LUCARA DIAMOND CORP.
ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2021

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. (the "Company") and its subsidiaries performance 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 audited consolidated financial statements of the Company for the year ended December 31, 2021, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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 – *Standards of Disclosure for Mineral Projects* ("NI 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 February 24, 2022.

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 and development activities. Clara Diamond Solutions Limited Partnership ("Clara"), 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 office is located in Vancouver, Canada 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".

2021 HIGHLIGHTS

- Revenue of $230.1 million resulted in an average price per carat sold of $603, an 84% and 80% increase over the previous year, respectively that reflected the impact of strong demand for both rough and polished diamonds, combined with supply constraints in certain size classes.
- The Karowe underground expansion project was formally approved by the Board of Directors after closing a $220 million senior secured project debt financing. Total project investment of $86.3 million during 2021 focused on detailed design and engineering, establishing surface infrastructure and shaft pre-sinking.
- First drawdown under the $220 million senior secured project financing debt package for an underground expansion at the Karowe Mine occurred in September 2021. As at December 31, 2021, the Company had drawn $25.0 million from the project loan facility and had reduced the outstanding balance on the working capital facility from $50.0 to $23.0 million. After year-end the Company completed a second draw of $20.0 million from the project finance facility.
- Two equity financings were closed that generated net proceeds of $31.3 million from the sale of 55,157,733 common shares at a price of C$0.75 per share, including the acquisition of 16.4 million common shares by the Company's largest shareholder, Nemesia S.a.r.l. ("Nemesia").

- A total of 841 Specials (single diamonds in excess of 10.8 carats) recovered, representing 7.8% weight percent Specials (2020: 6.7%), the highest annual volume of Specials recovered since Karowe commenced production in 2012. Highlights of these recoveries included:
  - five top white Type IIa gem quality diamonds in excess of 200 carats, including three in excess of 300 carats.
  - a 1,174 carat clivage gem of variable quality with significant domains of high-quality white gem material, the third +1,000 carat diamond recovered from the Karowe Mine since 2015.
  - a 470 carat top light brown clivage diamond.
  - a 62.7 carat high quality, fancy pink Type IIa gem diamond.

- Total Recordable Injury Frequency Rate ("TRIFR") in 2021 declined to 0.1 from 0.3 in 2020, with zero recordable injuries in three of four quarters of 2021.

- Operational highlights for 2021 from the Karowe Mine included:
  - Ore and waste mined of 3.7 million tonnes (2020: 3.0) and 2.6 million (2020: 2.7), respectively.
  - 2.8 million tonnes (2020: 2.7) of ore processed representing a new annual record since the start of production at the Karowe Mine.
  - A total of 369,390 carats recovered at a recovered grade of 12.93 carats per hundred tonnes of direct milled ore.
  - A total of 39 diamonds greater than 100 carats were recovered during the year, including eight diamonds greater than 300 carats, eight diamonds between 200 and 300 carats, along with a further 23 stones between 100 and 200 carats in weight.

- Financial highlights for the year ended December 31, 2021 included:
  - Total revenues of $230.1 million (2020: $125.3 million) or $603 per carat (2020: $335 per carat). The amended and extended sales agreement with HB Trading BV ("HB") accounted for 65% (44%) of total revenues recognized in 2021.
  - Operating cash costs of $30.02 per tonne processed(1) (2020: $27.80 per tonne processed) are 8% higher than the prior year because of a combination of increased mining and processing activity and higher power, labour and insurance costs.
  - Adjusted EBITDA(1) of $102.5 million increased more than five-fold over the adjusted EBITDA(1) of $18.4 million for the same period in 2020, attributed primarily to higher revenues.
  - Net income for the year increased to $23.8 million ($0.06 earnings per share) as compared to net loss of $26.3 million ($0.07 loss per share) in 2020.
  - As at December 31, 2021, the Company had cash and cash equivalents of $27.0 million and $23.0 million drawn ($27.0 million available) from a $50 million working capital facility.

  (1) Operating cash cost per tonne processed and adjusted EBITDA are non-IFRS measures (See "Use of Non-IFRS Financial Performance Measures").

- Recent developments:
  - As a result of strong forecast revenues for 2021 and amidst strengthening prices for large, high value diamonds, a strategic decision was taken late in 2021 to defer the sale of the Sethunya, one of the finest, gem quality, exceptional diamonds produced from the Karowe Mine.
  - In February 2022, the Company's Chairman Lukas Lundin advised the Company of his intention to retire from the Board of Directors upon completion of his term at the Company's upcoming Annual General Meeting to be held May 6, 2022.

DIAMOND MARKET

Diamond price recovery began in the fourth quarter of 2020 and had largely improved to pre-pandemic levels by the end of 2021, owing to strengthening diamond jewelry demand against a backdrop of declining global diamond supply. Importantly, this price strength has been broad based, observed across a range of sizes, qualities and colors for both rough and polished diamonds, highlighting a return to a healthier, balanced supply chain and a positive outlook for sustained price strength going forward. The price performance of very large (+50 carat polished), high value diamonds remained somewhat of an outlier to this trend owing to the significant volume of large, high value rough diamond inventory that was sold by others at deep discounts during the pandemic. Our novel, committed sales agreement with HB, initiated during 2020 and subsequently extended in 2021, afforded us the opportunity to begin protecting and defending prices for this important segment of our production and by December 31, 2021 this market segment had stabilized and began to strengthen also.

UPDATE ON COVID-19 RESPONSE

Measures and guidelines implemented by the Government of Botswana in late March 2020 have allowed the Karowe Mine to remain fully operational throughout the pandemic. These measures designated mining as an essential service in Botswana and included increased travel restrictions, reduced overall staffing levels and appropriate social distancing, among other restrictions. The Government of Botswana extended the state of emergency several times before it was lifted on September 30, 2021. The Company was able to continue mining and processing activities during the state of emergency as most of the workforce (+98%) are Botswana Nationals.

The Company continues to operate under its approved crisis management plan, 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 Company has permission to conduct COVID-19 testing at our operations in Botswana which began in January 2021, and regular health screening, temperature checks and the use of infrared measurements are also routine. All contractors and visitors are required to have negative COVID-19 tests and adhere to all COVID-19 protocols while conducting work at company operations in Botswana. A government-sponsored vaccination program commenced in Botswana mid-year. At the end of December 2021, 94% of the Company's workforce was fully vaccinated and 3% had received a first dose. Concern remains over how governments across the jurisdictions in which Lucara and many of its customers operate will respond to increasing infection numbers and variants of COVID-19, even as mass vaccination campaigns are in progress in many countries. Due to the ongoing uncertainty resulting from the global pandemic, Lucara's operations could be impacted in a number of ways including, but not limited to: a suspension of operations at the Karowe Mine, disruptions to supply chains, worker absenteeism due to illness, disruption to the progress of the Karowe Mine underground expansion project and an inability to ship or sell rough and/or polished diamonds during this period. These possible impacts could result from government directives, the need to modify work practices to meet appropriate health and safety standards, a lack of demand for rough and/or polished diamonds, a lack of available liquidity to meet ongoing operational expenses and, due to or by other COVID-19 related impacts on the availability of labour or to the supply chain.

KAROWE UNDERGROUND UPDATE

On November 4, 2019, the Company announced the results of a Feasibility Study for an underground mine at Karowe. An update on the Karowe underground project ("UGP") was released on August 10, 2021. A copy of the Company's news release and the related technical report prepared pursuant to the requirements of NI 43-101, have been filed on Sedar (www.sedar.com) and are available on the Company's website at: www.lucaradiamond.com. In addition, a non-technical summary of the Environment and Social update for the UGP is available on the Company's website.

The Karowe UGP is expected to extend the mine life to at least 2040, with underground carat production predominately from the highest value EM/PK(S) unit and is forecast to contribute approximately $4 billion in additional revenues, using conservative diamond prices. Following satisfaction of certain conditions precedent on September 2, 2021 ("Financial Close") of the senior secured project debt financing, the Company's Board of Directors formally approved the UGP, which has a $534 million capital cost and a five-year construction period. Mine ramp up is expected in Q1 2026 with full production from the UGP expected in H2 2026.

