,519)
Mineral property expenditures	(4,056)	(2,408)	(9,687)	(10,853)
Acquisition of other assets	-	69	-	(1,810)
Development of intangible assets	(16)	(71)	(68)	(380)
	(8,288)	(3,171)	(20,597)	(17,562)
Effect of exchange rate change on cash and cash equivalents	92	(460)	(657)	(205)
Decrease in cash and cash equivalents during the period	(3,625)	(2,341)	(1,131)	(19,592)
Cash and cash equivalents, beginning of period	13,691	7,104	11,197	24,355
Cash and cash equivalents, end of period⁽¹⁾	\$ 10,066	\$ 4,763	\$ 10,066	\$ 4,763

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Supplemental information				
Interest received	\$ 2	\$ 27	\$ 124	\$ 117
Taxes paid	(13)	(681)	(5,008)	(5,019)
Changes in trade payables and accrued liabilities related to plant and equipment	(793)	47	(682)	1,385

⁽¹⁾ Cash and cash equivalents are composed of 100% cash deposits held with accredited financial institutions.

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, unless otherwise indicated)

	Number of shares issued and outstanding	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total
Balance, January 1, 2019	396,509,387	\$ 313,913	\$ 7,766	\$ (21,767)	\$ (57,997)	\$ 241,915
Share-based compensation	-	-	971	-	-	971
Effect of foreign currency translation	-	-	-	-	(3,948)	(3,948)
Change in fair value through other comprehensive income securities	-	-	-	-	(615)	(615)
Shares issued from SUs vested	348,781	907	(907)	-	-	-
Withholding tax for SUs vested	-	-	(427)	-	-	(427)
Dividends paid ⁽¹⁾	-	-	61	(22,441)	-	(22,380)
Net income for the period	-	-	-	4,078	-	4,078
Balance, September 30, 2019	396,858,168	\$ 314,820	\$ 7,464	\$ (40,130)	\$ (62,560)	\$ 219,594
Balance, January 1, 2020	396,858,168	\$ 314,820	\$ 7,679	\$ (31,494)	\$ (54,070)	\$ 236,935
Share-based compensation	-	-	796	-	-	796
Effect of foreign currency translation	-	-	-	-	(17,953)	(17,953)
Change in fair value through other comprehensive income securities	-	-	-	-	27	27
Shares issued from SUs vested	38,565	104	(104)	-	-	-
Withholding tax for SUs vested	-	-	(8)	-	-	(8)
Net loss for the period	-	-	-	(22,444)	-	(22,444)
Balance, September 30, 2020	396,896,733	\$ 314,924	\$ 8,363	\$ (53,938)	\$ (71,996)	\$ 197,353

⁽¹⁾ On April 11, June 20, and September 19, 2019, 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.

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

(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 located in Botswana and a 100% interest in Clara Diamond Solutions Limited Partnership (“Clara”). Clara operates a secure, digital diamond sales platform 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 2600 - 595 Burrard Street, Vancouver, British Columbia, V7X 1L3.

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

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 as the most recent annual audited financial statements, with the addition of the following addition to the Company’s revenue policy. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company. These financial statements were approved by the Board of Directors for issue on November 10, 2020.

Revenue

Revenues from diamond sales are recognized when the purchaser obtains control of the diamond. Control is achieved when the Company receives payment for the diamonds sold and title is transferred to the purchaser according to contract terms.

In July 2020, the Company entered into a new sales agreement to sell its large stone production (diamonds greater than 10.8 carats) to HB Antwerp (“HB”). The purchase price paid for the rough diamonds is based on the initial estimated polished outcome, less a fee and the cost of manufacturing. The Company will recognize net revenue from the sale of rough diamonds when the performance obligations of delivery and analysis of the rough diamond are achieved according to the contract terms. Under the terms of the supply agreement, rough diamonds are sold to HB based on the initial estimated polished outcome price (less a fee and the cost of manufacturing), with a true up paid if the actual achieved polished sales price exceeds the initial price paid. This variable consideration is recognized when the manufactured diamond is sold to an end buyer for a price higher than the initial estimated polished price.

