LUCARA
DIAMOND

Consolidated Financial Statements
For the year ended December 31, 2019

Independent auditor's report

To the Shareholders of Lucara Diamond Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Lucara Diamond Corp. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Annual Management's Discussion and Analysis.

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Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mark Platt.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Vancouver, British Columbia
February 23, 2020

LUCARA DIAMOND CORP.
CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. Dollars)

		December 31, 2019		December 31, 2018
ASSETS				
Current assets				
Cash and cash equivalents	$	11,197	$	24,355
VAT receivables and other (Note 5)		6,248		11,583
Inventories (Note 6)		65,052		48,146
		82,497		84,084
Investments		241		920
Plant and equipment (Note 7)		130,108		147,246
Mineral properties (Note 8)		105,243		113,109
Intangible assets (Note 9)		22,774		21,798
Other non-current assets		5,168		3,738
TOTAL ASSETS	$	346,031	$	370,895
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities	$	15,880	$	21,204
Credit facility (Note 18)		-		10,111
Taxes payable		4,397		3,999
Lease liabilities		1,347		-
		21,624		35,314
Restoration provisions (Note 10)		23,629		20,184
Deferred income taxes (Note 14)		63,015		73,482
Lease liabilities		828		-
TOTAL LIABILITIES		109,096		128,980
EQUITY				
Share capital (unlimited common shares, no par value)		314,820		313,913
Contributed surplus		7,679		7,766
Deficit		(31,494)		(21,767)
Accumulated other comprehensive loss		(54,070)		(57,997)
TOTAL EQUITY		236,935		241,915
TOTAL LIABILITIES AND EQUITY	$	346,031	$	370,895

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

Approved on Behalf of the Board of Directors:

"Marie Inkster"
Director

"Brian Edgar"
Director

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31
(In thousands of U.S. Dollars, except for share and per share amounts)

		2019		2018
Revenues	$	192,541	$	176,191
Cost of goods sold				
Operating expenses		77,697		75,731
Royalty expenses (Note 8)		19,194		17,619
Depletion and amortization		51,267		31,405
		148,158		124,755
Income from mining operations		44,383		51,436
Other expenses				
Administration (Note 13)		15,651		16,391
Exploration expenditures		4,572		3,359
Finance expenses		3,118		2,552
Foreign exchange loss		2,634		2,338
Sales and marketing		2,246		2,599
		28,221		27,239
Net income before tax		16,162		24,197
Income tax expense (recovery) (Note 14)				
Current income tax expense		14,470		5,857
Deferred income tax expense (recovery)		(11,022)		6,688
		3,448		12,545
Net income for the year	$	12,714	$	11,652
Earnings per common share (Note 15)				
Basic	$	0.03	$	0.03
Diluted	$	0.03	$	0.03
Weighted average common shares outstanding (Note 15)				
Basic		396,790,950		394,008,955
Diluted		397,912,814		395,513,705

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

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31
(In thousands of U.S. Dollars)

		2019		2018
Net income for the year	$	12,714	$	11,652
Other comprehensive income (loss)				
Items that will not be reclassified to net income				
Change in fair value of marketable securities		(679)		(1,187)
Items that may be subsequently reclassified to net income				
Currency translation adjustment		4,606		(17,851)
		3,927		(19,038)
Comprehensive income (loss)	$	16,641	$	(7,386)

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

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(In thousands of U.S. Dollars)

	2019	2018
Cash flows from (used in):		
Operating activities		
Net income for the year	$ 12,714	$ 11,652
Items not involving cash and cash equivalents:		
Depletion and amortization	52,946	31,741
Unrealized foreign exchange loss	2,634	2,338
Share-based compensation	1,186	1,447
Deferred income taxes	(11,022)	6,688
Finance costs	2,304	2,503
	60,762	56,369
Net changes in working capital items:		
VAT receivables and other	5,538	(8,162)
Inventories	(12,523)	(13,090)
Trade payables and other current liabilities	(4,041)	6,258
Taxes payable	356	3,737
	50,092	45,112
Financing activities		
Dividends paid	(22,380)	(30,274)
Proceeds (repayments) of credit facility, net	(10,000)	10,000
Proceeds from exercise of stock options	-	327
Withholding tax for share units vested	(427)	(364)
Interest paid	(107)	-
Principal elements of lease payments	(1,421)	-
	(34,335)	(20,311)
Investing activities		
Acquisition and disposition of plant and equipment, net	(17,563)	(17,146)
Capitalized mineral property expenditure	(9,178)	(20,266)
Capitalized production stripping costs	-	(21,425)
Acquisition and development of intangible assets	(404)	(1,800)
Acquisition of other assets	(1,882)	(81)
	(29,027)	(60,718)
Effect of exchange rate change on cash and cash equivalents	112	(793)
Decrease in cash and cash equivalents during the year	(13,158)	(36,710)
Cash and cash equivalents, beginning of year	24,355	61,065
Cash and cash equivalents, end of year(1)	$ 11,197	$ 24,355
Supplemental information		
Interest received	236	95
Taxes paid	(9,751)	(5,429)
Changes in trade payables and accrued liabilities related to plant and equipment	1,386	198

(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 consolidated financial statements.