Highlights of the activities undertaken this year, include:

$86.3 million has been spent during the year ended December 31, 2021, primarily in relation to engineering and procurement of long lead items and the commencement of construction activities including:

- Pre-sink activities for both the production and ventilation shafts.
- Clearing for and construction of 40 out of 88 tower foundations for the 29 km 132kV transmission line bulk power upgrade.
- Mobilization of headframe materials and surface infrastructure including a 200-person camp and a water treatment facility.
- Pre-sinking of the ventilation and production shafts to -36 and 41m respectively below the shaft collar with shaft liner toe-in construction completed in the ventilation shaft and shaft lining continuing back to the sub-collar. Toe-in construction also was started in the production shaft by year end.
- Commissioning of the temporary generator farm, which will be used to power the shaft hoists during sinking until line power is commissioned, was completed.

Upcoming Activities for the UGP – 2022

Activities for the UGP in 2022 are expected to include the following:

- Commissioning of the four main sinking winders.
- Completion of the steel headframe structure for the production and ventilation shafts.
- Transition and sustained main sinking for the production and ventilation shafts.
- Continuation of detailed design and engineering of the underground mine infrastructure and layout.
- Commissioning of the 29 km 132kV bulk power supply powerline by December 2022.

JDS Energy & Mining Inc. ("JDS") is the Engineering Procurement Construction Manager for the execution of the Karowe UGP.

EQUITY FINANCINGS – JULY 2021

On July 15, 2021, the Company closed its previously announced bought deal financing (the "Offering") as well as the previously announced concurrent private placement (the "Concurrent Private Placement" and together with the Offering, the "Financing") for aggregate proceeds of $31.3 million (net transaction costs).

Pursuant to the Offering, a total of 33,810,000 common shares of the Company ("Common Shares"), including 4,410,000 Common Shares issued pursuant to the over-allotment option, which was exercised in full, were sold at a price of C$0.75 per Common Share, for aggregate proceeds of $18.5 million (net of transaction costs). The Common Shares issued pursuant to the Offering were offered by way of a short form prospectus (the "Prospectus") filed in British Columbia, Alberta, Manitoba, Ontario and Quebec. The Offering was conducted through a syndicate of underwriters comprised of BMO Capital Markets and Scotia Capital Inc.

Pursuant to the Concurrent Private Placement, a total of 21,347,733 Common Shares were sold at a price of C$0.75 per share for additional aggregate proceeds of $12.8 million, which included an investment by the Company's largest shareholder Nemesia. No commission or other fee was paid to the underwriters in connection with the sale of Common Shares pursuant to the Concurrent Private Placement. The Common Shares issued pursuant to the Concurrent Private Placement were subject to a statutory hold period in Canada which expired on November 16, 2021.

Proceeds from the equity financings were used to satisfy the requirement under the project loan agreements that a $30.0 million cash contribution (the "Initial Equity Contribution") be advanced to the Company's indirect, wholly-owned subsidiary Lucara Botswana Proprietary Limited ("Lucara Botswana") towards the underground expansion capital requirement in 2021 (see "Karowe Underground Update" above).

PROJECT DEBT FINANCING, SHAREHOLDER UNDERTAKING AND INTEREST RATE SWAP

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

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

The Project Finance Facility may be used to fund the development, construction costs and construction phase operating costs of the underground expansion project as well as financing costs in relation to the Facilities. The facility matures 8 years after Financial Close, with quarterly repayments commencing on June 30, 2026. As at December 31, 2021, $25.0 million of the $170.0 million facility was drawn. The facility bears interest at a rate of LIBOR (or replacement benchmark) plus margin of 5.5% annually for the period commencing on Financial Close until the project completion date, and 5.0% annually thereafter with commitment fees for the undrawn portion of the facility of 2.0% annually.

The Working Capital Facility may be used for working capital and other corporate purposes. As at December 31, 2021, $23.0 million of the $50.0 million facility was drawn. The facility bears interest at a rate of LIBOR (or replacement benchmark) plus margin of 3.5% annually with commitment fees for the undrawn portion of 1.6%. The facility matures on September 2, 2023 and the outstanding balance must be repaid in full at least once every twelve months for a minimum of five business days.

The Company incurred $11.3 million of debt advisory, legal and due diligence fees in conjunction with arranging the Facilities. At Financial Close, transaction costs of $8.7 million were allocated to the Project Finance Facility, recorded as deferred financing fees until draws are made on the facility and then recorded as transaction costs proportionally to the amount drawn under the facility. Deferred finance fees of $1.3 million were allocated to the initial draw of $25.0 million as transaction costs. Transaction costs of $2.6 million were allocated to the Working Capital Facility and are included in deferred financing fees.

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

As at December 31, 2021, the Company was in compliance with all financial covenants.

Shareholder Undertaking

The Company's largest shareholder, Nemesia provided a limited standby undertaking of up to $25.0 million in the event of a funding shortfall occurring up September 2, 2024 (thirty-six (36) months from Financial Close of the senior secured project facility). As consideration for the undertaking provided, the Company issued 600,000 common shares to Nemesia on July 15, 2021. A further 600,000 common shares will be issuable should the undertaking be called upon. For each $500,000 drawn down under the Standby Undertaking, the Company will be required to issue 5,000 common shares per month to Nemesia until the amounts borrowed are repaid, subject to receipt of all required regulatory approvals.

Nemesia is an insider of the Company and, as a result of providing the Shareholder Undertaking and receiving 600,000 common shares in connection with the execution thereof, the transaction contemplated by the Shareholder Undertaking was considered a "related party transaction" under Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions ("MI 61-101"). The Company has relied on the exemptions set forth in sections 5.5(a) and 5.7(1)(a) of MI 61-101 from the valuation and minority shareholder approval requirements of MI 61-101 in respect of Nemesia's provision of the Shareholder Undertaking as the aggregate fair market value of the common shares issued to Nemesia upon signing of the Shareholder Undertaking was less than 25% of the Company's market capitalization.

Interest Rate Swap

Under the terms of the Project Finance Facility, Lucara Botswana was required to complete an interest rate swap on 75% of the principal amount available to manage its exposure to floating interest rates. On December 14, 2021 Lucara Botswana entered into interest rate swap agreements structured around the expected Project Finance Facility drawdown schedule, swapping a LIBOR variable rate interest payment stream for a 1.682% fixed rate interest payment stream on up to $127.5 million. Under the terms of these agreements, Lucara Botswana receives interest quarterly at the rate equivalent to the three-month USD LIBOR, repriced every three months and pays quarterly interest at the fixed rate starting June 29, 2022. The interest rate swaps mature on March 31, 2028. As at December 31, 2021 the interest rate swaps had a negative unrealized fair value of $0.8 million.

SALES AGREEMENT FOR +10.8 CARAT DIAMOND PRODUCTION

Karowe's large, high value diamonds have historically accounted for approximately 60% to 70% of Lucara's annual revenues. Though the mine remained fully operational following the declaration of COVID-19 as a global pandemic in early 2020, Lucara decided not to tender any of its +10.8-carat production after early March 2020 amidst the uncertainty caused by the global crisis and the significant weakness observed in the rough diamond market, particularly for large, high quality rough stones. In July 2020, Lucara announced a partnership agreement with HB, entering into a definitive sales agreement for the remainder of 2020, for all diamonds recovered that exceed +10.8 carats from the Company's 100% owned Karowe Diamond mine in Botswana. In April 2021, this agreement was subsequently extended for a 24-month period, effective from January 1, 2021 to December 31, 2022.

Under the amended sales agreement, +10.8 carat gem and near gem diamonds from the Karowe Mine of qualities that can directly enter the manufacturing stream are being sold to HB at prices based on the estimated polished outcome of each diamond. The estimated polished value is determined through state-of-the-art scanning and planning technology, with an adjusted amount payable on actual achieved polished sales, less a fee and the cost of manufacturing. Following the extension of the HB Agreement in Q2 of 2021, all +10.8 carat non-gem quality diamonds and all diamonds less than 10.8 carats in weight which did not meet the criteria for sale on Clara are being sold as rough through the quarterly tender. In the agreement extension, changes to the payment terms were amended to better reflect the timing of mine production and the manufacturing process. This unique pricing mechanism delivers regular cash flow for this important segment of our production profile.

