

**LUCARA DIAMOND CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2017**

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 this MD&A, it should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016 and unaudited condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2017, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements. All amounts are expressed in U.S. dollars unless otherwise indicated. The effective date of this MD&A is November 2, 2017.

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](http://www.sedar.com).

### **FINANCIAL UPDATE**

**Revenues and operating margins:** The Company achieved revenue of \$77.9 million during the quarter (Q3 2016: \$38.1 million) including the sale of the Lesedi La Rona ("LLR") for \$53 million (\$47,777 per carat), a regular diamond tender of \$24.6 million and \$0.3 million of proceeds received from the Company's Q2 regular tender. The Q3 average price was \$389 per carat (excluding the sale of the LLR) compared to Q3 2016 average sales price of \$332 per carat, an increase of 17%. The Company has achieved strong year to date rough diamond prices at \$687 per carat excluding the sale of the LLR (year to date 2016: \$618 per carat excluding the sale of the 813 carat Constellation diamond). Year to date sales prices achieved an increase of 11% compared to the sales prices in the same period in 2016.

The value of the Karowe diamonds remain high as the south lobe continues to perform with 108 specials (single diamonds larger than 10.8 carats), including two poor quality stones in excess of 100 carats, equating to a 4.1% weight percentage of carats recovered during Q3.

Karowe sales remain strong compared to the diamond sector which is experiencing influx of new production, increasing weakness in the smaller and poorer quality stones as well as low colour brown diamonds. Average diamond prices, as reported by other diamond producers are estimated to have decreased by up to 8% compared to the prior year in certain size and quality fractions. This price decrease has been compounded by an increase in diamond production from new producers. The high quality south lobe and rarity of some of the Karowe diamonds has created strong demand for its diamonds leading to price increases. These strong prices and a continued focus on costs have resulted in a year to date operating margin of 80% (year to date operating margin of 67% excluding the sale of the LLR).

**Karowe's operating cash cost:** Karowe's total operating year to date cash cost (see page 8 Non-IFRS measures) is \$32 per tonne processed (2016: \$25.00 per tonne processed) and is expected to end the year within guidance of \$36-\$40 per tonne processed. The Company's expenditures remain well controlled with mining and processing cost per tonne and all site costs within forecast.

**Net cash position:** The Company's Q3 cash balance was \$91.4 million (Q3 2016: \$49.7 million and FY 2016 \$53.3 million). The increase in cash during the period is primarily due to the LLR sale, which was partially offset by the Company's capital expenditures of \$20.3 million and dividend payments of \$7.7 million. The Company's \$50 million credit facility remains undrawn.

**Earnings per share:** Earnings per share were \$0.09 for Q3 2017 (Q3 2016: \$0.01 loss per share) and \$0.17 for year to date September 30, 2017 (year to date September 30, 2016: \$0.16).

**Dividend:** In Q3 2017, the Company paid its quarterly dividend of CDN 2.5 cents per share or \$7.7 million on September 14, 2017 bringing the total dividend paid in 2017 to \$21.9 million.

## OPERATIONAL UPDATE

**Karowe operating performance:** Ore mined in Q3 2017 was 0.4 million tonnes and waste mined was 5.5 million tonnes. Processing volumes were largely on forecast for the quarter as the lower volume of ore mined was replaced with lower grade stockpile ore. The south lobe continued to perform as 108 specials (single diamonds larger than 10.8 carats), including two poor quality stones in excess of 100 carats, which equated to a 4.1% weight percentage of recovered carats were recovered during Q3.

The Company's two capital projects, the Mega Diamond Recovery ('MDR') and the Sub-middles XRT capital projects to improve diamond recovery and maintain design throughput were completed during the quarter, on schedule and within the forecasted budget of \$48 million.

**Botswana Prospecting Licenses:** During Q3 2017, the Company completed three large diameter drilling holes at AK11. Extension applications from the Ministry of Mines were received in Q4 for each of the Prospecting Licenses ("PL's") (PL367/2014 and PL371/2014). Work programs at AK11 and AK13 continue to progress. Microdiamond samples from AK13 are at the laboratory and positive results may lead to a further drilling program.

