

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

	September 30, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 26,578	\$ 4,916
Receivables and other (Note 3)	63,604	20,933
Inventories (Note 4)	43,170	68,374
	133,352	94,223
Investments	2,747	1,651
Inventories (Note 4)	30,937	–
Plant and equipment (Note 5)	83,179	107,224
Mineral properties (Note 6)	151,497	104,002
Intangible assets (Note 7)	21,044	21,986
Other non-current assets	4,457	4,763
TOTAL ASSETS	\$ 427,213	\$ 333,849
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	\$ 19,462	\$ 14,874
Credit facilities (Note 8)	53,941	30,528
Tax and royalties payable	7,105	1,376
Lease liabilities	656	781
	81,164	47,559
Restoration provisions	21,175	21,229
Deferred income taxes	68,770	55,905
Other non-current liabilities	1,037	963
TOTAL LIABILITIES	172,146	125,656
EQUITY		
Share capital, unlimited common shares, no par value (Note 9)	347,442	314,924
Contributed surplus	8,802	8,646
Deficit	(35,607)	(57,772)
Accumulated other comprehensive loss	(65,570)	(57,605)
TOTAL EQUITY	255,067	208,193
TOTAL LIABILITIES AND EQUITY	\$ 427,213	\$ 333,849

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

Commitments – Note 15

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,	
	2021	2020	2021	2020
Revenues	\$ 72,716	\$ 41,297	\$ 172,147	\$ 82,876
Cost of goods sold				
Operating expenses	23,213	21,675	58,028	50,975
Royalty expenses (Note 6)	7,763	4,610	18,283	8,840
Depletion and amortization	13,571	13,451	36,584	31,915
	44,547	39,736	112,895	91,730
Income (loss) from mining operations	28,169	1,561	59,252	(8,854)
Other expenses				
Administration (Note 11)	4,256	4,387	12,310	12,111
Exploration	–	171	–	1,256
Finance expenses	1,315	869	3,381	2,508
Foreign exchange loss (gain)	274	(574)	1,462	(1,211)
Loss on disposal of plant and equipment	–	2,663	–	2,663
Sales and marketing	565	475	2,102	1,575
	6,410	7,991	19,255	18,902
Net income (loss) before tax	21,759	(6,430)	39,997	(27,756)
Income tax expense (recovery)				
Current income tax	494	3	2,042	254
Deferred income tax	8,505	(1,065)	15,790	(5,566)
	8,999	(1,062)	17,832	(5,312)
Net income (loss) for the period	\$ 12,760	\$ (5,368)	\$ 22,165	\$ (22,444)
Earnings (loss) per common share				
Basic	\$ 0.03	\$ (0.01)	\$ 0.05	\$ (0.06)
Diluted	\$ 0.03	\$ (0.01)	\$ 0.05	\$ (0.06)
Weighted average common shares outstanding				
Basic	443,290,345	396,896,733	412,788,084	396,886,881
Diluted	449,601,731	396,896,733	418,553,371	396,886,881

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,	
	2021	2020	2021	2020
Net income (loss) for the period	\$ 12,760	\$ (5,368)	\$ 22,165	\$ (22,444)
Other comprehensive (loss) income				
<i>Items that will not be reclassified to net income</i>				
Change in fair value of marketable securities	(359)	(28)	1,096	27
<i>Items that may be subsequently reclassified to net income</i>				
Currency translation adjustment	(8,385)	3,727	(9,061)	(17,953)
	(8,744)	3,699	(7,965)	(17,926)
Comprehensive income (loss) for the period	\$ 4,016	\$ (1,669)	\$ 14,200	\$ (40,370)