For the year ended December 31, 2021 the Company recorded revenue of $150.4 million from the HB agreement from the sale of 23,832 carats, as compared to $55.2 million in 2020 from the sale of 19,556 carats. The increase is attributed to the contract covering twelve months in 2021, versus six months in 2020. In addition, prices achieved continued to increase through 2021 and certain high value stones delivered in 2020 were sold in 2021, resulting in higher revenue and an increase in the average price per carat sold to $6,433 per carat in 2021 from $2,822 per carat in 2020.

At December 31, 2021 a total of 18 rough diamonds delivered to HB during 2021 were manufactured and achieved net polished prices in excess of $1 million, including a total of eight diamonds that each achieved a price in excess of $2 million and two diamonds that each achieved a price in excess of $5 million. Higher value stones and those stones which are more complex take longer to manufacture. As a result, at December 31, 2021, several of these stones delivered to HB in 2021 have not fully completed the manufacturing and sales process.

CLARA SALES PLATFORM

Clara, Lucara's 100% owned proprietary, secure, web-based digital sales platform, continues to gain scale and interest. Interest in Clara has grown considerably since 2020, sparked by global restrictions on travel, combined with a new openness to purchasing rough diamonds in an innovative way. In 2021, 21 sales (2020: 23 sales) took place with a total sales volume transacted of $28.7 million, a 168% increase from the $10.7 million transacted in 2020. During Q4 2021, the sales volume transacted was $7.7 million (Q4 2020: $4.0 million), a 93% increase when compared to Q4 2020. Clara also observed a steady upward price trend at each subsequent sale throughout fiscal 2021. The number of buyers on the platform increased to 88 at December 31, 2021 with the Company maintaining a waiting list to manage supply and demand.

While most of the stones transacted through the platform came from the Karowe Mine, during the last half of 2021, certain secondary market stones were also offered for sale through the platform, with good results. Additional supply is required to meet existing demand and drive the platform's growth. The Company intends to continue to seek additional supply in 2022, both from third-party producers and the secondary market.

FINANCIAL HIGHLIGHTS

Table 1

In millions of U.S. dollars, except carats or otherwise noted	**Three months ended December 31** **2021**	2020	**Year ended December 31** **2021**	2020
Revenues	$ 57.9	$ 42.4	$ 230.1	$ 125.3
Operating expenses	(22.3)	(21.7)	(80.3)	(72.6)
Net income (loss) for the period	1.7	(3.9)	23.8	(26.3)
Earnings (loss) per share (basic and diluted)	0.00	(0.01)	0.06	(0.07)
Operating cash flow per share[1]	0.05	0.02	0.24	0.04
Cash on hand	27.0	4.9	27.0	4.9
Amounts drawn on working capital facility	23.0	30.5	23.0	30.5
Average price per carat sold ($/carat)	560	402	603	335
Operating expenses per carat sold ($/carat)	215	205	210	194
Operating margin per carat sold ($/carat)[1]	345	197	393	141
Carats sold	103,501	105,648	381,681	373,748

[1]Operating cash flow per share before working capital adjustments and operating margin per carat sold are non-IFRS measures. See "Use of Non-IFRS Performance Measures".

Beginning in Q2 2020, all +10.8 carat diamonds mined from Karowe were sold to HB pursuant to the terms of the diamond sales agreement described above (see "HB Sales Agreement For +10.8 Carat Diamond Production" above). Following the extension of the HB Agreement in Q2 2021, all +10.8 carat diamonds which did not meet the criteria for polishing by HB and all diamonds less than 10.8 carats by weight which did not meet the criteria for sale on Clara are being sold as rough through the quarterly tender.

The Company recognized revenue of $57.9 million or $560 per carat from the sale of 103,501 carats in the fourth quarter of 2021 resulting in a margin of 62%. In comparison, the Company achieved revenues of $42.4 million or $402 per carat for its sales in the fourth quarter of 2020, generating a margin of 49%. The Q4 2021 average sales price reflects an overall higher market price for diamonds.

The Q4 2021 tender was the strongest tender of 2021 due to increases in rough pricing across all tendered size classes. A total of 97,211 carats were sold in the December 2021 tender, generating revenues of $19.0 million (Q4 2020 tender: $10.2 million). Revenue also includes top-up payments received for polished diamond sales under the HB sales agreement for carats that were delivered in previous quarters. Top-up payments, net of manufacturing costs, are paid when polished diamonds are sold to an end buyer and the sales prices achieved exceed the initial purchase price paid to Lucara. As a result of certain changes included in the extension agreement, effective for the period January 1, 2021 to December 31, 2022, top-up payments are expected to have a reduced impact on revenue. This is attributable to improvements that HB have made in planning for rough stones that should, on average, result in higher initial polished values being assigned to delivered stones.

Q4 2021 Sales Results:

Sales Channel	Rough Carats Sold	Revenue Recognized	Average Price/Carat[3]
HB Agreements	1,895	$ 31.2 million	$ 16,480
Clara[1]	4,395	$ 7.7 million	$ 1,744
Tender[2]	97,211	$ 19.0 million	$ 196
Total	**103,501**	**$ 57.9 million**	**$ 560**

(1) Five sales were completed on Clara in Q4 2021, with the sale of third-party goods increasing the total volume transacted to $7.7 million.
(2) The Q4 2021 tender was held in December in Antwerp; non-gem +10.8 carat diamonds and diamonds less than 10.8 carats in size which did not meet characteristics for sale on Clara were sold through tender.
(3) The revenue recognized and average price per carat sold under the HB Agreement includes top-up payments related to rough stones delivered in previous periods.

Under the HB sales agreement effective as of January 1, 2021, at the time of sale of a rough diamond, the Company receives an initial payment based on an estimated polished outcome price. When the manufactured diamond is sold to an end buyer, HB is entitled to receive a fee and reimbursement for the cost of manufacturing. If the final sales price is higher than the initial estimated polished price a true up payment is payable to the Company. Any manufactured diamonds sold to an end buyer for less than the initial estimated polished price (after deductions for HB's fee and the cost of manufacturing) will result in the difference being refunded to HB.

Revenues include an estimate of variable consideration receivable under the terms of HB Agreement. Variable consideration is a component of the transaction price and represents an area of significant management estimate and judgment.

Payments owing for the final polished sales price and initial and subsequent top-up payments received are estimated, after deductions for HB's fee and the cost of manufacturing, when determining the transaction price recognized for accounting purposes. This estimate is updated at each period end until the transaction price is confirmed.

The timing of deliveries to and polished sales by HB had the most significant impact in 2021 on the timing of revenue recognition.

Sales Results for the Year Ending December 31, 2021

Sales Channel	Rough Carats Sold	Revenue Recognized	Average Price/Carat[1]
HB Agreements[1]	23,382	$150.4 million	$6,433
Clara	17,386	$28.7 million	$1,651
Tender	340,913	$51.0 million	$149
Total	**381,681**	**$230.1 million**	**$603**

(1) The revenue recognized and average price per carat sold under the HB Agreement includes top-up payments related to rough stones delivered in previous periods.

Operating expenses increased $0.6 million or approximately 3%, from $21.7 million in Q4 2020 to $22.3 million in Q4 2021 due to a combination of higher power, labour and insurance costs.

The operating margin per carat sold[1] however increased from $197/carat, or 49% in Q4 2020 to $345/carat, or 62% in Q4 2021 due to significantly higher revenues.

The change in sales approach for the +10.8 carat production had a positive impact on results for the year ended December 31, 2021 with top-up amounts related to rough carats sold in 2020 recognized in 2021 when the final transaction price was confirmed as HB sold polished diamonds to end buyers. Revenue from diamond sales includes $56.4 million of variable consideration (2020: $7.2 million) at December 31, 2021. The variable consideration will be confirmed as the rough diamonds to which it relates are manufactured, polished and sold.

[1] See "Use of Non-IFRS Performance Measures".