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31
(All amounts expressed 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, 2018	382,619,334	$ 290,846	$ 7,832	$ (3,043)	$ (38,959)	$ 256,676
Exercise of stock options	200,000	441	(114)	-	-	327
Share-based compensation	-	-	1,447	-	-	1,447
Effect of foreign currency translation	-	-	-	-	(17,851)	(17,851)
Change in fair value through other comprehensive income securities	-	-	-	-	(1,187)	(1,187)
Shares issued for Clara acquisition (Note 9)	13,100,000	21,489	-	-	-	21,489
Shares issued from SUs vested	590,053	1,137	(1,137)	-	-	-
Withholding tax for SUs vested	-	-	(364)	-	-	(364)
Dividends paid(1)	-	-	102	(30,376)	-	(30,274)
Net income for the year	-	-	-	11,652	-	11,652
Balance, December 31, 2018	396,509,387	$ 313,913	$ 7,766	$ (21,767)	$ (57,997)	$ 241,915
Balance, January 1, 2019	396,509,387	$ 313,913	$ 7,766	$ (21,767)	$ (57,997)	$ 241,915
Share-based compensation	-	-	1,186	-	-	1,186
Effect of foreign currency translation	-	-	-	-	4,606	4,606
Change in fair value through other comprehensive income securities	-	-	-	-	(679)	(679)
Shares issued from SUs vested	348,781	907	(907)	-	-	-
Withholding tax for SUs vested	-	-	(427)	-	-	(427)
Dividends paid(2)	-	-	61	(22,441)	-	(22,380)
Net income for the year	-	-	-	12,714	-	12,714
Balance, December 31, 2019	396,858,168	$ 314,820	$ 7,679	$ (31,494)	$ (54,070)	$ 236,935

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

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 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 2000 - 885 West Georgia Street, Vancouver, British Columbia, V6C 3E8.

2. BASIS OF PRESENTATION

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The same accounting policies have been consistently applied in all periods presented, other than the adoption of IFRS 16, Leases.

These financial statements were approved by the Board of Directors for issue on February 23, 2020.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

(a) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for investments in equity securities, which are measured at fair value.

(b) Consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries (see Note 12 Principal subsidiaries).

Subsidiaries are entities controlled by the Company. An entity is controlled by the Company when as a group; it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. Where the Company's interest is less than 100%, the Company recognizes non-controlling interests. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses have been eliminated on consolidation.

(c) Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the consolidated financial statements:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimated recoverable reserves and resources – Mineral reserve and resource estimates are based on various assumptions relating to operating matters. These include production costs, mining and processing recoveries, cut-off grades, long term diamond prices and, in some cases, exchange rates, inflation rates and capital costs. Cost estimates are based on feasibility study estimates or operating history. Estimates are prepared by appropriately qualified persons, but will be affected by forecasted commodity prices, diamond prices, inflation rates, exchange rates, capital and production costs and recoveries amongst other factors. Estimated recoverable reserves and resources are used to determine the depletion and amortization of property, plant and equipment at the operating mine site, in accounting for deferred stripping costs and mineral properties, determining a deferred tax rate and in performing impairment testing. Therefore, changes in the assumptions used could affect the carrying value of assets, depletion and amortization, changes in the deferred tax rate, and impairment charges recorded in the income statement.

Valuation of mineral properties – The Company carries its mineral properties at depleted cost less any provision for impairment. The Company undertakes a periodic review of the carrying values of mineral properties as well as whenever events or changes in circumstances indicate that their carrying values may exceed their fair value. In undertaking this review, management of the Company is required to make significant estimates. These estimates are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the mineral properties and related expenditures.

Deferred Taxes - The deferred tax provisions are calculated by the Company whilst the actual amounts of income tax expense are not final until tax returns are filed and accepted by the relevant authorities. Judgment is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet and what tax rate is expected to be applied in the year when the related temporary differences reverse. Deferred tax liabilities arising from temporary differences are recognized unless the reversal of the temporary differences is not expected to occur in the foreseeable future and can be controlled. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future production and sales volumes, diamond prices, reserves and resources, operating costs, decommissioning and restoration costs, capital expenditures, dividends and other capital management transactions. These estimates and judgments are subject to risk and uncertainty and could result in an adjustment to the deferred tax provision and a corresponding credit or charge to profit.

