LUCARA

DIAMOND

Management's Discussion and Analysis

and

Condensed Interim Consolidated Financial Statements

For the Three Months ended March 31, 2020

(Unaudited)

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2020

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected the performance of Lucara Diamond Corp. and its subsidiaries (the "Company") and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the period ended March 31, 2020, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as applicable to interim financial reporting. All amounts are expressed in U.S. dollars unless otherwise indicated.

Disclosure of a scientific or technical nature in the MD&A was prepared under the supervision of Dr. John P. Armstrong (Ph.D., P.Geol.), Lucara's Vice-President, Technical Services and a Qualified Person, as that term is defined in National Instrument 43-101.

Some of the statements in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary note contained herein. Additional information about the Company and its business activities is available on SEDAR at www.sedar.com.

The effective date of this MD&A is May 7, 2020.

ABOUT LUCARA

Lucara is a leading independent producer of large exceptional quality Type IIa diamonds from its 100% owned Karowe Diamond Mine in Botswana. The Karowe Mine has been in production since 2012 and is the focus of the Company's operations, development and exploration activities. Clara Diamond Solutions Limited Partnership, a wholly-owned subsidiary of Lucara, has developed a secure, digital sales platform that uses proprietary analytics together with cloud and blockchain technologies to modernize the existing diamond supply chain, driving efficiencies, unlocking value and ensuring diamond provenance from mine to finger. Lucara has an experienced board and management team with extensive diamond development and operations expertise. Lucara and its subsidiaries operate transparently and in accordance with international best practices in the areas of sustainability, health and safety, environment and community relations.

The Company's corporate offices are located in Vancouver, Canada and London, England and its common shares trade on the Toronto Stock Exchange, the Nasdaq Stockholm Exchange in Sweden and the Botswana Stock Exchange under the symbol "LUC".

COVID-19 RESPONSE & RECENT DEVELOPMENTS

In March 2020, the Company implemented a crisis management strategy in relation to COVID-19, to protect the health and well-being of its employees in Botswana and Canada and to protect the financial well-being of the business. The Karowe Mine remains fully operational, under new measures and guidelines implemented by the Government of Botswana in late March 2020. These measures designate mining as an essential service in Botswana and include increased travel restrictions, reduced overall staffing levels and increased and appropriate social distancing. Employees who are able to work remotely are doing so. As travel restrictions relating to COVID-19 are expected to remain in place for an unknown period, the Company's ability to complete tenders in Botswana is expected to be impacted. As a temporary measure, the Government of Botswana has granted Lucara permission to hold diamond sales in Antwerp, Belgium if required.

Lucara completed the first of four planned diamond tenders for the year on March 5th, and achieved sales prices within 1% of forecast, however, diamond prices have since deteriorated in response to weaker demand as COVID-19 has continued to spread globally. The full impact of COVID-19 on Lucara's operations and production outlook for 2020 remains highly uncertain, and as a result, the Company has suspended its 2020 guidance until further notice.

Lucara's second quarter tender, originally scheduled for mid-May 2020, has been postponed and will be re-scheduled to a more appropriate date in the near-term, as market conditions are evaluated. The Clara digital sales platform, which allows for buyers to place orders without physically viewing the goods and to purchase only the diamonds they need on a stone by stone basis, continues to hold sales. Travel restrictions in Botswana, South Africa, India and Europe have caused disruptions during April preventing some deliveries from taking place.

Lucara's planned capital spending program for 2020 is largely focused on the initiation of our Karowe underground expansion project and was previously designed to ramp up in Q3, funded entirely from cash flow, under a budget of $53 million. Given the present uncertainty related to our 2020 revenue forecast, this program is being re-scoped and reduced to focus on critical-path items through the remainder of the year. The underground expansion program has an estimated capital cost of $514 million and a five year period of development. The Company expects to finance part of the capital cost with debt and the balance from cash flow generated by operations. In light of the uncertainty resulting from the COVID-19 pandemic, the Company is also reviewing its original estimates and assumptions for the quantum and timing of cash flows expected from the current operations against the anticipated financing requirement for the underground expansion program.

The Company's $50 million revolving term working capital facility with the Bank of Nova Scotia has been extended by one year to May 5, 2021. The Bank of Nova Scotia has first ranking security 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 part of the extension, and until Lucara obtains greater clarity on its cash flow projections in the short-term, Lucara has agreed to limit capital expenditures related to the underground expansion project. The extension of this facility provides an important source of liquidity to Lucara during a period of significant uncertainty in global markets.

HIGHLIGHTS – Q1 2020

- As at March 31, 2020, the Company had cash and cash equivalents of $27.4 million, an increase of $16.2 million from December 31, 2019. The Company maintained draws totaling $19.0 million on the working capital facility from Q1 2020. A balance of $31.0 million is available to be drawn for working capital, if required, subsequent to March 31, 2020. The Company begins the second quarter with a strong cash position and available liquidity.

- A strong operating environment prevailed at the Karowe Mine in Q1 and delivered results consistent with the 2020 plan and budget:
    - Ore and waste mined of 0.9 million tonnes and 1.2 million tonnes respectively
    - 0.64 million tonnes of ore processed resulting in 91,536 carats recovered, achieving a recovered grade of 14.3 carats per hundred tonnes
    - 190 Specials (+10.8 carats) were recovered from direct milling during the first quarter, representing 6.7% weight percentage of total direct milling recovered carats, in line with mine plan expectations
    - 8 diamonds were recovered greater than 100 carats in weight

- In early February 2020, an unbroken 549 carat white diamond of exceptional purity was recovered from direct milling of ore sourced from the EM/PK(S) unit of the South Lobe. This diamond was not made available for sale in Q1.

- Total revenue of $34.1 million was recognized in Q1 2020 (Q1 2019: $48.7 million) or $396 per carat (Q1 2019: $512 per carat) from the sale of 86,178 carats (Q1 2019: 95,053 carats). The Q1 2020 tender represents the smallest planned sale for the year and reflects a reduction in realized prices in the larger size classes compared to those achieved from the equivalent period in 2019.

- The Company recorded a net loss of $3.2 million for Q1 2020 resulting in a $0.01 loss per share for the quarter. This compares to net income of $7.4 million for Q1 2019 and earnings per share of $0.02. A decrease in total revenue had the most significant impact on the current quarter's results.

- Cash flow from operations in Q1 2020 totalled $2.4 million compared to cash flow from operations of $10.6 million in Q1 2019, largely due to a weaker pricing environment and a decrease in revenue between the periods.

- The value of the rough diamonds transacted through the Clara platform in Q1 2020 was $3.0 million over six sales, which brings the total value transacted on the platform between December 2018 and March 2020 to $12.1 million.

- Operating cash cost(1) per tonne of ore processed for the three months ended March 31, 2020 was $31.43 per tonne (Q1 2019: $30.52 per tonne), which is below the initial full year forecast cash cost of $32-$36 per tonne processed but 3% higher than the comparative quarter last year. The operating cash cost per tonne processed in Q1 2020 was positively impacted by a favourable foreign exchange rate and the benefits of cost optimization efforts undertaken in the second half of 2019, offset by a 16% decrease in tonnes processed as compared to Q1 2019.

- A continued focus on operational discipline at Karowe has resulted in a strong operating margin of 49% year to date (Q1 2019: 67%) and adjusted EBITDA(1) year to date of $8.1 million (Q1 2019: $23.4 million). Operating expenses per carat sold totalled $201 per carat in the three months ended March 31, 2020, up from $169 per carat sold in the comparable period last year. Total carats sold were approximately 10% less by volume than the same quarter last year (Q1 2020: 86,178 carats sold; Q1 2019: 95,053 carats sold).

