

**LUCARA DIAMOND CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2021**

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected the performance of Lucara Diamond Corp. and its subsidiaries (the "Company") and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the period ended September 30, 2021, 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.

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).

The effective date of this MD&A is November 3, 2021.

## **ABOUT LUCARA**

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

The Company's corporate office is 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 – Q3 2021**

- Revenue of \$72.7 million during Q3 2021, a 57% increase over the previous quarter, resulted in an average price per carat sold of \$619.
- In September, Lucara announced the Board of Directors formally approved the Karowe underground expansion project following the Financial Close and satisfaction of all Conditions Precedent pursuant to the \$220 million senior secured project financing debt package.
- The first drawdowns under the \$220 million senior secured project financing debt package occurred in September 2021 and the Company reduced the outstanding balance on the working capital facility from \$50.0 to \$30.0 million.
- On July 15, 2021, the Company closed two equity financings, generating net proceeds of \$31.3 million from the sale of 55,157,733 common shares at a price of C\$0.75 per share.
- On July 13, 2021, the Company announced the recovery of four pink diamonds from direct milling from the EM/PK(S) unit of the South Lobe. The largest stone recovered was a 62.7 carat high quality, fancy pink Type IIa gem diamond. A 22.21 carat pink gem of similar quality was also recovered during the same production period along with two additional pink gems of similar colour and purity weighing 11.17, and 5.05 carats.
- Also in July 2021, a 393.5 carat top white Type IIa gem quality diamond was recovered from direct milling of ore sourced from the M/PK(S) unit of the South Lobe. This is the third gem quality +300 carat produced from the M/PK(S) unit in 2021, following the recovery of two top white gems (341 carats and 378 carats) in January 2021. During the August production month, a 257.7 carat top white Type IIa gem quality diamond was also recovered.
- Achieved a Total Recordable Injury Frequency ("TRIF") of 0 for the third consecutive quarter.

- Q3 2021 operational results from the Karowe Mine included:
  - Ore and waste mined of 1.3 million tonnes (Q3 2020: 0.7 million tonnes) and 0.6 million tonnes (Q3 2020: 0.4 million tonnes), respectively.
  - 0.74 million tonnes (Q3 2020: 0.65 million tonnes) of ore processed resulting in 97,412 carats recovered (Q3 2020: 88,909 carats), achieving a recovered grade of 13.2 carats per hundred tonnes (Q3 20: 13.8 carats per hundred tonnes).
  - 212 Specials (+10.8 carats) were recovered from direct milling during the third quarter, representing 7.9% weight percentage of total direct milling recovered carats, a strong production quarter in terms of volume of Specials recovered (Q3 2020: 6.5%).
  - A total of nine diamonds greater than 100 carats were recovered during the quarter, including three diamonds > 300 carats, three diamonds >200 carats, along with a further three stones between 100 and 200 carats in weight.
- Financial highlights for the three months ended September 30, 2021 included:
  - Total revenue of \$72.7 million was recognized in Q3 2021 (Q3 2020: \$41.3 million) or \$619 per carat (Q3 2020: \$365 per carat) from the sale of 117,459 carats (Q3 2020: 112,943 carats).
  - The Company recorded net income of \$12.8 million during Q3 2021 (earnings per share of \$0.03), as compared to a net loss of \$5.4 million for Q3 2020 (loss per share of \$0.01).
  - Adjusted EBITDA<sup>(1)</sup> for Q3 2021 of \$36.8 million (Q3 2020: \$9.9 million) was the result of a high proportion of Specials (+10.8 carat) recovered and sold as well as overall higher market prices for diamonds, supported by incremental top-up payments received under the HB supply agreement for polished diamond sales.
  - The value of the rough diamonds transacted through the Clara platform in Q3 2021 was \$6.6 million over four sales, a 136% increase from the \$2.8 million transacted in the same period in 2020. The strong price increases observed in the first two quarters of 2021 continued through Q3 2021 and the number of buyers on the platform increased by three during the quarter to 87 as of September 30, 2021.
  - As at September 30, 2021, the Company had cash and cash equivalents of \$26.6 million, an increase of \$21.7 million from December 31, 2020. During the third quarter, the Company drew \$25 million from the project finance facility and reduced the outstanding balance on the working capital facility to \$30 million.

(1) See "Use of Non-IFRS Financial Performance Measures"

## DIAMOND MARKET

Following a challenging 2020, the diamond market in 2021 continues to be in a healthy balance due to robust demand and lower rough supply. The market remained stable in Q3 despite concerns there may be a softening in the Chinese market. Midstream demand remains strong with capacity in particularly India remaining high leading up to an expected strong holiday season over the coming months.

## UPDATE ON COVID-19 RESPONSE

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

The Company continues to operate under its approved crisis management plan, designed to protect the health and well-being of our employees in Botswana and Canada as well as the financial well-being of the business. The Company has permission to conduct COVID-19 testing at our operations in Botswana which began in January 2021, and regular health screening, temperature checks and the use of infrared measurements are also routine. All contractors and visitors are required to have negative COVID-19 tests and adhere to all COVID-19 protocols while conducting work at company operations in Botswana. A government-sponsored vaccination program commenced in Botswana mid-year. At the end of September, 67% had received a first dose, and 8% of the Company's workforce was fully vaccinated. As the vaccination programs ramp up, the Company is working toward fully vaccinating the workforce by the end of Q4 2021.

