LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2022

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 unaudited condensed interim consolidated financial statements of the Company for the period ended March 31, 2022, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as applicable to interim financial reporting. All amounts are expressed in U.S. dollars unless otherwise indicated.

Disclosure of a scientific or technical nature in the MD&A was prepared under the supervision of Dr. John P. Armstrong (Ph.D., P.Geol.), Lucara's Vice-President, Technical Services and a Qualified Person, as that term is defined in National Instrument 43-101 – *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 May 5, 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. 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 Karowe underground expansion project ("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'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".

HIGHLIGHTS – Q1 2022

- Revenue in Q1 2022 increased by 28% to $68.2 million from $53.1 million in Q1 2021, a reflection of strong rough and polished diamond market fundamentals into the first quarter.
- The combination of a strong diamond market, combined with the sale of several higher value rough diamonds in Q1 2022 generated an average price per carat (excluding top-up payments) of $690 for Karowe diamonds sold during the quarter (Q1 2021: $480 per carat).
- A total of 186 Specials (single diamonds in excess of 10.8 carats) were recovered, representing 6.9% weight percent Specials (Q1 2021: 6.8%).
- Sales volumes transacted on Clara during Q1 2022 totalled $7.0 million, a 17% increase from the $6.0 million in sales volume transacted in Q1 2021. A third-party producer will commence a series of trial sales beginning in Q2 of 2022.
- A total project investment of $31.1 million into the Karowe UGP during Q1 2022 focused on shaft pre-sinking activities and construction of a new 29km 132kV transmission line.

- Operational highlights from the Karowe Mine for the three months ended March 31, 2022 included:
    - Mined 0.8 million tonnes (Q1 2021: 1.0) and 0.5 million (Q1 2021: 0.8) of ore and waste, respectively.
    - Processed 0.7 million tonnes of ore (Q1 2021: 0.7) and recovered 83,917 carats (Q1 2021: 80,014 carats), achieving a recovered grade of 12.6 carats per hundred tonnes (Q1 2021: 11.9 cpht).
    - A total of 10 diamonds greater than 100 carats were recovered during the quarter.
    - Total Recordable Injury Frequency Rate ("TRIFR") of 0.23 in Q1 2022 reflects one medical treatment case reported (Q1 2021: zero).
- Financial highlights for the three months ended March 31, 2022 included:
    - Revenues from the sale of 80,295 carats recovered from the Karowe Mine were $67.2 million (Q1 2021: $53.0 million from the sale of 91,734 carats from Karowe). The sales agreement with HB Trading BV ("HB") accounted for 66% (Q1 2021: 72%) of total revenues recognized in the quarter.
    - Operating cash costs of $29.30 per tonne processed(1) (Q1 2021: $29.24 per tonne processed) remained consistent with the comparative period. Q1 2022 costs are inclusive of the impact of higher power, labour and insurance costs, partially offset by a comparatively stronger U.S. Dollar.
    - Adjusted EBITDA(1) of $36.0 million increased by 62% from $22.2 million for the same period in 2021, attributed primarily to higher revenues.
    - Net income for the quarter increased to $19.0 million ($0.04 basic earnings per share) from $3.4 million ($0.01 basic earnings per share) in Q1 2021.

    (1) Operating cash cost per tonne processed and adjusted EBITDA are non-IFRS measures (See "Use of Non-IFRS Financial Performance Measures").
- Cash position and liquidity:
    - As at March 31, 2022, the Company had cash and cash equivalents of $39.1 million.
    - The Company drew an additional $20.0 million from the $170.0 million project loan facility in the quarter for a total drawn amount of $45.0 million.
    - Strong cash flow from operations allowed for a reduction to the outstanding balance on the working capital facility, from $23.0 to $12.0 million as at March 31, 2022.

DIAMOND MARKET

A strong rebound in diamond jewelry demand, combined with growing global natural rough diamond supply constraints, contributed to a healthy recovery in diamond prices in 2021. This price strength continued into the first quarter of 2022 where increases were observed across most sizes, qualities and colors of diamonds.

Current pricing trends have been impacted by uncertainty triggered by geopolitical events, including the conflict in Ukraine and the COVID-19 pandemic, however, we continue to observe healthy market fundamentals overall, and our longer-term outlook remains positive for diamond prices. The diamond price impact of sanctions on Russian diamond supply, which accounts for a significant portion of global reserves, cannot be predicted at this time.