COVID-19 Global pandemic

On March 11, 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) a global pandemic and on April 2, 2020 the Government of Botswana declared an initial state of emergency. The Government of Botswana has since extended the state of emergency, which is expected to remain in place until March 31, 2021. Concern remains over how governments across the jurisdictions in which Lucara and many of its customers operate will react in response to a “second wave” until a vaccine can be made widely available. Due to the ongoing uncertainty resulting from the global pandemic, Lucara’s operations could continue to be impacted in a number of ways including, but not limited to: a suspension of operations at the Karowe Mine, by disruption

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

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

to the progress of the Karowe Mine underground expansion project and by an inability to ship or sell rough and/or polished diamonds during this period. These possible impacts could result from government directives, the need to modify work practices to meet appropriate health and safety standards, a lack of demand for rough and/or polished diamonds, a lack of available liquidity to meet ongoing operational expenses and, due to or by other COVID-19 related impacts on the availability of labour or to the supply chain.

As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of government and central bank interventions in the jurisdictions in which Lucara and its clients operate, the Company's business continuity plan and other mitigating measures. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on our business operations, including the duration and impact that it may have on our ability to ship and sell diamonds, on demand for rough and polished diamonds, on our suppliers, on our employees and on global financial markets, cannot be reasonably estimated at this time. Accordingly, estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty.

In preparing our condensed interim consolidated financial statements, we make judgments in applying our accounting policies. The areas of policy judgement are consistent with those reported in our 2019 annual consolidated financial statements. In addition, we make assumptions about the future in deriving estimates used in preparing our condensed interim consolidated financial statements. As disclosed in Note 3c of the audited consolidated financial statements for the year ended December 31, 2019, the most significant sources of estimation uncertainty include estimated recoverable reserves and resources, valuation of mineral properties, the provision for deferred taxes and the valuation of decommissioning and site restoration provisions.

Management is required to exercise judgment to ensure that disclosures relating to indicators of impairment, liquidity and the Company's ability to continue as a going concern are appropriate. To this end, the Company manages liquidity risk by maintaining an adequate level of cash and cash equivalents to meet its short-term ongoing obligations and reviews its actual expenditures and forecast cash flows on a regular basis. Changes in demand for rough and/or polished diamonds and diamond prices, production levels and related costs, foreign exchange rates and other factors all impact the Company's liquidity position.

Uncertainty about judgments, estimates and assumptions made by management during the preparation of the Company's condensed interim consolidated financial statements related to potential impacts of the COVID-19 outbreak on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

3. INVENTORIES

	September 30, 2020	December 31, 2019
Rough diamonds	\$ 25,502	\$ 24,536
Ore stockpile	27,616	28,354
Parts and supplies	11,741	12,162
	\$ 64,859	\$ 65,052

Inventory expensed during the nine months ended September 30, 2020 totaled \$51.0 million (nine months ended September 30, 2019 – \$57.1 million). There were no inventory write-downs during the nine months ended September 30, 2020 and 2019.

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

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

4. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Leased assets	Total
Balance, January 1, 2019	\$ 5,661	\$ 206,424	\$ 2,524	\$ 6,729	\$ -	\$ 221,338
IFRS 16 adoption	-	-	-	-	3,691	3,691
Additions	15,936	226	-	17	-	16,179
Reclassification ¹	(10,331)	7,596	104	2,331	-	(300)
Disposals and other	-	-	-	(3)	-	(3)
Translation differences	122	2,152	26	99	32	2,431
Balance, December 31, 2019	\$ 11,388	\$ 216,398	\$ 2,654	\$ 9,173	\$ 3,723	\$ 243,336
Additions	10,302	32	-	33	475	10,842
Reclassification	(11,137)	8,550	357	2,230	-	-
Disposals and other ²	-	(5,709)	-	-	(1,772)	(7,481)
Translation differences	(967)	(18,386)	(229)	(796)	(304)	(20,682)
Balance, September 30, 2020	\$ 9,586	\$ 200,885	\$ 2,782	\$ 10,640	\$ 2,122	\$ 226,015
Accumulated amortization						
Balance, January 1, 2019	\$ -	\$ 68,511	\$ 1,497	\$ 4,084	\$ -	\$ 74,092
Depletion and amortization	-	34,550	355	1,454	1,565	37,924
Disposals and other	-	-	-	(3)	-	(3)
Translation differences	-	1,112	19	65	19	1,215
Balance, December 31, 2019	\$ -	\$ 104,173	\$ 1,871	\$ 5,600	\$ 1,584	\$ 113,228
Depletion and amortization	-	20,942	236	1,118	856	23,152
Disposals and other ²	-	(3,094)	-	-	(1,449)	(4,543)
Translation differences	-	(9,003)	(162)	(476)	(130)	(9,771)
Balance, September 30, 2020	\$ -	\$ 113,018	\$ 1,945	\$ 6,242	\$ 861	\$ 122,066
Net book value						
As at December 31, 2019	\$ 11,388	\$ 112,225	\$ 783	\$ 3,573	\$ 2,139	\$ 130,108
As at September 30, 2020	\$ 9,586	\$ 87,867	\$ 837	\$ 4,398	\$ 1,261	\$ 103,949