Concern remains over how governments across the jurisdictions in which Lucara and many of its customers operate will respond to increasing infection numbers and variants of COVID-19, even as mass vaccination campaigns are in progress in many countries. Due to the ongoing uncertainty resulting from the global pandemic, Lucara's operations could be impacted in a number of ways including, but not limited to: a suspension of operations at the Karowe Mine, disruptions to supply chains, worker absenteeism due to illness, disruption to the progress of the Karowe Mine underground expansion project and an inability to ship or sell rough and/or polished diamonds during this period. These possible impacts could result from government directives, the need to modify work practices to meet appropriate health and safety standards, a lack of demand for rough and/or polished diamonds, a lack of available liquidity to meet ongoing operational expenses and, due to or by other COVID-19 related impacts on the availability of labour or to the supply chain.

## **EQUITY FINANCINGS – JULY 2021**

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

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

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

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

## **PROJECT DEBT FINANCING AND SHAREHOLDER UNDERTAKING – JULY 2021**

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

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

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

The Working Capital Facility may be used for working capital and other corporate purposes. As at September 30, 2021, \$30.0 million (excluding accrued interest) of the \$50.0 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.

The Company incurred \$11.3 million of debt advisory, legal and due diligence fees in conjunction with arranging the Facilities. At Financial Close, transaction costs of \$8.7 million were allocated to the Project Finance Facility, recorded as deferred financing fees until draws are made on the facility and then recorded as transaction costs proportionally to the amount drawn under the facility. Deferred finance fees of \$1.5 million was allocated to the initial draw of \$25.0 million as transaction costs. Transaction costs of \$2.6 million were allocated to the Working Capital Facility and included in deferred financing fees.

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

As at September 30, 2021, the Company was in compliance with all financial covenants. Under the terms of the Facilities, the Company is required to satisfy a set of prescribed conditions subsequent. A delay in meeting a condition subsequent is an event of default that allows the Lenders the option to accelerate the Facilities through notice to the Company. At September 30, 2021 the Facilities are classified as current because certain conditions subsequent were not yet satisfied and the Company did not have a waiver in place at that date. The condition subsequent resulting in an event of default as at September 30, 2021 was remedied on October 25, 2021.

#### *Shareholder Undertaking*

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

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

#### **KAROWE UNDERGROUND UPDATE**

On November 4, 2019, the Company announced the results of a Feasibility Study for an underground mine at Karowe. An update on the Karowe underground project ("UGP") was released on August 10, 2021. A copy of the Company's news release and the related technical report prepared pursuant to the requirements of NI 43-101 – *Standards of Disclosure for Mineral Projects* have been filed on Sedar ([www.sedar.com](http://www.sedar.com)) and are available on the Company's website at: [www.lucaradiamond.com](http://www.lucaradiamond.com).

The Karowe UGP will extend the mine life to at least 2040, with mining predominately from the highest value EM/PK(S) unit and is forecast to contribute approximately \$4 billion in additional revenues, using conservative diamond prices. Following Financial Close of the Facilities on September 2, 2021, the Company's Board of Directors formally approved the UGP, which has a \$534 million capital cost and a five-year construction period. Mine ramp up is expected in Q1 2026 with full production from the UGP expected in Q4 2026.

Highlights of the activities undertaken this year, include:

- \$64.6 million has been spent to September 30, 2021, primarily in relation to engineering and procurement of long lead items and the commencement of construction activities; the total planned spend for 2021 is up to \$120.0 million.
- During Q3 2021, the Company spent \$32.0 million on project execution activities including full mobilization of the pre-sink shaft sinking contractor, commencing pre-sinking of the ventilation and production shafts, ventilation shaft scotch derrick erection and installation, continued surface infrastructure construction for shaft development and the second phase of a 200-person camp, and the commencement of bush clearing on the route for the 29 km 132kV transmission line bulk power upgrade.

#### *Upcoming Activities for the UGP*

Activities on the UGP in Q4 2021 are expected to include the following: commissioning of scotch derrick cranes, completion of ventilation and production shaft pre-sinking, continuation of shaft civil works, mobilize headframe material and contractor to start headframe pre-assembly, continuation of detailed design and engineering of the underground mine infrastructure and layout, commissioning of temporary generators, commencement of bulk power supply infrastructure and foundation works for the transmission line towers, transmission line engineering, and completion of other site related infrastructure. JDS Energy & Mining Inc. (“JDS”) is the Engineering Procurement Construction Manager for the execution of the Karowe UGP. JDS is currently building up the onsite project team in conjunction with the Lucara owners’ team, while working closely with the Karowe Diamond Mine operations team.

#### **HB SUPPLY AGREEMENT FOR +10.8 CARAT DIAMOND PRODUCTION**

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

Under the amended supply agreement with HB, +10.8 carat production from the Karowe Mine is being sold at prices based on the estimated polished outcome of each diamond, 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. Changes to the payment profile were also amended in the extended agreement 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. The Company recorded revenue of \$50.5 million over the third quarter, compared to \$25.9 million in Q3 2020. Polished sales frequency and prices achieved have continued to increase through 2021, resulting in higher revenue.

#### **CLARA SALES PLATFORM**

Clara, Lucara’s 100% owned proprietary, secure, web-based digital sales platform, continues to gain scale and interest. In the third quarter, 4 sales took place with a total sales volume transacted of \$6.6 million, a 136% increase from the \$2.8 million transacted in Q3 2020. Clara also observed a steady upward price trend at each subsequent sale throughout the period. The number of buyers on the platform increased to 87 in Q3, from 84 in Q2, with the Company maintaining a waiting list to manage supply and demand. Platform trials and discussions continued through the quarter and are ongoing with third parties to build supply. Interest in Clara has grown considerably since 2020, sparked by global restrictions on travel, combined with a new openness to purchasing rough diamonds in an innovative way.