The benefits of the committed sales agreement with HB continued to be realized during the first quarter of 2022 as the Company participated in polished diamond price increases during Q1 2022 for diamonds delivered in previous quarters. The integrated approach, using state of the art scanning and planning technology has further enhanced the final achieved polished outcome for very large (+50 carat polished) and high value diamonds, a critical production segment for the Company.

UPDATE ON COVID-19 RESPONSE

Measures and guidelines implemented by the Government of Botswana in late March 2020 which allowed the Karowe Mine to remain fully operational throughout the pandemic have gradually been rolled back as vaccination levels within Botswana have increased. Most of the Company's workforce (+98%) have been vaccinated. Although significant progress has been made in this area, 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 continued with regular health screening, temperature checks and the use of infrared measurements to prevent the spread of COVID-19.

Although many countries around the world have removed the public health measures implemented to reduce the spread of COVID-19, uncertainty remains. It is possible that 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 UGP 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.

GEOPOLITICAL RISK AND CONFLICT INCLUDING THE UKRAINE-RUSSIA CONFLICT

In February 2022, Russia commenced a military invasion of Ukraine. In response, many jurisdictions have imposed strict economic sanctions against Russia and its interests. While the Company does not have any operations in Ukraine or Russia, its business may be impacted as the conflict and economic sanctions may give rise to indirect impacts, including but not limited to, increased fuel prices, supply chain challenges and disruptions, logistics and transport disruptions and heightened cybersecurity disruptions and threats. Increased fuel prices and ongoing volatility of such prices may have adverse impacts on the Company's costs of doing business. The implications could result in a global economic downturn that could adversely affect the Company's business. The continuance or escalation of the military conflict between Russia and Ukraine and the corresponding economic sanctions imposed on Russia, may also result in increased volatility in the market for the Company's securities and could have other effects which are currently unknown. The Company cannot accurately predict the impact that ongoing conflict in Ukraine will have on its financial position or operations.

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 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 predominantly from the highest value EM/PK(S) unit and is forecast to contribute approximately $4 billion in additional revenues, using conservative diamond prices. The Karowe UGP has an estimated $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. The Company is financing the Karowe UGP through a combination of cash flow from operations and project debt. See "*Sources of Financing*" below for details.

During the three months ended March 31, 2022, a total of $31.1 million was spent on the Karowe UGP development, primarily in relation to engineering, procurement of long lead items and ongoing construction activities, including:

- Pre-sink activities for both the production and ventilation shafts continued with a focus on the setup and transition to main sinking.
- Placement of the ventilation shaft main sinking stage into the shaft column along with placement of the ventilation shaft headgear over the shaft collar.
- Assembly of the production shaft main sink stage with outfitting planned for Q2 in preparation for its installation in the shaft column, while pre-assembly of the production shaft headgear steel continued.
- Cold commissioning of the ventilation shaft kibble winder was completed, with progress on the ventilation shaft stage winder in preparation for winder rope-ups in April, while installation of the production shaft stage winder commenced.
- Completed construction of all 88 tower foundations for the 29 km 132kV transmission line bulk power upgrade and commenced construction at both Letlhakane and Karowe substations.

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

- Execution of the main sinking contract for the production and ventilation shafts.
- Completion of the steel headgear structure for the production and ventilation shafts.
- Commissioning of the four main sinking winders.
- Commencement of 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.

SOURCES OF FINANCING

In July 2021, the Company closed two equity financings for gross proceeds of $31.3 million. Most of the proceeds from these financings were used to provide a $30.0 million cash contribution to Lucara Botswana towards the underground expansion capital requirement.

On July 12, 2021, the Company's wholly-owned subsidiary, Lucara Botswana, with Lucara Diamond Corp. as the sponsor and the guarantor, entered into a senior secured project financing debt package of $220 million which consisted 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 previous revolving credit facility and will be used to support on-going operations (the "Working Capital Facility").

The Project Finance Facility may be used to fund the development, construction costs and construction phase operating costs of the UGP as well as financing costs on the Facilities. The Project Finance Facility matures on September 2, 2029, with quarterly repayments commencing on June 30, 2026. On September 2, 2021, following satisfaction of certain conditions precedent ("Financial Close") of the Facilities, the Company's Board of Directors formally approved the UGP and on September 9, 2021, the Company drew $25.0 million from the $170 million project loan facility.

