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

| | | June 30, 2021 | | December 31, 2020 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ | 13,721 | $ | 4,916 |
| Receivables and other (Note 3) | | 32,015 | | 20,933 |
| Inventories (Note 4) | | 78,125 | | 68,374 |
| | | 123,861 | | 94,223 |
| Investments | | 3,106 | | 1,651 |
| Plant and equipment (Note 5) | | 90,424 | | 107,224 |
| Mineral properties (Note 6) | | 128,339 | | 104,002 |
| Intangible assets (Note 7) | | 21,913 | | 21,986 |
| Other non-current assets | | 4,658 | | 4,763 |
| **TOTAL ASSETS** | $ | 372,301 | $ | 333,849 |
| **LIABILITIES** | | | | |
| Current liabilities | | | | |
| Trade payables and accrued liabilities | $ | 14,018 | $ | 14,874 |
| Credit facility (Note 12) | | 50,066 | | 30,528 |
| Tax and royalties payable | | 2,914 | | 1,376 |
| Lease liabilities | | 691 | | 781 |
| | | 67,689 | | 47,559 |
| Restoration provisions | | 21,669 | | 21,229 |
| Deferred income taxes | | 62,729 | | 55,905 |
| Other non-current liabilities | | 1,214 | | 963 |
| **TOTAL LIABILITIES** | | 153,301 | | 125,656 |
| **EQUITY** | | | | |
| Share capital (unlimited common shares, no par value) | | 315,526 | | 314,924 |
| Contributed surplus | | 8,667 | | 8,646 |
| Deficit | | (48,367) | | (57,772) |
| Accumulated other comprehensive loss | | (56,826) | | (57,605) |
| **TOTAL EQUITY** | | 219,000 | | 208,193 |
| **TOTAL LIABILITIES AND EQUITY** | $ | 372,301 | $ | 333,849 |

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

Commitments – Note 13

Subsequent Events – Note 14

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 June 30, 2021 | Three months ended June 30, 2020 | Six months ended June 30, 2021 | Six months ended June 30, 2020 |
|---|---|---|---|---|
| **Revenues** | $ 46,334 | $ 7,462 | $ 99,431 | $ 41,579 |
| **Cost of goods sold** | | | | |
| Operating expenses | 15,095 | 12,020 | 34,815 | 29,300 |
| Royalty expenses (Note 6) | 4,650 | 734 | 10,520 | 4,230 |
| Depletion and amortization | 10,343 | 7,972 | 23,013 | 18,464 |
| | 30,088 | 20,726 | 68,348 | 51,994 |
| **Income (loss) from mining operations** | 16,246 | (13,264) | 31,083 | (10,415) |
| **Other expenses** | | | | |
| Administration (Note 9) | 3,659 | 3,653 | 8,054 | 7,724 |
| Exploration | - | 493 | - | 1,085 |
| Finance expenses | 1,367 | 799 | 2,066 | 1,639 |
| Foreign exchange loss (gain) | 304 | (272) | 1,188 | (637) |
| Sales and marketing | 636 | 610 | 1,537 | 1,100 |
| | 5,966 | 5,283 | 12,845 | 10,911 |
| **Net income (loss) before tax** | 10,280 | (18,547) | 18,238 | (21,326) |
| **Income tax expense (recovery)** | | | | |
| Current income tax | 1,163 | (1,728) | 1,548 | 251 |
| Deferred income tax | 3,119 | (2,904) | 7,285 | (4,501) |
| | 4,282 | (4,632) | 8,833 | (4,250) |
| **Net income (loss) for the period** | $ 5,998 | $ (13,915) | $ 9,405 | $ (17,076) |
| **Earnings (loss) per common share** | | | | |
| Basic | $ 0.02 | $ (0.04) | $ 0.02 | $ (0.04) |
| Diluted | $ 0.01 | $ (0.04) | $ 0.02 | $ (0.04) |
| **Weighted average common shares outstanding** | | | | |
| Basic | 397,117,648 | 396,896,733 | 397,029,117 | 396,881,900 |
| Diluted | 403,473,196 | 396,896,733 | 402,563,956 | 396,881,900 |