Decommissioning and site restoration – The Company has obligations for site restoration and decommissioning related to the Karowe Diamond Mine. The future obligations for decommissioning and site restoration activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the country in which the mine operates, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The decommissioning and site restoration provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The Company's policy for recording decommissioning and site restoration provisions is to establish provisions for future mine closure costs at the commencement of mining operations based on the present value of the future cash flows required to satisfy the obligations. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of the mine through a charge to finance costs. Actual results could differ from estimates made by management during the preparation of these consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the person that makes strategic decisions. The CEO is deemed the chief operating decision-maker of the Company.

The Company's primary reporting segments are based on individual operating segments, being the Karowe Mine and Corporate and other. The Corporate office provides support to the Karowe Mine with respect to sales, treasury and finance, technical support, regulatory reporting and corporate administration and includes operations of the secure, digital diamond sales platform, Clara.

(e) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in U.S. dollars. The functional currency of the parent company, Lucara Diamond Corp., is the Canadian dollar.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the statement of operations.

Group companies

The functional currency of the most significant subsidiary of the Company, Lucara Botswana (Pty) Ltd., is the Botswana Pula. The functional currency of the Company and its other active subsidiary, Clara Diamond Solutions Limited Partnership., is the Canadian dollar. The results and financial position of the group companies, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet

(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

(iii) All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

(f) 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 recorded at fair value and subsequently measured at amortized cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments

The Company has applied IFRS 9 Financial Instruments effective January 1, 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. There were no financial assets or financial liabilities previously designated as at fair value through profit or loss under IAS 39 that were subject to reclassification or which the Company has elected to reclassify upon the application of IFRS 9. There were also no financial assets or financial liabilities which the Company has elected to designate as at fair value through profit and loss at the date of initial application of IFRS 9.

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires. All recognized financial assets are measured subsequently at amortized cost or fair value through profit or loss or fair value through other comprehensive income.

At initial recognition, the Company classifies its financial instruments in the following categories:

(i) Fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of operations. Gains and losses arising from changes in fair value are presented in the consolidated statement of operations within “other gains and losses” in the period in which they arise.

(ii) *Fair value through other comprehensive income*: The Company has made an irrevocable election to designate its investments in marketable equity securities as 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 or impaired, the cumulative gains and losses recognized in other comprehensive income are not recycled to profit and loss and remain within equity.

(iii) *Financial assets and liabilities at amortized cost*: Financial assets and liabilities at amortized cost include cash, trade receivables, credit facility and trade payables and are included in current classification due to their short-term nature. Trade receivables and payables are non-interest bearing if paid when due and are recognized at their face amount, less, when material, a discount, except when fair value is materially different. Amounts drawn on the credit facility are interest-bearing and are recorded at fair value upon inception. These are subsequently measured at amortized cost.

(h) Inventories

Inventories, which include rough diamonds, ore stockpiles and parts and supplies, are measured at the lower of cost and net realizable value. The amount of any write-down of inventories to net realizable value is recognized in the period the write-down occurs. Cost is determined using the weighted average method. Cost includes directly attributable mining overhead but excludes borrowing costs.

Net realizable value represents the estimated selling price in the ordinary course of business, less all estimated costs to completion and selling expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Plant and equipment

Plant and equipment are stated at cost less accumulated amortization and impairment losses. The cost of an asset consists of its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Amortization of each asset is calculated using the straight line or unit of production method to allocate its cost less its residual value over its estimated useful life. The estimated useful lives of plant and equipment are as follows:

Machinery	5 to 10 years
Mineral property & plant facilities	based on recoverable reserves on a unit of production basis
Furniture and office equipment	2 to 3 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within “other gains and losses” in the statement of operations.

(j) Exploration and evaluation expenditures

Exploration and evaluation expenditures relate to the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activities include:

- Researching and analyzing historical exploration data;
- Gathering exploration data through topographical, geochemical and geophysical studies;
- Exploratory drilling, trenching and sampling;
- Determining and examining the volume and grade of the resource; and
- Surveying, transportation and infrastructure requirements.

Exploration and evaluation expenditures are expensed as incurred on mineral properties not sufficiently advanced as to identify their development potential.