## FINANCIAL HIGHLIGHTS

<b>Table 1:</b> <i>In millions of U.S. dollars unless otherwise noted</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
Revenues *	\$ 77.9	\$ 38.1	\$ 183.6	\$ 229.4
Average price per carat sold (\$/carat)**	1,161	332	960	850
Operating expenses per carat sold (\$/carat)**	229	149	231	143
Operating margin per carat sold (\$/carat)**	932	183	729	707
Net income (loss) for the period	32.9	(3.8)	63.5	59.5
Earnings (Loss) per share (basic and diluted)	0.09	(0.01)	0.17	0.16
Cash on hand	91.4	49.7	91.4	49.7

(\*) Revenue is presented based on cash receipts received during the period and excludes tender proceeds received after each quarter end. See table 3: results of operations for reconciliation of revenue and total proceeds for tenders received for each quarter.

(\*\*) Average price per carat sold, operating expenses per carat sold and operating margin per carat sold are Non-IFRS measures, see table 3: results of operations for reconciliations and page 8 for Non-IFRS measures.

## OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2017. These are "forward-looking statements" and are subject to the cautionary note regarding the risks associated with forward-looking statements.

### **Karowe Mine, Botswana**

Operating guidance:

The Company has revised its revenue guidance to between \$165 million and \$175 million (previously \$200-\$220 million) for the year ending December 31, 2017, excluding the sale of the 1,109 carat Lesedi La Rona which sold for \$53 million. The Company has experienced a longer than anticipated ramp up of its new mining contractor, Aveng Moolman as well as contractor operating inefficiencies which are being addressed and improved. The contractor mining issues have led to a reduction in planned fresh south lobe ore being mined and processed during the year resulting in the substitution of lower grade stockpile being processed. The processing of lower grade stockpile has caused a decrease in carats recovered and forecast carats sold which are now between 260,000 and 270,000 carats compared to initial guidance of between 290,000 to 310,000 carats. The south lobe ore not mined during the year is planned to be mined and carats recovered in 2018.

The south lobe ore mined continues to meet expectations in terms of both grade and sales prices achieved. Year to date average sales price achieved is \$687 per carat (excluding the sale of the Lesedi La Rona). This compares to the same period in 2016 prices of \$618 per carat excluding the

sale of the 813 carat Constellation diamond, and full year prices of \$649, \$593 and \$644 per carat in 2016, 2015 and 2014 respectively. The increase in price reflects an increasing proportion of south lobe diamonds compared to prior years, the continued recovery of specials (+10.8 carats) at 5.0% weight percentage of total production in 2017 and the continued strong demand for Karowe’s south lobe diamonds.

The Company continues to forecast tonnes processed at between 2.4 to 2.7 million tonnes and is forecasting carats recovered of between 260,000 and 265,000 carats from 265,000 and 285,000 forecast in Q2. Ore mined is forecast between 1.4 to 1.6 million tonnes, a decrease from the 1.8 to 2.0 forecast in Q2. Waste mining is forecast at between 15 to 17 million tonnes from 17 to 20 million tonnes forecast in Q2.

The two capital projects: MDR and Sub-middles XRT were completed during the quarter on schedule and within budget. This is expected to complete the Company’s major capital expenditures to address comminution and diamond recovery at the mine and improve future cash flows. Sustaining capital is unchanged and forecast to be between \$7-\$9 million in 2017.

Karowe’s total cash operating costs are well controlled and remain unchanged and are expected to be between \$36.00 and \$40.00 per tonne. A budget of up to \$10.0 million remains unchanged to advance resource evaluation work on the AK06 kimberlite at Karowe Mine and the completion of a Preliminary Economic Assessment on the potential of an Underground Mine at Karowe as well as initial hydrogeological modeling to support a pre-feasibility level underground study.

The USD/Pula outlook foreign exchange rate is 10.3.

## **BUSINESS OVERVIEW**

The Company is a diamond mining company focused in Africa. The business of the Company consists of the acquisition, exploration, development and operation of diamond properties. The Company’s head office is in Vancouver, BC, 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”. The principal assets of the Company and the focus of the Company’s operations, development and exploration activities reside in Botswana.