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,	
	2021	2020	2021	2020
Cash flows from (used in):				
Operating activities				
Net income (loss) for the period	\$ 12,760	\$ (5,368)	\$ 22,165	\$ (22,444)
Items not affecting cash:				
Depletion and amortization	13,857	14,037	37,524	33,627
Unrealized foreign exchange loss (gain)	282	(574)	857	(1,211)
Share-based compensation	420	344	1,545	989
Deferred income taxes	8,505	(1,065)	15,790	(5,566)
Loss on disposal of plant and equipment (Note 5)	—	2,663	—	2,663
Finance costs	841	577	1,599	1,875
	36,665	10,614	79,480	9,933
Net changes in working capital:				
Receivables and other	(22,483)	735	(33,917)	992
Inventories	(139)	5,956	(7,226)	(865)
Trade payables and other current liabilities	(1,415)	(3,885)	(4,777)	(8,334)
Deposits on future sales	—	(13,500)	—	—
Tax and royalties payable	4,394	3,728	5,936	(618)
	17,022	3,648	39,496	1,108
Financing activities				
Equity financing, net	31,308	—	31,308	—
(Repayment) drawdown from revolving credit facility	(50,000)	1,000	(30,500)	20,000
Net drawdown from senior secured project facility	44,960	—	44,960	—
Withholding tax for share units vested	—	—	(107)	(8)
Lease payments	(140)	(77)	(451)	(977)
	26,128	923	45,210	19,015
Investing activities				
Acquisition of plant and equipment	(2,865)	(4,216)	(5,617)	(10,842)
Mineral property expenditure	(27,100)	(4,056)	(57,058)	(9,687)
Development of intangible assets	(16)	(16)	(34)	(68)
	(29,981)	(8,288)	(62,709)	(20,597)
Effect of exchange rate change on cash and cash equivalents	(312)	92	(335)	(657)
Increase (decrease) in cash and cash equivalents	12,857	(3,625)	21,662	(1,131)
Cash and cash equivalents, beginning of period	13,721	13,691	4,916	11,197
Cash and cash equivalents, end of period⁽¹⁾	\$ 26,578	\$ 10,066	\$ 26,578	\$ 10,066

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

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,		
	2021	2020		2021	2020	
Supplemental information						
Interest received	\$	54	\$	2	\$	124
Taxes paid		(273)		(13)		(5,008)
Changes in trade payables and accrued liabilities related to plant and equipment		4,356		(793)		(682)

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	Retained earnings (deficit)	Accumulated other comprehensive loss	Total
Balance, January 1, 2021	396,896,733	\$ 314,924	\$ 8,646	\$ (57,772)	\$ (57,605)	\$ 208,193
Net income for the period	–	–	–	22,165	–	22,165
Other comprehensive loss	–	–	–	–	(7,965)	(7,965)
Total comprehensive income	–	–	–	22,165	(7,965)	14,200
Shares issued from equity financing, net	55,157,733	31,308	–	–	–	31,308
Shares issued for project funding standby undertaking	600,000	365	–	–	–	365
Share-based compensation	–	–	1,108	–	–	1,108
Shares issued from SUs vested	380,515	845	(845)	–	–	–
Withholding tax for SUs vested	–	–	(107)	–	–	(107)
Balance, September 30, 2021	453,034,981	\$ 347,442	\$ 8,802	\$ (35,607)	\$ (65,570)	\$ 255,067
Balance, January 1, 2020	396,858,168	\$ 314,820	\$ 7,679	\$ (31,494)	\$ (54,070)	\$ 236,935
Net loss for the period	–	–	–	(22,444)	–	(22,444)
Other comprehensive loss	–	–	–	–	(17,926)	(17,926)
Total comprehensive loss	–	–	–	(22,444)	(17,926)	(40,370)
Share-based compensation	–	–	796	–	–	796
Shares issued from SUs vested	38,565	104	(104)	–	–	–
Withholding tax for SUs vested	–	–	(8)	–	–	(8)
Balance, September 30, 2020	396,896,733	\$ 314,924	\$ 8,363	\$ (53,938)	\$ (71,996)	\$ 197,353

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 NINE MONTHS ENDED SEPTEMBER 30, 2021

(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” or “Lucara”) 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.

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. Mining was declared an essential service and as a result, the Karowe Mine continued to operate with additional health and safety protocols implemented. Quarterly diamond tenders for the balance of 2020 and to date in 2021 were held in Antwerp due to varying international travel restrictions. The Government of Botswana extended the state of emergency several times before it was lifted on September 30, 2021. Concern remains over how governments across the jurisdictions in which Lucara and many of its customers operate will respond to increasing infection numbers and variants of COVID-19, even as mass vaccination campaigns are in progress in many countries. Due to the ongoing uncertainty resulting from the global pandemic, Lucara’s operations could be impacted in a number of ways including, but not limited to: a suspension of operations at the Karowe Mine, disruptions to supply chains, worker absenteeism due to illness, disruption to the progress of the Karowe Mine underground expansion project and 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.