- In January 2020, Lucara entered into an unprecedented collaboration with Louis Vuitton ("LV"), the famous luxury House, and the HB Company ("HB"), a diamond manufacturer from Antwerp, to manufacture its historic, record setting, 1,758 carat Sewelô diamond recovered from the Karowe Mine in Botswana in April 2019. Lucara will receive an upfront non-material payment for the Sewelô and retain a 50% interest in the individual polished diamonds that result. Further, 5% of all retail sales proceeds generated from this historic collection will be invested directly back into Botswana on community-based initiatives undertaken by Lucara.

(1) Non-IFRS measure (see pages 10- 11 for details)

FINANCIAL HIGHLIGHTS

Table 1:

In millions of U.S. dollars except carats or otherwise noted	**Three months ended March 31, 2020**	**2019**
Revenues	$ 34.1	$ 48.7
Net income (loss) for the period	(3.2)	7.4
Earnings (loss) per share (basic and diluted)	(0.01)	0.02
Operating cash flow per share*	0.02	0.05
Cash on hand	27.4	17.9
Amounts drawn on working capital facility	19.0	Nil
Average price per carat sold ($/carat)*	396	512
Operating expenses per carat sold ($/carat)*	201	169
Operating margin per carat sold ($/carat)*	195	343
Carats sold	86,178	95,053

(*) Operating cash flow per share, average price per carat sold, operating expenses per carat sold and operating margin per carat sold are Non-IFRS measures, see Table 2: Results of Operations for reconciliations and page 10 for "Non-IFRS measures" below.

The Company recognized revenue of $34.1 million or $396 per carat from the sale of 86,178 carats in the first quarter of 2020, inclusive of all diamonds sold on Clara. The average price per carat sold was $396 per carat yielding an operating margin of $195 per carat (49%). The number of carats sold in Q1 2020 decreased by 10% compared to Q1 2019. The decrease in the average price per carat sold and in total revenue achieved in Q1 2020 was due to a combination of variability in quality of the stones available for sale in the Q1 2020 tender along with lower achieved prices similar to those realized in mid-2019.

During the first quarter, the Company entered into a binding term sheet with Louis Vuitton and the HB Company to manufacture the historic 1,758 carat Sewelô diamond recovered in April 2019. Sewelô, which means "rare find" in Setswana, is the second, +1,000 carat diamond recovered from Karowe in four years and the largest ever recovered in Botswana. The diamond has been characterized as near gem of variable quality, with recent analysis confirming that it also includes domains of higher-quality white gem. Lucara believes that the full potential of the Sewelô will only be revealed once polished.

The purpose of this unprecedented collaboration between a miner, a cutting edge manufacturer and a large luxury brand will be the planning, cutting and polishing of a collection of diamonds from Sewelô.

While most of Karowe's diamond production is sold through sales tenders, beginning in late 2018 certain stones from Karowe's production sized between 1 and 10 carats and of better quality were offered for sale on Clara, Lucara's revolutionary, web based, digital sales platform that allows customers to purchase rough diamonds individually, based on specific demand. Six sales were completed on the platform during the first quarter of 2020 with $3.0 million in value transacted. The customer base of Clara grew significantly in the fourth quarter of 2019 and continues to grow at a strong pace with an increase of 19% in the number of participants. The addition of third-party production to the platform has been delayed due to significant disruptions resulting from the COVID-19 pandemic. While this remains an objective for 2020, the nature and timing of this onboarding is presently uncertain.

Operating expenses increased from $16.1 million in the three months ended March 31, 2019 to $17.3 million in the three months ended March 31, 2020 mainly due to an increase in the average cost per tonne mined due to lower volumes of total tonnes mined. Waste tonnes mined decreased as compared to the same period in 2019 as the significant waste stripping campaign ("Cut 2") which started in 2017 was substantially completed in Q1 2019. The combination of a decrease in the number of carats sold and an increase in operating expenses resulted in an overall increase in the operating expense per carat sold from $169/carat in the three months ended March 31, 2019 to $201/carat in the three months ended March 31, 2020.

Depletion and amortization, a non-cash expense, decreased from $11.6 million for the three months ended March 31, 2019 to $10.5 million for the three months ended March 31, 2020 due to a 10% lower volume of carats sold. The decrease in revenue in the first quarter of 2020 compared to the first quarter of 2019 generated a similar decrease to Adjusted Earnings Before Interest, Tax, Depletion and Amortization ("Adjusted EBITDA", a non-IFRS measure, see page 10 for details), net income and earnings per share when comparing results from each quarter.

Operations in the first quarter of 2020 were consistent with the strong, stable operating environment achieved at the Karowe Mine in 2019. Ore tonnes mined (0.9 million tonnes) and waste tonnes mined (1.2 million tonnes) were on plan for the first quarter. The plant processed 0.64 million tonnes during the first quarter, also consistent with the 2020 plan. The total tonnes processed in 2020 are expected to be slightly less than the record 2.8 million tonnes processed in 2019 due to several planned multi-day shut-downs to upgrade the XRT technology which is a key part of the recovery circuit at the Karowe Mine. Despite the challenges presented by the COVID-19 pandemic, as at May 7, 2020 the Karowe Mine continues to operate at full production levels, with social distancing and other critical health and safety measures designed to limit the spread of the virus being observed.

A recovery in the pricing environment for both polished and rough diamonds which began in late-2019 has been severely impacted by the COVID-19 pandemic and as a result, several large and small diamond producers have placed their operations on care & maintenance and deferred or cancelled regularly scheduled sales due to economic uncertainties and logistical challenges resulting from an unprecedented, global "lock-down". Karowe's annual production represents a small fraction of the global rough diamond supply that is mined and sold each year. Buyers of Karowe diamonds do not have firm purchasing commitments so they are free to bid only on the diamonds which are of interest to them. This system benefits both Lucara and its customers and typically results in competitive pricing for Karowe goods. Diamonds mined from Karowe are sold either through a quarterly tender in Botswana or through the Clara digital sales platform. The Government of Botswana has granted temporary permission to the Company to conduct sales in Antwerp, Belgium and the second quarter tender which was originally scheduled to close mid-May in Botswana is expected to be rescheduled and will be held in Antwerp, as soon as market conditions permit. Clara has continued sales during the global "lock-down" but has encountered some difficulties in delivering certain goods purchased due to the restrictions on travel and non-essential work implemented by many countries. However, these restrictions are anticipated to be scaled-back in many countries in the coming weeks. Clara represents a unique opportunity to purchase rough diamonds without the requirement to travel.

RESULTS OF OPERATIONS – KAROWE MINE

Table 2:

	UNIT	Q1-20	Q4-19	Q3-19	Q2-19	Q1-19
Sales						
Revenues generated from the sale of Karowe diamonds in the quarter	US$M	33.8	56.0	45.3	42.5	48.7
Carats recovered from Karowe sold for revenues recognized during the period	Carats	86,010	98,547	116,200	101,931	95,057
Average price per carat for proceeds received during the period	US$	393	568	390	417	512
Production						
Tonnes mined (ore)	Tonnes	878,087	694,591	823,875	773,861	1,011,048
Tonnes mined (waste)	Tonnes	1,199,660	740,593	1,489,668	1,826,972	2,485,548
Tonnes processed	Tonnes	639,430	647,502	680,665	713,037	763,313
Average grade processed	cpht (*)	14.3	13.3[1]	13.9[2]	14.2[3]	15.9[4]
Carats recovered	Carats	91,536	86,422[1]	104,990[2]	109,312[3]	132,336[4]
Costs						
Operating costs per carat sold (see page 11 Non-IRFS measures)	US$	201	209	201	174	169
Sustaining capital expenditures	US$M	2.4	13.0	0.7	1.4	2.4
Underground expansion project	US$M	1.7	-	-	-	-

(*) carats per hundred tonnes

(1) Carats recovered during the period included 273 carats recovered from re-processing historic recovery tailings from previous milling and are excluded from the average grade processed.