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Table 2: Company’s current land holdings:

<b>Country</b>	<b>Name</b>	<b>Interest Held</b>	<b>Area (km<sup>2</sup>)</b>
Botswana	Karowe Diamond License	100%	15.3
Botswana	Prospecting License No. 371/2014 (AK11,12,13,14)	100%	55.4
Botswana	Prospecting License No. 367/2014 (BK02)	100%	1.1

## RESULTS OF OPERATIONS

**Table 3: Karowe Mine, Botswana**

	UNIT	YTD-17	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16
<b>Sales</b>							
Revenues	US\$M	183.6	77.9	79.6	26.1	66.0	38.1
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US\$M	183.6	77.6	79.9	26.1	66.0	29.8
Sales proceeds received during the quarter	US\$M	183.6	77.9	79.6	26.1	66.0	38.1
Q2 2017 tender proceeds received post Q2 2017	US\$M	-	(0.3)	0.3	-	-	-
Q2 2016 tender proceeds received post Q2 2016	US\$M	-	-	-	-	-	(8.3)
Carats sold for proceeds generated during the period	Carats	191,167	64,289	62,434	64,444	88,957	84,059
Carats sold for revenues recognized during the period	Carats	191,167	67,125	59,598	64,444	88,957	114,659
Average price per carat for proceeds generated during the period**	US\$	960	1,207	1,280	405	743	355
Average price per carat for proceeds received during the period***	US\$	960	1,161	1,336	405	743	332
<b>Production</b>							
Tonnes mined (ore)	Tonnes	950,303	386,906	432,017	131,380	582,169	650,290
Tonnes mined (waste)	Tonnes	11,119,512	5,540,139	4,992,196	587,177	2,728,915	3,092,110
Tonnes processed	Tonnes	1,703,773	591,196	513,643	598,934	630,471	650,646
Average grade processed	cpht <sup>(*)</sup>	10.9	10.6	11.2	10.9	13.0	12.5
Carats recovered	Carats	185,290	62,425	57,624	65,241	82,272	81,423
<b>Costs</b>							
Operating costs per carats sold (see page 7 Non-IRFS measures)	US\$	231	229	247	217	197	149
Capital expenditures							
-8+4mm sub-middles XRT project	US\$M	13.0	5.3	4.9	2.8	7.2	-
LDR and MDR circuit	US\$M	7.0	3.6	1.8	1.6	0.8	2.3
Sustaining capital	US\$M	4.6	1.9	2.2	0.5	2.0	5.8
<b>Total</b>	<b>US\$M</b>	<b>24.6</b>	<b>10.8</b>	<b>8.9</b>	<b>4.9</b>	<b>10.0</b>	<b>8.1</b>

(\*) carats per hundred tonnes

(\*\*) Average price per carat for proceeds generated during the period includes all sales tendered during the period including proceeds received post the quarter end

(\*\*\*) Average price per carat for proceeds received during the period includes all sales proceeds collected during the period including proceeds received during the quarter

### OPERATIONS KAROWE MINE

Karowe had no lost time injuries during Q3 resulting in a twelve month rolling Lost Time Injuries Frequency Rate ("LTIFR") of 0.68.

The Company's mining contractor, Aveng Moolman, experienced equipment availability issues during the quarter that resulted in lower than planned south lobe ore being mined. To address this issue the contractor has delivered additional trucks, shovels, excavators and drill rigs to the mine. The contractor has also strengthened its site senior management team and is focussed on improving overall mining methods to achieve sustainable, long term operating efficiencies. Improved performance is now being realized and is expected to steadily improve during the next quarter.

Tonnes processed were largely on forecast as stockpile material provided plant feed. The Company continues to focus on waste mining to create additional options for ore availability and access to south lobe material in the future.

Karowe's total operating cash costs are at \$32 per tonne processed and is forecast to be between \$36-\$40 per tonne processed for the year. Year to date cash mining cost per tonne was \$2.45 compared to guidance of \$2.70 to \$2.90 per tonne and processing cost per tonne was \$11.50 compared to guidance of \$11.0 to \$12.0 per tonne.

The two capital projects: MDR project and Sub-middles XRT project to enhance diamond recovery and maintain design throughput were completed within the quarter with total expenditure during the past two years for both projects within forecast of \$48 million. The primary purpose of the MDR is to recover diamonds larger than 50mm prior to unit processes where the diamond may incur breakage resulting in a lower diamond value. The Sub-middles XRT circuit, which processes +4-8mm material has shown consistent recoveries when compared to those recorded when processing low yield material through a standard Dense Medium Separation circuit. An audit system which is designed to process ~20% of the coarse plant tailings above 4mm is expected to be commissioned in Q1/2018

and forms part of the budget for the Sub-middles project. These costs are forecast to be paid in 2018.

The Company's mine processing contract with Dowding Raynard & Associates's ("DRA") 100% subsidiary, Minopex Botswana (Proprietary) Limited has been transitioned to a new DRA Company which has increased capabilities on the operation of Karowe's new technology. The new subsidiary will also be focused on improving operating efficiencies, achieving cost reductions and increasing operational utilization.