COVID-19 negatively impacted both demand and prices for rough and polished diamonds through much of 2020 although in the first nine months of 2021 the market has recovered to pre-pandemic levels. As an ongoing 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.

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.

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

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

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

(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 as the most recent annual audited financial statements. 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 3, 2021.

(ii) Adoption of new accounting standards and accounting developments

IFRS 9 – Financial Instruments; IAS 39 – Financial Instruments: Recognition and Measurement; IFRS 7 – Financial Instruments: Disclosures and IFRS 16 – Leases: Amendments were issued to these standards as part of Phase 2 of the International Accounting Standards Board’s Interest Rate Benchmark Reform project. The amendments address issues arising in connection with reform of benchmark interest rates including the replacement of one benchmark rate with an alternative one. The amendments were effective January 1, 2021.

As at September 30, 2021, these amendments did not affect the Company’s financial statements. The Company is exposed to finance expenses based on the London Inter-bank Offered Rate (LIBOR) on its credit facilities (Note 8) and these agreements provide for switching to an alternative benchmark interest rate. While there remains some uncertainty around the timing of adoption the replacement of the rate is not expected to result in a significant change in the Company’s interest rate risk management strategy or interest rate risk.

IAS 12 – Income Taxes: Amendments were issued to IAS 12 to introduce an exception to the initial recognition exemption. Applying this exception, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company is currently assessing the effect of this amendment on its financial statements.

3. RECEIVABLES AND OTHER

	September 30, 2021	December 31, 2020
Trade	\$ 39,741	\$ 13,396
VAT	7,910	4,493
Deferred financing fees (Note 8)	9,647	–
Prepayments	5,099	2,450
Other	1,207	594
	\$ 63,604	\$ 20,933

Trade receivables at September 30, 2021 were \$39.7 million (December 31, 2020 – \$13.4 million) due from one customer, HB Antwerp, under the Company’s sales agreement. All amounts receivable due from HB Antwerp are current. The amounts receivable relate to the timing difference between revenue recognized under the sales agreement and the receipt of payment.

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

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

4. INVENTORIES

	September 30, 2021		December 31, 2020	
Rough diamonds	\$	24,436	\$	25,956
Ore stockpile		3,717		29,572
Parts and supplies		15,017		12,846
Total current inventories	\$	43,170	\$	68,374
Non-current inventories – ore stockpile	\$	30,937	\$	–

Inventory expensed during the nine months ended September 30, 2021 totaled \$58.0 million (nine months ended September 30, 2020 – \$51.0 million). There were no inventory write-downs during the nine months ended September 30, 2021 and 2020.

The portion of the ore stockpile that is expected to be processed more than 12 months from September 30, 2021 is classified as non-current inventory.

5. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Leased assets	Total
Balance, January 1, 2020	\$ 11,388	\$ 216,398	\$ 2,654	\$ 9,173	\$ 3,723	\$ 243,336
Additions	14,655	43	–	138	551	15,387
Reclassification	(15,790)	11,984	360	3,446	–	–
Disposals and other ⁽¹⁾	–	(5,750)	(123)	–	(1,784)	(7,657)
Translation differences	(235)	(2,713)	(24)	82	(128)	(3,018)
Balance, December 31, 2020	\$ 10,018	\$ 219,962	\$ 2,867	\$ 12,839	\$ 2,362	\$ 248,048
Additions	5,928	370	–	3	–	6,301
Reclassification	(5,927)	4,637	266	1,024	–	–
Disposals and other	–	(713)	–	(289)	(37)	(1,039)
Translation differences	(446)	(9,762)	(134)	(578)	(97)	(11,017)
Balance, September 30, 2021	\$ 9,573	\$ 214,494	\$ 2,999	\$ 12,999	\$ 2,228	\$ 242,293
Accumulated amortization						
Balance, January 1, 2020	\$ –	\$ 104,173	\$ 1,871	\$ 5,600	\$ 1,584	\$ 113,228
Depletion and amortization	–	29,269	343	1,685	987	32,284
Disposals and other ⁽¹⁾	–	(3,116)	(123)	–	(1,460)	(4,699)
Translation differences	–	51	(14)	25	(51)	11
Balance, December 31, 2020	\$ –	\$ 130,377	\$ 2,077	\$ 7,310	\$ 1,060	\$ 140,824
Depletion and amortization	–	23,664	313	1,948	440	26,365
Disposals and other	–	(713)	–	(288)	(37)	(1,038)
Translation differences	–	(6,511)	(101)	(367)	(58)	(7,037)
Balance, September 30, 2021	\$ –	\$ 146,817	\$ 2,289	\$ 8,603	\$ 1,405	\$ 159,114
Net book value						
As at December 31, 2020	\$ 10,018	\$ 89,585	\$ 790	\$ 5,529	\$ 1,302	\$ 107,224
As at September 30, 2021	\$ 9,573	\$ 67,677	\$ 710	\$ 4,396	\$ 823	\$ 83,179