(2) Carats recovered during the period included 10,646 carats recovered from re-processing historic recovery tailings from previous milling and are excluded from the average grade processed.

(3) Carats recovered during the period included 8,172 carats recovered from re-processing historic recovery tailings from previous milling and are excluded from the average grade processed.

(4) Carats recovered during the period included 10,899 carats recovered from re-processing historic recovery tailings from previous milling and are excluded from the average grade processed.

FIRST QUARTER OVERVIEW – OPERATIONS - KAROWE MINE

Safety: Karowe had no lost time injuries during the three months ended March 31, 2020 resulting in a twelve-month rolling Lost Time Injury Frequency Rate of 0.

Production: Ore and waste mined during the three months ended March 31, 2020 totaled 0.9 million tonnes and 1.2 million tonnes respectively. Tonnage processed was 0.64 million tonnes, with a total of 91,536 carats recovered. During Q1 2020, ore processed was almost entirely from the South lobe and a total of 190 Specials were recovered including 8 diamonds greater than 100 carats in weight. Recovered Specials equated to 6.7% weight percentage of total recovered carats from ore processed during Q1 2020, consistent with expectations.

Overall performance during the first quarter remains consistent with the strong operational results achieved over the past two years. Processing capacity was slightly lower in Q1 2020 compared to previous quarters due to a planned extended shutdown in early March for improvements to the XRT technology in the process plant. Continuous improvements to maintenance scheduling and better availability of equipment offset some of the additional downtime required in Q1 2020. Mining and processing results were on plan during Q1 2020.

Karowe's operating cash cost: Karowe's year to date operating cash cost (see page 10 Non-IFRS measures) was $31.43 per tonne of ore processed (YTD 2019: $30.52 per tonne of ore processed) below the initial full year forecast of $32-$36 per tonne processed and approximately 3% higher than the same period in 2019. The current period result includes the impact of a 5% depreciation of the Botswana Pula compared to the US Dollar reporting currency, and realized cost savings following a cost optimization process in the second-half of 2019, offset by a 16% decrease in tonnes processed as compared to Q1 2019.

Significant diamond recoveries: In early February 2020, an unbroken 549 carat white diamond of exceptional purity was mined from the EM/PK(S) unit of the South Lobe and was recovered in the Mega Diamond Recovery XRT circuit. A decision on the sale of this special diamond will be undertaken in due course.

KAROWE UNDERGROUND UPDATE

On November 4, 2019, the Company announced the results of a Feasibility Study for an underground mine at Karowe. A copy of the Company's news release and the related technical report prepared pursuant to the requirements of NI 43-101 – *Standards of Disclosure for Mineral Projects* were filed on Sedar (www.sedar.com) and are available on the Company's website at: www.lucaradiamond.com.

In November 2019, Lucara's Board of Directors approved a $53 million capital program for the Karowe underground expansion project, with the majority of the budget scheduled to be spent in the latter part of the year and funded through the cash flow from current operations. During Q1 2020, $1.7 million was spent on project execution activities including detailed engineering and design work and early procurement initiatives.

Given the uncertainty in global markets resulting from COVID-19, the originally planned capital budget will be reduced until more certainty exists around Lucara's cash flow projections. The 2020 program is now being re-scoped to focus on critical-path items for the remainder of the year. Activities are focused on procurement of long lead time equipment, engineering and design work, physical site activity using local contractors for site preparation and geotechnical studies.

The Company is continuing to explore debt financing options for the underground expansion for those amounts which are expected to exceed the Company's cash flow from operations during the construction period. The underground expansion program has an estimated capital cost of $514 million and a five year period of development. In light of the uncertainty resulting from the COVID-19 pandemic, the Company is also reviewing its original estimates and assumptions for the quantum and timing of cash flows expected from the current operations against the anticipated financing requirement for the underground expansion program.

CLARA

Further sales on Clara are planned for the remainder of 2020, subject to the existence of demand and Clara's ability to complete delivery of the stones purchased. The timing to onboard third-party production, a key objective for 2020, is uncertain presently due to the unprecedented global upheaval which has resulted in response to the COVID-19 pandemic.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2020, the Company had cash and cash equivalents of $27.4 million. Cash flow from operations totalled $2.4 million, a decrease from the $10.6 million generated from operations in the first quarter of 2019. A decrease in revenue that resulted from a weaker diamond price environment was the main driver for this difference. Capital spending during the three months ended March 31, 2020 was focused on the underground expansion project (Q1 2020: $1.7 million; Q1 2019: $4.2 million) and sustaining capital expenditures of $2.1 million (Q1 2019: $2.4 million) including improvements to the XRT technology used in the recovery circuit.

Financing activities during the first quarter of 2020 included draw downs from the working capital facility of $19.0 million (2019: repayment of $10.0 million) to manage fluctuations in working capital. In addition, during 2019, the Company had accrued dividends of $7.4 million for which there is no comparable allocation in Q1 2020. The Company suspended the quarterly dividend payment in November 2019 to allow excess capital to be directed to the underground expansion program.

Working capital as at March 31, 2020 was $58.8 million as compared to $60.9 million as at December 31, 2019, and $58.6 million as at March 31, 2019. Working capital has remained consistent through the periods.

The Company had drawn $19.0 million on its working capital facility as at March 31, 2020 (2019 - $nil outstanding). Amounts available under the credit facility were $31.0 million as of March 31, 2020 ($50.0 million as of December 31, 2019). Long-term liabilities have remained consistent in source currency and changes are mainly due to the movement in the foreign exchange conversion from the Botswana Pula to the Company's reporting currency of the U.S. dollar. Long-term liabilities consist of restoration provisions of $21.6 million (2019: $23.6 million), deferred income taxes of $54.7 million (2019: $63.0 million), and other non-current liabilities of $0.9 million (2019: $0.8 million) which consist of leases reclassified under *IFRS 16: Leases* as of January 1, 2019.

Total shareholders' equity decreased from $236.9 million as at December 31, 2019 to $209.9 million as at March 31, 2020, mainly due to the cumulative translation adjustment of negative $24.7 million in accumulated other comprehensive loss resulting from the translation of functional currency to the Company's reporting currency of the U.S. dollar. Other minor changes to share capital and contributed surplus were related to share units vesting and the recording of share-based compensation during the year.

2020 OUTLOOK

This section of the MD&A provides management's outlook for 2020. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements.

On March 31, 2020, the Company announced the suspension of its 2020 guidance until further notice. The full impact of the COVID-19 pandemic on Lucara's operations and production outlook for 2020 remains highly uncertain and may remain that way for several months. Further guidance will be released as the impact of COVID-19 becomes known.

The global diamond industry is experiencing the widespread impacts of COVID-19 throughout the value chain, manifested as fewer sales, weaker pricing, logistical challenges/delays in the movement of goods and people and, production curtailments at several mines. Following the Company's first quarterly tender which closed on March 5, 2020, diamond prices have continued to deteriorate in response to weaker demand as COVID-19 has continued to spread globally and governments have implemented a variety of restrictions on the movement of people and goods in an effort to curtail its spread. While full production levels are currently being sustained at the Karowe Diamond Mine, Lucara cannot predict if future changes or regulations implemented by the Government of Botswana will affect its operations in the near term. As a temporary measure, in response to the COVID-19 crisis, the Government of Botswana has granted Lucara permission to hold diamond sales in Antwerp, Belgium if required.