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

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

| | | Three months ended June 30, 2021 | | Three months ended June 30, 2020 | | Six months ended June 30, 2021 | | Six months ended June 30, 2020 |
|---|---|---|---|---|---|---|---|---|
| **Net income (loss) for the period** | $ | 5,998 | $ | (13,915) | $ | 9,405 | $ | (17,076) |
| **Other comprehensive income (loss)** | | | | | | | | |
| *Items that will not be reclassified to net income* | | | | | | | | |
| Change in fair value of marketable securities | | 689 | | 75 | | 1,455 | | 55 |
| *Items that may be subsequently reclassified to net income* | | | | | | | | |
| Currency translation adjustment | | 3,776 | | 2,424 | | (676) | | (21,680) |
| | | 4,465 | | 2,499 | | 779 | | (21,625) |
| **Comprehensive income (loss) for the period** | $ | 10,463 | $ | (11,416) | $ | 10,184 | $ | (38,701) |

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 June 30, 2021 | Three months ended June 30, 2020 | Six months ended June 30, 2021 | Six months ended June 30, 2020 |
|---|---|---|---|---|
| **Cash flows from (used in):** | | | | |
| **Operating activities** | | | | |
| Net income (loss) for the period | $ 5,998 | $ (13,915) | $ 9,405 | $ (17,076) |
| Items not involving cash and cash equivalents: | | | | |
| Depletion and amortization | 10,651 | 8,523 | 23,667 | 19,591 |
| Unrealized foreign exchange (gain) loss | (454) | (272) | 575 | (637) |
| Share-based compensation | 485 | 328 | 1,125 | 644 |
| Deferred income taxes | 3,119 | (2,904) | 7,285 | (4,501) |
| Finance costs | 388 | 655 | 758 | 1,298 |
| | 20,187 | (7,585) | 42,815 | (681) |
| Net changes in working capital: | | | | |
| Receivables and other | (3,277) | 1,591 | (11,434) | 257 |
| Inventories | (6,491) | (4,726) | (7,087) | (6,821) |
| Trade payables and other current liabilities | (877) | (611) | (3,363) | (4,450) |
| Deposits on future sales | - | 13,500 | - | 13,500 |
| Tax and royalties payable | (1,285) | (7,067) | 1,542 | (4,346) |
| | 8,257 | (4,898) | 22,473 | (2,541) |
| **Financing activities** | | | | |
| Proceeds from credit facility, net | - | - | 19,500 | 19,000 |
| Withholding tax for share units vested | (21) | - | (107) | (8) |
| Interest paid | (18) | (35) | (36) | (70) |
| Principal elements of lease payments | (143) | (435) | (275) | (830) |
| | (182) | (470) | 19,082 | 18,092 |
| **Investing activities** | | | | |
| Acquisition and disposition of plant and equipment | (2,389) | (4,514) | (2,752) | (6,626) |
| Mineral property expenditure | (19,999) | (3,950) | (29,958) | (5,630) |
| Development of intangible assets | (14) | (2) | (18) | (52) |
| | (22,402) | (8,466) | (32,728) | (12,308) |
| Effect of exchange rate change on cash and cash equivalents | 139 | 109 | (22) | (749) |
| Increase (decrease) in cash and cash equivalents during the period | (14,188) | (13,725) | 8,805 | 2,494 |
| Cash and cash equivalents, beginning of period | 27,909 | 27,416 | 4,916 | 11,197 |
| **Cash and cash equivalents, end of period**[1] | $ 13,721 | $ 13,691 | $ 13,721 | $ 13,691 |

**(Unaudited - in thousands of U.S. Dollars)**

| | | | | |
|---|---|---|---|---|
| **Supplemental information** | | | | |
| Interest received | $ 64 | $ 59 | $ 137 | $ 123 |
| Taxes paid | (6) | (4,602) | (408) | (4,995) |
| Changes in trade payables and accrued liabilities related to plant and equipment | 1,767 | (8) | 2,440 | 111 |