- (1) Karowe mine related expenditure of \$174 was reclassified to mineral properties and \$126 was reclassified to inventory in 2019 from construction in progress.
- (2) During the three months ended September 30, 2020, a loss on disposal of assets of \$2,663 was recorded related to the replacement of several XRT machines.

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

5. MINERAL PROPERTIES

Cost	Capitalized production stripping asset	Karowe Mine	Total
Balance, January 1, 2019	\$ 72,352	\$ 73,372	\$ 145,724
Additions	-	10,320	10,320
Reclassification ¹	-	174	174
Translation differences	676	811	1,487
Balance, December 31, 2019	\$ 73,028	\$ 84,677	\$ 157,705
Additions	-	10,368	10,368
Translation differences	(6,267)	(7,378)	(13,645)
Balance, September 30, 2020	\$ 66,761	\$ 87,667	\$ 154,428
Accumulated depletion			
Balance, January 1, 2019	\$ 11,584	\$ 21,031	\$ 32,615
Depletion	12,583	6,727	19,310
Translation differences	258	279	537
Balance, December 31, 2019	\$ 24,425	\$ 28,037	\$ 52,462
Depletion	7,356	3,915	11,271
Translation differences	(2,175)	(2,448)	(4,623)
Balance, September 30, 2020	\$ 29,606	\$ 29,504	\$ 59,110
Net book value			
As at December 31, 2019	\$ 48,603	\$ 56,640	\$ 105,243
As at September 30, 2020	\$ 37,155	\$ 58,163	\$ 95,318

(1) Karowe mine related expenditure of \$174 was reclassified from plant and equipment to mineral properties in 2019.

Karowe Mine

A royalty of 10% of the gross sales value of all diamonds produced from the Karowe Mine is payable to the government of Botswana, regardless of whether the diamond is sold as rough or polished. During the nine months ended September 30, 2020, the Company incurred a royalty expense of \$8.8 million (2019: \$13.6 million).

6. INTANGIBLE ASSETS

Cost		
Balance, January 1, 2019	\$	21,798
Development expenditures		404
Translation differences		1,001
Balance, December 31, 2019		23,203
Development expenditures		68
Translation differences		(593)
Balance, September 30, 2020		22,678

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

Accumulated Depletion		
Balance, January 1, 2019	\$	-
Additions		(429)
Balance, December 31, 2019	\$	(429)
Additions		(982)
Translation differences		9
Balance, September 30, 2020	\$	(1,402)
Net book value		
As at December 31, 2019	\$	22,774
As at September 30, 2020	\$	21,276

In 2018, the Company acquired the Clara platform, a secure, digital sales platform for rough diamonds. The consideration paid was allocated entirely to the intangible assets. As part of the purchase, contingent consideration was agreed to and will be recognized as additional purchase consideration for the intangible asset, if the obliging events occur. The contingent consideration consists of a profit-sharing allocation and additional Lucara share payments if certain revenue triggers are reached.

As of September 1, 2019, management determined that the sales platform was operating as intended. The definite-lived intangible asset is being amortized over the 20 year life of the patents. All income and expenses incurred following September 1, 2019 have been recorded to the statement of operations.

7. SHARE BASED COMPENSATION**a. Stock options**

The Company's stock option plan (the 'Option Plan') was approved by the shareholders of the Company initially on May 13, 2015, with amendments approved on May 10, 2019. Under the terms of the Option Plan, a maximum of 20,000,000 shares had been reserved for issuance upon the exercise of stock options. At the 2020 Shareholder meeting, this maximum was subsequently reduced to 10,000,000 shares reserved for issuance upon the exercise of stock options, with the difference allocated for issuance under the Company's share unit plans as described in note 7(b) below. 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 beginning on the first anniversary of the date of grant and expire four years from the date of grant.