As at March 31, 2022, $45.0 million of the $170.0 million facility was drawn. The Project Finance Facility bears interest at a rate of LIBOR (or replacement benchmark) plus margin of 5.5% annually until the project completion date, and 5.0% annually thereafter with commitment fees for the undrawn portion of the facility of 2.0%.

The Working Capital Facility may be used for working capital and other corporate purposes. As at March 31, 2022, $12.0 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, and is classified as current on March 31, 2022.

The Company incurred $11.3 million of debt advisory, legal and due diligence fees in conjunction with arranging the Facilities. Costs of $8.7 million were allocated to the Project Finance Facility and initially recorded as deferred financing fees that are transferred to reflect as transaction costs proportional to the amount drawn under the Project Finance Facility. Costs of $2.3 million were allocated to the Working Capital Facility as 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 terms.

As at March 31, 2022, the Company was in compliance with all covenants. Certain conditions subsequent which required completion by April 2022, and that the Company expects to resolve in May 2022, remained outstanding at the date of this MD&A.

INTEREST RATE SWAP

Under the terms of the Project Finance Facility, the Company 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, the Company 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, the Company 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 March 31, 2022 the interest rate swaps, classified as a non-current asset in the Statement of Financial Position, had a total unrealized fair value of $3.7 million (December 31, 2021 unrealized negative fair value of $0.8 million) and the Company recorded a $4.5 million gain (March 31, 2021 - $nil) on this derivative financial instrument.

FINANCIAL HIGHLIGHTS

Table 1

In millions of U.S. dollars, except carats or otherwise noted	**Three months ended March 31**	
	2022	**2021**
Revenues	$ 68.2	$ 53.1
Operating expenses	$ (18.0)	$ (19.7)
Net income for the period	$ 19.0	$ 3.4
Earnings per share (basic and diluted)	$ 0.04	$ 0.01
Operating cash flow per share[1]	$ 0.08	$ 0.06
Cash on hand	$ 39.1	$ 27.9
Amounts drawn on working capital facility	$ 12.0	$ 50.0
Amounts drawn on project finance facility capital facility	$ 45.0	$ –
Average price per carat sold ($/carat)[2]	$ 690	$ 480
Carats sold	80,295	91,734

[1] Operating cash flow per share before working capital adjustments is a non-IFRS measures. See "*Use of Non-IFRS Performance Measures*" below.

[2] The Company's revenue is primarily generated from the sale of Karowe diamonds. The average price per carat sold presented in this table relates exclusively to the sale of Karowe diamonds and excludes top-up payments received during the quarter. Also excluded is the value of diamonds purchased from third parties and sold by the Company through Clara. See Table 2 below for additional information.

Following the extension of the HB Agreement (see "HB Sales Agreement for +10.8 Carat Diamond Production" below) in Q2 2021, all +10.8 carat diamonds mined from Karowe 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 $68.2 million in the first quarter of 2022 from the sale of 80,295 carats from Karowe. This included top-up payments of $11.7 million as well as $1.0 million from the sale of third-party goods on the Clara platform. In comparison, the Company achieved revenues of $53.1 million from sales of 91,734 carats in the first quarter of 2021 which included top-up payments of $9.1 million as well as $0.1 million in revenue from third party goods sold through the Clara platform.

Operating expenses decreased $1.7 million or approximately 9%, from $19.7 million in Q1 2021 to $18.0 million in Q1 2022, reflecting a combination of lower mining activity, inventory build-up and the benefit of a stronger U.S. Dollar, offset by inflationary pressures particularly as it relates to labour, fuel and power costs.

Please see Table 4: *"Select Financial Information"* below for details on the expense line items which had the most significant impact on net income of $19.0 million (Q1 2021: $3.4 million) in the quarter.

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. In 2020, Lucara announced a partnership agreement with HB, entering into a definitive sales agreement for diamonds recovered that exceed +10.8 carats from the Company's 100% owned Karowe Diamond mine in Botswana. This agreement was subsequently amended and extended to December 31, 2022. The mechanisms of the agreement result in complete transparency within the value chain and create important alignment between the producer and the manufacturer for the first time.

