

Lucara Announces Q2 2020 Results Delivering Strong Operating Performance and a Groundbreaking Supply Agreement for 2020

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VANCOUVER, Aug. 10, 2020 - (TSX: LUC) (BSE: LUC) (Nasdaq Stockholm: LUC) [Lucara Diamond Corp.](#) ("Lucara" or "Company") today reports its results for the quarter ended June 30, 2020. Please view PDF version

KEY HIGHLIGHTS:

- Karowe has continued to operate throughout the COVID-19 pandemic, and delivered strong production and cost consistent with the original 2020 plan and below budget.
- Lucara made a deliberate decision not to tender any of its +10.8 carat production after early March 2020 amidst the uncertainty caused by the global crisis, and instead entered into a ground breaking supply agreement with HB Group for the remainder of 2020. This large, high value production from Karowe has historically accounted for approximately 70% of Lucara's annual revenues. Revenue from this agreement will be realised starting in Q3 2020 based on a polished stone mechanism.
- Cash inflows of \$21.0 million during Q2, consisting of a partial payment of \$13.5 million under the HB agreement and proceeds of \$7.5 million from continuous sales on Clara, Lucara's digital sales platform and a tender in Antwerp for stones smaller than 10.8 carats.
- 5 sales were completed on Clara during Q2, providing liquidity for the Company in this unexpected period of travel restrictions. Clara's customer base increased from 32 to 35 during the second quarter and now stands at 46. Third-party trial sales are expected to commence in Q3.
- Lucara continues to have a strong availability of working capital, including \$13.7 million in cash at the end of Q2 and \$10.0 million available from its revolving term working capital facility.

Eira Thomas, President & CEO commented: "Though our 100% owned Karowe mine continues to operate at full capacity, we made the deliberate decision not to sell any of its +10.8 carat diamond production during the period, in response to a weak market demand. Subsequently, we are pleased to report that Lucara has now secured a ground breaking supply agreement with the HB Group, which will deliver regular revenues on superior pricing terms to those currently being achieved at tender. This position Lucara to move forward with key underground expansion activities for Karowe in 2020."

REVIEW FOR THE QUARTER AND FIRST HALF ENDED JUNE 30, 2020

- Karowe has continued to operate throughout the COVID-19 pandemic, and delivered strong production results in line with the original 2020 plan and below budget. Adjustments were made to the original 2020 mine plan to reduce waste and ore mined through the second quarter to ensure the health and safety of employees operating in the plant and to reduce variable costs. The process plant continued at full capacity, with additional safety measures in place, producing almost entirely from the South Lobe. Overall performance during the second quarter remains consistent with the strong operational results achieved over the past two years.
- Operational highlights from Q2 2020 were as follows:
 - Ore and waste mined of 0.7 million tonnes and 0.6 million tonnes, respectively
 - 0.71 million tonnes of ore processed resulting in 101,203 carats recovered, achieving a recovered grade of 0.01% per hundred tonnes
 - 201 Specials (+10.8 carats) recovered from direct milling during the second quarter, representing 6.4% weight percentage of total direct milling recovered carats, in line with mine plan expectations
 - 9 diamonds were recovered greater than 100 carats in weight, including 2 > 200 carats in weight
 - Karowe had no lost time injuries resulting in a twelve-month rolling Lost Time Injury Frequency Rate of 0
- Sales of \$7.5 million were generated through the second quarter tender of stones smaller than 10.8 carats held on Clara in Antwerp and through Clara. Sales on Clara continued throughout Q2 with 5 sales completed, providing liquidity for the Company in this unexpected period of travel restrictions. Clara's customer base increased from 32 to 35 during the second quarter and now stands at 46.