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

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

7. SHARE BASED COMPENSATION (continued)

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 January 1, 2019	4,278,336	\$ 2.40
Granted	1,437,000	1.64
Expired	(703,336)	2.13
Forfeited	(490,000)	2.54
Balance at December 31, 2019	4,522,000	2.19
Granted	1,604,000	0.77
Expired	(1,480,000)	2.45
Forfeited	(184,000)	1.45
Balance at September 30, 2020	4,462,000	\$ 1.62

Options to acquire common shares have been granted and are outstanding at September 30, 2020 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\$)
\$0.50 - \$1.00	1,532,000	3.42	0.77	-	-	-
\$1.51 - \$2.00	1,365,000	2.41	1.64	455,000	2.41	1.64
\$2.01 - \$2.50	1,190,000	1.54	2.33	768,333	1.53	2.33
\$2.51 - \$3.00	375,000	0.50	2.76	375,000	0.50	2.76
	4,462,000	2.37	\$ 1.62	1,598,333	1.54	\$ 2.24

During the nine months ended September 30, 2020, an amount of \$0.2 million (2019 – \$0.3 million) was charged to operations in recognition of share-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:

	2020	2019
Assumptions:		
Risk-free interest rate (%)	1.33	1.82
Expected life (years)	3.63	3.63
Expected volatility (%)	35.04	38.20
Expected dividend	Nil	CA\$0.025/share quarterly
Results:		
Weighted average fair value of options granted (per option)	CA\$0.21	CA\$0.30

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

7. SHARE BASED COMPENSATION (continued)

b. Restricted and performance 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. Amendments to the SU plan, including a reallocation of 10,000,000 common shares now reserved for issuance upon the vesting of share units (from the pool originally allocated for the exercise of stock options) were approved by Shareholders at the May 8, 2020 annual meeting. SUs vest three years from the date of grant and certain share units include performance metrics. 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, 2020, the Company recognized a share-based payment charge against income of \$0.3 million (2019: \$0.6 million) for the SUs granted during the period.

	Number of share units	Estimated fair value at date of grant (CA\$)	
Balance at January 1, 2019	1,283,045	\$	2.41
February 25, 2019 grant	439,000		1.63
February 26, 2019 vesting	(445,567)		2.57
April 2, 2019 vesting	(247,393)		2.52
April 11, 2019 dividend	19,822		1.61
April 11, 2019 vesting	(3,841)		1.61
June 20, 2019 dividend	16,641		1.57
September 19, 2019 dividend	23,283		1.14
Balance at December 31, 2019	1,084,990	\$	1.95
February 26, 2020 grant	1,918,000		0.77
March 8, 2020 vesting	(56,463)		2.57
Balance at September 30, 2020	2,946,527	\$	1.17

c. Deferred share units

In February 2020, the Company approved a deferred share unit ('DSU') plan that provides for the issuance of up to 4,000,000 DSUs for eligible directors; the DSU plan was subsequently ratified by Shareholders at the May 8, 2020 annual meeting. Directors can elect to receive up to 100% of their fees earned in DSUs, awarded quarterly. DSUs vest immediately and are paid out upon retirement from the Board of Directors of the Company. Each DSU entitles the holder to receive one common share and the cumulative dividend equivalent DSU earned prior to the payout date. The value of each DSU at the grant date is equal to the closing value of one Lucara common share. The DSU plan is a cash-settled share-based compensation plan and is recorded as a liability. Upon payout, the director can elect to receive the value in cash or common shares of the Company.

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7. SHARE BASED COMPENSATION (continued)

For the nine month period ended September 30, 2020, the Company recognized a share-based payment charge against income of \$0.2 million (2019: \$nil million) for the DSUs granted during the period.