(1) During the year ended December 31, 2020, a loss on disposal of assets of \$2,620 was recorded related to the replacement of several XRT machines.

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

6. MINERAL PROPERTIES

Cost	Capitalized stripping asset	Karowe Mine	Total
Balance, January 1, 2020	\$ 73,028	\$ 84,677	\$ 157,705
Additions	–	18,749	18,749
Adjustment to restoration asset	–	(3,199)	(3,199)
Translation differences	(1,083)	(348)	(1,431)
Balance, December 31, 2020	\$ 71,945	\$ 99,879	\$ 171,824
Additions	–	64,539	64,539
Adjustment to restoration asset	–	91	91
Translation differences	(3,204)	(6,446)	(9,650)
Balance, September 30, 2021	\$ 68,741	\$ 158,063	\$ 226,804
Accumulated depletion			
Balance, January 1, 2020	\$ 24,425	\$ 28,037	\$ 52,462
Depletion	10,250	4,998	15,248
Translation differences	236	(124)	112
Balance, December 31, 2020	\$ 34,911	\$ 32,911	\$ 67,822
Depletion	8,974	1,882	10,856
Translation differences	(1,831)	(1,540)	(3,371)
Balance, September 30, 2021	\$ 42,054	\$ 33,253	\$ 75,307
Net book value			
As at December 31, 2020	\$ 37,034	\$ 66,968	\$ 104,002
As at September 30, 2021	\$ 26,687	\$ 124,810	\$ 151,497

Karowe Mine

A royalty of 10% of the gross sales value of diamonds produced from Karowe 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, 2021, the Company incurred a royalty expense of \$18.3 million (2020: \$8.8 million).

The net book value includes construction in progress of \$109.0 million (2020: \$48.7 million) related to the Karowe underground expansion project and will not be depreciated until the underground mine is commissioned.

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)**

7. INTANGIBLE ASSETS

Cost	
Balance, January 1, 2020	\$ 23,203
Development expenditures	83
Translation differences	512
Balance, December 31, 2020	\$ 23,798
Development expenditures	34
Translation differences	57
Balance, September 30, 2021	\$ 23,889
Accumulated depreciation	
Balance, January 1, 2020	\$ (429)
Depreciation	(1,298)
Translation differences	(85)
Balance, December 31, 2020	\$ (1,812)
Depreciation	(1,046)
Translation differences	13
Balance, September 30, 2021	\$ (2,845)
Net book value	
As at December 31, 2020	\$ 21,986
As at September 30, 2021	\$ 21,044

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: cash payments based on 3.45% of the annual EBITDA generated by the sales platform and a pre-existing 13.3% annual EBITDA performance based contingent payments payable to the founders of the technology, to a maximum of \$20.9 million per year for 10 years and additional Lucara share payments to a combined maximum of 13.4 million shares if certain revenue triggers are reached beginning at \$200 million of cumulative revenue to \$1.6 billion of cumulative revenue.