(k) Mineral properties

Costs associated with acquiring a mineral property are capitalized as incurred. When it has been established that a mineral property is considered to be sufficiently advanced and an economic analysis has been completed, all further expenditures for the current year and subsequent years are capitalized as incurred. Mineral property costs are amortized from the date of commencement of commercial production of the related mine on a units of production basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Capitalized production stripping costs

During the production phase, mining expenditures (exploration or development costs) incurred either to develop new ore bodies or to develop mine areas in advance of current production are capitalized to mineral properties. Stripping costs incurred in the production phase are accounted for as variable production costs. However, stripping costs are capitalized and recorded on the statement of financial position as deferred stripping, a component of mineral properties, when the stripping activity provides access to sources of reserves or resources that will be produced in future periods that would not have otherwise been accessible in the absence of this activity. The deferred stripping costs are depleted on a unit-of-production basis over the reserves or resources that directly benefited from the stripping activity.

(m) 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 the cost of sales, administrative expenses and/or research and development expenses, as appropriate.

Development expenditures relating to intangible assets 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 depletion and amortization under operating expenses.

(n) 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.

(o) Impairment of non-financial assets

Long lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are reviewed for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(p) Provisions

Asset retirement obligations

The Company recognizes a liability for an asset retirement obligation on long-lived assets when a present legal or constructive obligation exists, as a result of past events and the amount of the liability is reasonably determinable. Asset retirement obligations are initially recognized and recorded as a liability based on estimated future cash flows discounted at a risk free rate. This is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the risk free discount rate. Corresponding amounts and adjustments are added to the carrying value of the related long-lived asset and amortized or depleted to operations over the life of the related asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other provisions

Provisions are recognized when:

- the Company has a present legal or constructive obligation as a result of a past event;
- a reliable estimate can be made of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as finance costs.

(q) Income taxes

Income taxes are recognized in the statement of operations, except where they relate to items recognized in other comprehensive income or directly in equity, in which case the related taxes are recognized in other comprehensive income or equity.

Current taxes receivable or payable are based on estimated taxable income for the current year at the statutory tax rates enacted or substantively enacted less amounts paid or received on account.

Deferred taxes are recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the sliding tax rate that is expected at the time of reversal and the laws that have been enacted or substantively enacted by the year end.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities where there is a legal right to do so, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future tax profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each year end and are reduced to extent that is no longer probable that the related tax benefit will be realized.

Uncertain tax positions and interest and penalties related to uncertain tax positions are accounted for under IFRIC 23, Uncertainty over Income Tax Treatments. The Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more-likely-than-not recognition threshold it is then measured to determine the amount of benefit or liability to recognize in the financial statements. The tax position is measured as the amount of benefit or liability that is likely to be realized upon ultimate settlement. The Company assesses the validity of conclusions regarding uncertain tax positions on a quarterly basis to determine if facts or circumstances have arisen that might cause the Company to change their judgment regarding the likelihood of a tax position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Share capital

Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(s) Revenue recognition

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. IFRS 15 was adopted effective January 1, 2018 and had no material impact on the Company.

(t) Share-based compensation

The Company has a share-based compensation plan, under which the entity receives services from employees and non-employees as consideration for equity instruments (options) of the Company.

Stock options and share units granted to employees are measured on the grant date. Stock options granted to non-employees are measured on the date that the goods or services are received.

The fair value of the employee and non-employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the stock options and share units granted and the vesting periods. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The cash subscribed for the shares issued when the options are exercised is credited to share capital, net of any directly attributable transaction costs.

(u) Earnings (loss) per share

Income (loss) per share is calculated by dividing the income or loss attributable to the shareholders of the Company by the weighted average number of common shares issued and outstanding during the year. Diluted income per share is calculated using the treasury stock method.

(v) Leases - 2018

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of operations on a straight-line basis over the period of the lease.

(w) Leases - 2019

The Company adopted IFRS 16, Leases on January 1, 2019 utilizing the modified retrospective approach. Comparatives were not restated. The Company utilized the following practical expedients in its adoption of IFRS 16: applying a single discount rate to similar leases of 5.2%, accounting for leases for which the term ends within 12 months or fewer of the date of initial application as short-term leases; and using hindsight in applying the new standard.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company leases various properties. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(x) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

4. ADOPTION OF IFRS PRONOUNCEMENTS

IFRS pronouncements that have been issued but are not yet effective are listed below.

IFRS 3 – Business Combinations

As part of the annual improvements released in October 2018, amendments to the definition of a business under IFRS 3 were released to clarify and narrow the definition of a business and provide guidance and illustrative examples to assist in the application of the defined term in a business combination. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. While the standard has no impact to the Company on its adoption of January 1, 2020, future acquisitions under the revised definition may be viewed differently by the Company.