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 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, 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 three months ended March 31, 2022, the Company recorded revenue of $45.2 million from the HB agreement (inclusive of top-up payments of $11.7 million), as compared to revenue of $38.0 million in Q1 2021 (inclusive of top-up payments of $9.1 million). In Q1 2021, all +10.8 carat stones were sold through HB. Beginning in April 2021 when the HB agreement was extended, any +10.8 carat stones not earmarked for manufacturing by HB were sold through the Company's quarterly tender process. The increase in revenue in Q1 2022 is attributed to higher prices achieved, despite lower sale volumes. This reflects a significant improvement in diamond market fundamentals between the two comparative quarters. Due to natural variability in the quality profile of the +10.8ct production in any production period or fiscal quarter, the recorded revenue and associated top ups will fluctuate. This is expected and reflects a combination of current diamond market prices as well as variability in the quality of Karowe's production profile in any given period.

As a result of the sales agreement with HB, the Company also participated in polished diamond price increases during Q1 2022 as rough diamonds sold to HB in previous quarters were polished and sold. In Q1 2022, top-up payments of $11.7 million (Q1 2021: $9.1 million) were included in revenue for the quarter. At March 31, 2022 a number of higher value and more technically complex stones that take longer to manufacture had not fully completed the manufacturing and sales process. These stones were delivered to HB in 2021 and Q1 2022. As these stones finish the manufacturing process and are sold, the Company's may record additional revenue in the form of "top-up" payments from these sales.

CLARA SALES PLATFORM

Clara, Lucara's 100% owned proprietary, secure, web-based digital sales platform, continues to gain scale and interest. Interest in Clara continues to grow as the benefits of purchasing rough diamonds in an innovative way become evident. In Q1 2022, three sales (Q1 2021: six sales) took place with a total sales volume transacted of $7.0 million, a 17% increase from the $6.0 million transacted in Q1 2021, reflecting a strong upward price trend observed on Clara during Q1 2022. The number of buyers on the platform increased to 92 at March 31, 2022 with the Company maintaining a waiting list to manage supply and demand.

While most of the stones transacted through the platform are supplied from the Karowe Mine, secondary market stones continued to be offered for sale through the platform with good results. Additional supply is required to meet existing demand and drive the platform's growth and the Company expects to commence a series of trial sales on the Clara platform with a third-party producer in Q2 2022. The Company intends to continue to seek additional supply in 2022, both from third-party producers and the secondary market.

QUARTERLY SALES RESULTS

Table 2

Q1 2022 - Sales Channel	**Rough Carats Sold**		**Revenue US$ M**		**Average Price/Carat**
HB Agreements	2,870	$	33.5	$	11,655
Clara[1]	2,787		6.0		2,130
Tender[2]	74,638		16.0		214
Subtotal – Karowe diamonds sold	**80,295**	**$**	**55.5**	**$**	**690**
HB top-up payments			11.7		
Total Revenue – Karowe Diamonds		**$**	**67.2**		
3rd party goods (Clara)[1]			1.0		
Total Revenue – Q1 2022		**$**	**68.2**		

Q1 2021 - Sales Channel	**Rough Carats Sold**		**Revenue US$ M**		**Average Price/Carat**
HB Agreements	10,687	$	28.9	$	2,704
Clara[1]	4,276		5.9		1,380
Tender[2]	76,771		9.1		118
Subtotal – Karowe diamonds sold	**91,734**	**$**	**43.9**	**$**	**480**
HB top-up payments			9.1		
Total Revenue – Karowe Diamonds		**$**	**53.0**		
3rd party goods (Clara)[1]			0.1		
Total Revenue – Q1 2021		**$**	**53.1**		

(1) Three sales were completed on Clara in Q1 2022 (Q1 2021: six), with the sale of third-party goods continuing to supplement the total volume transacted.
(2) The Q1 tenders for 2022 and 2021 were held in Antwerp; non-gem +10.8 carat diamonds (since Q3 2021) and diamonds less than 10.8 carats in size which did not meet characteristics for sale on Clara were sold through tender.

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.

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. Top-up payments primarily relate to carats delivered in previous quarters. The Company anticipates that top-up payments will have a reduced impact on revenue going forward. 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.

At March 31, 2022 the cumulative invoiced diamond sales to HB that was considered variable was $52.3 million (December 31, 2021: $56.4 million) and included deliveries made in Q1 2022 and 2021. Variable consideration is a component of the transaction price and represents an area of significant management estimate and judgment. The variable consideration will be confirmed as the rough diamonds to which it relates are manufactured, polished and sold.

Payments owing for the final polished sales price and 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. Timing of deliveries to and polished sales by HB have the most significant impact on the timing of revenue recognition.