8. CREDIT FACILITIES

	September 30, 2021	December 31, 2020
<i>Current</i>		
Revolving credit facility, net of fees	\$ –	\$ 30,528
Working capital facility	30,409	–
Deferred financing fees (Note 3)	(2,475)	–
Project finance facility, net of fees	23,532	–
Deferred financing fees (Note 3)	(7,172)	–
Credit facilities	\$ 53,941	\$ 30,528
Deferred financing fees	\$ (9,647)	\$ –

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

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

8. CREDIT FACILITIES (continued)

Revolving credit facility

The Company had a \$50 million revolving term credit facility with FirstRand Bank Limited (London Branch), a division of Rand Merchant Bank that was refinanced on September 9, 2021 with proceeds from the new working capital facility. Interest was calculated with reference to LIBOR plus an applicable margin based on the Company's adjusted leverage ratio.

Senior secured project facility

On July 12, 2021, the Company's indirect, wholly-owned subsidiary Lucara Botswana Proprietary Limited ("Lucara Botswana"), with Lucara Diamond Corp. as the sponsor and the guarantor, entered into a senior secured project financing debt package of \$220 million with a syndicate of five mandated lead arrangers (the "Lenders"): African Export-Import Bank (Afreximbank), Africa Finance Corp., ING, Natixis, and Société Generale, London Branch.

The debt package consists of two facilities (the "Facilities"), a project finance facility of \$170 million to fund the development of an underground expansion at the Karowe Mine (the "Project Finance Facility"), and a \$50 million senior secured working capital facility which refinanced the Company's revolving credit facility and will be used to support on-going operations (the "Working Capital Facility"). The first drawdown under the Facilities occurred on September 9, 2021 following satisfaction of certain conditions precedent on September 2, 2021 ("Financial Close").

The Project Finance Facility may be used to fund the development, construction costs and construction phase operating costs of the underground expansion project as well as financing costs in relation to the Facilities. The facility matures 8 years after Financial Close, with quarterly repayments commencing on June 30, 2026. As at September 30, 2021, \$25.0 million of the \$170.0 million facility was drawn. The facility bears interest at a rate of LIBOR (or replacement benchmark) plus margin of 5.5% annually for the period commencing on Financial Close until the project completion date, and 5.0% annually thereafter with commitment fees for the undrawn portion of the facility of 2.0%.

The Working Capital Facility may be used for working capital and other corporate purposes. As at September 30, 2021, \$30.0 million (excluding accrued interest of \$0.4 million) of the \$50.0 facility was drawn. The facility bears interest at a rate of LIBOR (or replacement benchmark) plus margin of 3.5% annually with commitment fees for the undrawn portion of 1.6%. The facility matures on September 2, 2023 and the outstanding balance must be repaid in full at least once every twelve months.

The Company incurred \$11.3 million of debt advisory, legal and due diligence fees in conjunction with arranging the Facilities. At Financial Close, transaction costs of \$8.7 million were allocated to the Project Finance Facility, recorded as deferred financing fees until draws are made on the facility and then recorded as transaction costs proportionally to the amount drawn under the facility. Deferred finance fees of \$1.5 million were allocated to the initial draw of \$25.0 million as transaction costs. Transaction costs of \$2.6 million were allocated to the Working Capital Facility and included in deferred financing fees.

Transaction costs under the Project Financing Facility and deferred financing fees related to the Working Capital Facility are amortized over the remaining facility term.

As at September 30, 2021, the Company was in compliance with all financial covenants. Under the terms of the Facilities, the Company is required to satisfy a set of prescribed conditions subsequent. A delay in meeting a condition subsequent is an event of default that allows the Lenders the option to accelerate the Facilities through notice to the Company. At September 30, 2021 the Facilities are classified as current because certain conditions subsequent were not yet satisfied and the Company did not have a waiver in place at that date. The condition subsequent resulting in an event of default as at September 30, 2021 was remedied on October 25, 2021.

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

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

9. SHARE CAPITAL

On July 15, 2021, the Company closed a bought deal financing and concurrent private placement. Under the bought deal financing a total of 33,810,000 common shares of the Company, including 4,410,000 common shares issued pursuant to the over-allotment option, which was exercised in full, were sold at a price of C\$0.75 per common share, for aggregate gross proceeds of \$20.3 million and share issuance costs amounted to \$1.8 million. Pursuant to the concurrent private placement, a total of 21,347,733 common shares were sold at a price of C\$0.75 per share for additional gross proceeds of \$12.8 million.