The results of an Underground Preliminary Economic Assessment prepared in accordance with National Instrument 43-101 demonstrates the quality of the south lobe and the economic viability for the development of an underground mine at Karowe (see press release dated November 2, 2017). A NI43-101 Preliminary Economic Assessment was completed early in Q4 2017. A Pre-Feasibility Study is expected to be completed in H1 2018.

## **EXPLORATION AND RESOURCE UPGRADE**

### *Karowe Resource (AK06 kimberlite) Upgrade Drilling*

During the quarter specific sampling of drill core was completed for density, petrography, and microdiamond analysis. Limited additional infill sampling was initiated in early Q4 to compliment the existing data and provide additional data points at depth. Drilling was completed in Q1 2017 on a planned 10,000 metre drill program at the Karowe Mine to test the AK06 kimberlite at depth. A total of 12 drill holes (9,750 metres) were completed with approximately 2,770 linear metres within the south lobe of the AK06 kimberlite being drilled. The program is designed to increase confidence in the geological model for the south lobe of the AK06 kimberlite and provide sufficient data and material for an updated resource to be utilized in an underground option study for the Karowe mine. Mineral Services Canada has been contracted to assist in the development of the sampling program and internal geology updates that will be utilized for an updated resource estimate for the current inferred portion of the Karowe Mine and is expected to be completed in Q4 2017.

### *Botswana Prospecting Licenses*

In 2014, the Company was awarded two precious stone prospecting licenses (PL367/2014 and PL371/2014) which are known to host kimberlites, BK02, AK11 and AK12, AK13 and AK14. The prospecting licenses are located within a distance of 15 km and 30 km from the Karowe Diamond mine. Extension applications were received from the Ministry of Mines in Q4 for prospecting licenses ("PL") (PL367/2014 and PL371/2014).

#### *AK11*

During Q3 2017, the Company completed all pilot holes and three of the planned eight large diameter drilling ("LDD") holes at the AK11 kimberlite. Material recovered from the LDD samples commenced processing at the Company's Bulk Sample Plant located at the Karowe Mine in early Q4 2017.

#### *AK13*

During Q3 2017 logging and sampling of AK13 was completed and microdiamond samples shipped for analysis. Results are expected during Q4 2017.

## SELECT FINANCIAL INFORMATION

Table 4:

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
<i>In millions of U.S. dollars unless otherwise noted</i>				
Revenues	\$ 77.9	\$ 38.1	\$ 183.6	\$ 229.4
Operating expenses	(15.4)	(17.1)	(44.1)	(38.6)
<b>Operating earnings<sup>(1)</sup></b>	<b>62.5</b>	<b>21.0</b>	<b>139.5</b>	<b>190.8</b>
Royalty expenses	(7.8)	(3.8)	(18.4)	(22.9)
Administration	(3.1)	(3.2)	(9.2)	(8.4)
Sales and marketing	(0.5)	(0.4)	(2.4)	(3.7)
Exploration expenditures	(1.3)	(1.2)	(3.1)	(2.9)
<b>EBITDA<sup>(2)</sup></b>	<b>49.8</b>	<b>12.4</b>	<b>106.4</b>	<b>152.9</b>
Depletion and amortization	(3.9)	(5.3)	(10.9)	(12.7)
Finance expense	(0.5)	(0.3)	(1.4)	(0.1)
Foreign exchange gain (loss)	0.8	(7.6)	(2.4)	(10.7)
Loss on disposal of Mothae	-	-	-	(1.2)
Current income tax expense	(7.1)	(9.3)	(14.8)	(72.8)
Deferred income tax recovery (expense)	(6.2)	6.3	(13.3)	4.1
<b>Net income (loss) for the period</b>	<b>32.9</b>	<b>(3.8)</b>	<b>63.6</b>	<b>59.5</b>
<b>Change in cash during the period</b>	<b>28.8</b>	<b>(161.2)</b>	<b>38.1</b>	<b>(85.1)</b>
<b>Cash on hand</b>	<b>91.4</b>	<b>49.7</b>	<b>91.4</b>	<b>49.7</b>
<b>Earnings (Loss) per share (basic and diluted)</b>	<b>0.09</b>	<b>(0.01)</b>	<b>0.17</b>	<b>0.16</b>
<b>Per carats sold</b>				
<b>Sales price</b>	<b>\$ 1,161</b>	<b>\$ 332</b>	<b>\$ 960</b>	<b>\$ 850</b>
<b>Operating expenses</b>	<b>229</b>	<b>149</b>	<b>231</b>	<b>143</b>
<b>Average grade (carats per hundred tonnes)</b>	<b>10.6</b>	<b>12.5</b>	<b>10.9</b>	<b>13.7</b>

<sup>(1)</sup> Operating earnings is a non-IFRS measure defined as sales less operating expenses.