The Q1 2022 tender reflected strong performance in rough diamond pricing across all tendered size classes. A total of 74,638 carats were sold in the March 2022 tender, generating revenues of $16.0 million (Q1 2021 tender: $9.1 million for 76,771 carats).

RESULTS OF OPERATIONS – KAROWE MINE

Table 3:

	UNIT	Q1-22	Q4-21	Q3-21	Q2-21	Q1-21
Sales						
Revenues generated from the sale of Karowe diamonds in the quarter	US$M	67.2	56.5	72.5	45.9	53.0
Carats recovered from Karowe sold for revenues recognized during the period	Carats	80,295	102,791	117,162	68,806	91,734
Average price per carat for proceeds received during the period, excluding top-up payments	US$	690	418	588	522	480
Production						
Tonnes mined (ore)	Tonnes	811,947	610,072	1,190,856	900,660	967,089
Tonnes mined (waste)	Tonnes	482,104	276,263	696,907	787,227	859,347
Tonnes processed	Tonnes	666,488	705,877	738,986	726,379	673,646
Average grade processed	cpht (*)	12.6	12.8	13.2	13.9	11.9
Carats recovered	Carats	83,917	90,634	97,412	101,330	80,014
Costs						
Operating expense per carat sold	US$	224	217	198	219	215
Sustaining capital expenditures	US$M	0.8	9.1	3.4	2.4	0.4
Underground expansion project[1]	US$M	31.1	21.8	32.0	22.6	9.9

(*) carats per hundred tonnes

(1) Excludes qualifying borrowing cost capitalized in Q1 2022 and Q4 2021.

FIRST QUARTER OVERVIEW – OPERATIONS - KAROWE DIAMOND MINE

Safety: Karowe registered a TRIFR of 0.23 during the three months ended March 31, 2022. During the same time Karowe had no lost time injuries. As of March 31, 2022, the mine has operated for 498 days (3.8 million hours) without a lost time injury.

Environment and Social: There were no reportable environmental matters during the first quarter of 2022. Following certification under ISO 45001 in 2021, efforts in Q1 2022 focused on closing non-conformance matters identified through an audit as well as the closure of identified gaps from external verification related to Lucara Botswana's "Towards Sustainable Mining" initiative (this initiative was developed by the Mining Association of Canada and adopted by the Botswana Chamber of Mines). As part of the Company's efforts to align with the Global International Standard for Tailings Management ("GISTM") an Engineer of Record was appointed during the quarter.

Production: Ore and waste mined during the first quarter of 2022 totaled 0.8 million tonnes and 0.5 million tonnes respectively. During Q1 2022, tonnage processed was on target at 0.7 million tonnes at an average grade of 12.6 cpht, with a total of 83,917 carats recovered from direct milling. Ore processed was entirely from the South Lobe.

Diamond Recoveries: A total of 186 Specials were recovered, including 10 diamonds greater than 100 carats in weight. Recovered Specials equated to 6.9% weight percentage of total recovered carats from ore processed during Q1 2022 (Q1 2021 – 6.8%). The recovery of large gem quality diamonds from the EM/PK(S) and M/PK(S) units of the South Lobe was 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.

Karowe's operating cash cost: Karowe's operating cash cost for Q1 2022 (see "*Use of Non-IFRS Financial Performance Measures*") was $29.30 per tonne of ore processed (Q1 2021: $29.24 per tonne of ore processed) slightly below the full year forecast of $29.50-$33.50 per tonne processed and in line with Q1 2021. With similar tonnes processed, the cost per tonne of ore processed reflects cost inflation offset by fluctuations in currency exchange rates.

Karowe's operating margin per carat sold: the operating margin per carat sold (see Table 4: "*Select Financial Information*" and "*Use of Non-IFRS Financial Performance Measures*") increased from $265/carat, or 55% in Q1 2021 to $466/carat, or 68% in Q1 2022 due to significantly higher revenues.

Overall performance: Performance during the first quarter remained consistent with the strong operational results achieved over the past several years. Mining and processing results were on plan during Q1 2022 and the Company remains on track to meet, or exceed, market guidance.