## FINANCIAL HIGHLIGHTS

**Table 1:**

<i>In millions of U.S. dollars except carats or otherwise noted</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Revenues	\$ 72.7	\$ 41.3	\$ 172.1	\$ 82.9
Net income (loss) for the period	12.8	(5.4)	22.2	(22.4)
Earnings (loss) per share (basic and diluted)	0.03	(0.01)	0.05	(0.06)
Operating cash flow per share <sup>(1)</sup>	0.08	0.03	0.19	0.03
Cash on hand	26.6	10.1	26.6	10.1
Amounts drawn on working capital facility/ revolving credit facility	30.0	20.0	30.0	20.0
Amounts drawn on project financing facility	25.0	–	25.0	–
Average price per carat sold (\$/carat) <sup>(1)</sup>	619	365	619	309
Operating expenses per carat sold (\$/carat) <sup>(1)</sup>	198	192	208	190
Operating margin per carat sold (\$/carat) <sup>(1)</sup>	421	173	410	119
Carats sold	117,459	112,943	278,180	268,101

(1) Operating cash flow per share, average price per carat sold, operating expenses per carat sold and operating margin per carat sold are Non-IFRS measures. See “Use of Non-IFRS Performance Measures” and Table 3: Results of Operations for reconciliations.

Beginning in Q2 2020, all +10.8 carat diamonds mined from Karowe were sold to HB pursuant to the terms of the diamond supply agreement described above (see “HB Supply Agreement For +10.8 Carat Diamond Production” above). Following the extension of the HB Agreement in Q2 2021, all +10.8 carat diamonds which don’t meet the criteria for polishing by HB are being sold as rough through the quarterly tender.

The Company recognized revenue of \$72.7 million from the sale of 117,459 carats in Q3 2021. The Q3 2021 tender, which generated revenues of \$15.6 million (Q3 2020: \$12.6 million) was held in September 2021. Diamonds which did not meet the criteria for sale on Clara (less than 10.8 carats in size) or for polishing under the HB Agreement (+10.8 carats in size) were sold through tender.

The Q3 2021 average sales price of \$619/carats (Q3 2020: \$365/carats) reflects a strong recovery of Specials (+10.8 carat) that were recovered and sold as well as overall higher market prices for diamonds, supported by top-up payments received for polished diamond sales under the HB supply agreement for carats delivered in previous quarters. Top-up payments, net of manufacturing costs, are paid when polished diamonds are sold and the sales prices achieved exceed the initial purchase price paid to Lucara under the initial and amended HB sales agreements. Going forward top-up payments are expected to have less of influence on revenue received during the quarter due to better planning of rough stones and amended terms to the extended HB supply agreement.

**Table 2: Q3 2021 Sales Results:**

<b>Sales Channel</b>	<b>Rough Carats Sold</b>	<b>Revenue Recognized<sup>(3)</sup></b>	<b>Average Price/Carat<sup>(3)</sup></b>
HB Agreements	6,258	\$ 50.5 million	\$8,066
Clara <sup>(1)</sup>	3,492	\$ 6.6 million	\$1,906
Tender <sup>(2)</sup>	107,709	\$ 15.6 million	\$ 145
<b>Total</b>	<b>117,459</b>	<b>\$ 72.7 million</b>	<b>\$ 619</b>

(1) Four sales were completed on Clara in Q3 2021, with revenue increasing by 136% as compared to Q3 2020.

(2) The Q3 2021 tender was held in September in Antwerp; diamonds which did not meet the criteria for sale on Clara (less than 10.8 carats in size) or for polishing under the HB Agreement (+10.8 carats in size) were sold through tender.

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

Operating expenses increased \$1.5 million or approximately 7%, from \$21.7 million in Q3 2020 to \$23.2 million in Q3 2021 due to a combination of higher power, labour and insurance costs. Operating margin per carat sold (see “Use of Non-IFRS Financial Performance Measures”) increased to \$421/carats, or 68%, in Q3 2021 due to significantly higher revenues in Q3 2021 (Q3 2020: operating margin of \$173/carats, or 47% operating margin).

Table 6 below sets out the calculation of Adjusted Earnings Before Interest, Tax, Depletion and Amortization (“Adjusted EBITDA” - see “Use of Non-IFRS Financial Performance Measures”), which increased 272% in Q3 2021 to \$36.8 million as compared to \$9.9 million in Q3 2020. Significantly higher quarterly revenues drove this increase. Adjusted EBITDA of \$36.8 million earned in Q3 2021 and \$44.6 million in H1 2021 (H1 2020: negative \$1.8 million) reflects a return to a more normalized level of adjusted EBITDA following several challenging months in 2020 arising from the pandemic.

Depletion and amortization, a non-cash expense, of \$13.6 million in Q3 2021 was consistent with the \$13.5 million in Q3 2020.

Net income was \$12.8 million in Q3 2021, resulting in earnings per share of \$0.03. This compares to a net loss of \$5.4 million in Q3 2020, resulting in a loss per share of \$0.01. The increase in revenue had the most significant impact on the current quarter’s earnings.