<sup>(2)</sup> EBITDA is a non-IFRS measure defined as earnings before interest, taxation, depreciation and amortization.

## Table 5: Cash operating cost per tonne ore processed reconciliation:

	Nine months ended September 30,	
	2017	2016
<i>In millions of U.S. dollars with the exception of tonnes processed and cash operating cost per tonne processed</i>		
Operating expenses	\$ 44.1	\$ 38.6
Capitalized production stripping costs <sup>(1)</sup>	17.6	6.9
Net change rough diamond inventory <sup>(2)</sup>	(0.7)	2.2
Net change ore stockpile inventory <sup>(3)</sup>	(5.8)	1.9
Total cash operating costs for ore processed	55.2	49.6
Tonnes processed	1,703,773	1,982,746
<b>Cash operating cost per tonne ore processed<sup>(4)</sup></b>	<b>32.40</b>	<b>25.00</b>

<sup>(1)</sup> Capitalized production stripping cost in investing activities in the Condensed interim consolidated statements of cash flows.

<sup>(2)</sup> Net change in rough diamond inventory for the 9 month period ended September 30, 2017 and September 30, 2016.

<sup>(3)</sup> Net change in ore stockpile inventory for the 9 month period ended September 30, 2017 and September 30, 2016.

<sup>(4)</sup> Cash 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 net change in working capital items for rough diamond and stockpile inventory divided by the tonnes ore processed for the period.

### **Revenues**

During Q3, the Company completed one regular diamond tender totalling 63,180 carats and the sale of the 1,109 carat Lesedi La Rona diamond. The sales achieved gross proceeds of \$77.9 million including proceeds of \$0.3 million from the June 2017 regular diamond tender. Overall, during Q3, the Company recognized an average sales price of \$1,161 per carat (\$389 per carat excluding the sale of the Lesedi La Rona) compared to Q3 2016 average sales price of \$332 per carat.

### **Operating earnings**

Operating earnings before royalty payments for Q3 were \$62.5 million resulting in an operating margin (before royalties and depletion, amortization and accretion) of 80%. The year to date operating margin is 76% compared to prior year of 83%.

### **Income tax expense**

Total income tax expense was \$13.4 million during Q3 2017, which includes a current income tax charge of \$7.2 million and a deferred income tax charge of \$6.2 million. The current tax expense has been calculated at an annualized tax rate of approximately 22%, which reflects the current year forecast tax rate based on the Company's revenue guidance including the LLR sale. The Company is subject to a variable tax rate in Botswana that increases as profit, as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55%.

### **Earnings before interest, tax, depreciation and amortization (EBITDA)**

Q3 2017 EBITDA was \$49.8 million compared to \$12.4 million in Q3 2016. The increase in EBITDA as compared to the prior year was due to the sale of the LLR in Q3 2017.

EBITDA is a non-IFRS measure and is reconciled in the table 4.

### **Net Income**

The Company reported a net income of \$32.9 million in Q3 compared to a net loss of \$3.8 million in the prior year. This is due to the sale of the LLR sale and a regular tender in Q3 2017. The Company also reported a large foreign exchange loss in Q3 2016 compared to a minor foreign exchange gain in the current year.

### **Cash operating cost per tonne ore processed**

The nine months ended September 30, 2017 cash operating cost per tonne processed was \$32.40 per tonne processed compared to \$25.00 per tonne processed in 2016. The higher cost compared to the prior year is largely due to the Company's increase in waste mining during 2017 as anticipated in the Company's forecast.

Cash operating cost per tonne processed is a non-IFRS measure and is reconciled in the table on table 5 to the most directly comparable measure calculated in accordance with IFRS, which is operating expenses.

### **Liquidity and Capital Resources**

As at September 30, 2017, the Company had cash of \$91.4 million compared to \$49.7 million at September 30, 2016 and \$53.3 million at December 31, 2016.

Cash increased by \$28.8 million during Q3. This increase is mainly due to the Company's LLR sale which partially offset the Company's third quarterly dividend to its shareholders of \$7.7 million and capital expenditure of \$20.3 million.