5. VAT RECEIVABLES AND OTHER

		2019		**2018**
VAT	$	3,932	$	8,967
Other		208		652
Prepayments		2,108		1,964
	$	**6,248**	$	11,583

6. INVENTORIES

		2019		**2018**
Rough diamonds	$	24,536	$	16,847
Ore stockpile		28,354		20,435
Parts and supplies		12,162		10,864
	$	**65,052**	$	48,146

Inventory expensed during the year ended December 31, 2019 totaled $77.7 million (2018 – $75.7 million). There were no inventory write-downs during the years ended December 31, 2019 and 2018.

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

7. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Leased assets	Total
Balance, January 1, 2018	$ 8,560	$ 208,149	$ 1,918	$ 5,797	$ -	$ 224,424
Additions	17,438	-	-	10	-	17,448
Reclassification[1]	(19,756)	16,131	804	1,520	-	(1,301)
Disposals and other	-	-	-	(47)	-	(47)
Translation differences	(581)	(17,856)	(198)	(551)	-	(19,186)
Balance, December 31, 2018	$ 5,661	$ 206,424	$ 2,524	$ 6,729	$ -	$ 221,338
IFRS 16 adoption	-	-	-	-	3,691	3,691
Additions[2]	15,936	226	-	17	-	16,179
Reclassification[3]	(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**
Accumulated amortization						
Balance, January 1, 2018	$ -	$ 52,304	$ 1,300	$ 3,244	$ -	$ 56,848
Depletion and amortization	-	21,595	320	1,167	-	23,082
Disposals and other	-	-	-	(2)	-	(2)
Translation differences	-	(5,388)	(123)	(325)	-	(5,836)
Balance, December 31, 2018	$ -	$ 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**
Net book value						
As at December 31, 2018	$ 5,661	$ 137,913	$ 1,027	$ 2,645	$ -	$ 147,246
As at December 31, 2019	**$ 11,388**	**$ 112,225**	**$ 783**	**$ 3,573**	**$ 2,139**	**$ 130,108**

(1) Karowe mine related expenditure of $599 was reclassified to mineral properties and $702 was reclassified to inventory (parts and supplies) in 2018.
(2) Additions include $3,691 recorded to leased assets upon the adoption of IFRS 16, Leases on January 1, 2019.
(3) Karowe mine related expenditure of $174 was reclassified to mineral properties and $126 was reclassified to inventory in 2019 from construction in progress.

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

8. MINERAL PROPERTIES

Cost	Capitalized production stripping asset	Karowe Mine	Total
Balance, January 1, 2018	$ 56,668	$ 57,609	$ 114,277
Additions	21,425	20,990	42,415
Reclassification[1]	-	599	599
Translation differences	(5,741)	(5,826)	(11,567)
Balance, December 31, 2018	$ 72,352	$ 73,372	$ 145,724
Additions	-	10,320	10,320
Reclassification[2]	-	174	174
Translation differences	676	811	1,487
Balance, December 31, 2019	**$ 73,028**	**$ 84,677**	**$ 157,705**
Accumulated depletion			
Balance, January 1, 2018	$ 5,431	$ 18,287	$ 23,718
Depletion	6,955	4,471	11,426
Translation differences	(802)	(1,727)	(2,529)
Balance, December 31, 2018	$ 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**
Net book value			
As at December 31, 2018	$ 60,768	$ 52,341	$ 113,109
As at December 31, 2019	**$ 48,603**	**$ 56,640**	**$ 105,243**

(1) Karowe mine related expenditure of $599 was reclassified from plant and equipment to mineral properties in 2018.
(2) 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 sales value of diamonds produced from Karowe is payable to the government of Botswana. During the year, the Company incurred a royalty expense of $19.2 million (2018: $17.6 million).

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

9. INTANGIBLE ASSETS

Cost	$	-
Acquisition of intangible assets		21,868
Development expenditures		1,139
Translation differences		(1,209)
Cost, December 31, 2018		21,798
Development expenditures		404
Translation differences		1,001
Cost, December 31, 2019	**$**	**23,203**
Accumulated Depletion		(429)
Net book value, December 31, 2019	**$**	**22,774**

On March 2, 2018, the Company completed the acquisition of 100% of the issued and outstanding common shares of Clara Diamond Solutions Corporation, which subsequently became Clara Diamond Solutions Limited Partnership ("Clara"), a company whose primary asset is a secure, digital sales platform for rough diamonds. 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 consideration paid was allocated entirely to the intangible assets.

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 issuable 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	3.0 million	March 2, 2028
$400 million of cumulative revenue generated by the sales platform up to the expiry date	3.0 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.

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

As of September 1, 2019, management has determined that the sales platform is 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.