SELECT FINANCIAL INFORMATION

Table 4: *In millions of U.S. dollars unless otherwise noted*	**Three months ended March 31,** **2022**	2021
Revenues	$ 68.2	$ 53.1
Operating expenses	(18.0)	(19.7)
Adjusted operating earnings[1]	**50.2**	**33.4**
Royalty expenses	(7.9)	(5.9)
Administration	(5.8)	(4.4)
Sales and marketing	(0.5)	(0.9)
Adjusted EBITDA[2]	**36.0**	**22.2**
Depletion and amortization	(6.0)	(12.7)
Finance expenses	(0.9)	(0.7)
Foreign exchange loss	(2.5)	(0.9)
Gain on derivative financial instrument	4.5	–
Current income tax expense	(0.4)	(0.4)
Deferred income tax expense	(11.7)	(4.2)
Net income for the period	**19.0**	**3.4**
Earnings per share (basic and diluted)	0.04	0.01
Per carat sold:		
Sales price per Karowe carat sold[3]	$ 690	$ 480
Operating expenses	224	215
Margin (mining operations)	466	265
Average grade processed (carats per hundred tonnes)[4]	12.6	11.9
Cash on hand	$ 39.1	$ 27.9
Total assets	474.4	356.4
Total non-current financial liabilities	143.9	80.1
Change in cash during the period	12.1	23.0

(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) Excludes top-up payments of $11.7 million. See Table 2 above for more details.
(4) 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 28% from $53.1 million in Q1 2021 to $68.2 million in Q1 2022 due to the strong recovery in rough and polished diamond prices through 2021 and early 2022 attributable to resurgent consumer demand and rough diamond supply shortages. During the three months ended March 31, 2022, Lucara sold 80,295 carats from Karowe at an average price of $690 carat (Q1 2021: 91,734 carats from Karowe at an average price of $480 per carat), a decrease of 12% by volume but an increase of 44% by value.

Stones sold under the terms of the HB sale agreements accounted for approximately 66% of the revenue earned in Q1 2022 (Q1 2021: 72%). 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.

Sewelô and Sethunya Diamonds

In 2021, Louis Vuitton ("LV") resumed its global marketing effort for the historic 1,758 carat "Sewelô", the largest diamond ever mined in Botswana, 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 the potential for planning and manufacturing 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 for the three months ended March 31, 2022 were $50.2 million (Q1 2021: $33.4 million) after operating expenses of $18.0 million or $224 per carat sold (Q1 2021: operating expenses of $19.7 million or $215 per carat sold). The 4% increase in operating expenses per carat sold is attributed to a 12% decrease in the volume of carats sold, offset by lower operating expenses attributed to the net impact of the depreciation of the Botswana Pula against the U.S. dollar and a lower level of mining activity offset by higher labour, fuel and energy costs.

The process plant milled 666,488 ore tonnes during Q1 2022, in line with the processing performance in the comparative quarter of 2021. The recovery of 83,917 carats in Q1 2022 was 3% higher than Q1 2021, the result of achieving an average grade of 12.6 carats per hundred tonnes ("cpht") from direct milling during Q1 2021 compared to an average grade of 11.9 cpht in Q1 2021.

Adjusted Operating Earnings is a non-IFRS measure and is reconciled in Table 4: *"Select Financial Information"*.

Depletion and amortization

In Q1 2022, the Company recorded depletion and amortization expense of $6.0 million (Q1 2021: $12.7 million). This non-cash expense decreased 53% from the comparative quarter, which is attributed to an increase in both rough diamond and ore stockpile inventory which resulted in depletion and amortization being capitalized to inventory at March 31, 2022, offset by a 5% increase in carats recovered. The depletion expense on assets which are primarily amortized on a unit of production basis will be affected by the volume of carats recovered in any given period and the reserves that are expected to be recovered. Formal approval of the UGP in Q3 2021 increased the reserve base used for this calculation.

Derivative financial instrument

A $4.5 million gain on a derivative financial instrument (Q1 2021: $nil) relates to changes in the fair value of the interest rate swap in response to changing market interest rates (*see Note 8 of the condensed interim consolidated financial statements for the three months ended March 31, 2022*). As at March 31, 2022, the interest rate swaps were recorded at a fair value of $3.7 million on the Statements of Financial Position within non-current assets.

Net income

Net income for the three months ended March 31, 2022 was $19.0 million (Q1 2021: $3.4 million), with net income for the three months ended March 31, 2022 reflecting increased revenue, lower depreciation charges, a gain on the derivative financial liability and increased deferred income tax expense. Deferred income tax expense primarily relates to the significant capital expenditures for the Karowe UGP. These expenditures are tax deductible in the year that the costs are incurred.