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

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

## LUCARA DIAMOND CORP.
### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
### (Unaudited – in thousands of U.S. Dollars, unless otherwise indicated)

| | Number of shares issued and outstanding | Share capital | Contributed surplus | Retained earnings (deficit) | Accumulated other comprehensive loss | Total |
|---|---|---|---|---|---|---|
| **Balance, January 1, 2020** | 396,858,168 | $ 314,820 | $ 7,679 | $ (31,494) | $ (54,070) | $ 236,935 |
| Share-based compensation | - | - | 521 | - | - | 521 |
| Effect of foreign currency translation | - | - | - | - | (21,680) | (21,680) |
| Change in fair value through other comprehensive income securities | - | - | - | - | 55 | 55 |
| Shares issued from SUs vested | 38,565 | 104 | (104) | - | - | - |
| Withholding tax for SUs vested | - | - | (8) | - | - | (8) |
| Net loss for the period | - | - | - | (17,076) | - | (17,076) |
| **Balance, June 30, 2020** | 396,896,733 | $ 314,924 | $ 8,088 | $ (48,570) | $ (75,695) | $ 198,747 |
| **Balance, January 1, 2021** | 396,896,733 | $ 314,924 | $ 8,646 | $ (57,772) | $ (57,605) | $ 208,193 |
| Share-based compensation | - | - | 730 | - | - | 730 |
| Effect of foreign currency translation | - | - | - | - | (676) | (676) |
| Change in fair value through other comprehensive income securities | - | - | - | - | 1,455 | 1,455 |
| Shares issued from SUs vested | 228,607 | 602 | (602) | - | - | - |
| Withholding tax for SUs vested | - | - | (107) | - | - | (107) |
| Net income for the period | - | - | - | 9,405 | - | 9,405 |
| **Balance, June 30, 2021** | 397,125,340 | $ 315,526 | $ 8,667 | $ (48,367) | $ (56,826) | $ 219,000 |

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

## 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 were held in Antwerp for the balance of 2020 and in the first half of 2021 due to varying international travel restrictions. The Government of Botswana has since extended the state of emergency several times, and the most recent extension is expected to remain in place until 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 six 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 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.

(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 August 10, 2021.

(ii) Adoption of new accounting policies

IFRS pronouncements that have been issued but are not yet effective are listed below. The Company plans to apply the new standards or interpretations in the annual period for which it is first required.

*IAS 12*

Amendments were issued to IAS 12 Income Taxes 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 our financial statements.

## 3. RECEIVABLES AND OTHER

| | | **June 30, 2021** | | **December 31, 2020** |
|---|---|---|---|---|
| Trade | $ | 23,067 | $ | 13,396 |
| VAT | | 5,037 | | 4,493 |
| Deferred financing costs | | 2,144 | | - |
| Prepayments | | 1,587 | | 2,450 |
| Other | | 180 | | 594 |
| | **$** | **32,015** | $ | 20,933 |

Trade receivables at June 30, 2021 were $23.1 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.

## 4. INVENTORIES

| | | **June 30, 2021** | | **December 31, 2020** |
|---|---|---|---|---|
| Rough diamonds | $ | 30,507 | $ | 25,956 |
| Ore stockpile | | 33,302 | | 29,572 |
| Parts and supplies | | 14,316 | | 12,846 |
| | **$** | **78,125** | $ | 68,374 |

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

Inventory expensed during the six months ended June 30, 2021 totaled $34.8 million (six months ended June 30, 2020 – $29.3 million). There were no inventory write-downs during the six months ended June 30, 2021 and 2020.

## 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 | 2,900 | - | - | 3 | - | 2,903 |
| Reclassification | (4,608) | 3,703 | 154 | 751 | - | - |
| Disposals and other | - | - | - | (231) | (37) | (268) |
| Translation differences | (84) | (1,702) | (22) | (93) | (14) | (1,915) |
| **Balance, June 30, 2021** | **$ 8,226** | **$ 221,963** | **$ 2,999** | **$ 13,269** | **$ 2,311** | **$ 248,768** |
| **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 | - | 17,081 | 206 | 1,287 | 295 | 18,869 |
| Disposals and other | - | - | - | (230) | (37) | (267) |
| Translation differences | - | (1,005) | (16) | (52) | (9) | (1,082) |
| **Balance, June 30, 2021** | **$ -** | **$ 146,453** | **$ 2,267** | **$ 8,315** | **$ 1,309** | **$ 158,344** |
| **Net book value** | | | | | | |
| **As at December 31, 2020** | $ 10,018 | $ 89,585 | $ 790 | $ 5,529 | $ 1,302 | $ 107,224 |
| **As at June 30, 2021** | **$ 8,226** | **$ 75,510** | **$ 732** | **$ 4,954** | **$ 1,002** | **$ 90,424** |

(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.