10. RESTORATION PROVISIONS

The Company's restoration provisions relate to the rehabilitation of the Karowe Diamond Mine in Bostwana. The provisions have been calculated based on total estimated rehabilitation costs and discounted back to their present values. The pre-tax discount rates and inflation rates are adjusted annually and reflect current market assessments. The Company has applied a pre-tax discount rate of 8.9% at December 31, 2019 (2018 - 10.4%) and an inflation rate of 4.0% at December 31, 2019 (2018 - 3.95%). Rehabilitation costs at the Karowe Diamond Mine are expected to commence during 2023 (the end of the current mining license for the open-pit) and continue through 2024. The estimated liability for reclamation and remediation costs on an undiscounted basis is approximately $27.1 million (2018 - $25.7 million).

		2019		2018
Balance, beginning of year	$	20,184	$	18,941
Changes in rates and estimates		1,142		724
Accretion of liability component of obligation		2,200		2,220
Foreign currency translation adjustment		103		(1,701)
Long-term portion of restoration provisions	**$**	**23,629**	$	20,184

11. 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 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 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 December 31, 2017	3,738,337	$	2.48
Granted	1,490,000		2.36
Exercised[(1)]	(200,000)		2.15
Forfeited	(750,001)		2.79
Balance at December 31, 2018	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**

(1) The weighted average share price on the exercise dates for the 2018 stock option exercises was CA$2.18.

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

11. SHARE BASED COMPENSATION (continued)

Options to acquire common shares have been granted and are outstanding at December 31, 2019 as follows:

	Outstanding Options				**Exercisable Options**			
Range of exercise prices CA$	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	1,437,000	3.16		1.64	-	-		-
$2.01 - $2.50	2,700,000	1.13		2.39	1,886,667	0.62		2.42
$2.51 - $3.00	385,000	1.25		2.76	256,667	1.25		2.76
	4,522,000	**1.78**	**$**	**2.19**	**2,143,334**	**0.69**	**$**	**2.46**

During the year ended December 31, 2019, an amount of $0.4 million (2018 – $0.5 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:

	2019	**2018**
Assumptions:		
Risk-free interest rate *(%)*	1.82	2.03
Expected life *(years)*	3.63	3.67
Expected volatility *(%)*	38.20	39.21
Expected dividend	CA$0.025/share quarterly	CA$0.025/share quarterly
Results:		
Weighted average fair value of options granted *(per option)*	CA$0.30	CA$ 0.50

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 year ended December 31, 2019, the Company recognized a share-based payment charge against income of $0.8 million (2018: $1.0 million) for the SUs granted during the year.

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

11. SHARE BASED COMPENSATION (continued)

	Number of share units	Estimated fair value at date of grant (CA$)
Balance at December 31, 2017	1,401,590	$ 2.53
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)	2.30
May 31, 2018 vesting	(327,049)	2.66
June 21, 2018 dividend	12,601	2.17
June 29, 2018 grant	140,000	2.11
September 20, 2018 dividend	13,848	2.25
December 20, 2018 dividend	22,503	1.40
Balance at December 31, 2018	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**

12. PRINCIPAL SUBSIDIARIES

The Company had the following subsidiaries at December 31, 2019 and 2018:

Name	Country of incorporation and place of business	Nature of business	Proportion of shares directly held by the Company (%)	Proportion of shares held by the group (%)
African Diamonds Ltd.	UK	(1)	100	-
Clara Diamond Solutions Limited Partnership (formerly, Clara Diamond Solutions Corp.)	Canada	Diamond sales platform	99.9	0.1
Clara Diamond Solutions GP Inc.(2)	Canada	(1)	100	-
Lucara Management Services Ltd.	UK	(1)	100	-
Lucara Diamond Holdings Inc.	Mauritius	(1)	100	-
Mothae Diamond Holdings Inc.	Mauritius	(1)	-	100
Boteti Diamond Holdings Inc.	Mauritius	(1)	-	100
Wati Ventures (Pty) Ltd.	Botswana	(1)	-	100
Debwat Exploration (Pty) Ltd.	Botswana	(1)	-	100
Lucara Botswana (Pty) Ltd. (formerly, Boteti Mining (Pty) Ltd.)	Botswana	Mining of diamonds	-	100

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

(1) Intermediate holding company
(2) Incorporated on July 31, 2019.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

13. ADMINISTRATION

		2019		2018
Salaries and benefits	$	5,943	$	5,796
Severance		-		2,343
Professional fees		2,612		1,549
Office and general		1,554		1,458
Marketing		949		1,077
Stock exchange, transfer agent, shareholder communication		369		397
Travel		822		1,082
Share-based compensation (Note 11)		1,186		1,447
Management fees		458		461
Depreciation		1,679		426
Donations		79		355
	$	**15,651**	$	16,391