## RESULTS OF OPERATIONS – KAROWE MINE

**Table 3:**

	UNIT	Q3-21	Q2-21	Q1-21	Q4-20	Q3-20
<b>Sales</b>						
Revenues generated from the sale of Karowe diamonds in the quarter	\$M	72.5	45.9	53.1	42.3	41.2
Carats recovered from Karowe sold for revenues recognized during the period	Carats	117,162	68,806	91,734	105,329	112,741
Average price per carat for proceeds received during the period	\$/carat	619	667	579	401	366
<b>Production</b>						
Tonnes mined (ore)	Tonnes	1,323,218	1,020,267	1,100,622	748,296	678,110
Tonnes mined (waste)	Tonnes	608,124	707,722	756,494	434,082	436,781
Tonnes processed	Tonnes	738,986	726,379	673,646	684,768	646,447
Average grade processed	cpht (*)	13.2	13.9	11.9	14.6	13.8
Carats recovered	Carats	97,412	101,330	80,014	100,059	88,909
<b>Costs</b>						
Operating costs per carats sold (see “Non-IFRS measures”)	\$/carat	198	219	215	205	192
Sustaining capital expenditures	\$M	3.4	2.4	0.4	4.4	4.7
Underground expansion project	\$M	32.0	22.6	9.9	8.3	4.8

(\*) carats per hundred tonnes

## THIRD QUARTER OVERVIEW – OPERATIONS - KAROWE MINE

**Safety:** Karowe had no lost time injuries during the three months ended September 30, 2021. As of September 30, 2021, the mine has operated for 317 days (2.1 million hours) without a lost time injury.

**Environment and Social:** In addition to meeting applicable Botswana national laws, regulations and requirements, Lucara has adopted the IFC Performance Standards and the World Bank Group’s Environmental, Health and Safety Guidelines for Mining (2007). Accordingly, the development of the UGP adheres to the Equator Principles. Lucara is committed to upholding high standards while striving to deliver long-term economic benefits to Botswana and the communities in which the Company operates. The Company is currently working towards certification under two initiatives: “Towards Sustainable Mining” and ISO 45001, the Occupational Health and Safety standard.

**Production:** Operations in the third quarter of 2021 were consistent with expectations, with 1.3 million tonnes of ore mined and 0.6 million tonnes of waste mined. Ore mining continued to be prioritized over waste mining to enable de-stacking of benches in the northern part of the pit. A total of 0.74 million tonnes of ore was processed at an average grade of 13.2 cpht and just over 97,000 carats were recovered.

During Q3 2021, ore processed was entirely from the South Lobe. A total of 212 Specials were recovered, including nine diamonds greater than 100 carats in weight. Recovered Specials equated to 7.9% weight percentage of total recovered carats from ore processed during Q3 2021 (Q3 2020 – 6.5%), a strong production quarter in terms of the volume of Specials recovered.

Overall performance during the third quarter remains consistent with the strong operational results achieved over the past two years. Mining and processing results were on plan during Q3 2021, except for the split between ore and waste tonnes mined. Ore mining continued to be prioritized over waste to enable de-stacking of benches in the northern part of the pit to support dewatering activities and provide greater flexibility and access to South Lobe ore as the pit deepens. Ore gains were realized on the western contact of the South Lobe and have been stockpiled.

**Karowe's operating cash cost:** Karowe's year to date operating cash cost (see "Use of Non-IFRS Financial Performance Measures") was \$29.36 per tonne of ore processed (YTD 2020: \$26.92 per tonne of ore processed) in line with the forecast of \$28-\$32 per tonne processed and approximately 9% higher than the same period in 2020. The current period increase is reflective of cost reductions implemented in Q3 2020 owing to the uncertainty of the impact of the global pandemic that have been lifted in Q3 2021, offset by a 14% increase in tonnes processed as compared to Q3 2020.

**Significant diamond recoveries:**

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

Also in July 2021, a 393.5 carat top white Type IIa gem quality diamond was recovered from direct milling of ore sourced from the M/PK(S) unit of the South Lobe. This is the third gem quality +300 carat produced from the M/PK(S) unit in 2021, following the recovery of two top white gems (341 carats and 378 carats) in January 2021. During the August production month, a 257.7 carat top white Type IIa gem quality diamond was also recovered.

The significant diamonds recovered in Q3 2021, as noted above, were recovered from milling of ore sourced from South Lobe. The recovery of large gem quality diamonds from the South Lobe is in line with expectations and historical recoveries. This consistent recovery of large diamonds is a testament to the continued strong resource and plant performance at Karowe.

**LIQUIDITY AND CAPITAL RESOURCES**

As at September 30, 2021, the Company had cash and cash equivalents of \$26.6 million. Cash flow from operating activities for the nine months ended September 30, 2021 totalled \$39.5 million, a significant increase from the \$1.1 million generated during the same period of 2020. The sale of diamonds greater than 10.8 carats in size, a stronger diamond price environment, combined with top-up payments from the HB agreement as polished diamonds are sold, were the main drivers for this difference. Capital spending during the nine months ended September 30, 2021 of \$64.6 million (YTD 2020: \$10.4 million) was focused on the underground expansion project.

The Company's \$50 million revolving credit facility was refinanced on May 5, 2021 and repaid with proceeds from the Company's new working capital facility (see "Project Debt Financing and Shareholder Undertaking" above). As at September 30, 2021 the amount outstanding under this new facility, including accrued interest and commitment fees, was \$30.4 million (December 31, 2020 - \$30.5 million drawn under the previous revolving credit facility).

Working capital as at September 30, 2021 was \$52.2 million as compared to \$46.7 million as at December 31, 2020. Following a very challenging year in 2020, the Company's working capital began to improve in 2021 to a level more consistent with previous periods. Trade receivables (September 30, 2021: \$63.6 million) increased during the current period and current inventories (September 30, 2021: \$43.2 million) decreased from the balances at December 31, 2020 (receivables: \$20.9 million; inventories: \$68.4 million). The receivable balance at September 30, 2021 includes \$39.7 million (December 31, 2020: \$13.4 million) due from HB and is reflective of several strong production runs during the quarter. The decrease in current inventories relates to ore stockpiles classified as non-current as at September 30, 2021 because it is expected to be processed more than 12 months from the reporting date in accordance with the mine plan.