Lucara's second quarter tender, originally scheduled for mid-May 2020, has been postponed and will likely be re-scheduled in the coming weeks, pending an evaluation of the market conditions closer to the time. Sales are continuing on the Clara platform, although disruptions have been experienced during April due to certain travel restrictions in Botswana, South Africa, India and Europe which have prevented some deliveries from taking place.

Lucara's capital spending program for 2020 is also being re-scoped to focus on critical-path items through the remainder of the year. Most of the previously approved capital spend of $53 million for the Karowe underground expansion project was scheduled to be invested in the latter part of the year and funded through cash flow from operations. Given the uncertainty in global markets resulting from COVID-19, these capital expenditures will be reduced until more certainty exists around Lucara's cash flow projections.

SELECT FINANCIAL INFORMATION

Table 3: *In millions of U.S. dollars unless otherwise noted*	Three months ended March 31, **2020**	2019
Revenues	$ 34.1	$ 48.7
Operating expenses	(17.3)	(16.1)
Operating earnings (1)	**16.8**	**32.6**
Royalty expenses	(3.5)	(4.9)
Exploration expenditures	(0.6)	(1.0)
Administration	(4.1)	(2.8)
Sales and marketing	(0.5)	(0.5)
Adjusted EBITDA (2)	**8.1**	**23.4**
Depletion and amortization	(10.5)	(11.6)
Finance expenses	(0.8)	(0.8)
Foreign exchange loss (gain)	0.4	(0.8)
Current income tax expense	(2.0)	(4.5)
Deferred income tax recovery	1.6	1.8
Net income (loss) for the period	**(3.2)**	**7.4**
Change in cash during the period	**16.2**	(6.4)
Cash on hand	**27.4**	17.9
Earnings (loss) per share (basic and diluted)	**(0.01)**	0.02
Per carat sold:		
Sales price	**$ 396**	$ 512
Operating expenses	**201**	169
Average grade (carats per hundred tonnes) (3)	**14.3**	15.9

(1) Operating earnings is a non-IFRS measure (see page 10) defined as revenues less operating expenses.
(2) Adjusted EBITDA is a non-IFRS measure (see page 10) defined as earnings before interest, taxation, depreciation and amortization.
(3) Average grade processed is from direct milling carats and excludes carats recovered from re-processing historic recovery tailings from previous milling.

Revenues

During Q1 2020, Lucara sold 86,178 carats at an average price of $396/carat, resulting in total revenue of $34.1 million. This compares to revenue of $48.7 million or $512/carat sold in the first quarter of 2019. The first quarterly tender of 2020 included 37 single stones greater than 10.8 carats in size. Four stones were sold for in excess of $1 million including 2 stones that sold for more than $2 million each.

The value of the rough diamonds sold through the Clara platform in Q1 2020 was $3.0 million through six sales held, with goods predominately from the Karowe Mine. Clara's customer base also grew by 19%, from twenty-seven to thirty-two.

Operating Earnings and Expenses

Operating earnings for the three months ending March 31, 2020 were $16.8 million or $195/carat (2019: $32.6 million or $343/carat) after operating expenses during the period of $17.3 million or $201/carat (Q1 2019: $16.1 million or $169/carat). The Q1 2020 operating margin (before royalties, depletion and amortization) was $195/carat or 49% (2019: $343/carat or 67%).

The movement in operating earnings is directly attributable to the decrease in revenue. The 7% increase in quarterly operating expenses as compared to Q1 2019 is attributable to a combination of anticipated increases in certain consumables and labour and the average cost per tonne mined. These increases were partially offset by a decrease in tonnes processed and a weakening of the Botswana Pula compared to the U.S. dollar. The cost per tonne processed (see Table 6 on the following pages) of $31.43 is slightly higher than the Q1 2019 cost per tonne processed of $30.52.

Lucara achieved an average grade processed of 14.3 carats per hundred tonnes ("cpht") during Q1 2020 compared to an average grade of 15.9 cpht from direct milling carats in the comparable quarter. Recoveries in Q1 2020 of 91,536 carats were 25% less when compared to the 121,437 carats recovered in Q1 2019 (excluding 10,899 carats recovered from re-processing tailings previously milled).

Operating earnings is a non-IFRS measure and is reconciled in Table 3 above.

Depletion and Amortization

The Company incurred a depletion and amortization charge of $10.5 million (Q1 2019: $11.6 million) for Q1 2020 resulting from a decrease of 10% in carats sold between the periods.

Net Income and Adjusted Earnings Before Interest, Tax, Depletion and Amortization (Adjusted EBITDA)

The Company recorded a net loss for Q1 2020 of $3.2 million (Q1 2019: net income of $7.4 million). Adjusted EBITDA for the three months ended March 31, 2020 was $8.1 million as compared to $23.4 million in Q1 2019.

Decreases in Net Income and Adjusted EBITDA are consistent with the decrease in revenue between comparable quarters.

Adjusted EBITDA is a non-IFRS measure and is reconciled in table 3 above.

Operating Cost Per Tonne of Ore Processed

Operating cost per tonne of ore processed was $31.43 (2019: $30.52). Factors influencing the operating cost per tonne of ore processed include higher costs partially offset by a weakening of the Botswana Pula in March 2020. Net increases in both rough diamond inventory (+ $0.5 million) and the ore stockpile inventory (+ $2.3 million) contributed to a slightly higher operating cost per tonne of ore processed as compared to Q1 2019.

Operating cost per tonne processed is a non-IFRS measure and is reconciled in Table 7 to the most directly comparable measure calculated in accordance with IFRS, which is operating expenses.

SUMMARY OF QUARTERLY RESULTS

(All amounts expressed in thousands of U.S. dollars, except per share data). The Company's interim financial statements are reported under IFRS applicable to interim financial reporting.

Table 5: The following table provides highlights, extracted from the Company's financial statements, of quarterly results for the past eight quarters:

Three months ended	Mar-20	Dec-19	Sept-19	Jun-19	Mar-19	Dec-18	Sept-18	Jun-18
A. Revenues	34,117	55,993	45,317	42,541	48,690	40,609	45,669	64,539
B. Administration expenses	(4,071)	(4,993)	(3,921)	(3,960)	(2,777)	(4,369)	(2,849)	(3,342)
C. Net income (loss)	(3,161)	8,635	(4,012)	675	7,416	(6,225)	5,136	19,698
D. Earnings (loss) per share (basic and diluted)	(0.01)	0.02	(0.01)	0.00	0.02	(0.02)	0.01	0.05

The Company's quarterly results, including net income and earnings (loss) per share are most directly affected by the sale of unique and high value diamonds. Commencing in September 2018, the Company moved to a blended tender process to reduce the length of time that high value diamonds remained in inventory. This change has typically resulted in more consistent quarterly revenue when compared to previous quarters. The Company's quarterly revenue is affected by the number and quality of stones available for sale in any given quarter.

Revenue recognized in the quarter ended March 31, 2020 was significantly less than revenue recognized in Q1 2019, resulting from a combination of lower overall prices and the quality of goods available for sale (in the quarter ended March 31, 2019 several higher value stones were sold). Early impacts of COVID-19 were observed in the lower pricing achieved in the Q1 2020 tender. Similarly, the availability of large, high-quality stones in the Q4 2019 tender resulted in a higher revenue achieved when compared to the quarter ended March 31, 2020.

The quarter ended December 31, 2019 was representative of a stronger pricing environment combined with a better blend of stones available for sale as compared to the quarter ended December 31, 2018. Q4 2018 saw a particularly weak tender following significant inventory builds and liquidity issues in the mid-stream of the industry. The end of 2019 saw a return to a more stable pricing environment for a majority of the Company's goods available for sale.