RESULTS OF OPERATIONS – KAROWE MINE

Table 2:

	UNIT	**Q4-21**	**Q3-21**	**Q2-21**	**Q1-21**	**Q4-20**
Sales						
Revenues generated from the sale of Karowe diamonds in the quarter	US$M	56.5	72.5	45.9	53.1	42.3
Carats recovered from Karowe sold for revenues recognized during the period	Carats	102,791	117,162	68,806	91,734	105,329
Average price per carat for proceeds received during the period	US$	550	619	667	579	401
Production						
Tonnes mined (ore)[1]	Tonnes	610,072	1,190,856	900,660	967,089	748,296
Tonnes mined (waste)[1]	Tonnes	276,263	696,907	787,227	859,347	434,082
Tonnes processed	Tonnes	705,877	738,986	726,379	673,646	684,768
Average grade processed	cpht (*)	12.8	13.2	13.9	11.9	14.6
Carats recovered	Carats	90,634	97,412	101,330	80,014	100,059
Costs						
Operating expense per carat sold	US$	217	198	219	215	205
Sustaining capital expenditures	US$M	9.1	3.4	2.4	0.4	4.4
Underground expansion project[2]	US$M	21.8	32.0	22.6	9.9	8.3

(*) carats per hundred tonnes

(1) The ore and waste tonnes for Q1 2021, Q2 2021 and Q3 2021 were adjusted in Q4 2021 to reflect the results of the year-end depletion reconciliation, which impacted the allocation of tonnes mined between ore and waste.

(2) Excludes qualifying borrowing cost of $1.5 million capitalized during Q4 2021.

FOURTH QUARTER OVERVIEW – OPERATIONS - KAROWE DIAMOND MINE

Safety: Karowe registered a TRIFR of 0.1 during the three months ended December 31, 2021. During the same time Karowe had no lost time injuries. As of December 31, 2021, the mine has operated for 408 days (3.0 million hours) without a lost time injury.

Environment and Social: As in the first three quarters of 2021, there were no reportable environmental matters during the fourth quarter of 2021. In addition to meeting applicable Botswana national laws, regulations and requirements, Lucara has adopted the IFC Performance Standards and the World Bank Group's Environmental, Health and Safety Guidelines for Mining (2007). Accordingly, the development of the UGP adheres to the Equator Principles. Lucara is committed to upholding high standards while striving to deliver long-term economic benefits to Botswana and the communities in which the Company operates. The Company received certification under ISO 45001, the Occupational Heath and Safety standard in November of 2021 and is working towards certification under the "Towards Sustainable Mining" initiative.

Production: Ore and waste mined during the fourth quarter of 2021 totaled 0.6 million tonnes and 0.3 million tonnes respectively.

During Q4 2021, tonnage processed was on target at 0.7 million tonnes at an average grade of 12.8 cpht, with a total of 90,569 carats recovered from direct milling. Ore processed was entirely from the South Lobe. A total of 180 Specials were recovered, including nine diamonds greater than 100 carats in weight. Recovered Specials equated to 5.7% weight percentage of total recovered carats from ore processed during Q4 2021 (Q4 2020 – 7.1%).

Overall performance during the fourth quarter remains consistent with the strong operational results achieved over the past two years. Mining and processing results were on plan during Q4 2021, except for waste tonnes mined. Ore mining continued to be prioritized over waste to enable de-stacking of benches in the northern part of the pit to enhance flexibility through improved access to South Lobe ore as the pit deepens and to support dewatering activities. Ore gains were realized on the western contact of the South Lobe and have been stockpiled.

Karowe's operating cash cost: Karowe's operating cash cost for 2021 (see "Use of Non-IFRS Financial Performance Measures") was $30.02 per tonne of ore processed (2020: $27.80 per tonne of ore processed) in line with the forecast of $28-$32 per tonne processed and approximately 8% higher than 2020. The current period increase is reflective of cost reductions implemented in 2020 owing to the uncertainty of the impact of the global pandemic that were gradually lifted in 2021, offset by a 6% increase in tonnes processed as compared to 2020.

Significant diamond recoveries: In January 2021, two top white gem quality diamonds weighing 341 carats and 378 carats were recovered unbroken from milling of ore sourced from the southwestern quadrant of the South Lobe M/PK(S) unit.

In May 2021, a 470 carat top light brown clivage diamond was recovered along with a series of top quality gem and clivage quality diamonds including 5 diamonds greater than 100 carats (265ct, 183ct, 161ct, 116ct, 106ct).

In June 2021, a 1,174 carat diamond, described as a clivage gem of variable quality with significant domains of high-quality white gem material, was recovered. The 1,174 carat diamond represented the third +1,000 carat diamond recovered from the South Lobe of the AK6 kimberlite since 2015.

In July 2021, four pink diamonds were recovered from direct milling from the EM/PK(S) unit of the South Lobe. The largest stone recovered was a 62.7 carat high quality, fancy pink Type IIa gem diamond. A 22.21 carat pink gem of similar quality was also recovered during the same production period along with two additional pink gems of similar color and purity weighing 11.17, and 5.05 carats.

Also in July 2021, a 393.5-carat top white Type IIa gem quality diamond was recovered from direct milling of ore sourced from the M/PK(S) unit of the South Lobe. This was the third gem quality +300 carat produced from the M/PK(S) unit in 2021. During the August production month, a 257.7 carat top white Type IIa gem quality diamond was also recovered.

The recovery of large gem quality diamonds from the EM/PK(S) and M/PK(S) units of the South Lobe is in line with expectations and historical South Lobe recoveries. The consistent recovery of these large diamonds is a testament to the continued strong resource and plant performance at Karowe.

SELECT ANNUAL FINANCIAL INFORMATION

The following table sets out selected consolidated financial information and the average grade of carats processed for each of the three most recent completed years:

Table 3:	**Year ended December 31,**		
In millions of U.S. dollars unless otherwise noted	**2021**	2020	2019
Revenues	$ 230.1	$ 125.3	$ 192.5
Operating expenses	(80.3)	(72.6)	(77.7)
Adjusted operating earnings [1]	**149.8**	**52.7**	**114.8**
Royalty expenses	(24.9)	(13.5)	(19.2)
Exploration expenditures	–	–	(4.6)
Administration	(19.5)	(18.3)	(15.7)
Sales and marketing	(2.9)	(2.5)	(2.2)
Adjusted EBITDA [2]	**102.5**	**18.4**	**73.1**
Depletion and amortization	(49.7)	(46.8)	(51.3)
Finance expenses	(3.7)	(2.5)	(3.1)
Foreign exchange (loss) gain	(2.8)	2.2	(2.6)
Loss on derivative financial instrument	(0.9)	–	–
Loss on disposal of assets	–	(2.6)	–
Current income tax expense	(1.5)	(0.6)	(14.5)
Deferred income tax (expense) recovery	(20.1)	5.7	11.0
Net income (loss) for the year	**23.8**	**(26.3)**	**12.7**
Earnings (loss) per share (basic and diluted)	**0.06**	**(0.07)**	**0.03**
Per carat sold:			
Sales price	**$ 603**	**$ 335**	**$ 468**
Operating expenses	**210**	**194**	**189**
Average grade processed (carats per hundred tonnes) [3]	**12.93**	**14.3**	**14.4**
Cash on hand	**$ 27.0**	**$ 4.9**	**$ 11.2**
Total assets	**412.0**	**333.8**	**346.0**
Total non-current financial liabilities	**111.2**	**78.1**	**87.5**
Change in cash during the year	**22.1**	**(6.3)**	**(13.2)**
Dividends paid during the year	**–**	**–**	**(22.4)**

(1) Adjusted operating earnings is a non-IFRS measure defined as revenues less operating expenses and excludes royalty expenses and depletion and amortization.
(2) Adjusted EBITDA is a non-IFRS measure defined as earnings before depletion and amortization, finance expenses, foreign exchange, financial instrument fair value adjustments, disposal of assets and taxation.
(3) Average grade processed is from direct milling carats and excludes carats recovered from re-processing historic recovery tailings from previous milling.

Revenues and royalties

Total revenue increased 84% from $125.3 million in 2020 to $230.1 million in 2021 due to the strong recovery in rough and polished diamond prices through 2021 attributable to resurgent consumer demand and rough diamond supply shortages after challenging market conditions prevailed for much of 2020. During the year ended December 31, 2021, Lucara sold 381,681 carats at an average price of $603 carat (2020: 373,748 carats at an average price of $335 per carat), an increase of 2% by volume and 80% by value.

The year ended December 31, 2021 was the first full annual period that the majority of stones greater than +10.8 carats in size were sold through the sales agreement with HB, with stones less than 10.8 carats by weight sold through tender and suitable stones in the 1 to 10 carat size range sold through Clara. Stones sold under the terms of the HB sale agreements accounted for approximately 65% of the revenue earned in 2021 (2020: 44%). Revenue earned under the sales agreement is recognized on a net basis, after deductions for fees and the cost of manufacturing due to HB.