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

## 6. MINERAL PROPERTIES

| **Cost** | **Capitalized production 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 | - | 32,549 | 32,549 |
| Adjustment to restoration asset | - | 92 | 92 |
| Translation differences | (600) | (834) | (1,434) |
| **Balance, June 30, 2021** | **$ 71,345** | **$ 131,686** | **$ 203,031** |
| **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 | 5,740 | 1,696 | 7,436 |
| Translation differences | (291) | (275) | (566) |
| **Balance, June 30, 2021** | **$ 40,360** | **$ 34,332** | **$ 74,692** |
| **Net book value** | | | |
| **As at December 31, 2020** | $ 37,034 | $ 66,968 | $ 104,002 |
| **As at June 30, 2021** | **$ 30,985** | **$ 97,354** | **$ 128,339** |

*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 six months ended June 30, 2021, the Company incurred a royalty expense of $10.5 million (2020: $4.2 million).

**(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 | | 18 |
| Translation differences | | 663 |
| **Balance, June 30, 2021** | **$** | **24,479** |
| **Accumulated Depreciation** | | |
| **Balance, January 1, 2020** | $ | (429) |
| Depreciation | | (1,298) |
| Translation differences | | (85) |
| **Balance, December 31, 2020** | $ | (1,812) |
| Depreciation | | (699) |
| Translation differences | | (55) |
| **Balance, June 30, 2021** | **$** | **(2,566)** |
| **Net book value** | | |
| **As at December 31, 2020** | $ | 21,986 |
| **As at June 30, 2021** | **$** | **21,913** |

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. 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 8 (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.

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

## 8. SHARE BASED COMPENSATION (continued)

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

| | Number of shares issuable pursuant to stock options | | Weighted average exercise price per share (CA$) |
|---|---|---|---|
| **Balance at January 1, 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 | (325,000) | | 2.80 |
| Forfeited | (156,000) | | 0.78 |
| **Balance at June 30, 2021** | **6,189,000** | **$** | **1.28** |

Options to acquire common shares have been granted and are outstanding at June 30, 2021 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$) | Number of options exercisable | Weighted average remaining contractual life (years) | Weighted average exercise price (CA$) |
| $0.50 - $1.00 | 3,623,000 | 3.26 | 0.78 | 486,667 | 2.66 | 0.77 |
| $1.51 - $2.00 | 1,341,000 | 1.66 | 1.64 | 894,000 | 1.66 | 1.64 |
| $2.01 - $2.50 | 1,175,000 | 0.79 | 2.33 | 1,116,667 | 0.77 | 2.34 |
| $2.51 - $3.00 | 50,000 | 0.20 | 2.51 | 50,000 | 0.20 | 2.51 |
| | **6,189,000** | **2.42** | **$ 1.28** | **2,547,334** | **1.43** | **$ 1.80** |

During the six months ended June 30, 2021, an amount of $0.2 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 *(per option)* | CA$0.27 | CA$0.21 |

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

## 8. SHARE BASED COMPENSATION (continued)

b. Restricted and performance share units

The Company has a share unit ('SU') plan that provides for the issuance of SUs as a long-term incentive for certain members of the management team. Amendments to the SU plan, including a reallocation of 10,000,000 common shares now reserved for issuance upon the vesting of share units (from the pool originally allocated for the exercise of stock options) were approved by Shareholders at the May 8, 2020 annual meeting. SUs vest three years from the date of grant and certain share units include performance metrics. Each SU entitles the holder to receive one common share and the cumulative dividend equivalent SU earned during the SU's vesting period. The value of each SU at the vesting date is equal to the closing value of one Lucara common share plus the cumulative dividend equivalent which was earned over the vesting period.

For the six month period ended June 30, 2021, the Company recognized a share-based payment charge against income of $0.5 million (2020: $0.3 million) for the SUs granted during the period.

| | 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 |
| **Balance at June 30, 2021** | **5,386,756** | **$** | **0.87** |

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.

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

## 8. SHARE BASED COMPENSATION (continued)

| | 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 |
| **Balance at June 30, 2021** | **1,065,968** | **$ 0.75** |

For the six month period ended June 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.