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

Adjusted EBITDA for the three months ended March 31, 2022 was $36.0 million compared to $22.2 million in Q1 2021. The change is directly attributable to the increase in revenue.

Adjusted EBITDA is a non-IFRS measure and is reconciled in *Table 4: "Select Financial Information"*.

Operating Cost Per Tonne of Ore Processed

For the three months ended March 31, 2022, operating cost per tonne of ore processed was $29.30 (Q1 2021: $29.24). This is slightly below full year cost guidance of $29.50 to $33.50 per tonne of ore and it is in line with the comparative quarter. With similar tonnes processed, the cost per tonne of ore processed reflects cost inflation (primarily related to labour, fuel, power and insurance) offset by fluctuations in currency exchange rates.

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

SELECT QUARTERLY FINANCIAL INFORMATION

Table 5: The following table sets out selected consolidated financial information for each of the eight most recent completed quarters:

Three months ended	**Mar-22**	**Dec-21**	**Sep-21**	**Jun-21**	**Mar-21**	**Dec-20**	**Sept-20**	**Jun-20**
A. Revenues	68,195	57,931	72,716	46,334	53,097	42,387	41,297	7,462
B. Administration expenses	(5,756)	(7,149)	(4,256)	(3,659)	(4,395)	(4,913)	(5,643)	(3,653)
C. Net income (loss)	18,968	1,662	12,760	5,998	3,407	(3,834)	(5,368)	(13,915)
D. Earnings (loss) per share (basic)	0.04	0.00	0.03	0.02	0.01	(0.01)	(0.01)	(0.04)

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

Revenue of $7.5 million recognized in the quarter ended June 30, 2020 was significantly lower than other quarters, due to a sharp and sudden decline in the diamond market for most of Q2 2020 as global travel restrictions disrupted supply chains and many workplaces were shut-down in response to the COVID-19 pandemic. 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 and Q1 2022 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 Table 4: "*Select Financial Information*") is the term the Company uses as an approximate measure of the Company's pre-tax operating cash flow and is generally used to measure performance and evaluate trends of individual assets. Adjusted EBITDA comprises earnings before depletion and amortization, finance expenses, foreign exchange, financial instrument fair value adjustments, disposal of assets and taxation.

Adjusted operating earnings (see Table 4: "*Select 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 6: Operating cash flow per share reconciliation:

In thousands of U.S. dollars except weighted average common shares outstanding and operating cash flow per share	**Three months ended March 31**	
	2022	2021
Cash flows from operating activities	$ 30,794	$ 14,216
Add: Changes in non-cash working capital	4,802	8,412
Total cash flow from operating activities before changes in non-cash working capital	35,596	22,628
Weighted average common shares outstanding	453,212,295	396,939,602
Operating cash flow per share[1]	**$0.08**	**$0.06**

(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 Table 4: "*Select Financial Information*") is the term the Company uses to describe the contribution to adjusted operating earnings, excluding top-up payments pursuant to the HB agreement and third party goods, for each single diamond carat sold. This is calculated as Adjusted operating earnings (before top-up payments related to the HB agreement and revenue from third party goods) 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 7: Operating cost per tonne of ore processed reconciliation:

In millions of U.S. dollars with the exception of tonnes processed and operating cost per tonne processed	**Three months ended March 31,**	
	2022	2021
Operating expenses	$ 18.0	$ 19.7
Net change rough diamond inventory, excluding depletion and amortization[1]	0.4	(2.0)
Net change ore stockpile inventory, excluding depletion and amortization[2]	1.1	2.0
Total operating costs for ore processed	19.5	19.7
Tonnes processed	666,488	673,646
Operating cost per tonne of ore processed[3]	**$ 29.30**	**$ 29.24**

(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 March 31, 2022, the Company had cash and cash equivalents of $39.1 million and cash flow from operating activities for the three months ended March 31, 2022 totaled $30.8 million.

The Company repaid $11.0 million on its $50 million working capital facility during the quarter, reducing the balance drawn to $12.0 million. The balance 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 March 31, 2022.