Royalties to the Government of Botswana are paid based on the final gross sales price achieved from the sale of all diamonds, rough or polished.

The process plant achieved a record 2,844,888 milled tonnes during 2021, a 6% increase from 2020. The recovery of 369,390 carats was 3% lower than 2020 as the higher throughput was offset by the lower grade of milled material. During 2021, Specials recovered equated to 7.8% (2020: 6.7%) weight percentage of total recovered carats, achieving a record volume of Specials recovered for the second consecutive year.

In 2021, thirty-nine stones greater than 100 carats were recovered, of which eight stones exceeded 300 carats. Of note were the recoveries of three top white gem diamonds at 341, 378 and 393 carats and the 1,174 carat clivage gem, which represented the third +1,000 carat diamond recovered from the Karowe mine.

For the historic 1,758 carat “Sewelô”, the largest diamond ever mined in Botswana, Louis Vuitton (“LV”) resumed its global marketing effort in 2021 following delays imposed by COVID-19 related travel restrictions in 2020. The partners have agreed and are excited to be moving forward into the next stage of the collaboration in 2022, which includes planning and manufacturing of an exclusive, bespoke, collection of polished diamonds.

As a result of strong forecast revenues for 2021 and amidst strengthening prices for large, high value diamonds, a strategic decision was taken late in 2021 to defer the sale of the Sethunya, one of the finest, gem quality, exceptional diamonds produced from the Karowe Mine to date.

Adjusted Operating Earnings and Expenses

Adjusted operating earnings[1] for the year ended December 31, 2021 were $149.8 million (2020: $52.7 million) after operating expenses of $80.3 million or $210 per carat sold (2020: operating expenses of $72.6 million or $194 per carat sold), which resulted in an operating margin[1] (before royalties, depletion and amortization) of $393 per carat or 65% (2020: operating margin of $141 per carat or 42%). The 8% increase in operating expenses per carat sold is attributed to a 3% appreciation of the Botswana Pula against the U.S. dollar and a combination of higher power, labour and insurance costs.

During 2021, Lucara achieved an average grade of 12.93 carats per hundred tonnes (“cpht”) from direct milling during the year compared to an average grade of 14.3 cpht in the prior year. The 6% increase in tonnes processed was offset by lower grades in material processed.

Depletion and amortization

In 2021, the Company recorded depletion and amortization expense of $49.7 million (2020: $46.8 million). This non-cash expense increased 6% year over year, which is attributed to a 20% decrease in rough diamond inventory which resulted in depletion and amortization capitalized to inventory at December 31, 2020 being released to the statement of operations, offset by a 3% decrease in carats recovered. Depletion expense on assets that are amortized on a unit of production basis is affected by the volume of carats recovered in any given year.

Net income

Net income for the year ended December 31, 2021 was $23.8 million (2020: $26.3 million net loss). Net income for the year ended December 31, 2021 was materially impacted by increased revenue due to the higher pricing achieved in 2021.

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

Adjusted EBITDA for the year ended December 31, 2021 was $102.5 million compared to $18.4 million in 2020. The change year to year is directly attributable to an 84% increase in revenue in 2021, reduced by an 11% increase in operating expense.

Adjusted EBITDA is a non-IFRS measure and is reconciled in Table 3: Select Financial Information above.

[1] See “Use of Non-IFRS Performance Measures”.

Operating Cost Per Tonne of Ore Processed

For the year ended December 31, 2021, operating cost per tonne processed was $30.02 (2020: $27.80), 8% higher than the prior year. The increase is attributed to a 3% appreciation of the Botswana Pula against the U.S. dollar and a combination of higher power, labour and insurance costs, offset by a 6% increase in tonnes processed

Operating cost per tonne processed is a non-IFRS measure and is reconciled in Table 6 below to the most directly comparable measure calculated in accordance with IFRS, which is operating expenses.

SELECT QUARTERLY FINANCIAL INFORMATION

Table 4: The following table sets out selected consolidated financial information for each of the eight most recent completed quarters:

Three months ended	Dec-21	Sep-21	Jun-21	Mar-21	Dec-20	Sept-20	Jun-20	Mar-20
A. Revenues	57,931	72,716	46,334	53,097	42,387	41,297	7,462	34,117
B. Administration expenses	(7,149)	(4,256)	(3,659)	(4,395)	(4,913)	(5,643)	(3,653)	(4,071)
C. Net income (loss)	1,662	12,760	5,998	3,407	(3,834)	(5,368)	(13,915)	(3,161)
D. Earnings (loss) per share (basic)	0.00	0.03	0.02	0.01	(0.01)	(0.01)	(0.04)	(0.01)

The primary factor causing variation to the quarterly metrics are the sale of Specials (diamonds greater than 10.8 carats), but more particularly the unique and high value Specials. Net income achieved in each quarter is most impacted by the revenue earned during that quarter, while the impact of fluctuating inventory levels, foreign exchange gains and losses, the loss on derivative financial instruments (specifically from Q4 2021), the impact of asset dispositions and income tax expenses introduce volatility to net income.

Revenue of $34.1 million recognized in the quarter ended March 31, 2020 was significantly lower than other quarters, due to a combination of lower overall prices and the quality of goods available for sale. Early impacts of COVID-19 were observed in the lower pricing achieved in the Q1 2020 tender. The diamond market experienced a sharp and sudden decline for most of Q2 2020 as global travel restrictions disrupted supply chains and many workplaces were shut-down in response to stay-at-home orders. As a result, the Company made a deliberate decision not to tender any of its +10.8 carat production in the Q2 2020 tender. Instead, in July 2020, the Company announced a sales agreement with HB for all stones sized above +10.8 carats. This agreement was subsequently extended for a 24-month period, from January 1, 2021 to December 31, 2022. Beginning in Q3 2020, revenue was recognized from three separate sales channels: through committed sales of +10.8 carat diamonds to HB, sales on Clara, our secure web based digital sales platform, and, through regular tenders of our smaller stones.

Diamond prices improved significantly in 2021, in response to strong demand and supply constraints in certain size classes. The Company's revenue in 2021 includes regular sales to and top-up payments from HB, as well as proceeds from regular sales through Clara and the quarterly tenders.

NON-IFRS FINANCIAL MEASURES

This MD&A refers to certain financial measures, such as adjusted EBITDA, adjusted operating earnings, operating cash flow per share, 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.

Adjusted EBITDA (see “Select Annual 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 depletion and amortization, finance expenses, foreign exchange, financial instrument fair value adjustments, disposal of assets and taxation.

Adjusted operating earnings (see “Select Annual Financial Information”) is the term the Company uses as an approximate measure of the earnings from the operations under an accrual basis of accounting and is defined as revenues less operating expenses, before royalty expenses and depletion 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 5: Operating cash flow per share reconciliation:

In millions of U.S. dollars except weighted average common shares outstanding and operating cash flow per share	**Three months ended December 31**		**Twelve months ended December 31**	
	2021	2020	**2021**	2020
Cash flows from operating activities	$ 43,894	$ (2,635)	83,390	$ (1,526)
Add: Changes in non-cash working capital	(22,698)	9,969	17,286	18,793
Total cash flow from operating activities before changes in non-cash working capital	21,196	7,334	100,676	17,267
Weighted average common shares outstanding	448,060,783	396,896,733	422,894,218	396,889,357
Operating cash flow per share[(1)]	**$0.05**	**$0.02**	**$0.24**	**$0.04**

[(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 margin per carat sold (see “Karowe Mine, Botswana” and “Select Annual Financial Information”) is the term the Company uses to describe the contribution to adjusted operating earnings for each single diamond carat sold. This is calculated as Adjusted operating earnings per carat of diamonds sold.

Operating cost per tonne of ore processed 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 6: 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	**Twelve months ended December 31, 2021**	**2020**
Operating expenses	$ 80.3	$ 72.6
Net change rough diamond inventory, excluding depletion and amortization [(1)]	(1.3)	0.3
Net change ore stockpile inventory, excluding depletion and amortization [(2)]	6.4	1.5
Total operating costs for ore processed	85.4	74.4
Tonnes processed	2,844,888	2,676,066
Operating cost per tonne of ore processed[(3)]	**$ 30.02**	**$ 27.80**

(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.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2021, the Company had cash and cash equivalents of $27.0 million and had drawn $23.0 million from its $50 million working capital facility. After adjustments for working capital items, cash flow from operations totaled $83.4 million.