## 9. ADMINISTRATION

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Salaries and benefits | $ 2,056 | $ 1,264 | $ 3,719 | $ 2,664 |
| Professional fees | 126 | 348 | 666 | 818 |
| Insurance, office and general | 265 | 831 | 1,062 | 1,438 |
| Marketing | 186 | 124 | 412 | 376 |
| Stock exchange, transfer agent, shareholder communication | 56 | 39 | 185 | 190 |
| Travel | 44 | 98 | 71 | 276 |
| Share-based compensation (Note 8) | 485 | 328 | 1,125 | 644 |
| Management fees | 24 | 71 | 48 | 169 |
| Depreciation | 333 | 550 | 634 | 1,127 |
| Sustainability and donations | 84 | - | 132 | 22 |
| | **$ 3,659** | $ 3,653 | **$ 8,054** | $ 7,724 |

## 10. RELATED PARTY TRANSACTIONS

*a) Key management compensation*

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

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

## 10. RELATED PARTY TRANSACTIONS (continued)

| | Six months ended June 30, 2021 | 2020 |
|---|---|---|
| Salaries and wages | $ 874 | $ 796 |
| Short term benefits | 23 | 20 |
| Share based compensation | 858 | 457 |
| | $ **1,755** | $ 1,273 |

*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 of 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 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 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 June 30, 2021, no amounts have been paid under this profit sharing mechanism to date.

## 11. SEGMENT INFORMATION

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

| Three months ended June 30, 2021 | Karowe Mine | Corporate and other | Total |
|---|---|---|---|
| Revenues | $ 45,934 | $ 400 | $ 46,334 |
| Income (loss) from mining operations[1] | 16,848 | (602) | 16,246 |
| Finance expenses | (700) | (667) | (1,367) |
| Foreign exchange (gain) loss | (325) | 21 | (304) |
| Administration and other | (1,804) | (2,491) | (4,295) |
| Taxes | (4,282) | - | (4,282) |
| **Net income (loss) for the period** | **9,737** | **(3,739)** | **5,998** |
| **Capital expenditures** | **$ 22,388** | **$ 14** | **$ 22,402** |

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

## 11. SEGMENT INFORMATION (continued)

**Three months ended June 30, 2020**

| | Karowe Mine | Corporate and other | Total |
|---|---|---|---|
| Revenues | $ 7,336 | $ 126 | $ 7,462 |
| Loss from mining operations(1) | (13,041) | (223) | (13,264) |
| Exploration | (493) | - | (493) |
| Finance expenses | (697) | (102) | (799) |
| Foreign exchange (gain) loss | 298 | (26) | 272 |
| Administration and other | (1,937) | (2,326) | (4,263) |
| Taxes | 4,632 | - | 4,632 |
| Net loss for the period | (11,238) | (2,677) | (13,915) |
| Capital expenditures | $ 8,159 | $ 2 | $ 8,161 |

(1) Karowe Mine's depletion and amortization expense during the three months ended June 30, 2021 totaled $10.3 million (three months ended June 30, 2020 – $8.0 million).

**Six months ended June 30, 2021**

| | Karowe Mine | Corporate and other | Total |
|---|---|---|---|
| Revenues | $ 98,946 | $ 485 | $ 99,431 |
| Income (loss) from mining operations(1) | 32,236 | (1,153) | 31,083 |
| Finance expenses | (1,325) | (741) | (2,066) |
| Foreign exchange (gain) loss | (1,295) | 107 | (1,188) |
| Administration and other | (4,052) | (5,539) | (9,591) |
| Taxes | (8,833) | - | (8,833) |
| **Net income (loss) for the period** | **16,731** | **(7,326)** | **9,405** |
| **Capital expenditures** | **$ 32,710** | **$ 18** | **$ 32,728** |
| **Total assets** | **$ 341,823** | **$ 30,478** | **$ 372,301** |

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

## 11. SEGMENT INFORMATION (continued)

| Six months ended June 30, 2020 | Karowe Mine | Corporate and other | Total |
|---|---|---|---|
| Revenues | $ 41,115 | $ 464 | $ 41,579 |
| Loss from mining operations(2) | (10,138) | (277) | (10,415) |
| Exploration | (1,085) | - | (1,085) |
| Finance expenses | (1,460) | (179) | (1,639) |
| Foreign exchange (gain) loss | 789 | (152) | 637 |
| Administration and other | (3,719) | (5,105) | (8,824) |
| Taxes | 4,250 | - | 4,250 |
| Net loss for the period | (11,363) | (5,713) | (17,076) |
| Capital expenditures | $ 12,256 | $ 52 | $ 12,308 |
| Total assets | $ 296,085 | $ 25,061 | $ 321,146 |

(2) Karowe Mine's depletion and amortization expense during the six months ended June 30, 2021 totaled $23.0 million (six months ended June 30, 2020 – $18.5 million).