Working capital as at March 31, 2022 was $70.0 million as compared to $50.5 million as at December 31, 2021, an increase of 39%. Trade receivables (March 31, 2022: $47.4 million) and current inventories (March 31, 2022: $38.5 million) increased from the balances at December 31, 2021 (receivables: $38.8 million; inventories: $36.5 million). The receivable balance at March 31, 2022 includes $33.6 million (December 31, 2021: $17.5 million) due from HB and represents rough diamond sales in Q1 2022, as well as the value of diamond sales for which the transaction price was finalized and adjusted in March 2022. The increase in current inventories relates to ore stockpiled in accordance with the mine plan.

Current liabilities increased to $55.1 million as of March 31, 2022 from $51.8 million at December 31, 2021. The Company reduced the amount drawn on its short-term financing facilities by $11.0 million during the quarter, which was offset by increases in trade payables and accrued liabilities, primarily because of increased expenditure on the UGP and the timing of royalty payments.

Long-term liabilities consist of the project financing facility of $42.8 million (December 31, 2021: $23.7 million), restoration provisions of $16.1 million (December 31, 2021: $15.3 million), deferred income taxes of $84.2 million (December 31, 2021: $70.3 million), and other non-current liabilities of $0.9 million (December 31, 2021: $1.0 million) which consist of leases classified under IFRS 16: Leases and a liability for issued deferred share units.

Financing activities during the quarter included repayments of $11.0 million on the working capital facility, leaving an outstanding balance of $12.0 million at March 31, 2022 and the second draw under the Project Facility of $20.0 million was made during January 2022.

Total shareholders' equity increased to $275.4 million from $249.0 million at December 31, 2021 as earnings generated during the quarter reduced the accumulated deficit. Other changes to share capital and contributed surplus were related to share units vesting and the recording of share-based compensation during the period, and the cumulative impact of the currency translation adjustment.

RELATED PARTY TRANSACTIONS

A description of key management compensation can be found in Note 12 of the condensed interim consolidated financial statements for the three months ended March 31, 2022.

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 March 31, 2022, none of the revenue milestones had been achieved.

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 March 31, 2022, the platform had not generated positive EBITDA.

COMMITMENTS

As at March 31, 2022, purchase orders and contracts that give rise to commitments for future minimum payments for services to be provided related to the UGP amounted to $61.7 million (December 31, 2021 - $86.7 million).

Table 8: Approximate undiscounted timing of UGP commitments at March 31, 2022:

		2022	2023	2024	2025 and 2026	Total
Underground expansion project	*$ million*	37.9	13.6	4.3	5.9	**61.7**

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. In February 2022, based on updated expectations for revenue in 2022, the diamond revenue guidance issued was 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 (an individual rough diamond which sells for more than $10 million), or the Sethunya.

Karowe Mine, Botswana

Table 9: 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 as of February 2022)*	$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 currency and commodity price risk. The Company's financial instruments are exposed to certain financial risks, including currency, liquidity, credit, interest and price risks.

Currency risk

The Company is exposed to the financial risk related to fluctuating foreign exchange rates. All sales revenues are denominated in U.S. dollars, while directly related costs are denominated in Botswana Pula. At March 31, 2022, 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 $2.7 million in net income for the period.

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.

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 (by volume) 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 supply 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 further buoyancy during the first quarter of 2022 after prices improved in 2021 as a result of positive market supply and demand dynamics after the global demand for luxury commodities, including jewelry containing diamonds, was negatively impacted in 2020 the COVID-19 pandemic.

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 453,566,923 common shares outstanding, 7,206,000 share units, 1,616,053 deferred share units, and 7,302,000 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 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 which is 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.

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 and special meeting of shareholders will be held on May 6, 2022 in Vancouver, Canada.

CHANGES IN ACCOUNTING POLICIES

During the three months ended March 31, 2022 were no changes to the 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 starting January 1, 2022. 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 unaudited condensed interim consolidated financial statements. Management is responsible for the integrity and objectivity of this document, ensuring the fair presentation of its financial results. The Audit Committee is responsible for reviewing the contents of this document along with the condensed interim consolidated financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended March 31, 2022.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

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

Internal controls over financial reporting

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

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

There have been no changes in the Company's internal control over financial reporting during the three months ended March 31, 2022 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain of the statements made 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 completed in 2021, 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. The foregoing list is not exhaustive of the factors that may affect any of our forward-looking statements.

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. Certain risks which could impact the Company are discussed under the heading “Risks and Uncertainties” in the Company’s most recent Annual Information Form available at http://www.sedar.com (the “AIF”).

Forward-looking statements are 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.