The Company's $50 million revolving credit facility was refinanced on May 5, 2021 and repaid with proceeds from the Company's new working capital facility (see "Project Debt Financing, Shareholder Undertaking and Interest Rate Swaps" above). As at December 31, 2021 the amount outstanding under this new facility was $23.0 million (December 31, 2020 - $30.5 million drawn under the previous revolving credit facility). The facility matures on September 2, 2023 and the outstanding balance must be repaid in full at least once every twelve months for a minimum of five business days, and is therefore classified as current on December 31, 2021.

Working capital as at December 31, 2021 was $50.5 million as compared to $46.7 million as at December 31, 2020, an increase of 8%. Following a very challenging year in 2020, the Company's working capital increased in 2021 to a level more consistent with previous periods. Trade receivables (December 31, 2021: $38.8 million) increased during the year and current inventories (December 31, 2021: $36.5 million) decreased from the balances at December 31, 2020 (receivables: $20.9 million; inventories: $68.4 million). The decrease in current inventories relates to ore stockpiles classified as non-current as at December 31, 2021 because these stockpiles are expected to be processed more than 12 months from the reporting date in accordance with the mine plan and approval of the underground project. The receivable balance at December 31, 2021 includes $17.5 million (December 31, 2020: $13.4 million) due from HB and represents rough diamond sales from November and December, and the value of diamond sales for which the transaction price was finalized and adjusted in December.

Current liabilities increased to $51.8 million as of December 31, 2021 from $47.6 million at December 31, 2020. The Company reduced the amount drawn on its short-term financing facilities in 2021, which was offset by increases in trade payables and accrued liabilities, primarily because of increased expenditure on the UGP.

Capital spending during the year remained focused on the underground expansion project (2021: $86.3 million; 2020: $18.7 million) and sustaining capital expenditures of $15.3 million (2020: $15.2 million) including construction costs for a community sports complex in Letlhakane, dewatering and upgrades to certain processing circuits.

Long-term liabilities consist of the project financing facility of $23.7 million, derivative financial instrument liabilities of $0.8 million related to interest rate swaps entered into pursuant to the requirements of the Facilities agreement, restoration provisions of $15.3 million (December 31, 2020: $21.2 million), deferred income taxes of $70.3 million (December 31, 2020: $55.9 million), and other non-current liabilities of $1.0 million (December 31, 2020: $1.0 million) which consist of leases classified under IFRS 16: Leases.

Financing activities during 2021 included equity financings for net proceeds of $31.3 million, a net repayment of $30.5 million balance on the old revolving credit facility using proceeds from the new working capital facility, leaving an outstanding balance of $23.0 million at December 31, 2021. A first draw of $25.0 million under the Project Facility was made during September 2021. Cash transaction costs incurred to arrange the Facilities amounted to $11.0 million.

Total shareholders' equity increased to $249.0 million from $208.2 million at December 31, 2020 due to the July equity financing and the reduction in the deficit as a result of earnings generated during the year. Other changes to share capital and contributed surplus were related to share units vesting and the recording of share-based compensation during the year, and the cumulative impact of the currency translation adjustment.

RELATED PARTY TRANSACTIONS

A description of key management compensation can be found in Note 19 of the audited consolidated financial statements for the year ended December 31, 2021.

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, 2021. As of December 31, 2021, none of the revenue milestones had been achieved.

Name	Position	Lucara shares issued as consideration for Clara in February 2018	Lucara shares to be issued if Performance Milestones are achieved
Eira Thomas	President, CEO & Director (Founder of Clara)	1,192,000	1,788,001
Catherine McLeod-Seltzer	Director (Founder of Clara)	400,000	600,000
John Armstrong	VP, Technical Services	50,000	74,999
Zara Boldt	CFO & Corporate Secretary	50,000	74,999

A profit sharing mechanism also exists, whereby a total of 3.45% of the EBITDA generated by the platform has been assigned to Ms. Thomas (Lucara's CEO and a director) and Ms. McLeod-Seltzer (who was appointed to the Lucara Board of Directors following the Clara acquisition) as founders of the platform, with the remaining 3.22% of the EBITDA generated by the platform to be distributed to management, including Dr. Armstrong (Vice-President, Technical Services) and Ms. Boldt (who was appointed as Lucara's CFO & Corporate Secretary after the Clara acquisition) (collectively, "Clara Management"), at the discretion of Lucara's Compensation Committee based on key performance targets. As of December 31, 2021, the platform had not generated positive EBITDA.

COMMITMENTS

As at December 31, 2021, purchase orders and contracts that give rise to commitments for future minimum payments for services to be provided related to the underground expansion project amounted to $86.7 million (December 31, 2020 - $9.9 million).

Table 7: The following table summarizes the undiscounted approximate timing of the commitments at December 31, 2021:

		2022	**2023**	**2024**	**2025 and 2026**	**Total**
Underground expansion project	*$ million*	67.4	9.0	4.5	5.8	**86.7**

2022 OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2022. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements. Based on updated expectations for revenue in 2022, attributed to the recent and expected strength in the rough and polished diamond markets, diamond revenue guidance has been increased to between $195.0 million and $225.0 million (from $185.0 million to $215.0 million). Diamond revenue guidance does not include revenue related to the sale of exceptional stones, or the Sethunya.

Karowe Mine, Botswana

Table 8: 2022 Diamond Sales, Production and Outlook

Karowe Diamond Mine *In millions of U.S. dollars unless otherwise noted*	**Full Year – 2022**
Diamond revenue (millions) *(revised)*	\$195 to \$225
Diamond sales (thousands of carats)	300 to 340
Diamonds recovered (thousands of carats)	300 to 340
Ore tonnes mined (millions)	3.1 to 3.5
Waste tonnes mined (millions)	1.5 to 2.1
Ore tonnes processed (millions)	2.6 to 2.8
Total operating cash costs(1) including waste mined(2) (per tonne processed)	\$29.50 to \$33.50
Botswana general & administrative expenses including marketing costs (per tonne processed)	\$3.50 to \$4.00
Tax rate(3)	0%
Average exchange rate – USD/Pula	11.0

(1) Operating cash costs are a non-IFRS measure. See "Use of Non-IFRS Performance Measures".

(2) Includes ore and waste mined cash costs of \$5.75 to \$6.25 (per tonne mined) and processing cash costs of \$12.00 to \$13.00 (per tonne processed).

(3) The Company is subject to a variable tax rate in Botswana based on a profit and revenue ratio which increases as profit as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55% (only if taxable income were equal to revenue). Capital expenditures are deductible when incurred. With planned capital expenditures of up to \$110 million for the UGP, a tax rate of 0% is forecast for 2022. Should capital expenditures vary from plan, the Company could be subject to current tax.

In 2022, the Company's revenue forecast assumes that 100% of the carats recovered will come from the higher value M/PK(S) and EM/PK(S) units within the South Lobe in accordance with the mine plan.

The assumptions for carats recovered and sold are consistent with achieved performance in recent years. The number of tonnes processed is also consistent with recent achievements, noting that actual tonnes processed in 2021 was about 6% higher than 2020 due to improving plant reliability because of the success of the preventative maintenance plan that has been implemented.

Waste tonnes that were deferred in 2021 as other mining areas in the open-pit were prioritized are expected to be caught up in between 2022 and 2024. The estimated processing cost per tonne processed is higher than previous years, reflecting expected inflationary pressure on labour and commodity costs.

In 2022, capital costs for the underground expansion are expected to be up to \$110 million and will focus on the commencement of main shaft sinking activities, the commissioning of the bulk power supply 132 kV line and substations and detailed engineering for the underground development. Sustaining capital and project expenditures are expected to be up to \$17 million with a focus on completion of a community sports facility, dewatering activities and an expansion of the tailings storage facility.

Lucara Botswana's progressive tax rate computation allows for the immediate deduction of operating costs, including capital expenditures, in the year in which they are incurred. Based on the updated 2022 revenue guidance of \$195 million to \$225 million and assuming the underground development expenditures are incurred, the expected tax rate will be 0% for 2022.

FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

In the normal course of business, the Company is inherently exposed to certain financial risks, including currency, credit, price and liquidity risks. A discussion of these risks and related assumptions can be found below and in Note 21 in the Company's audited consolidated financial statements for the year ending December 31, 2021. Note 21 includes a discussion of the methods used to value financial instruments, as well as any significant assumptions made as part of the valuation.

Currency risk

The Company is exposed to the financial risk related to fluctuating foreign exchange rates. All sales revenues are denominated in U.S. dollars, while directly related costs are denominated in Botswana Pula. At December 31, 2021, the Company was exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately $2.5 million in net income for the year.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. To manage liquidity risk, regular cash flow forecasting is performed in the operating entities of the Company and aggregated in the head office to understand what level of capital is required. Rolling forecasts of the Company's liquidity requirements are prepared and monitored to assess whether there is sufficient cash available to meet the Company's short and longer-term operational needs. Such forecasting takes into consideration the Company's ability to generate cash from the sale of diamonds and additional liquidity which can be accessed through the working capital facility. The contractual maturities of long-term debt, and interest rate swaps are disclosed in Note 10 of the audited, consolidated financial statements for the year ended December 31, 2021.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company limits its credit exposure on cash and cash equivalents by holding its deposits with international financial institutions with strong investment-grade ratings. Considering the nature of the Company's ultimate customers and the relevant terms and conditions entered into with such customers, the Company believes that credit risk is limited as goods are not released until full payment is received when goods are sold through tender or on Clara.

Under the sales agreement with HB, a larger proportion of the Company's goods, by value, are sold through HB to buyers of polished diamonds. The credit risk associated with these sales is concentrated with HB, a single customer, and payment terms are longer (60 to 120 days) than the Company's traditional tender sales (5 days). The Company maintains legal title over goods sold to HB until the initial determined estimated polished price is paid and monitors outstanding amounts to ensure they remain current.

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.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the credit facility obligations that reference floating interest rates.

The Company mitigates interest rate risk on its Project Finance Facility through interest rate swaps that exchange the variable rate inherent in the term debt for a fixed rate. Therefore, fluctuations in market interest rates should not materially impact future cash flows related to the credit facilities. Changes in the fair value of the derivative financial instrument will however fluctuate in response to changing market interest rates that will result in a corresponding credit or charge to profit.

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. In response to the disruptions caused by the COVID-19 pandemic, the Company received approval from the Government of Botswana to conduct quarterly tenders in Antwerp, Belgium and each quarterly tender since June 2020 has been conducted in Antwerp. The price and marketability of these diamonds can be significantly impacted by international economic trends, global or regional consumption, demand and supply patterns and the availability of capital for diamond manufacturers, all factors that are not within the Company's control. Under the sales agreement with the HB, the ultimate achieved sales prices of stones larger than 10.8 carats in size is based on a polished diamond pricing mechanism. This pricing mechanism results in the Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than it is currently through its traditional tender process for rough diamonds. The pricing of both polished and rough diamonds demonstrated significant improvement during 2021 as a result of improved market supply and demand dynamics after the COVID-19 pandemic negatively impacted global demand for luxury commodities in 2020, including jewelry containing diamonds. To the extent that the supply of rough or polished diamonds exceeds demand, this is likely to result in price deterioration and negatively impact the Company's revenue and ability to generate positive cash flow from operations.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 453,034,981 common shares outstanding, 4,977,218 share units, 1,234,510 deferred share units, and 6,249,000 stock options outstanding under its share-based incentive plans.

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 growth of Clara. The material risk factors and uncertainties, which should be considered in assessing the Company's activities, are described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form and in the Prospectus dated July 12, 2021, both 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 and on April 2, 2020 the Government of Botswana declared an initial state of emergency. Mining was declared an essential service and as a result, the Karowe Mine continued to operate with additional health and safety protocols implemented. Quarterly diamond tenders for the balance of 2020 and all of 2021 were held in Antwerp due to varying international travel restrictions. The Government of Botswana extended the state of emergency several times before it was lifted on September 30, 2021. Concern remains over how governments across the jurisdictions in which Lucara and many of its customers operate will respond to increasing infection numbers and variants of COVID-19, even as mass vaccination campaigns are in progress in many countries. Due to the ongoing uncertainty resulting from the global pandemic, Lucara's operations could be impacted in a number of ways including, but not limited to: a suspension of operations at the Karowe Mine, disruptions to supply chains, worker absenteeism due to illness, disruption to the progress of the Karowe Mine underground expansion project and an inability to ship or sell rough and/or polished diamonds during this period. These possible impacts could result from government directives, the need to modify work practices to meet appropriate health and safety standards, a lack of demand for rough and/or polished diamonds, a lack of available liquidity to meet ongoing operational expenses and, due to or by other COVID-19 related impacts on the availability of labour or to the supply chain.

COVID-19 negatively impacted both demand and prices for rough and polished diamonds through much of 2020 but the market has recovered to pre-pandemic levels over the course of 2021. As an ongoing risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of government and central bank interventions in the jurisdictions in which Lucara and its clients operate, the Company's business continuity plan and other mitigating measures. Current circumstances remain dynamic and the impacts of COVID-19 on our business operations, including the duration and impact that it may have on our ability to ship and sell diamonds, on demand for rough and polished diamonds, on our suppliers, on our employees and on global financial markets, cannot be reasonably estimated at this time. Accordingly, estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty.

OFF-BALANCE SHEET ARRANGEMENTS

Except for short-term leases with a term of 12 months or less, the Company is not party to any off-balance sheet arrangements.

ANNUAL MEETING INFORMATION

The Company's annual general meeting of shareholders will be held on May 6, 2022 in Vancouver, Canada.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and make estimates and assumptions about the future. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The Company has identified the following areas where significant accounting judgments, estimates and assumptions has been made in the preparation of the consolidated financial statements:

Areas of judgment

(a) Satisfaction of performance obligations under the HB sales agreement

The Company has determined that, under the terms of the Company's sales agreement with HB, control is transferred when the delivery and analysis of the rough diamonds are completed. At this point the initial estimated polished outcome price of the rough diamond is determined and HB assumes responsibility for its manufacturing, polishing and sale to an end buyer.

(b) *Assessment of impairment indicators*

The Company carries its mineral properties and plant and equipment at depleted cost less any provision for impairment. The Company assesses at each reporting period whether there is an indication of impairment. Significant judgment is applied in assessing whether indicators of impairment exist that would necessitate impairment testing. Internal and external factors, such as i) a significant decline in the market value of the Company's share price; ii) changes in the quantity of the recoverable resources and reserves; and iii) changes in diamond prices, capital and operating costs and recoveries; and iv) changes in inflation, interest and exchange rates, are evaluated in determining whether there are any indicators of impairment.

(c) *Deferred Taxes*

Judgment is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized and what tax rate is expected to be applied in the year when the related temporary differences reverse Judgment is also required on the application of income tax legislation. These judgments are subject to risk and uncertainty and could result in an adjustment to the deferred tax provision.

(d) *Going concern and liquidity risk*

Management is required to exercise judgment with respect to evaluating the Company's ability to continue as a going concern and to ensure that disclosures relating to liquidity 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, ensuring access to credit facilities, and reviews its actual expenditures and forecast cash flows on a regular basis. Changes in demand for rough and/or polished diamonds and diamond prices, production levels and related costs, foreign exchange rates and other factors all impact the Company's liquidity position.

Sources of estimation uncertainty

(a) *Estimated recoverable reserves and resources*

Mineral reserve and resource estimates are based on various assumptions relating to operating matters. These include production costs, mining and processing recoveries, cut-off grades, long term diamond prices and, in some cases, exchange rates, inflation rates and capital costs. Cost estimates are based on feasibility study estimates or operating history. Estimates are prepared by appropriately qualified persons, but will be affected by forecast commodity prices, diamond prices, inflation rates, exchange rates, capital and production costs and recoveries amongst other factors. Proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves geological and geophysical studies and economic data and the reliance on a number of assumptions. The estimates of the reserves may change based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production.

Estimated recoverable reserves are used to determine the depletion and amortization of property, plant and equipment at the operating mine site, in accounting for deferred stripping costs and mineral properties, determining a deferred tax rate and in performing impairment testing. Therefore, changes in the assumptions used could affect the carrying value of assets, depletion and amortization, changes in the deferred tax rate, and impairment charges recorded in the statement of operations.