- No diamonds in excess of +10.8 carats were sold in the second quarter. Instead, these diamonds, which represent a significant portion of Lucara's revenue, will be sold under the recently announced 2020 supply agreement with HB. The purchase price for Lucara's +10.8 carat rough diamonds will be based on the estimated polished outcome, with a true up paid on actual polished sales thereafter, less a fee and the cost of manufacturing. Starting in Q3 2020, this pricing mechanism is expected to deliver regular cash flow for this important segment of our production profile at superior prices.
- A deposit of \$13.5 million was received by the Company as partial payment for +10.8 carat goods delivered to HB under the new sales agreement. This deposit has been recognized as deferred revenue as of June 30, 2020. As polished goods are sold by HB under the new sales agreement, the Company will recognize the revenue associated with the sale of those goods, less their corresponding inventory cost.
- Total revenue of \$7.5 million was recognized in Q2 2020 (Q2 2019: \$42.5 million) or \$109 per carat (Q2 2019: \$425 per carat) from the sale of 68,979 carats (Q2 2019: 101,931 carats). Only stones in size classes below 10.8 carats were sold in the second quarter of 2020. The achieved price in Q2 2020 for the stones in size classes below 10.8 carats reflects the impact of rough market price erosion.
- Lucara recognized revenue of \$41.6 million for the six months ended June 30, 2020 ("H1 2020") from the sale of 196,989 carats or \$268 per carat. This represents a decrease from revenue of \$91.2 million recognized for the six months ended June 30, 2019 ("H1 2019") from the sale of 196,989 carats or \$463 per carat. The decrease in revenue is largely attributable to the sales of Q2 production of the +10.8 carat diamonds being deferred to Q3 2020 under the new supply agreement.
- The Company recorded a net loss of \$13.9 million for Q2 2020 resulting in a \$0.04 loss per share for the quarter, compared to net income of \$0.7 million for Q2 2019 and earnings per share of \$Nil. A decrease in total revenue, primarily due to deferral of sales of +10.8 carat stones, had the most significant impact on the current quarter's results.
- Cash flow used in operations in Q2 2020 totaled \$4.9 million compared to cash flow earned from operations of \$6.1 million in Q2 2019, largely due to the \$35.1 million decrease in comparable revenue between the periods and an increase in taxes payable relating to 2019 tax payments required in 2020.
- Operating cash cost⁽¹⁾ per tonne of ore processed for the six months ended June 30, 2020 was \$27.14 per tonne (Q2 2019: \$31.16 per tonne), which is below the initial full year forecast cash cost of \$32-\$36 per tonne processed and 13% below the comparative period last year. The operating cash cost per tonne processed in Q2 2020 was positively impacted by exchange depreciation of the Botswana Pula of 7% against the U.S. dollar and the benefits of cost optimization efforts undertaken in the second half of 2019, offset by a 9% decrease in tonnes processed as compared to H1 2019.
- Adjusted EBITDA⁽¹⁾ year to date was negative \$1.8 million (H1 2019: \$38.6 million). Adjusted EBITDA was affected by a decrease in total revenue mainly from the decision to withhold the +10.8 carat diamonds from the Q2 tender but also due to market conditions for the smaller goods sold, particularly in the second quarter tender held in June.
- Operating expenses per carat⁽¹⁾ sold totalled \$189 per carat in the six months ended June 30, 2020, up from \$179 per carat sold in the comparable period last year. Total carats sold were approximately 21% less by volume than the same period last year (H1 2020: 155,158 carats sold; H1 2019: 196,989 carats sold).
- Adjusted EBITDA and the average price per carat sold were significantly affected by the absence of large stone sales in the second quarter. Each carat holds the same cost to produce, however, the revenue and resulting margin is driven by the size of the large stones which were not sold in Q2 2020.
- As at June 30, 2020, the Company had cash and cash equivalents of \$13.7 million, an increase of \$2.5 million from \$11.2 million as at June 30, 2019. The Company maintained draws totaling \$19.0 million on the working capital facility from Q1 2020, however, \$31.0 million is available to be drawn for working capital, if required. The Company ended the second quarter with a strong cash position and available liquidity.
- The full impact of COVID-19 on Lucara's operations and production outlook for 2020 remains highly uncertain, and as a result, the Company is maintaining the suspension of its 2020 guidance until further notice.