Under the senior secured project facility (Note 8), the Company's largest shareholder, Nemesia S.a.r.l. ("Nemesia") provided a limited standby undertaking of up to \$25.0 million in the event of a funding shortfall occurring up to until September 2, 2024. As consideration pursuant to the undertaking provided, the Company issued 600,000 common shares to Nemesia on July 15, 2021. A further 600,000 common shares will be issuable should the undertaking be called upon. For each \$500,000 drawn down under the standby undertaking, the Company will be required to issue 5,000 common shares per month to Nemesia until the amounts borrowed are repaid.

10. SHARE BASED COMPENSATION

a. Stock options

The Company's stock option plan (the 'Option Plan') was approved by the Company's shareholders initially on May 13, 2015, with amendments approved on May 10, 2019. At the 2020 Shareholder meeting, the maximum number of shares reserved for issuance upon the exercise of stock options was reduced from 20,000,000 to 10,000,000 shares, with the difference allocated for issuance under the Company's share unit plans as described in note 10 (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.

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, 2020	4,522,000	2.19
Granted	1,604,000	0.77
Expired	(1,480,000)	2.45
Forfeited	(223,000)	1.52
Balance at December 31, 2020	4,423,000	\$ 1.62
Granted	2,247,000	0.79
Expired	(375,000)	2.76
Forfeited	(156,000)	0.78
Balance at September 30, 2021	6,139,000	\$ 1.27

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10. SHARE BASED COMPENSATION (continued)

Options to acquire common shares have been granted and are outstanding at September 30, 2021 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	3,623,000	3.01	0.78	486,667	2.41	0.77
\$1.51 - \$2.00	1,341,000	1.41	1.64	894,000	1.41	1.64
\$2.01 - \$2.50	1,175,000	0.54	2.33	1,150,000	0.53	2.33
	6,139,000	2.18	\$ 1.27	2,530,667	1.20	\$ 1.79

During the nine months ended September 30, 2021, an amount of \$0.3 million (2020 – \$0.2 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:

	2021	2020
Assumptions:		
Risk-free interest rate (%)	0.33	1.33
Expected life (years)	3.02	3.63
Expected volatility (%)	50.72	35.04
Expected dividend	Nil	Nil
Results:		
Weighted average fair value of options granted (<i>per option</i>)	CA\$0.27	CA\$0.21

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 months ended September 30, 2021, the Company recognized a share-based payment charge against income of \$0.6 million (2020: \$0.3 million) for the SUs granted during the period.

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10. SHARE BASED COMPENSATION (continued)

	Number of share units		Estimated fair value at date of grant (CA\$)
Balance at January 1, 2020	1,084,990	\$	1.95
February 26, 2020 grant	1,918,000		0.77
March 8, 2020 vesting	(56,463)		2.57
Balance at December 31, 2020	2,946,527	\$	1.17
February 25, 2021 grant	2,854,000		0.75
February 27, 2021 vesting	(276,576)		2.29
April 1, 2021 vesting	(137,195)		2.01
July 6, 2021 vesting	(151,908)		2.06
Balance at September 30, 2021	5,234,848	\$	0.83

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 to 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.

	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
September 30, 2020 grant	159,312		0.50
December 31, 2020 grant	159,312		0.50
Balance at December 31, 2020	613,547	\$	0.52
February 25, 2021 grant	251,000		0.75
March 31, 2021 grant	102,738		0.73
June 30, 2021 grant	98,683		0.75
September 30, 2021 grant	120,965		0.62
Balance at September 30, 2021	1,186,933	\$	0.63

For the nine months ended September 30, 2021, the Company recognized a share-based payment charge against income of \$0.4 million (2020: \$0.2 million) for the DSUs granted during the period.

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11. ADMINISTRATION

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Salaries and benefits	\$ 1,554	\$ 1,472	\$ 5,273	\$ 4,137
Professional fees	1,090	616	1,756	1,434
Insurance, office and general	494	628	1,556	1,449
Marketing	209	290	621	667
Stock exchange, transfer agent, shareholder communication	88	77	273	266
Travel	42	20	113	295
Share-based compensation (Note 10)	420	344	1,545	989
Management fees	24	26	72	195
Depreciation	313	586	947	1,712
Sustainability and donations ⁽¹⁾	22	328	154	967
	\$ 4,256	\$ 4,387	\$ 12,310	\$ 12,111

(1) Included in the nine months ended September 30, 2020 is \$0.5 million for the Company's COVID-19 response, including a \$0.3 million donation to the Government of Botswana's COVID-19 Response Fund.