## SUMMARY OF QUARTERLY RESULTS

(All amounts expressed in thousands of U.S. dollars, except per share data).

Table 6: The following table provides highlights, extracted from the Company's financial statements, of quarterly results for the past eight quarters (unaudited):

Three months ended	Sept-17	Jun-17	Mar-17	Dec-16	Sept-16	Jun-16	Mar-16	Dec-15
A. Revenues	77,911	79,615	26,094	66,017	38,098	140,785	50,566	65,212
B. Administration expenses	(3,163)	(2,975)	(3,025)	(6,429)	(3,226)	(2,678)	(2,448)	(5,214)
C. Net income (loss)	32,903	32,174	(1,531)	11,204	(3,804)	46,116	17,141	18,958
D. Earnings (loss) per share (basic and diluted)	0.09	0.08	(-)	0.03	(0.01)	0.12	0.05	0.05

## NON-IFRS FINANCIAL MEASURES

This MD&A refers to certain financial measures, such as Average price per carat sold, Operating costs per carat sold, Operating margin per carat sold, EBITDA, and Cash operating cost per tonne 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.

Average price per carat sold is the term the Company uses to describe the revenue generated by a single carat of diamond sold and it is calculated by the dividing revenue over number of carats sold in the same period. Operating costs per carat sold is the term the Company uses to describe the mining, processing and site administration costs to produce a single carat of diamond. This is calculated as operating costs per carat of diamond sold. Operating margin is the term the Company uses to describe the net profit generated after mining, processing and site administration costs generated by a single carat of diamond sold and it is calculated by subtracting the average price per carat sold by operating costs per carat sold.

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

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

Cash operating cost per tonne ore processed (see "Select Financial Information") is the term the Company uses to describe operating expenses per tonne processed on a cash basis. This is calculated as cash 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 in table 5.

## RELATED PARTY TRANSACTIONS

For the nine months ended September 30, 2017, the Company donated \$0.2 million (2016 – \$0.2 million) to a charitable foundation directed by members of the Company's directors to carry out social programs on behalf of the Company.

## FINANCIAL INSTRUMENTS

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in

the consolidated statements of operations or consolidated statements of comprehensive loss. Those categories are: fair value through profit or loss; loans and receivables; available for sale assets; and other liabilities.

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

In the normal course of business, the Company is inherently exposed to currency and commodity price risk.

#### **OUTSTANDING SHARE DATA**

As at the date of this MD&A, the Company had 382,619,334 common shares outstanding and 3,738,337 stock options outstanding and 1,388,042 share units outstanding under its stock-based incentive plan.

#### **RISKS AND UNCERTAINTIES**

The operations of the Company are speculative due to the high risk nature of its business which includes acquisition, financing, exploration, development and operation of diamond properties. These risk factors could materially affect the Company's future operations and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

The risk factors which should be taken into account in assessing the Company's activities, include, but are not necessarily limited to, those set out in the Management's Discussion and Analysis for the year ended December 31, 2016.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

Other than in respect of operating lease arrangements for offices in Botswana, the Company is not party to any off-balance sheet arrangements.

#### **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Audit Committee is responsible for reviewing the contents of this document along with the interim quarterly 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 September 30, 2017.

#### **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, 2016, 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, 2016, 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.

As required under Multilateral Instrument 52-109, management advises that there have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period, beginning July 1, 2017 and ending September 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS**

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

In particular, this MD&A may contain forward looking information pertaining to the following: the estimates of the Company's mineral reserves and resources; estimates of the Company's production and sales volumes for the Karowe Mine; estimated costs for capital expenditures related to the Karowe Mine; start-up, exploration and development plans and objectives; production costs; exploration and development expenditures and reclamation costs; expectation of diamond price and changes to foreign currency exchange rates; expectations regarding the need to raise capital; possible impacts of disputes or litigation; and other risks and uncertainties described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form available at <http://www.sedar.com> (the "AIF").

Forward-looking statements are based on the opinions, assumptions and estimates of management as of the date such statements are made, and they are subject to a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward-looking statements. Such

assumptions include: the Company's ability to obtain necessary financing; the Company's expectations regarding the economy generally, results of operations and the extent of future growth and performance; and assumptions that the Company's activities will not be adversely disrupted or impeded by development, operating or regulatory risk. The Company believes that expectations reflected in this forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A should not be unduly relied upon.

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

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