Short-term liabilities increased to \$81.2 million as of September 30, 2021 from \$47.6 million at December 31, 2020. The increase is attributable to the higher amount of royalties payable, a consequence of the strong revenue performance during Q3 2021 and the project financing credit facility of \$23.5 million that is classified as current as at September 30, 2021.

Long-term liabilities consist of restoration provisions of \$21.2 million (December 31, 2020: \$21.2 million), deferred income taxes of \$68.8 million (December 31, 2020: \$55.9 million), and other non-current liabilities of \$1.0 million (December 31, 2020: \$1.0 million) which consist of leases classified under *IFRS 16: Leases*.

Total shareholders' equity increased to \$255.1 million from \$208.2 million at December 31, 2020 due to the July equity financing and the reduction in the deficit as a result of earnings generated during the nine months ended September 30, 2021. Other minor changes to share capital and contributed surplus were related to share units vesting and the recording of share-based compensation during the nine months ended September 30, 2021.

## COMMITMENTS

As at September 30, 2021, purchase orders and contracts that give rise to commitments for future minimum payments for services to be provided related to the underground expansion project amounted to \$85.7 million (December 31, 2020 - \$9.9 million).

**Table 4:** The following table summarizes the undiscounted approximate timing of the commitments at September 30, 2021:

		2021	2022	2023	2024+	Total
Underground expansion project	\$ million	39.4	42.2	2.4	1.7	85.7

## 2021 OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2021. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements. Based on expectations for revenue in Q4 2021, the lower end of diamond revenue guidance has been increased to \$195.0 million from \$180.0 million. In Q2 2021, a change was made to the allocation between ore and waste mining in the 2021 guidance to reflect ore gains realized in the first half of the year and adjustments in the mine plan to support dewatering activities. Ore gains realized are of lower quality material and will be stockpiled. There are no other changes from the guidance previously released in February 2021.

### Karowe Mine, Botswana

**Table 5: 2021 Diamond Sales, Production and Outlook**

Karowe Diamond Mine	Full Year – 2021
<i>In millions of U.S. dollars unless otherwise noted</i>	
Diamond revenue (millions) (revised Q3)	\$195 to \$210
Diamond sales (thousands of carats)	350 to 390
Diamonds recovered (thousands of carats)	340 to 370
Ore tonnes mined (millions) (revised Q2)	3.8 to 4.2
Waste tonnes mined (millions) (revised Q2)	2.2 to 2.6
Ore tonnes processed (millions)	2.6 to 2.9
Total operating cash costs <sup>(1)</sup> including waste mined <sup>(2)</sup> (per tonne processed)	\$28.00 to \$32.00
Botswana general & administrative expenses including marketing costs (per tonne processed)	\$3.00 to \$4.00
Effective tax rate <sup>(3)</sup>	0% or 25%
Average exchange rate – USD/Pula	11.0

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

<sup>(2)</sup> Includes ore and waste mined cash costs of \$5.00 to \$5.50 (per tonne mined) and processing cash costs of \$11.15 to \$12.15 (per tonne processed).

<sup>(3)</sup> 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, a tax rate of 0% is forecasted. Should capital expenditures vary from plan, the tax rate will increase from 0% to 25%.

In 2021, the Company's revenue forecast incorporates an increase in the proportion of carats recovered 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. The estimated processing cost per tonne processed is lower than previous years, reflecting a combination of strong operating performance in the plant and insourcing of the process plant contract as of July 1, 2020.

Proceeds from the 549-carat “Sethunya” collaboration agreement with Louis Vuitton and HB are expected to be realized in 2021. Lucara will receive a payment based on the estimated polished outcome, with a true up paid on the actual achieved polished sales thereafter, less a fee and the cost of manufacturing.

The proposed underground expansion at the Karowe Mine has an estimated capital cost of \$534 million and a five-year development period. Total expenditures on the UGP in 2021 are expected to be up to \$120 million. See “Karowe Underground Update” above.

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 2021 revenue guidance of \$195 million to \$210 million and assuming the underground development expenditures are incurred, no taxable income is expected for 2021. Changes to the timing and amount of capital expenditures may result in a tax rate of up to 25% for 2021 payable on taxable income.

Sustaining capital and project expenditures are expected to be up to \$21.0 million in 2021, excluding capital on the underground expansion.

## SELECT FINANCIAL INFORMATION

<b>Table 6:</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>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Revenues	\$ 72.7	\$ 41.3	\$ 172.1	\$ 82.9
Operating expenses	(23.2)	(21.7)	(58.0)	(51.0)
<b>Operating earnings <sup>(1)</sup></b>	<b>49.5</b>	<b>19.6</b>	<b>114.1</b>	<b>31.9</b>
Royalty expenses	(7.8)	(4.6)	(18.3)	(8.8)
Exploration expenditures	–	(0.2)	–	(1.3)
Administration	(4.3)	(4.4)	(12.3)	(12.1)
Sales and marketing	(0.6)	(0.5)	(2.1)	(1.6)
<b>Adjusted EBITDA <sup>(2)</sup></b>	<b>36.8</b>	<b>9.9</b>	<b>81.4</b>	<b>8.1</b>
Depletion and amortization	(13.6)	(13.5)	(36.6)	(31.9)
Finance expenses	(1.3)	(0.9)	(3.4)	(2.5)
Foreign exchange (loss) gain	(0.3)	0.6	(1.5)	1.2
Loss on disposal of assets	–	(2.7)	–	(2.7)
Current income tax expense	(0.5)	–	(2.0)	(0.3)
Deferred income tax (expense) recovery	(8.5)	1.1	(15.8)	5.6
<b>Net income (loss) for the period</b>	<b>12.8</b>	<b>(5.4)</b>	<b>22.2</b>	<b>(22.4)</b>
<b>Change in cash during the period</b>	<b>12.9</b>	<b>(3.6)</b>	<b>21.7</b>	<b>(1.1)</b>
<b>Cash on hand</b>	<b>26.6</b>	<b>10.1</b>	<b>26.6</b>	<b>10.1</b>
<b>Earnings (loss) per share (basic)</b>	<b>0.03</b>	<b>(0.01)</b>	<b>0.05</b>	<b>(0.06)</b>
<b>Per carat sold:</b>				
<b>Sales price</b>	<b>\$ 619</b>	<b>\$ 365</b>	<b>\$ 619</b>	<b>\$ 309</b>
<b>Operating expenses</b>	<b>198</b>	<b>192</b>	<b>208</b>	<b>190</b>
<b>Average grade (carats per hundred tonnes) <sup>(3)</sup></b>	<b>13.2</b>	<b>13.8</b>	<b>13.0</b>	<b>14.1</b>