The quarter ended September 30, 2019 is directly comparable to the prior year quarter in which one blended tender was held. The quarter to quarter change in revenue was $0.4 million, decreasing slightly from $45.7 million in Q3 2018 to $45.3 million in Q3 2019.

The Company's only Exceptional Stone Tender of 2018 occurred during the three months ended June 30, 2018 and contributed $32.5 million of the total revenues of $64.5 million recognized during the quarter.

The net income achieved in each quarter is most impacted by the revenue earned during that quarter.

NON-IFRS FINANCIAL MEASURES

This MD&A refers to certain financial measures, such as adjusted EBITDA, operating cash flow per share, operating cost per carat sold, and operating cost per tonne of ore processed, which are not measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. These measures may differ from those made by other corporations and accordingly may not be comparable to such measures as reported by other corporations. These measures have been derived from the Company's financial statements, and applied on a consistent basis, because the Company believes they are of assistance in the understanding of the results of operations and financial position.

Adjusted EBITDA (see "Select Financial Information") is the term the Company uses as an approximate measure of the Company's pre-tax operating cash flow and is generally used to measure performance and evaluate trends of individual assets. Adjusted EBITDA comprises earnings before deducting interest and other financial charges, income taxes, depreciation and amortization.

Operating cash flow per share is the term the Company uses to assess its ability to generate cash flow from operations, while also taking into consideration changes in the number of outstanding common shares of the Company. Operating cash flow per share is calculated by taking cash flows from operating activities, less changes in non-cash working capital items, divided by the basic weighted average number of common shares outstanding. The most directly comparable measure calculated in accordance with IFRS is cash flows from operating activities. A table reconciling the two measures is presented below.

Table 6: Operating cash flow per share reconciliation:

In millions of U.S. dollars with the exception of weighted average common shares outstanding and operating cash flow per share	**Three months ended March 31**	
	2020	2019
Cash flows from operating activities	$ 2,357	$ 10,637
Changes in non-cash working capital	4,547	7,743
Total cash flow from operating activities before changes in non-cash working capital	6,904	18,380
Weighted average common shares outstanding	396,867,068	396,558,556
Operating cash flow per share[(1)]	**$0.02**	$0.05

[(1)] Operating cash flow per share for the period is a non-IFRS measure defined as cash flows from operating activities, less changes in non-cash working capital items, divided by the basic weighted average number of common shares outstanding for the period.

Operating costs per carat sold (see "Karowe Mine, Botswana") is the term the Company uses to describe the mining, processing and site administration costs to produce a single diamond carat. This is calculated as operating costs per carat of diamonds sold.

Operating cost per tonne of ore processed (see "Select Financial Information") is the term the Company uses to describe operating expenses per tonne processed on a cash basis. This is calculated as operating cost divided by tonnes of ore processed for the period. This ratio provides the user with the total cash costs incurred by the mine during the period per tonne of ore processed, including waste capitalisation costs, mobilization costs and working capital movements. The most directly comparable measure calculated in accordance with IFRS is operating expenses. A table reconciling the two measures is presented below.

Table 7: Operating cost per tonne of ore processed reconciliation:

In millions of U.S. dollars with the exception of tonnes processed and operating cost per tonne processed	Three months ended March 31,			
		2020		2019
Operating expenses	$	17.3	$	16.1
Net change rough diamond inventory, excluding depletion and amortization [(1)]		0.5		2.9
Net change ore stockpile inventory, excluding depletion and amortization [(2)]		2.3		4.3
Total operating costs for ore processed		20.1		23.3
Tonnes processed		639,430		763,313
Operating cost per tonne of ore processed [(3)]	**$**	**31.43**	$	30.52

[(1)] Net change in rough diamond inventory, excluding depletion and amortization.

[(2)] Net change in ore stockpile inventory, excluding depletion and amortization.

[(3)] Operating cost per tonne processed for the period is a non-IFRS measure defined as the sum of operating expenses, capitalized production stripping costs, and the net changes in rough diamond inventories and ore stockpiles divided by the tonnes of ore processed for the period.

RELATED PARTY TRANSACTIONS

A description of key management compensation can be found in Note 9 of the condensed interim consolidated financial statements for the three months ended March 31, 2020.

In relation to the acquisition of Clara in February 2018, certain related parties may receive additional shares of Lucara if Clara, now a wholly-owned subsidiary of Lucara, achieves certain levels of revenue generated by sales on the platform (the "Performance Milestones"). The Performance Milestones are detailed in Note 9 of the audited consolidated financial statements for the year ended December 31, 2019. As of March 31, 2020, none of the revenue milestones had been achieved.

A profit sharing mechanism also exists which are detailed in Note 9 of the audited consolidated financial statements for the year ended December 31, 2019. As at March 31, 2020, no amounts have been paid under this profit sharing mechanism to date.

FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

In the normal course of business, the Company is inherently exposed to currency and commodity price risk. 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 the majority of operating costs are denominated in Botswana Pula. At March 31, 2020, the Company is exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately $0.5 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 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.

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. The COVID-19 pandemic has negatively impacted global demand for luxury commodities, which includes jewelry containing diamonds. Restrictions on international travel have also disrupted the diamond supply chain. To the extent that the supply of rough diamonds exceeds demand, this will 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 monitored for the availability of sufficient cash to meet operational needs at all times. Such forecasting takes into consideration the Company's ability to generate cash from the sale of rough diamonds and additional liquidity which can be accessed through the revolving term credit facility.

The Company's $50 million revolving term credit facility with the Bank of Nova Scotia was extended for one year to May 5, 2021 following the quarter-end. 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. 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 first-ranking 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.

As at March 31, 2020, $19.0 million was drawn on the facility for working capital purposes (December 31, 2019 - $nil).

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 396,896,733 common shares outstanding, 2,946,527 share units, 278,000 deferred share units, and 4,540,000 stock options outstanding under its share-based incentive plans.

In February 2020, Lucara's Board of Directors adopted a deferred share unit plan (the "DSU Plan") pursuant to which deferred share units ("DSUs") may be granted to non-executive directors from time to time. The purpose of the DSU Plan is to promote a greater alignment of long-term interests between directors and shareholders of the Company and to provide a compensation system for non-executive directors that, together with the other compensation mechanisms of the Company, is reflective of the responsibility, commitment and risk accompanying Board membership and the performance of the duties required of the non-executive directors. The DSU Plan is subject to both shareholder and regulatory approval. Under the terms of the DSU Plan, DSUs may be granted from time to time as equity-based compensation for services provided by the non-executive directors. In addition, each non-executive director may elect to take his or her annual Board retainer in the form of DSUs, rather than in cash. The Board has discretion to impose vesting terms on those DSUs granted to non-executive directors as equity-based compensation. The DSUs can be settled in cash, common shares or a combination thereof within thirty days of the date which the individual ceases to be a Director of Lucara at the election of the individual director. DSUs are considered in the calculation of the director share ownership requirement. Each director is expected to hold that number of common shares (or DSUs) with a value equal to or greater than C$200,000 which is two times the basic annual retainer for non-executive directors. New directors have up to four years to meet this shareholding requirement.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business which includes the acquisition, financing, exploration, development and operation of diamond properties, the potential construction of an underground mine at Karowe and the continued commercialization of Clara. The material risk factors and uncertainties, which should be taken into account in assessing the Company's activities, are described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form available at http://www.sedar.com (the "AIF"). Any one or more of these risks and uncertainties could have a material adverse effect on the Company.

COVID-19 Global pandemic risk

On March 11, 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a global pandemic. With the majority of governments across the jurisdictions in which Lucara and many of its customers operate declaring a state of emergency in response to the COVID-19 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, by disruption to the progress of the Karowe Mine underground expansion project and by an inability to ship or sell rough 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 build up of supply or a lack of demand for rough diamonds, a lack of available liquidity to meet ongoing operational expenses and, due to or by other COVID-19 related impacts on the availability of labour or to the supply chain.