(1) See Non-IFRS measures

DIAMOND SALES

Karowe's large, high value diamonds have historically accounted for approximately 70% of Lucara's annual revenues. The mine has remained fully operational throughout the COVID-19 pandemic, Lucara made a deliberate decision not to tender +10.8 carat production after early March 2020 amidst the uncertainty caused by the global crisis. Subsequently, in July 2020, Lucara announced a ground breaking partnership agreement with the HB Group headquartered in Antwerp, Belgium ("HB"), entering into a definitive supply agreement for the remainder of 2020, for all of the diamonds produced in excess of +10.8 carats from our 100% owned Karowe Diamond mine in Botswana. Under the supply agreement with HB, Lucara's +10.8 carat diamonds will be sold at prices based on the estimated polished outcome of each diamond, determined through state of the art scientific planning technology, with a true up paid on actual achieved polished sales thereafter, less a fee and the cost of manufacturing. This unique pricing mechanism is expected to deliver regular cash flow for this important segment of our production profile at superior prices. The Company will start recognizing revenue from this sales agreement inclusive of the production from +10.8 carat stones that would have ordinarily been part of the Q2 tender in the third quarter this year. As of June 30, 2020, the Company received a deposit of \$13.5 million for a portion of +10.8 carat goods delivered under the new sales agreement. This deposit has been recognized as deferred revenue and will be brought into income as the polished diamonds are sold. Quarterly revenue of \$7.5 million for the three months ended June 30, 2020 includes only proceeds from the sale of diamonds smaller than 10.8 carats which were sold on Clara or through the re-scoped Q2 tender. As a result, revenue recognized in Q2 2020 is materially lower than in previous quarters.

Travel restrictions in response to COVID-19 continue, impacting the Company's ability to complete tenders in Botswana. As a temporary measure, the Government of Botswana has granted Lucara permission to hold diamond sales in Antwerp. Lucara completed its rescheduled Q2 tender on June 18th in Antwerp, Belgium, selling diamonds in size classes below 10.8 carats and achieving sales prices within 5% of forecast. Diamonds that are suitable continue to be re-directed from the tender offering for sale through Clara, the digital sales platform that allows buyers to place orders without physically viewing the goods and to purchase only the diamonds they need on a stone by stone basis.

Sales of stones between 1 and 10 carats have continued on Clara, with five sales taking place on Clara during the second quarter of 2020. Since the beginning of 2020 Clara's customer base has increased from 27 to 46 buyers. Discussions continue with third parties to grow supply on Clara to match demand from the larger customer base. We anticipate starting trials of third party diamonds during the third quarter.

COVID-19 RESPONSE

In response to the COVID-19 pandemic, the Company implemented its crisis management strategy in March of this year, designed to protect the health and well-being of our employees in Botswana and Canada as well as 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 designated mining as an essential service in Botswana and included increased travel restrictions, reduced overall staffing levels and increased and appropriate social distancing. A strong operating environment continued at the Karowe Mine with Q2 delivering operating results consistent with the original 2020 plan and costs achieved below budget. The full impact of COVID-19 on Lucara's operations and production outlook for 2020 remains highly uncertain, and as a result, the Company is maintaining the suspension of its 2020 guidance until further notice.

Lucara's planned capital spending program for 2020 was to be largely focused on the initiation of an underground expansion project at Karowe and funded entirely from free cash flow generated by operations. Although the recently announced supply agreement with HB is expected to provide regular monthly cash flow for the remainder of the year, some uncertainty remains around estimating revenue for that period. As a result, the underground expansion program has been re-scoped and reduced from the previous budget of \$53 million and will focus on long lead time critical-path items through the remainder of the year. During H1 2020, \$5.6 million was spent on project execution activities including detailed engineering and design work and early procurement initiatives.

The underground expansion program, as previously announced, has an estimated capital cost of \$514 million and a five year period of development, with flexibility to adjust capital spending depending on market conditions. The Company expects to finance part of the capital cost with debt and the balance from cash flow generated from operations. Financing options continue to be assessed.

The Company continues to have a strong availability of working capital, including \$13.7 million in cash at the end of Q2 and \$31 million available from its revolving term working capital facility with the Bank of Nova Scotia. The \$50 million credit facility was extended to May 5, 2021 during the second quarter of 2020. 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.

FINANCIAL HIGHLIGHTS

	Three months ended		Six months ended	
	June 30		June 30	
In millions of U.S. dollars, except carats or otherwise noted	2020	2019	2020	2019
Revenues	\$ 7.5	\$ 42.5	\$ 41.6	\$ 91.2
Net income (loss) for the period	(13.9)	0.7	(17.1)	8.1
Earnings (loss) per share (basic and diluted)	(0.04)	0.00	(0.04)	0.02
Operating cash flow per share*	(0.02)	0.03	0.00	0.08
Cash on hand	13.7	7.1	13.7	7.1
Amounts drawn on the working capital facility	19.0	5.0	19.0	5.0
Average price per carat sold (\$/carat)*	109	417	268	463
Operating expenses per carat sold (\$/carat)*	174	174	189	171
Operating margin per carat sold (\$/carat)*	(65)	243	76	292
Carats sold	68,979	101,931	155,158	196,989

(*) 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.