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

<sup>(2)</sup> Adjusted EBITDA is a non-IFRS measure defined as earnings before interest, taxation, depreciation and amortization. (see “Use of Non-IFRS Financial Performance Measures”)

<sup>(3)</sup> Average grade processed is from direct milling carats and excludes carats recovered from re-processing historic recovery tailings from previous milling.

Please refer to the “Financial Highlights” and “Third Quarter Overview – Karowe Mine” above for an explanation of the Company’s financial results for the three and nine months ended September 30, 2021 and 2020.

## SUMMARY OF QUARTERLY RESULTS

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

**Table 7:** The following table provides highlights, extracted from the Company's financial statements, of quarterly results for the past eight quarters:

Three months ended	Sep-21	Jun-21	Mar-21	Dec-20	Sept-20	Jun-20	Mar-20	Dec-19
A. Revenues	72,716	46,334	53,097	42,387	41,297	7,462	34,117	55,993
B. Administration expenses	(4,256)	(3,659)	(4,395)	(4,205)	(4,387)	(3,653)	(4,071)	(4,993)
C. Net income (loss)	12,760	5,998	3,407	(3,834)	(5,368)	(13,915)	(3,161)	8,635
D. Earnings (loss) per share (basic)	0.03	0.02	0.01	(0.01)	(0.01)	(0.04)	(0.01)	0.02

The Company's quarterly results, including net income (loss) and earnings (loss) per share are most directly affected by the sale of special diamonds, greater than 10.8 carats, but more particularly the unique and high value diamonds. In July 2020, the Company announced a supply 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. Under the terms of the amended supply agreement, the purchase price paid shall be based on the estimated polished outcome, with an adjustment paid on actual achieved polished sales thereafter, less a fee and the cost of manufacturing. The +10.8 carat diamonds of poorer quality (clivage low, rejection goods) are sold as rough parcels and do not enter the polishing pipeline at HB. This change provides a more stable monthly cash flow stream, with access to price improvements along the value chain, when compared to previous quarters where all diamonds recovered were typically sold in the quarterly tender or through Clara. The Company's quarterly revenue is also affected by the number and quality of stones available for sale in any given quarter.

Revenue in the quarter ending September 30, 2021 totaled \$72.7 million from the sale of 117,459 carats for an average price per carat of \$619. The significant change in revenue from Q3 2020 to Q3 2021 reflects a high proportion of Specials (+10.8 carat) recovered and sold as well as overall higher market prices for diamonds, and incremental top-up payments received from polished sales under the HB supply agreement.

Revenue in the quarter ending June 30, 2021 totaled \$46.3 million from the sale of 68,961 carats for an average price per carat of \$671. The significant change in revenue from Q2 2020 to Q2 2021 reflects a return to sale of all production from the Karowe mine after a decision was made in Q2 2020 to not tender any stones greater than 10.8 carats in size. The Company's +10.8 carat production is a significant driver of revenue for the Company. The change in revenue also reflects a recovery of pricing in the smaller stones following a decrease in the realised market price for the Company's goods in 2020.

Revenue in the quarter ending March 31, 2021 totaled \$53.1 million from the sale of 91,760 carats for an average price per carat of \$579. The increase in revenue from Q1 2020 is due to a better recovery of the quality of diamonds and a recovery in diamond prices.

Revenue in the quarter ended December 31, 2020 totaled \$42.4 million or \$401 per carat from the sale of 105,648 carats in Q4 2020, resulting in an operating margin of 49%. In comparison, the Company achieved revenues of \$56.0 million or \$568 per carat for its sales in Q4 2019. The last tender of 2019 was the strongest tender that year due to a stabilization of rough pricing in all size classes.

Revenue in the quarter ended September 30, 2020 included sales proceeds for +10.8 carat stones delivered to HB earlier in the year pursuant to the diamond sales agreement. The initial purchase price paid by HB to Lucara was based on the estimated polished outcome from each +10.8 carat rough diamond delivered. 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.

Revenue recognized in the quarter ended June 30, 2020 represented the sale of smaller stones only (less than 10.8 carats) through two sales channels: Clara and a tender held in June 2020. The decrease in revenue was reflective of a deliberate decision not to sell any diamonds +10.8 carats in size during Q2 2020 due to extremely challenging market conditions amidst the global pandemic.

Revenue of \$34.1 million recognized in the quarter ended March 31, 2020 was significantly lower than previous quarters, resulting from a combination of lower overall prices and the quality of goods available for sale. Early impacts of COVID-19 were observed in the lower pricing achieved in the Q1 2020 tender. Similarly, the availability of large, high-quality stones in the Q4 2019 tender and significant improvement in rough diamond pricing prior to the onset of Covid-19 resulted in a higher revenue achieved when compared to the quarter ended March 31, 2020.