As a relativelynovel 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, including the duration and impact that it may have on our ability to ship and sell diamonds, on demand for rough diamonds, on achievable diamonds prices, on our suppliers, on our employees and on global financial markets, cannot be reasonably estimated at this time. Accordingly estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty.

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

Previously the Company's operating lease arrangements for offices in Botswana were considered to be off-balance sheet arrangements. With the adoption of *IFRS 16 – Leases*, as of January 1, 2019, these leases are no longer off-balance sheet arrangements. With the exception of short-term leases with a term of 12 months or less, the Company is not party to any off-balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

There have been no changes to accounting policies during the three months ended March 31, 2020. Note 3 to the audited consolidated financial statements for the year ended December 31, 2019 includes a summary of the significant accounting policies adopted by the Company.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of this document along with the unaudited condensed interim consolidated financial statements. Management is responsible for the integrity and objectivity of this document, ensuring the fair presentation of its financial results. The Audit Committee is responsible for reviewing the contents of this document along with the condensed interim consolidated financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended March 31, 2020.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information related to the Company is identified and communicated on a timely basis. Management of the Company, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), is responsible for the design and operation of disclosure controls and procedures.

Internal controls over financial reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, due to inherent limitations, internal controls over financial reporting may not prevent or detect all misstatements and fraud.

Management assesses the effectiveness of the Company's internal control over financial reporting using the Internal Control – Integrated Framework ("2013 Framework") issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

There have been no changes in the Company's internal control over financial reporting during the three months ended March 31, 2020 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain of the statements made and contained herein in the MD&A and elsewhere constitute forward-looking statements as defined in applicable securities laws. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved.

In particular, this MD&A may contain forward looking information pertaining to the following: the impact of COVID-19 pandemic on the Company's operations and cash flows and its plans with respect to the Karowe underground expansion project; the estimates of the Company's mineral reserves and resources; estimates of the Company's production and sales volumes for the Karowe Diamond Mine; estimated costs for capital expenditures related to the Karowe Diamond Mine; production costs; exploration and development expenditures and reclamation costs; expectation of diamond prices; changes to foreign currency exchange rates; assumptions and expectations related to the possible development of an underground mining operation at Karowe including associated capital costs, financing strategies and timing; expectations in respect of the development and functionality of the technology related to the Clara platform, the intended benefits and performance of the Clara platform, including ability to complete sales without viewing diamonds, the growth of the Clara platform, the timing and frequency of sales on the Clara Platform, and the quantum and timing of participation of third parties on the Clara platform; expectations regarding the need to raise capital and its availability; possible impacts of disputes or litigation; and other risks and uncertainties described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form available at http://www.sedar.com (the "AIF").

Forward-looking statements are based on the opinions, assumptions and estimates of management as of the date such statements are made, and they are subject to a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward-looking statements. Such assumptions include: the Company's ability to obtain necessary financing; the Company's expectations regarding the economy generally, results of operations and the extent of future growth and performance; and assumptions that the Company's activities will not be adversely disrupted or impeded by development, operating or regulatory risk. The Company believes that expectations reflected in this forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A should not be unduly relied upon.

There can be no assurance that such statements will prove to be accurate, as the Company's results and future events could differ materially from those anticipated in this forward-looking information as a result of those factors discussed in or referred to under the heading "COVID -19 Global Pandemic" in this MD&A and under the heading "Risks and Uncertainties" in the Company's AIF, as well as changes in general business and economic conditions, changes in interest and foreign currency rates, the supply and demand for, deliveries of and the level and volatility of prices of rough diamonds, costs and availability of power and diesel, acts of foreign governments and the outcome of legal proceedings, inaccurate geological and recoverability assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources) and unanticipated operational difficulties (including failure of plant, equipment or processes to operate in accordance with specifications or expectations, cost escalations, unavailability of materials and equipment, government action or delays in the receipt of government approvals, industrial disturbances or other job actions, adverse weather conditions, and unanticipated events relating to health safety and environmental matters).

Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date the statements were made, and the Company does not assume any obligations to update or revise them to reflect new events or circumstances, except as required

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

		March 31, 2020		December 31, 2019
ASSETS				
Current assets				
Cash and cash equivalents	$	27,416	$	11,197
VAT receivables and other		8,168		6,248
Inventories (Note 3)		61,720		65,052
		97,304		82,497
Investments		221		241
Plant and equipment (Note 4)		110,971		130,108
Mineral properties (Note 5)		91,981		105,243
Intangible assets (Note 6)		20,664		22,774
Other non-current assets		4,515		5,168
TOTAL ASSETS	$	325,656	$	346,031
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities	$	11,953	$	15,880
Credit facility (Note 11)		19,035		-
Taxes payable		6,429		4,397
Lease liabilities		1,080		1,347
		38,497		21,624
Restoration provisions		21,590		23,629
Deferred income taxes		54,720		63,015
Other non-current liabilities		971		828
TOTAL LIABILITIES		115,778		109,096
EQUITY				
Share capital (unlimited common shares, no par value)		314,924		314,820
Contributed surplus		7,799		7,679
Deficit		(34,655)		(31,494)
Accumulated other comprehensive loss		(78,190)		(54,070)
TOTAL EQUITY		209,878		236,935
TOTAL LIABILITIES AND EQUITY	$	325,656	$	346,031

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

Approved on Behalf of the Board of Directors:

"Marie Inkster"
Director

"Brian Edgar"
Director

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

	Three months ended March 31, 2020	2019
Revenues	$ 34,117	$ 48,690
Cost of goods sold		
Operating expenses	17,280	16,080
Royalty expenses (Note 5)	3,496	4,869
Depletion and amortization	10,492	11,585
	31,268	32,534
Income from mining operations	2,849	16,156
Other expenses		
Administration (Note 8)	4,071	2,777
Exploration expenditures	592	1,049
Finance expenses	840	802
Foreign exchange (gain) loss	(365)	825
Sales and marketing	490	528
	5,628	5,981
Net income (loss) before tax	(2,779)	10,175
Income tax expense (recovery)		
Current income tax expense	1,979	4,530
Deferred income tax recovery	(1,597)	(1,771)
	382	2,759
Net income (loss) for the period	$ (3,161)	$ 7,416
Earnings (loss) per common share		
Basic	$ (0.01)	$ 0.02
Diluted	$ (0.01)	$ 0.02
Weighted average common shares outstanding		
Basic	396,867,068	396,558,556
Diluted	398,758,270	397,878,940

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

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

		Three months ended March 31, 2020		2019
Net income (loss) for the period	$	(3,161)	$	7,416
Other comprehensive income (loss)				
Items that will not be reclassified to net income				
Change in fair value of marketable securities		(20)		(350)
Items that may be subsequently reclassified to net income				
Currency translation adjustment		(24,100)		168
		(24,120)		(182)
Comprehensive income (loss) for the period	$	(27,281)	$	7,234

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 March 31, 2020	2019
Cash flows from (used in):		
Operating activities		
Net income (loss) for the period	$ (3,161)	$ 7,416
Items not involving cash and cash equivalents:		
Depletion and amortization	11,068	11,718
Unrealized foreign exchange (gain) loss	(365)	168
Share-based compensation	316	289
Deferred income taxes	(1,597)	(1,771)
Finance costs	643	560
	6,904	18,380
Net changes in working capital items:		
VAT receivables and other	(1,333)	5,049
Inventories	(2,095)	(8,152)
Trade payables and other current liabilities	(3,840)	(8,036)
Taxes payable	2,721	3,396
	2,357	10,637
Financing activities		
Proceeds (repayments) of credit facility, net	19,000	(10,000)
Withholding tax for share units vested	(8)	(281)
Interest paid	(35)	-
Principal elements of lease payments	(395)	-
	18,562	(10,281)
Investing activities		
Acquisition and disposition of plant and equipment, net	(2,112)	(2,385)
Capitalized mineral property expenditure	(1,680)	(4,199)
Development of intangible assets	(50)	(196)
	(3,842)	(6,780)
Effect of exchange rate change on cash and cash equivalents	(858)	8
Increase (decrease) in cash and cash equivalents during the period	16,219	(6,416)
Cash and cash equivalents, beginning of period	11,197	24,355
Cash and cash equivalents, end of period(1)	$ 27,416	$ 17,939
Supplemental information		
Interest received	64	53
Taxes paid	(393)	(1,891)
Changes in trade payables and accrued liabilities related to plant and equipment	119	1,291

(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.

