

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2022

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. (the "Company") and its subsidiaries performance and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the period ended September 30, 2022, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as applicable to interim financial reporting. All amounts are expressed in U.S. dollars unless otherwise indicated.

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

Some of the statements in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary note contained herein. Additional information about the Company and its business activities is available on SEDAR at www.sedar.com.

The effective date of this MD&A is November 2, 2022.

ABOUT LUCARA

Lucara is a leading independent producer of large exceptional quality Type Ila diamonds from its 100% owned Karowe Diamond Mine in Botswana ("Karowe"). Karowe has been in production since 2012 and is the focus of the Company's operations and development activities. Clara Diamond Solutions Limited Partnership ("Clara"), a wholly-owned subsidiary of Lucara, has developed a secure, digital sales platform that uses proprietary analytics together with cloud and blockchain technologies to modernize the existing diamond supply chain, driving efficiencies, unlocking value and ensuring diamond provenance from mine to finger. Lucara has an experienced board and management team with extensive diamond development and operations expertise. Lucara and its subsidiaries operate transparently and in accordance with international best practices in the areas of sustainability, health and safety, environment, and community relations. Lucara has adopted the IFC Performance Standards and the World Bank Group's Environmental, Health and Safety Guidelines for Mining (2007). Accordingly, the development of the Karowe underground expansion project (the "Karowe UGP") adheres to the Equator Principles. Lucara is committed to upholding high standards while striving to deliver long-term economic benefits to Botswana and the communities in which the Company operates.

The Company's corporate office is located in Vancouver, Canada and its common shares trade on the Toronto Stock Exchange, the Nasdaq Stockholm Exchange and the Botswana Stock Exchange under the symbol "LUC".

HIGHLIGHTS – Q3 2022

- Revenue in Q3 2022 of \$49.9 million, results in year-to-date revenue of \$170.5 million. This strong year-to-date operational performance supports the Company's 2022 revenue guidance of \$195 million and \$225 million. Polished diamond sales during the current quarter achieved robust prices comparable with Q3 2021. Quarterly revenues will fluctuate due to timing differences and the natural variability in the size and quality distribution of diamonds produced from Karowe. Rough and polished diamond market fundamentals remained strong for Karowe goods during Q3 2022 despite persisting global economic uncertainties and softer pricing for certain sizes and qualities.
- Karowe diamonds sold during the quarter generated an average price per carat (excluding top-up payments) of \$377. On a year-to-date basis, a total of 245,764 carats were sold from Karowe at an average price of \$528 per carat, generating revenue of \$129.9 million before top-up payments of \$33.8 million. The average price per carat achieved at Karowe is variable from period to period and is most representative when viewed on an annualized basis.
- A total of 183 Specials (diamonds greater than 10.8 carats) were recovered, representing 7.1% weight percentage Specials of total carats recovered (Q3 2021: 212 Specials and 7.9% by weight percentage).

- Sales transacted on Clara during Q3 2022 totalled \$8.3 million, a 26% increase from the \$6.6 million in revenue in Q3 2021 due to increased supply of non-Karowe goods offered on the platform. In Q3 2022, Karowe goods made up less than 60% of the total volume transacted through Clara, as a series of third-party producer trial sales continued.
- A total project investment of \$23.9 million into the Karowe UGP during Q3 2022 focused on the transition to main sink activities for both shafts, procurement of underground mobile equipment and construction of the upgraded transmission line and related substations.
- Operational highlights from the Karowe Mine for the three months ended September 30, 2022 included:
 - Mined 0.9 million tonnes (Q3 2021: 1.2) and 0.5 million tonnes (Q3 2021: 0.7) of ore and waste, respectively.
 - Processed 0.7 million tonnes of ore (Q3 2021: 0.7) and recovered 78,879 carats (Q3 2021: 95,907 carats, excluding 1,505 carats from material reprocessing), achieving a recovered grade of 11.4 carats per hundred tonnes (Q3 2021: 13.0 cpht).
 - A total of six diamonds greater than 100 carats including one stone greater than 200 carats were recovered during the quarter.
 - The year-to-date Total Recordable Injury Frequency Rate ("TRIFR") of 0.32 (Q3 2021: zero) at the end of Q3 2022 reflects four medical treatment cases reported during the third quarter of 2022.
- Financial highlights for the three months ended September 30, 2022 included:
 - Revenues from the sale of 99,301 carats recovered from the Karowe Mine were \$46.5 million (Q3 2021: \$72.5 million from the sale of 117,162 carats from Karowe). The sales agreement with HB Trading BV ("HB") accounted for 58% (Q3 2021: 70%) of total Karowe revenue recognized in the quarter.
 - Operating cash costs of \$29.33 per tonne processed⁽¹⁾ (Q3 2021: \$29.73 per tonne processed) reflect the impact of higher input costs, offset by a comparatively stronger U.S. Dollar.
 - Adjusted EBITDA⁽¹⁾ of \$13.8 million decreased from \$36.8 million for the same period in 2021, attributed primarily to a decrease in revenues as 14% fewer carats were sold.
 - Net income for the quarter decreased to \$1.8 million (\$0.00 basic earnings per share) from \$12.8 million (\$0.03 basic earnings per share) in Q3 2021.