(b) *Estimated variable consideration in determining revenue*

Revenues include an estimate of variable consideration receivable under the terms of the Company's sales agreement with HB. Variable consideration is a component of the transaction price and represents an area of significant management estimate and judgment. Under the sales agreement, at the time of sale of a rough diamond, the Company receives an initial payment based on an estimated polished outcome price. When the manufactured diamond is sold to an end buyer, HB is entitled to receive a fee and reimbursement for the cost of manufacturing. If the final sales price is higher than the initial estimated polished price a true up payment is payable to the Company. Any manufactured diamonds sold to an end buyer for less than the initial estimated polished price (after deductions for HB's fee and the cost of manufacturing) will result in the difference being refunded to HB.

Variable consideration is estimated using the most likely approach, as the Company considers this approach to be more predictive. The transaction price is reassessed each reporting period, including any adjustments to the amount of variable consideration recognized. The revenue recognized as the transaction price, including any variable consideration, is recognized within the constraint of "highly probable". In evaluating the most likely approach, significant judgment includes market conditions, the current estimated polished value provided by HB and the probability that the variable consideration would be realized.

(c) *Decommissioning and site restoration*

The Company has obligations for site restoration and decommissioning related to the Karowe Mine. The restoration provision is based on cost estimates of the future decommissioning and site restoration activities and are estimated by the Company using mine closure plans or other similar studies which outline the activities that will be carried out to meet the obligations. The restoration provision requires significant estimates and assumptions because the obligations are dependent on the laws and regulations of the country in which the mine operates and are based on future expectations of the timing, extent and cost of required decommissioning and site restoration activities. As a result, there could be significant adjustments to the provisions established.

(d) *Deferred Taxes*

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

CHANGES IN ACCOUNTING POLICIES

There have been no changes to accounting policies described in Note 4 of the audited consolidated financial statements for the year ended December 31, 2021.

Certain pronouncements have been issued by the IASB that are mandatory for accounting periods after December 31, 2021. There are currently no such pronouncements that are expected to have a significant impact on the Company's consolidated financial statements upon adoption.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of this document along with the audited 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 audited consolidated financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. The Board of Directors, based on recommendations from Lucara's Audit Committee, reviews and approves the financial information contained in the audited consolidated financial statements and the MD&A.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2021, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

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.

The Company's internal controls over financial reporting include policies and procedures that: pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of December 31, 2021, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain of the statements made in this MD&A contain certain "forward-looking information" and "forward-looking statements" as defined in applicable securities laws. Generally, any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance and often (but not always) using forward-looking terminology such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "budgets", "scheduled", "forecasts", "assumes", "intends", "strategy", "goals", "objectives", "potential", "possible" or variations thereof or stating that certain actions, events, conditions or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements.

In particular, forward-looking information and forward-looking statements may include, but are not limited to, information or statements with respect to the equity and project debt financings, the intended use of proceeds, the Company's ability to comply with the terms of the Facilities which are required to construct the Karowe UGP, that expected cash flow from operations, combined with external financing will be sufficient to complete construction of the UGP, the economic potential of a mineralized area, the size and tonnage of a mineralized area, anticipated sample grades or bulk sample diamond content, future production activity, the future price and demand for diamonds, future forecasts of revenue and variable consideration in determining revenue, estimation of mineral resources, exploration and development plans, cost and timing of the development of deposits and estimated future production, permitting time lines, currency exchange rates, success of exploration, requirements for and availability of additional capital, capital expenditures, operating costs, timing of completion of technical reports and studies, tax rates, timing of drill programs, government regulation of operations, environmental risks and ability to comply with all environmental regulations, reclamation expenses, title matters including disputes or claims, limitations on insurance coverage, negotiations and agreements among the Company and the Botswana Mine Workers Union, the completion of transactions and timing and possible outcome of pending litigation, the profitability of Clara and the Clara Platform, and the scaling of the digital platform for the sale of rough diamonds owned by Clara, the benefits to the Company of diamond supply agreements with HB and the ability to generate better prices from the sale of the Company's +10.8 carat production as a polished stone.

Forward-looking information and statements are based on the opinions and estimates of management as of the date such statements are made, and they are subject to several 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 correct. The Company is subject to the following risks and uncertainties, among others:

- general global financial and economic conditions;
- future market prices for diamonds;
- the supply and demand for rough and polished diamonds and in particular, the demand for diamonds greater than +10.8 carats;
- potential to achieve better prices by selling +10.8 carat stones under the terms of the agreement with HB;
- reliance on one counter-party to acquire a significant percentage of the Karowe production (by value);
- ability to access capital and liquidity risk;
- fluctuations in interest rates, foreign currency exchange rates and tax rates;
- inherent hazards and risks associated with mining operations, places of work, and within Lucara's supply chain;
- estimations of Lucara's production and sales volume for the Karowe Mine;
- the assumptions raised in the December 2019 Technical Report for the feasibility of constructing and operating an underground diamond mine at Karowe, including the expected development costs, start-up timing, exploration and development plans, projected tax benefits and/or expected production costs;
- operational costs, including costs of power and diesel, compensation of employees and consultants, and inflation, etc.;
- operational difficulties, including power failures, failure of plant, equipment or processes to operate in accordance with specifications or expectations and labour disputes;
- widespread diamond industry adoption of the Clara Platform;
- the regulatory regime governing blockchain technologies and the degree of development and acceptance of blockchain technologies;
- the Company's ability to protect its intellectual property;
- risks inherent in the implementation of new technologies, including the Clara Platform and potential intellectual property infringement claims and cyber-security risks;
- recovered grade, size distribution and quality of diamonds;
- the successful mitigation of issues inherent in the mining of diamonds, such as theft and diamond breakage;
- environmental and other regulatory requirements, including changes in the same and ability to obtain all necessary regulatory approvals;
- acts of the governments where Lucara's operations are located;
- obtaining, maintaining and renewing governmental approvals and permits including but not limited to mining licenses;
- variation in mineral resources and estimation of mineral resources, including the continuity of grade of diamondiferous mineralization;
- risks related to property titles;
- the effect of the coronavirus outbreak as a global pandemic and new variants of COVID-19 on the Company's business and operations;
- the dependence on transportation facilities, infrastructure and information technology systems;
- the Company is required to carry uninsurable risks and the risk that the Company's insurance does not cover all risks;
- the mining industry is competitive;

- risks associated with current and future legal proceedings;
- conflicts of interest;
- dependence on management and technical personnel;
- the failure to secure and maintain skilled employees and maintain key relationships with financing partners, local communities and other stakeholders;
- risks associated with volatility in the securities market;
- risks associated with reliance on secure information technology systems that could be compromised;
- risks associated with climate change including the impact of extreme weather events on mining operations;
- risks associated with the production and increased consumer demand for synthetic gem-quality diamonds;
- ability to maintain obligations or comply with the Facilities;
- risks associated with financing requirements;
- capital costs relating to the development of the Underground Project may increase;
- in 2020, the Company experienced a period of negative operating cash flow;
- discretion in the use of proceeds from the equity financings completed on July 15, 2021;
- volatility of the trading price for the Shares;
- investors may lose their entire investment;
- sales of a significant number of Shares in the public markets, or the perception of such sales, could depress the market price of the Shares;
- holders of Shares will be diluted;
- global financial conditions can reduce prices of the Shares and limit access to financing;
- the Shares do not currently pay dividends;
- difficulty in enforcing judgments and effecting service of process on directors; and
- active liquid trading market for the Shares.

Certain of these risks are discussed in the section “Risk Factors” in the Prospectus dated July 12, 2021.

The foregoing list is not exhaustive of the factors that may affect any of our forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and our actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in this MD&A.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The forward-looking statements contained in this MD&A are based on the beliefs, expectations and opinions of management as of the date of this MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers and investors should not place undue reliance on forward-looking statements. Forward-looking information and statements are made as of the date of this MD&A and accordingly are subject to change after such date. Except as required by law, the Company disclaims any obligation to revise any forward-looking information and statements to reflect events or circumstances after the date of such information and statements. All forward-looking information and statements contained or incorporated by reference in this MD&A are qualified by the foregoing cautionary statements.