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, 2019	396,509,387	$	313,913	$	7,766	$	(21,767)	$	(57,997)	$	241,915
Share-based compensation	-		-		289		-		-		289
Effect of foreign currency translation	-		-		-		-		168		168
Change in fair value through other comprehensive income securities	-		-		-		-		(350)		(350)
Shares issued from SUs vested	222,662		572		(572)		-		-		-
Withholding tax for SUs vested	-		-		(281)		-		-		(281)
Dividends paid[(1)]	-		-		-		(7,401)		-		(7,401)
Net income for the period	-		-		-		7,416		-		7,416
Balance, March 31, 2019	396,732,049	$	314,485	$	7,202	$	(21,752)	$	(58,179)	$	241,756
Balance, January 1, 2020	396,858,168	$	314,820	$	7,679	$	(31,494)	$	(54,070)	$	236,935
Share-based compensation	-		-		232		-		-		232
Effect of foreign currency translation	-		-		-		-		(24,100)		(24,100)
Change in fair value through other comprehensive income securities	-		-		-		-		(20)		(20)
Shares issued from SUs vested	38,565		104		(104)		-		-		-
Withholding tax for SUs vested	-		-		(8)		-		-		(8)
Net loss for the period	-		-		-		(3,161)		-		(3,161)
Balance, March 31, 2020	396,896,733	$	314,924	$	7,799	$	(34,655)	$	(78,190)	$	209,878

(1) On the record date, March 22, 2019, the Company accrued the Q1 2019 dividend payable of CA$ 0.025 per share. The Q1 2019 dividend was paid on April 11, 2019.

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") 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. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, IAS 34: Interim Financial Statements, and do not contain all of the information required for annual financial statements. These statements follow the same accounting policies and methods of application as the most recent annual audited financial statements. 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 May 7, 2020.

COVID-19 Global pandemic

On March 11, 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a global pandemic. With the majority of governments across the jurisdictions in which Lucara and many of its customers operate declaring a state of emergency in response to the COVID-19 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, by disruption to the progress of the Karowe Mine underground expansion project and by an inability to ship or sell rough 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 diamonds, a lack of available liquidity to meet ongoing operational expenses and, due to or by other COVID-19 related impacts on the availability of labour or to the supply chain.

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

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

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

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

Therefore, uncertainty about judgments, estimates and assumptions made by management during the preparation of the Company's condensed interim consolidated financial statements related to potential impacts of the COVID-19 outbreak on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected. The major sources of estimation uncertainty and judgment affecting the Company can be found in Note 3c of the audited consolidated financial statements of the Company for the year ended December 31, 2019.

3. INVENTORIES

		March 31, 2020		**December 31, 2019**
Rough diamonds	$	23,329	$	24,536
Ore stockpile		27,410		28,354
Parts and supplies		10,981		12,162
	$	**61,720**	$	65,052

Inventory expensed during the three months ended March 31, 2020 totaled $17.3 million (three months ended March 31, 2019 – $16.1 million). There were no inventory write-downs during the three months ended March 31, 2020 and 2019.

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

4. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Leased assets	Total
Balance, January 1, 2019	$ 5,661	$ 206,424	$ 2,524	$ 6,729	$ -	$ 221,338
IFRS 16 adoption	-	-	-	-	3,691	3,691
Additions	15,936	226	-	17	-	16,179
Reclassification[1]	(10,331)	7,596	104	2,331	-	(300)
Disposals and other	-	-	-	(3)	-	(3)
Translation differences	122	2,152	26	99	32	2,431
Balance, December 31, 2019	$ 11,388	$ 216,398	$ 2,654	$ 9,173	$3,723	$ 243,336
Additions	1,993	-	-	-	-	1,993
Reclassification	(196)	45	-	151	-	-
Translation differences	(1,380)	(23,497)	(288)	(1,005)	(408)	(26,578)
Balance, March 31, 2020	**$ 11,805**	**$ 192,946**	**$ 2,366**	**$ 8,319**	**$3,315**	**$ 218,751**
Accumulated amortization						
Balance, January 1, 2019	$ -	$ 68,511	$ 1,497	$ 4,084	$ -	$ 74,092
Depletion and amortization	-	34,550	355	1,454	1,565	37,924
Disposals and other	-	-	-	(3)	-	(3)
Translation differences	-	1,112	19	65	19	1,215
Balance, December 31, 2019	$ -	$ 104,173	$ 1,871	$ 5,600	$ 1,584	$ 113,228
Depletion and amortization	-	6,859	94	397	382	7,732
Translation differences	-	(12,134)	(211)	(633)	(202)	(13,180)
Balance, March 31, 2020	**$ -**	**$ 98,898**	**$ 1,754**	**$ 5,364**	**$ 1,764**	**$ 107,780**
Net book value						
As at December 31, 2019	$ 11,388	$ 112,225	$ 783	$ 3,573	$ 2,139	$ 130,108
As at March 31, 2020	**$ 11,805**	**$ 94,048**	**$ 612**	**$ 2,955**	**$ 1,551**	**$ 110,971**

(1) 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.)

5. MINERAL PROPERTIES

Cost	Capitalized production stripping asset	Karowe Mine	Total
Balance, January 1, 2019	$ 72,352	$ 73,372	$ 145,724
Additions	-	10,320	10,320
Reclassification[1]	-	174	174
Translation differences	676	811	1,487
Balance, December 31, 2019	$ 73,028	$ 84,677	$ 157,705
Additions	-	1,680	1,680
Translation differences	(7,961)	(9,361)	(17,322)
Balance, March 31, 2020	**$ 65,067**	**$ 76,996**	**$ 142,063**
Accumulated depletion			
Balance, January 1, 2019	$ 11,584	$ 21,031	$ 32,615
Depletion	12,583	6,727	19,310
Translation differences	258	279	537
Balance, December 31, 2019	$ 24,425	$ 28,037	$ 52,462
Depletion	2,406	1,212	3,618
Translation differences	(2,848)	(3,150)	(5,998)
Balance, March 31, 2020	**$ 23,983**	**$ 26,099**	**$ 50,082**
Net book value			
As at December 31, 2019	$ 48,603	$ 56,640	$ 105,243
As at March 31, 2020	**$ 41,084**	**$ 50,897**	**$ 91,981**

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

Karowe Mine

A royalty of 10% of the sales value of diamonds produced from Karowe is payable to the government of Botswana. During the three months ended March 31, 2020, the Company incurred a royalty expense of $3.5 million (2019: $4.9 million).