	Number of share units	Estimated fair value (CA\$)
February 26, 2020 grant	278,000	\$ 0.77
May 7, 2020 vesting	(74,000)	0.51
July 2, 2020 grant	90,923	0.62
Sept 30, 2020 grant	159,312	0.50
Balance at September 30, 2020	454,235	\$ 0.50

8. ADMINISTRATION

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Salaries and benefits	\$ 1,472	\$ 1,670	\$ 4,137	\$ 4,063
Professional fees	616	665	1,434	1,722
Insurance, office and general	628	385	1,449	1,277
Marketing	290	208	667	621
Stock exchange, transfer agent, shareholder communication	77	100	266	317
Travel	20	214	295	581
Share-based compensation (Note 7)	344	252	989	971
Management fees	26	124	195	371
Depreciation	586	301	1,712	657
Sustainability and donations ¹	328	2	967	78
	\$ 4,387	\$ 3,921	\$ 12,111	\$ 10,658

(1) Included in this expense item are amounts incurred for the Company's COVID-19 response totalling \$531 for the nine months ended September 30, 2020, including a \$300 donation to the Government of Botswana's COVID-19 Response Fund.

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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 named executive officers and members of its Board of Directors. The remuneration of key management personnel was as follows:

	Nine months ended September 30,			
		2020		2019
Salaries and wages	\$	1,111	\$	1,332
Short term benefits		25		62
Share based compensation		715		496
	\$	1,851	\$	1,890

b) Clara acquisition

At the time of Lucara's acquisition of Clara, certain directors and officers of the Company were also shareholders of Clara. If certain milestones are reached, these individuals will receive additional common shares of Lucara as described in Note 16 of the consolidated financial statements for the year ended December 31, 2019. Pursuant to a profit sharing described in Note 16 of the consolidated financial statements for the year ended December 31, 2019, a portion of the EBITDA generated by the platform has been assigned to two directors of Lucara, each of whom was a founder of Clara, and a portion may be distributed to members of management, at the discretion of Lucara's Compensation Committee, based on the achievement of key performance targets. As at September 30, 2020, no amounts have been recorded under this profit sharing mechanism.

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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, 2020			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 41,212	\$ 85	\$ 41,297
Income (loss) from mining operations ⁽¹⁾	1,826	(265)	1,561
Exploration expenditures	(171)	-	(171)
Finance expenses	(746)	(123)	(869)
Foreign exchange gain	504	70	574
Other	(5,060)	(2,465)	(7,525)
Taxes	1,062	-	1,062
Net loss for the period	(2,585)	(2,783)	(5,368)
Capital expenditures	\$ 8,272	\$ 16	\$ 8,288

Three months ended September 30, 2019			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 45,021	\$ 296	\$ 45,317
Income (loss) from mining operations ⁽¹⁾	3,102	(22)	3,080
Exploration expenditures	(1,258)	-	(1,258)
Finance expenses	(1,162)	(103)	(1,265)
Foreign exchange loss	(782)	(95)	(877)
Other	(1,627)	(2,788)	(4,415)
Taxes	723	-	723
Net loss for the period	(1,004)	(3,008)	(4,012)
Capital expenditures	\$ 3,169	\$ 71	\$ 3,240

⁽¹⁾ Karowe Mine's depletion and amortization expense during the three months ended September 30, 2020 totaled \$8.0 million (three months ended September 30, 2019 – \$14.4 million).

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

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

10. SEGMENT INFORMATION (continued)

Nine months ended September 30, 2020			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 82,328	\$ 548	\$ 82,876
Loss from mining operations ⁽¹⁾	(8,312)	(542)	(8,854)
Exploration expenditures	(1,256)	-	(1,256)
Finance expenses	(2,206)	(302)	(2,508)
Foreign exchange gain (loss)	1,295	(84)	1,211
Other	(8,779)	(7,570)	(16,349)
Taxes	5,312	-	5,312
Net loss for the period	(13,946)	(8,498)	(22,444)
Capital expenditures	\$ 20,529	\$ 68	\$ 20,597
Total assets	\$ 283,900	\$ 23,626	\$ 307,526

Nine months ended September 30, 2019			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 136,252	\$ 296	\$ 136,548
Income (loss) from mining operations ⁽¹⁾	27,763	(22)	27,741
Exploration expenditures	(3,261)	-	(3,261)
Finance expenses	(2,459)	(446)	(2,905)
Foreign exchange loss	(1,851)	(290)	(2,141)
Other	(4,765)	(7,463)	(12,228)
Taxes	(3,128)	-	(3,128)
Net income (loss) for the period	12,299	(8,221)	4,078
Capital expenditures	\$ 15,372	\$ 380	\$ 15,752
Total assets	\$ 302,533	\$ 26,656	\$ 329,189

⁽¹⁾ Karowe Mine's depletion and amortization expense during the nine months ended September 30, 2020 totaled \$33.6 million (nine months ended September 30, 2019 – \$38.1 million).

11. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

a) *Measurement categories and fair values*

Financial assets and liabilities have been classified into categories that determine their basis of measurement. Those categories are: fair value through profit and loss; fair value through other comprehensive income and amortized cost.

The value of the Company's financial instruments at fair value through other comprehensive income 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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11. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

b) *Fair value hierarchy*

The following table classifies financial assets and liabilities that are recognized on the balance sheet at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

	September 30, 2020	December 31, 2019
Level 1: Fair value through other comprehensive income		
– Investments	\$ 268	\$ 241
Level 2: N/A		
Level 3: N/A		

c) *Financial risk management*

The Company's financial instruments are exposed to certain financial risks, including currency, credit, price and liquidity risks.

Currency risk

The Company is exposed to the financial risk related to fluctuating foreign exchange rates. All sales revenues are denominated in U.S. dollars, while directly related costs are denominated in Botswana Pula. At September 30, 2020, the Company is exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately \$0.8 million in net income for the year.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. A majority of the Company's cash and cash equivalents are held through a large Canadian financial institution with a high investment grade rating. Considering the nature of the Company's ultimate customers and the relevant terms and conditions entered into with such customers, the Company believes that credit risk is limited as goods are not released until full payment is received when goods are sold through tender or on Clara.

Under the new supply agreement disclosed in Note 2, a larger proportion of the Company's goods will be sold through HB to buyers of polished diamonds. The credit risk associated with these sales will concentrate with one individual customer and payment terms are longer (60 days) than the Company's traditional tender sales (5 days).

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Company's maximum exposure to credit risk.

Price risk

The Company derives its income from the sale of rough diamonds mined in Botswana, a majority of which are sold through a quarterly tender process from Botswana. The price and marketability of these diamonds can be significantly impacted by international economic trends, global or regional consumption, demand and supply patterns and the availability of capital for diamond manufacturers,

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

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11. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

all factors that are not within the Company's control. Under the supply agreement with the HB Group, the ultimate achieved sales prices of stones larger than 10.8 carats in size will be based on a polished diamond pricing mechanism. This pricing mechanism will result in the Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than it is currently through its traditional tender process for rough diamonds. The COVID-19 pandemic has negatively impacted global demand for luxury commodities, which includes jewelry containing diamonds. Restrictions on international travel have also disrupted the diamond supply chain. To the extent that the supply of rough or polished diamonds exceeds demand, this is likely to result in price deterioration and negatively impact the Company's revenue, thereby increasing the risk that not only will operations not be profitable, the Company may not have sufficient liquidity to meet its financial obligations as they come due.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. To manage liquidity risk, regular cash flow forecasting is performed in the operating entities of the Company and aggregated in the head office to understand what level of capital is required. Rolling forecasts of the Company's liquidity requirements are prepared and monitored to assess whether there is sufficient cash available to meet the Company's short and longer-term operational needs. Such forecasting takes into consideration the Company's ability to generate cash from the sale of diamonds and additional liquidity which can be accessed through the revolving term credit facility.

Revolving credit facility

The Company has a \$50 million revolving term credit facility with a maturity date of May 5, 2021. In September 2020, this facility was amended to include FirstRand Bank Limited (London Branch), a division of Rand Merchant Bank alongside The Bank of Nova Scotia. Funds drawn under the revolving credit facility are due in full at maturity. The facility contains financial and non-financial covenants customary for a facility of this size and nature. As part of the amendment, Lucara has agreed to limit capital expenditures related to the underground expansion project to \$22 million during 2020. As at September 30, 2020, the Company was in compliance with all financial and non-financial covenants. Outstanding amounts under the facility bear interest at LIBOR or an alternative base rate plus an applicable margin based on the Company's adjusted leverage ratio.

The Company has provided security for the facility by way of a charge over the Company's Karowe assets and a guarantee by the Company's subsidiaries, which hold the Karowe assets.

As at September 30, 2020, \$20.0 million was drawn on the facility for working capital purposes (2019 - \$nil) and \$30.0 million was available to be drawn.