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

14. INCOME TAXES

		2019		2018
Current	$	14,470	$	5,857
Deferred		(11,022)		6,688
Income tax expense	**$**	**3,448**	$	12,545

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to net income before tax. These differences result from the following items:

		2019		2018
Statutory tax rate		27.00%		27.00%
Net income before tax		16,162		24,197
Computed income tax expense		4,364		6,533
Differences between Canadian and foreign tax rates		(1,257)		(1,564)
Non-deductible expenses and other permanent differences		1,615		888
Deferred tax effect of Botswana variable tax rate in excess of Botswana standard tax rate		(3,120)		1,225
Change in deferred benefits not recognized		1,783		2,190
Exchange rate differences		223		876
Withholding taxes		(160)		2,397
	$	3,448	$	12,545

The Company is subject to a variable tax rate in Botswana based on a profit and revenue ratio which increases as profit as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55% (only if taxable income were equal to revenue). The Company has estimated the variable tax rate to be 33.59% for deferred income taxes based on current financial performance and the life of mine plan.

The Company has not recognized deferred tax liabilities in respect of historical unremitted earnings from foreign subsidiaries for which the Company is able to control the timing of the remittance and which are considered by the Company to be reinvested for the foreseeable future. At December 31, 2019, these earnings amount to $157.8 million (2018: $122.5 million). All of these earnings would be subject to withholding taxes if they were remitted by the foreign subsidiaries.

The movement in deferred tax liabilities during the year, without taking into consideration the offsetting balances within the same tax jurisdiction, is as follows:

		2019		2018
Balance, beginning of year	$	73,482	$	72,919
Deferred income tax (recovery) expense		(11,022)		6,688
Foreign currency translation adjustment		555		(6,125)
Balance, end of year	**$**	**63,015**	$	73,482

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

Deferred income tax assets and liabilities recognized		**2019**		**2018**
Deferred income tax assets				
Non-capital losses	$	180	$	300
Accounts payable and other		731		861
Unrealized foreign exchange loss		1,003		680
Restoration provisions		7,937		6,780
Total deferred income tax assets		9,851		8,621
Deferred income tax liabilities				
Mineral properties, plant and equipment		72,422		79,814
Future withholding taxes		444		2,289
Deferred income tax liabilities		72,866		82,103
Deferred income tax liabilities, net	**$**	**63,015**	$	73,482

Deferred income tax assets not recognized		**2019**		**2018**
Tax losses	$	22,581	$	20,393
Mineral property, plant and equipment		110		40
Other deductible temporary differences		273		263
	$	**22,964**	$	20,696

As at December 31, 2019, the Company has non-capital losses for income tax purposes which expire as follows:

		2020		**2021**		**2022**		**Subsequent to 2023**		**No expiry date**		**Total**
Canada	$	-	$	-	$	-	$	74,139	$	-	**$**	**74,139**
United Kingdom		-		-		-		-		5,879		**5,879**
	$	-	$	-	$	-	$	74,139	$	5,879	**$**	**80,018**

No tax benefit has been recorded for the Canadian and United Kingdom non-capital losses.

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

15. EARNINGS PER COMMON SHARE

a) *Basic*

Basic earnings per common share are calculated by dividing the net income attributable to the shareholders of the Company by the weighted average number of common shares outstanding during the year:

		2019		**2018**
Income for the year	$	12,714	$	11,652
Weighted average number of common shares outstanding		396,790,950		394,008,955
	$	**0.03**	$	0.03

b) *Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. For stock options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the year), based on the exercise prices attached to the stock options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of stock options. Share units are, by their nature, dilutive and included in the calculation on a weighted average basis during the year.

		2019		**2018**
Income for the year	$	12,714	$	11,652
Weighted average number of common shares outstanding		396,790,950		394,008,955
Adjustment for stock options		-		5,070
Adjustment for share units		1,121,864		1,499,680
Weighted average number of common shares for diluted earnings per share		397,912,814		395,513,705
	$	**0.03**	$	0.03

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

16. RELATED PARTY TRANSACTIONS

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:

		2019		2018
Salaries and wages, including directors' fees	$	2,499	$	2,759
Severance		-		2,343
Short term benefits		82		255
Share-based compensation		573		1,208
	$	**3,155**	$	6,565

a) 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 9) 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.