The quarter ended December 31, 2019 was representative of a stronger pricing environment combined with a better blend of stones available for sale. The end of 2019 saw a return to a more stable pricing environment for most of the Company's goods available for sale, following several challenging quarters in 2018 and 2019 where the rough diamond market struggled with inventory builds and liquidity issues in the mid-stream of the industry and saw significant downward pressure on large high quality polished goods.

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

## USE OF NON-IFRS FINANCIAL PERFORMANCE MEASURES

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

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

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

**Table 8: Operating cash flow per share reconciliation:**

<i>In millions of U.S. dollars with the exception of weighted average common shares outstanding and operating cash flow per share</i>	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Cash flows from operating activities	\$ 17,022	\$ 3,648	\$ 39,496	\$ 1,108
Changes in non-cash working capital	19,643	6,966	39,984	8,825
Total cash flow from operating activities before changes in non-cash working capital	36,665	10,614	79,480	9,933
Weighted average common shares outstanding	443,290,345	396,896,733	412,788,084	396,886,881
<b>Operating cash flow per share<sup>(1)</sup></b>	<b>\$0.08</b>	<b>\$0.03</b>	<b>\$0.19</b>	<b>\$0.03</b>

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

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

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

**Table 9: Operating cost per tonne of ore processed reconciliation:**

<i>In millions of U.S. dollars with the exception of tonnes processed and operating cost per tonne processed</i>	<b>Nine months ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
Operating expenses	\$ 58.0	\$ 51.0
Net change rough diamond inventory, excluding depletion and amortization <sup>(1)</sup>	(1.8)	0.9
Net change ore stockpile inventory, excluding depletion and amortization <sup>(2)</sup>	6.6	1.7
Total operating costs for ore processed	62.8	53.6
Tonnes processed	2,139,011	1,991,298
<b>Operating cost per tonne of ore processed <sup>(3)</sup></b>	<b>\$ 29.36</b>	<b>\$ 26.92</b>

<sup>(1)</sup> Net change in rough diamond inventory, excluding depletion and amortization.

<sup>(2)</sup> Net change in ore stockpile inventory, excluding depletion and amortization.

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

## RELATED PARTY TRANSACTIONS

A description of key management compensation can be found in Note 12 of the condensed interim consolidated financial statements for the three and nine months ended September 30, 2021.

In relation to the acquisition of Clara in February 2018, certain related parties may receive additional shares of Lucara if Clara, now a wholly-owned subsidiary of Lucara, achieves certain levels of revenue generated by sales on the platform (the “Performance Milestones”). The Performance Milestones are detailed in Note 9 of the audited consolidated financial statements for the year ended December 31, 2020. As of September 30, 2021, none of the revenue milestones had been achieved.

A profit-sharing mechanism also exists, the details of which can be found in Note 9 of the audited consolidated financial statements for the year ended December 31, 2020. As at September 30, 2021, no amounts have been paid under this profit sharing mechanism.

## FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

In the normal course of business, the Company is inherently exposed to currency and commodity price risk. The Company’s financial instruments are exposed to certain financial risks, including currency, credit, liquidity and price risks.

### *Currency risk*

The Company is exposed to the financial risk related to fluctuating foreign exchange rates. All sales revenues are denominated in U.S. dollars, while directly related costs are denominated in Botswana Pula. At September 30, 2021, the Company is exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately \$2.2 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 mainly with 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 supply agreement with HB Antwerp, a larger proportion of the Company's goods, by value, are sold through HB Antwerp to buyers of polished diamonds. The credit risk associated with these sales is concentrated with one individual customer and payment terms are longer (60 to 120 days) than the Company's traditional tender sales (5 days).

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Company's maximum exposure to credit risk.

### *Price risk*

The Company derives its income from the sale of rough diamonds mined in Botswana. 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 HB Antwerp, 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 sales processes for rough diamonds. During the year ended December 31, 2020, the COVID-19 pandemic negatively impacted global demand for luxury commodities, which includes jewelry containing diamonds however, both demand and prices have been strong during the first nine months of 2021. Restrictions on international travel have also disrupted the diamond supply chain. 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, thereby increasing the risk that not only will operations not be profitable but that Company may not have sufficient liquidity to meet its financial obligations as they come due.

## **OUTSTANDING SHARE DATA**

As at the date of this MD&A, the Company had 453,034,981 common shares outstanding, 5,234,848 share units, 1,186,933 deferred share units, and 6,139,000 stock options outstanding under its share-based incentive plans. See "Equity Financings" above for a description of the common shares issued on July 15, 2021.

## **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 continued commercialization of Clara. The material risk factors and uncertainties, which should be taken into account in assessing the Company's activities, are described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form (the "AIF") and in the Prospectus dated July 12, 2021. Both of these documents are available under Lucara's Issuer Profile on SEDAR at: <http://www.sedar.com> Any one or more of these risks and uncertainties could have a material adverse effect on the Company.

## **COVID-19 Global pandemic risk**

On March 11, 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) a global pandemic and on April 2, 2020 the Government of Botswana declared an initial state of emergency. Mining was declared an essential service and as a result, the Karowe Mine continued to operate with additional health and safety protocols implemented. Quarterly diamond tenders for the balance of 2020 and to date in 2021 were held in Antwerp due to varying international travel restrictions. The Government of Botswana extended the state of emergency several times before it was lifted on September 30, 2021. Concern remains over how governments across the jurisdictions in which Lucara and many of its customers operate will respond to increasing infection numbers and variants of COVID-19, even as mass vaccination campaigns are in progress in many countries. Due to the ongoing uncertainty resulting from the global pandemic, Lucara’s operations could be impacted in a number of ways including, but not limited to: a suspension of operations at the Karowe Mine, disruptions to supply chains, worker absenteeism due to illness, disruption to the progress of the Karowe Mine underground expansion project and an inability to ship or sell rough and/or polished diamonds during this period. These possible impacts could result from government directives, the need to modify work practices to meet appropriate health and safety standards, a lack of demand for rough and/or polished diamonds, a lack of available liquidity to meet ongoing operational expenses and, due to or by other COVID-19 related impacts on the availability of labour or to the supply chain.