## 12. 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).

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Level 1: Fair value through other comprehensive income – Investments | $ 3,106 | $ 1,651 |
| Level 2: N/A | | |
| Level 3: N/A | | |

## 12. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

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 June 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 $0.9 million in net income for the period.

*Credit risk*

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

Under the 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, a majority of which are sold through a quarterly tender process from Botswana. The price and marketability of these diamonds can be significantly impacted by international economic trends, global or regional consumption, demand and supply patterns and the availability of capital for diamond manufacturers, 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 six 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, the Company may not have sufficient liquidity to meet its financial obligations as they come due.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. To manage liquidity risk, regular cash flow forecasting is performed in the operating entities of the Company and aggregated in the head office to understand what level of capital is required. Rolling forecasts of the Company's liquidity requirements are prepared and monitored to

## 12. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

assess whether there is sufficient cash available to meet the Company's short and longer-term operational needs. Such forecasting takes into consideration the Company's ability to generate cash from the sale of diamonds and additional liquidity which can be accessed through the revolving term credit facility.

*Revolving credit facility*

As at June 30, 2021, the Company had a $50 million revolving term credit facility with a maturity date of the earlier of completion of the underground expansion project financing or November 5, 2021. In May 2021, this facility was extended with one of the Company's existing lenders, FirstRand Bank Limited (London Branch), a division of Rand Merchant Bank. 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 June 30, 2021, the Company was in compliance with all financial and non-financial covenants. Outstanding amounts under the facility bear interest at LIBOR or an alternative base rate plus an applicable margin based on the Company's adjusted leverage ratio.

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

As at June 30, 2021, $50.0 million was drawn on the facility for working capital purposes (December 31, 2020 - $30.5 million). The interest rate on the amount drawn was LIBOR plus a margin of 3.50%.

## 13. COMMITMENTS

As at June 30, 2021, $34.3 million (December 31, 2020 - $9.9 million) in commitments relates to purchase orders and contracts for services to be provided related to the underground expansion project. Of the committed amount, $22.6 million relates to expenditures in 2021, $10.1 million relates to expenditures in 2022, $0.9 million relates to expenditures in 2023, and $0.7 million relates to expenditures in 2024-2026.

## 14. SUBSEQUENT EVENTS

On July 12, 2021, the Company announced the execution of a senior secured project financing debt package of $220 million between Lucara Botswana Proprietary Limited as the Borrower and a syndicate of five mandated lead arrangers: African Export-Import Bank (Afreximbank), Africa Finance Corp., ING, Natixis, and Societe Generale, London Branch. The debt package includes two tranches: a project finance facility of $170 million to fund the development of the underground project, and a $50 million working capital facility which will be used initially to re-finance the Company's existing debt (Note 12) and will then be used to support on-going operations. This debt package is secured by first ranking security over all assets of Lucara Botswana, subordination of shareholder loans to Lucara Botswana and a guarantee from the Company and each intermediary holding company between the Company and Lucara Botswana. The Company's largest shareholder, Nemesia S.a.r.l., agreed to provide a standby undertaking in the event of a funding shortfall occurring up to thirty-six months from financial close. As consideration for providing this undertaking, the Company issued 600,000 common shares to Nemesia S.a.r.l. on July 15, 2021. Further share issuances will be required if the Company calls upon the standby undertaking.

On July 15, 2021, the Company closed a bought deal financing and concurrent private placement for aggregate gross proceeds of C$41.4 million or approximately $33.1 million. 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

## 14. SUBSEQUENT EVENTS (continued)

aggregate gross proceeds of approximately C$25.4 million (approximately $20.3 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 aggregate gross proceeds of approximately C$16 million (approximately $12.8 million).