Pursuant to the profit sharing mechanism described in Note 9, 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. In March 2019, the EBITDA sharing agreement was amended such that one of the two founders and the Clara Management waived their respective rights to the EBITDA payment to the extent that such payment relates to net income earned by Clara on the sale of rough diamonds from the Karowe Mine. The waiver is effective from the date of the share purchase agreement in February 2018 through to December 31, 2020. No amounts have been paid under this profit sharing mechanism in 2019 and 2018.

b) Other related parties

For the year ended December 31, 2019, the Company paid $0.1 million (2018: $0.4 million) to a charitable foundation directed by certain of the Company's directors to carry out social programs on behalf of the Company in Botswana. For the year ended December 31, 2019, the Company paid $0.5 million (2018: $0.5 million) to a management company directed by certain of the Company's directors for office space and office management services.

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

17. SEGMENT INFORMATION

The Company's primary business activity is the development and operation of diamond properties in Botswana. The Company has two operating segments: Karowe Mine and Corporate and other. The Company's assets and operations in Clara are included under Corporate and other.

2019

	Karowe Mine	Corporate and other	Total
Revenues[1]	$ 191,937	$ 604	$ 192,541
Income from mining operations	44,620	(237)	44,383
Exploration expenditures	(4,572)	-	(4,572)
Finance expenses	(2,595)	(523)	(3,118)
Foreign exchange loss	(2,290)	(344)	(2,634)
Other	(7,867)	(10,030)	(17,897)
Taxes	(3,448)	-	(3,448)
Net income (loss) for the year	**23,848**	**(11,134)**	**12,714**
Capital expenditures	**(26,741)**	**(404)**	**(27,145)**
Total assets	**319,080**	**26,951**	**346,031**

2018

	Karowe Mine	Corporate and other	Total
Revenues[1]	$ 176,191	$ -	$ 176,191
Income from mining operations	51,509	(73)	51,436
Exploration expenditures	(3,359)	-	(3,359)
Finance expenses	(2,183)	(369)	(2,552)
Foreign exchange (loss) / gain	(2,449)	111	(2,338)
Other	(6,873)	(12,117)	(18,990)
Taxes	(12,131)	(414)	(12,545)
Net income (loss) for the year	24,514	(12,862)	11,652
Capital expenditures	(58,820)	(1,881)	(60,701)
Total assets	342,186	28,709	370,895

(1) During the year ended December 31, 2019, one customer generated 12% of the Company's 2019 revenue. During the year ended December 31, 2018, no customers generated more than 10% of the Company's total revenue.

The geographic distribution of non-current assets is as follows:

	Plant and equipment 2019	Plant and equipment 2018	Mineral properties 2019	Mineral properties 2018	Other 2019	Other 2018
Canada	$ -	$ -	$ -	$ -	$ 23,015	$ 21,830
Botswana	130,108	147,246	105,243	113,109	5,168	3,706
	$ 130,108	$ 147,246	$ 105,243	$ 113,109	$ 28,183	$ 25,536

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

$0.4 million of depletion expense in 2019 (2018 - $nil) relates to intangible assets located in Canada. All remaining depletion and amortization expense relates to the assets at the Karowe Mine located in Botswana.

18. FINANCIAL INSTRUMENTS

a) *Measurement categories and fair values*

As explained in Note 3, 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).

	December 31, 2019	December 31, 2018
Level 1: Fair value through other comprehensive income – Investments	$ 241	$ 920
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 December 31, 2019, 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 $0.9 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. The 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.

18. FINANCIAL INSTRUMENTS (continued)

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.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Cash flow forecasting is performed in the operating entities of the Company and aggregated in the head office. Rolling forecasts of the Company's liquidity requirements are monitored to ensure it has sufficient cash to meet operational needs at all times. Such forecasting takes into consideration the Company's debt financing plans.

Revolving credit facility

The Company holds a $50 million revolving term credit facility with the Bank of Nova Scotia expiring in Q2 2020. This facility may be extended if both parties agree. 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 at December 31, 2019, the Company is 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 leverage ratio.

The Company has provided security on 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.

The Bank of Nova Scotia has first ranking security over the Karowe assets.

As at December 31, 2019, no amount was drawn on the facility for working capital purposes (2018 - $10.0 million). The current interest rate on the amount drawn is LIBOR plus a margin of 2.75%. At December 31, 2019, $50.0 million was available.

19. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes costs of capital at an acceptable risk.

In the management of capital, the Company considers items included in equity attributable to shareholders and its debt facility to be capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's assets. In order to maintain or adjust the capital structure, the Company may attempt to issue new shares or debt instruments, acquire or dispose of assets, or to bring in joint venture partners.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditures budgets and life-of-mine plans which are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets and life-of-mine plan are approved by the Board of Directors.