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

In preparing the Company’s condensed interim consolidated financial statements, judgment is required in applying the Company’s accounting policies. The areas of policy judgement are consistent with those reported in our 2020 annual consolidated financial statements. In addition, assumptions are made about the future in deriving estimates used in preparing our condensed interim consolidated financial statements. As disclosed in our 2020 annual consolidated financial statements, the most significant sources of estimation uncertainty include estimated variable consideration (revenue), estimated recoverable reserves and resources, valuation of mineral properties and plant and equipment, the provision for deferred taxes and the valuation of decommissioning and site restoration provisions.

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

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

## **OFF-BALANCE SHEET ARRANGEMENTS**

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

## **CHANGES IN ACCOUNTING POLICIES**

There have been no changes to accounting policies during the three months ended September 30, 2021. Note 3 to the audited consolidated financial statements for the year ended December 31, 2020 includes a summary of the significant accounting policies adopted by the Company.

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

Management is responsible for the preparation of this document along with the unaudited condensed interim consolidated financial statements. Management is responsible for the integrity and objectivity of this document, ensuring the fair presentation of its financial results. The Audit Committee is responsible for reviewing the contents of this document along with the condensed interim consolidated financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended September 30, 2021.

## **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 September 30, 2021 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, 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 and commercialization of the digital platform for the sale of rough diamonds owned by Clara, the benefits to the Company of diamond supply agreements with HB and the ability to generate better prices from the sale of the Company’s +10.8 carat production as a polished stone.

Forward-looking information and statements are based on the opinions and estimates of management as of the date such statements are made, and they are subject to several known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward-looking statements. The Company believes that expectations reflected in this forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct. The Company is subject to the following risks and uncertainties, among others:

- general global financial and economic conditions;
- future market prices for diamonds;
- the supply and demand for rough and polished diamonds and in particular, the demand for diamonds greater than +10.8 carats;
- potential to achieve better prices by selling +10.8 carat stones under the terms of the agreement with HB;
- reliance on one counter-party to acquire a significant percentage of the Karowe production (by value);
- ability to access capital and liquidity risk;
- fluctuations in interest rates, foreign currency exchange rates and tax rates;
- inherent hazards and risks associated with mining operations, places of work, and within Lucara’s supply chain;
- estimations of Lucara’s production and sales volume for the Karowe Mine;
- the assumptions raised in the December 2019 Technical Report for the feasibility of constructing and operating an underground diamond mine at Karowe, including the expected development costs, start-up timing, exploration and development plans, projected tax benefits and/or expected production costs;
- operational costs, including costs of power and diesel, compensation of employees and consultants, and inflation, etc.;

- operational difficulties, including power failures, failure of plant, equipment or processes to operate in accordance with specifications or expectations and labour disputes;
- widespread diamond industry adoption of the Clara Platform;
- the regulatory regime governing blockchain technologies and the degree of development and acceptance of blockchain technologies;
- the Company's ability to protect its intellectual property;
- risks inherent in the implementation of new technologies, including the Clara Platform and potential intellectual property infringement claims and cyber-security risks;
- recovered grade, size distribution and quality of diamonds;
- the successful mitigation of issues inherent in the mining of diamonds, such as theft and diamond breakage;
- environmental and other regulatory requirements, including changes in the same and ability to obtain all necessary regulatory approvals;
- acts of the governments where Lucara's operations are located;
- obtaining, maintaining and renewing governmental approvals and permits including but not limited to mining licenses;
- variation in mineral resources and estimation of mineral resources, including the continuity of grade of diamondiferous mineralization;
- risks related to property titles;
- the effect of the coronavirus outbreak as a global pandemic and new variants of COVID-19 on the Company's business and operations;
- the dependence on transportation facilities, infrastructure and information technology systems;
- the Company is required to carry uninsurable risks and the risk that the Company's insurance does not cover all risks;
- the mining industry is competitive;
- risks associated with current and future legal proceedings;
- conflicts of interest;
- dependence on management and technical personnel;
- the failure to secure and maintain skilled employees and maintain key relationships with financing partners, local communities and other stakeholders;
- risks associated with volatility in the securities market;
- risks associated with reliance on secure information technology systems that could be compromised;
- risks associated with climate change including the impact of extreme weather events on mining operations;
- risks associated with the production and increased consumer demand for synthetic gem-quality diamonds;
- ability to maintain obligations or comply with the Facilities;
- risks associated with financing requirements;
- capital costs relating to the development of the Underground Project may increase;
- in 2020, the Company experienced a period of negative operating cash flow;
- discretion in the use of proceeds from the equity financings completed on July 15, 2021;
- volatility of the trading price for the Shares;
- investors may lose their entire investment;
- sales of a significant number of Shares in the public markets, or the perception of such sales, could depress the market price of the Shares;
- holders of Shares will be diluted;
- global financial conditions can reduce prices of the Shares and limit access to financing;
- the Shares do not currently pay dividends;
- difficulty in enforcing judgements and effecting service of process on directors; and
- active liquid trading market for the Shares.

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

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

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