6. INTANGIBLE ASSETS

Cost	
Balance, January 1, 2019	$ 21,798
Development expenditures	404
Translation differences	1,001
Balance, December 31, 2019	23,203
Development expenditures	50
Translation differences	(1,881)
Balance, March 31, 2020	**21,372**

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

Accumulated Depletion		
Balance, January 1, 2019	$	-
Additions		(429)
Balance, December 31, 2019	$	(429)
Additions		(324)
Translation differences		45
Balance, March 31, 2020	$	**(708)**
Net book value, December 31, 2019	$	22,774
Net book value, March 31, 2020	$	**20,664**

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 and when the obliging events occur. The contingent consideration consists of a profit-sharing allocation and additional Lucara share payments if certain revenue triggers are reached.

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

7. SHARE BASED COMPENSATION

a. Stock options

The Company's stock option plan (the 'Option Plan') was approved by the shareholders of the Company initially on May 13, 2015, with amendments approved on May 10, 2019. Under the terms of the Option Plan, a maximum of 20,000,000 shares 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.

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

7. SHARE BASED COMPENSATION (continued)

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

	Number of shares issuable pursuant to stock options	Weighted average exercise price per share (CA$)
Balance at January 1, 2019	4,278,336	$ 2.40
Granted	1,437,000	1.64
Expired	(703,336)	2.13
Forfeited	(490,000)	2.54
Balance at December 31, 2019	4,522,000	2.19
Granted	1,532,000	0.77
Expired	(1,480,000)	2.45
Forfeited	(10,000)	2.80
Balance at March 31, 2020	**4,564,000**	**$ 1.62**

Options to acquire common shares have been granted and are outstanding at March 31, 2020 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	1,532,000	3.91	0.77	-	-	-
$1.51 - $2.00	1,437,000	2.91	1.64	479,000	2.91	1.64
$2.01 - $2.50	1,220,000	2.05	2.33	651,667	2.00	2.37
$2.51 - $3.00	375,000	1.01	2.76	358,333	0.98	2.77
	4,564,000	**2.86**	**$ 1.62**	**1,489,000**	**2.05**	**$ 2.23**

During the three months ended March 31, 2020, an amount of $0.1 million (2019 – $0.1 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:

	2020	2019
Assumptions:		
Risk-free interest rate *(%)*	1.38	1.82
Expected life *(years)*	3.63	3.63
Expected volatility *(%)*	34.61	38.20
Expected dividend	Nil	CA$0.025/share quarterly
Results:		
Weighted average fair value of options granted *(per option)*	CA$0.21	CA$0.30

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

7. SHARE BASED COMPENSATION (continued)

b. Restricted and performance share units

The Company has a share unit ('SU') plan that provides for the issuance of SUs as a long-term incentive for certain members of the management team. 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 three month period ended March 31, 2020, the Company recognized a share-based payment charge against income of $0.2 million (2019: $0.2 million) for the SUs granted during the period.

	Number of share units	Estimated fair value at date of grant (CA$)
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
February 26, 2020 grant	1,918,000	0.77
March 8, 2020 vesting	(56,463)	2.57
Balance at March 31, 2020	**2,946,527**	**$ 0.89**

c. Deferred share units

In February 2020, the Company approved a deferred share unit ('DSU') plan that provides for the issuance of DSUs for eligible directors. Directors can elect to receive up to 100% of their fees earned in DSUs. 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. The issuance of common shares under the DSU Plan is subject to shareholder approval of the DSU Plan at the next annual meeting.

	Number of share units	Estimated fair value (CA$)
February 26, 2020 grant	278,000	$ 0.77
Balance at March 31, 2020	**278,000**	**$ 0.41**

For the three month period ended March 31, 2020, the Company recognized a share-based payment charge against income of $0.1 million (2019: $nil million) for the DSUs granted during the period.

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

8. ADMINISTRATION

	Three months ended March 31,	
	2020	**2019**
Salaries and benefits	$ 1,401	$ 830
Professional fees	470	388
Office and general	608	482
Marketing	251	217
Stock exchange, transfer agent, shareholder communication	151	124
Travel	177	168
Share-based compensation (Note 7)	316	289
Management fees	98	124
Depreciation	576	93
Donations	23	62
	$ 4,071	$ 2,777

9. RELATED PARTY TRANSACTIONS

a) Key management compensation

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

	Three months ended March 31,	
	2020	**2019**
Salaries and wages	$ 444	$ 456
Short term benefits	14	34
Share based compensation	177	195
	$ 635	$ 685

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 (Note 6) 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 6, 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

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Mine. The waiver is effective from the date of the share purchase agreement in February 2018 through to December 31, 2020. As at March 31, 2020, no amounts have been paid under this profit sharing mechanism to date.

10. SEGMENT INFORMATION

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

Three months ended March 31, 2020

	Karowe Mine	Corporate and other	Total
Revenues	$ 33,778	$ 339	$ 34,117
Income (loss) from mining operations[1]	2,903	(54)	2,849
Exploration expenditures	(592)	-	(592)
Finance expenses	(763)	(77)	(840)
Foreign exchange (gain) loss	491	(126)	365
Other	(1,782)	(2,779)	(4,561)
Taxes	(382)	-	(382)
Net loss for the period	**(125)**	**(3,036)**	**(3,161)**
Capital expenditures	**$ 4,097**	**$ 50**	**$ 4,147**
Total assets	**$ 300,517**	**$ 25,139**	**$ 325,656**

Three months ended March 31, 2019

	Karowe Mine	Corporate and other	Total
Revenues	$ 48,690	$ -	$ 48,690
Income (loss) from mining operations[1]	16,351	(195)	16,156
Exploration expenditures	(1,049)	-	(1,049)
Finance expenses	(586)	(216)	(802)
Foreign exchange gain	(803)	(22)	(825)
Other	(1,583)	(1,722)	(3,305)
Taxes	(2,384)	(375)	(2,759)
Net income (loss) for the period	9,946	(2,530)	7,416
Capital expenditures	$ 6,584	$ 196	$ 6,780
Total assets	$ 335,208	$ 27,197	$ 362,405

[1] Karowe Mine's depletion and amortization expense during the three months ended March 31, 2020 totaled $10.5 million (three months ended March 31, 2019 – $11.6 million).

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

11. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

a) *Measurement categories and fair values*

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

The value of the Company's financial instruments at fair value through other comprehensive income is derived from quoted prices in active markets for identical assets. The fair value of all other financial instruments of the Company approximates their carrying values because of the demand nature or short-term maturity of these instruments.

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).

	March 31, 2020	December 31, 2019
Level 1: Fair value through other comprehensive income – Investments	$ 221	$ 241
Level 2: N/A		
Level 3: N/A		

c) *Financial risk management*

The Company's financial instruments are exposed to certain financial risks, including currency, credit, 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 March 31, 2020, the Company is exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately $0.5 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 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.

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.

11. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

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. The COVID-19 pandemic has negatively impacted global demand for luxury commodities, which includes jewelry containing diamonds. Restrictions on international travel have also disrupted the diamond supply chain. To the extent that the supply of rough diamonds exceeds demand, this will 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 monitored for the availability of sufficient cash to meet operational needs at all times. Such forecasting takes into consideration the Company's ability to generate cash from the sale of rough diamonds and additional liquidity which can be accessed through the revolving term credit facility.

Revolving credit facility

The Company holds a $50 million revolving term credit facility with the Bank of Nova Scotia with a maturity date of May 5, 2020. Following quarter-end, this facility was extended for one year to May 5, 2021. 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 March 31, 2020, the Company was in compliance with all financial and non-financial covenants. Outstanding amounts under the facility bear interest at LIBOR or an alternative base rate plus an applicable margin based on the Company's adjusted leverage ratio.

The Company has provided security 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 March 31, 2020, $19.0 million was drawn on the facility for working capital purposes (2019 - $nil).