12. 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,	
	2021	2020
Salaries and wages	\$ 1,317	\$ 1,111
Short term benefits	26	25
Share based compensation	1,146	715
	\$ 2,489	\$ 1,851

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. If all the Clara performance milestones 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 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.

Pursuant to the profit sharing described in Note 7, 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. As at September 30, 2021, no amounts have been paid under this profit sharing mechanism.

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13. 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, 2021			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 72,486	\$ 230	\$ 72,716
Income (loss) from mining operations ⁽¹⁾	28,852	(683)	28,169
Finance expenses	(1,315)	–	(1,315)
Foreign exchange (loss) gain	(398)	124	(274)
Administration and other	(1,840)	(2,981)	(4,821)
Taxes	(8,999)	–	(8,999)
Net income (loss) for the period	16,300	(3,540)	12,760
Capital expenditures	\$ 29,965	\$ 16	\$ 29,981

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	(171)	–	(171)
Finance expenses	(746)	(123)	(869)
Foreign exchange gain	504	70	574
Administration and 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

(1) Karowe Mine's depletion and amortization expense during the three months ended September 30, 2021 totaled \$13.6 million (three months ended September 30, 2020 – \$13.5 million).

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13. SEGMENT INFORMATION (continued)

Nine months ended September 30, 2021			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 171,431	\$ 716	\$ 172,147
Income (loss) from mining operations ⁽²⁾	61,087	(1,835)	59,252
Finance expenses	(2,642)	(739)	(3,381)
Foreign exchange (loss) gain	(1,692)	230	(1,462)
Administration and other	(5,893)	(8,519)	(14,412)
Taxes	(17,832)	-	(17,832)
Net income (loss) for the period	33,028	(10,863)	22,165
Capital expenditures	\$ 62,675	\$ 34	\$ 62,709
Total assets	\$ 394,623	\$ 32,590	\$ 427,213
Nine months ended September 30, 2020			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 82,328	\$ 548	\$ 82,876
Loss from mining operations ⁽²⁾	(8,312)	(542)	(8,854)
Exploration	(1,256)	-	(1,256)
Finance expenses	(2,206)	(302)	(2,508)
Foreign exchange gain (loss)	1,295	(84)	1,211
Administration and 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

(2) Karowe Mine's depletion and amortization expense during the nine months ended September 30, 2021 totaled \$36.6 million (nine months ended September 30, 2020 – \$31.9 million).

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

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14. 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.

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, 2021	December 31, 2020
Level 1: Fair value through other comprehensive income		
– Investments	\$ 2,747	\$ 1,651
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, liquidity and price 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, 2021, 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 \$2.2 million in net income for the period.

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 working capital facility.

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14. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

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. The Company limits its credit exposure on cash and cash equivalents by holding its deposits mainly with institutions with strong investment-grade ratings. 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 supply agreement with HB Antwerp, a larger proportion of the Company's goods, by value, are sold through HB Antwerp to buyers of polished diamonds. The credit risk associated with these sales is concentrated with one individual customer and payment terms are longer (60 to 120 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. 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, all factors that are not within the Company's control. Under the supply agreement with HB Antwerp, the ultimate achieved sales prices of stones larger than 10.8 carats in size is based on a polished diamond pricing mechanism. This pricing mechanism results 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 sales processes for rough diamonds. During the year ended December 31, 2020, the COVID-19 pandemic negatively impacted global demand for luxury commodities, which includes jewelry containing diamonds however, both demand and prices have been strong during the first nine months of 2021. 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 but that the Company may not have sufficient liquidity to meet its financial obligations as they come due.

15. COMMITMENTS

As at September 30, 2021, purchase orders and contracts that give rise to commitments for future minimum payments for services to be provided related to the underground expansion project amounted to \$85.7 million (December 31, 2020 - \$9.9 million). The following table summarizes the undiscounted approximate timing of the commitments at September 30, 2021:

		2021	2022	2023	2024+	Total
Underground expansion project	\$ million	39.4	42.2	2.4	1.7	85.7