QUARTERLY RESULTS OF OPERATIONS – KAROWE MINE, BOTSWANA

	UNIT	Q2-20	Q1-20	Q4-19	Q3-19	Q2-19
Sales						
Revenues generated from sales tenders conducted in the quarter	US\$M	7.3	33.8	56.0	45.3	42.5
Carats sold for revenues recognized during the period	Carats	68,861	86,010	98,547	116,200	101,931
Average price per carat for proceeds received during the period	US\$	107	393	568	390	417
Production						
Tonnes mined (ore)	Tonnes	683,282	878,087	694,591	823,875	773,861
Tonnes mined (waste)	Tonnes	591,804	1,199,660	740,593	1,489,668	1,826,972
Tonnes processed	Tonnes	705,421	639,430	647,502	680,665	713,037
Average grade processed	cpht (*)	14.3	14.3	13.3 ¹	13.9 ²	14.2 ³
Carats recovered	Carats	101,203	91,536	86,422 ¹	104,990 ²	109,312 ³
Costs						
Operating costs per carats sold (see Non-IFRS measures)	US\$	174	201	209	201	174
Sustaining capital expenditures	US\$M	3.7	2.4	13.0	0.7	1.4
Underground expansion project	US\$M	3.9	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.

CONFERENCE CALL

The Company will host a conference call and webcast to discuss the results on Tuesday, August 11, 2020 at 7:00 a.m. Pacific, 10:00 a.m. Eastern, 3:00 p.m. UK, 4:00 p.m. CET.

CONFERENCE CALL:

Please call in 10 minutes before the conference call starts and stay on the line (an operator will be available to assist you).

Conference ID:
80135892 / Lucara Diamond

Dial-In Numbers:

Toll-Free Participant Dial-In North America (+1) 888 390 0546

All International Participant Dial-In (+1) 778 383 7413

Webcast:

To view the live webcast presentation, please log on using this direct link:

https://produceredition.webcasts.com/starthere.jsp?ei=1346455&tp_key=ac4554d235

The presentation slideshow will also be available in PDF format for download from the Lucara website www.lucaradiamond.com shortly before the conference call.

Conference Replay:

A replay of the telephone conference will be available two hours after the completion of the call until August 19, 2020.

Replay number (Toll Free North America) (+1) 888 390 0541

Replay number (International) (+1) 416 764 8677

The pass code for the replay is: 135892#.

On behalf of the Board,

Eira Thomas
President and Chief Executive Officer

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ABOUT LUCARA

Lucara is a leading independent producer of large exceptional quality Type IIa diamonds from its 100% owned Karowe Mine in Botswana and owns a 100% interest in Clara Diamond Solutions, a secure, digital sales platform positioned to modernize the existing diamond supply chain and ensure diamond provenance from mine to finger. The Company has an experienced board and management team with extensive diamond development and operations expertise. The Company operates transparently and in accordance with international best practices in the areas of sustainability, health and safety, environment, and community relations.

ABOUT CLARA

Clara Diamond Solutions Limited Partnership (Clara), wholly owned by [Lucara Diamond Corp.](#), is 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.

The information in this release is accurate at the time of distribution but may be superseded or qualified by subsequent news releases.

The information is information that Lucara is obliged to make public pursuant to the EU Market Abuse Regulation and the Swedish Securities Markets Act. This information was submitted for publication, through the agency of the contact person set out above, on August 10, 2020 at 2:30pm Pacific Time.

NON-IFRS MEASURES

This news release refers to certain financial measures, such as operating cash flow per share, adjusted EBITDA, average price per carat sold, operating cost per carat sold, operating margin 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. Please refer to the Company's MD&A for the second quarter, 2020 for an explanation of non-IFRS measures used.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain of the statements made and contained herein 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.

Forward-looking statements are based on the opinions 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. 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 accurate and such forward-looking information included herein should not be unduly relied upon.

In particular, this release may contain forward looking information pertaining to the following: the impact of COVID-19 on the Company's cash flows and operations 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 and the potential for the supply agreement with HB to achieve both higher prices from the sale of polished diamonds and to provide more regular cash flow than in previous periods; 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 forward looking information.

There can be no assurance that such forward looking 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 the Company's most recent MD&A and under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form, both available at <http://www.sedar.com>, as well as changes in general business and economic conditions, the ability to continue as a going concern, 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 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 by law.
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