⁽¹⁾ Operating cash cost per tonne processed and adjusted EBITDA are non-IFRS measures (See "Use of Non-IFRS Financial Performance Measures").
- Cash position and liquidity at September 30, 2022:
 - Cash and cash equivalents of \$34.8 million.
 - Drawn \$65.0 million from the \$170.0 million project loan facility.
 - The working capital facility of \$50.0 million was undrawn.

DIAMOND MARKET

After a strong start to the third quarter of 2022, diamond price softening was observed in late August and into September, however, solid market fundamentals continue to support diamond prices despite growing concerns of a global economic slowdown. High levels of reported inflation persisted, and governments responded with increasingly forceful measures in attempts to reduce it to sustainable levels.

A cautious economic outlook combined with the uncertainty caused by geopolitical events, including the ongoing conflict in Ukraine and continuing implications of the COVID-19 pandemic (specifically in China where the demand for diamonds has not yet recovered) remain a risk to diamond pricing trends in the short term with demand from the US a critical driver on prices of both rough and polished diamonds. The longer-term market fundamentals remain unchanged and positive, however, pointing to strong price growth over the next few years as demand is expected to outstrip future supply.

The benefits of the committed sales agreement with HB continued to be realized during the third quarter of 2022 as the Company participated in the upside to manufacturing polished diamonds for goods delivered in previous

quarters. The integrated approach, using state of the art scanning and planning technology has further enhanced the final achieved polished outcome for very large (+50 carat polished) and high value diamonds, a critical production segment for the Company.

UPDATE ON COVID-19 RESPONSE

Although many countries around the world have removed public health measures implemented to reduce the spread of COVID-19, 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. It remains possible for Lucara's operations to be impacted in several 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.

While the impact of COVID-19 is expected to be temporary, circumstances remain dynamic and the impacts on our financial position or operations cannot be reasonably estimated at this time.

GEOPOLITICAL RISK AND CONFLICT INCLUDING THE UKRAINE-RUSSIA CONFLICT

In response to the ongoing Russian military invasion of Ukraine, strict economic sanctions were imposed against Russia and its interests. While the Company does not have any operations in Ukraine or Russia, its business may be impacted as the conflict and economic sanctions may give rise to indirect impacts, including but not limited to, increased prices for fuel and other commodities, supply chain challenges and disruptions, logistics and transport disruptions and heightened cybersecurity disruptions and threats. Increased prices for fuel and other commodities may have adverse impacts on the Company's costs of doing business.

An ongoing or escalating military conflict could aggravate ongoing global economic challenges and a possible resultant economic downturn could adversely affect the Company's business. These conditions may also result in increased volatility in the market for the Company's securities and could have other effects which are currently unknown. The Company cannot accurately predict the impact that ongoing conflict in Ukraine, or the prevailing global economic uncertainty, will have on its financial position or operations.

KAROWE UNDERGROUND UPDATE

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

The Karowe UGP is expected to extend the mine life to at least 2040, with initial underground carat production predominantly from the highest value eastern magmatic/pyroclastic kimberlite ("EM/PK(S)") unit and is forecast to contribute approximately \$4 billion in additional revenues at estimated diamond prices. The updated estimated capital cost for the Karowe UGP is \$547 million (including contingency) and reflects expected pricing changes following execution of the main sink contract in Q2 2022. Mine ramp up is expected in 2026 with full production from the Karowe UGP expected in H2 2026. The Company is using a combination of cash flow from operations and project debt for the investment in the Karowe UGP, which is fully financed. See "*Sources of Financing*" below for details.

The capital costs estimate for the underground expansion in 2022 of \$110 million remains unchanged at September 30, 2022 – see "*2022 Outlook*".

During the three months ended September 30, 2022, a total of \$23.9 million was spent on the Karowe UGP development, primarily in relation to ongoing construction activities and procurement of long lead items, including:

- Main sinking of the production shaft commenced at the end of September while main sinking in the ventilation shaft continued. As main sinking activity ramped up in the ventilation shaft during the third quarter, several operational issues arose resulting in sinking rates achieving less than plan due to longer cycle times. In response to the operational challenges and longer duration cycle times, changes and mitigations were actioned during the quarter. Observed cycle times and sinking rates are improving. The start of main sink activity in the

Production shaft was delayed due to longer than planned commissioning of the winders and hoisting plant. Cycle times are now improving.

- Procurement of shaft station underground mobile equipment progressed with equipment deliveries expected to commence in Q4 2022 and Q1 2023.
- The Letlhakane and Karowe substation construction continued with focus on civil work and cable pulling for control equipment installation. The transmission line towers were equipped with stringing hardware and safety nets were installed over existing line crossings.

Activities for the Karowe UGP in the fourth quarter of 2022 are expected to include the following:

- Sinking within both the ventilation and production shafts.
- Procurement of underground equipment, including awarding the bulk air cooler tender.
- Continuation of detailed design and engineering of the underground mine infrastructure and layout.
- Commissioning the 29 km, 132kV bulk power supply powerline.

SOURCES OF FINANCING

In July 2021, the Company closed two equity financings for gross proceeds of \$31.3 million and the proceeds were used to provide a \$30.0 million cash contribution to Lucara Botswana for capital requirements of the Karowe UGP.

On July 12, 2021, the Company's wholly-owned subsidiary, Lucara Botswana, with Lucara Diamond Corp. as the sponsor and the guarantor, entered into a senior secured project financing debt package of \$220 million which consisted of two facilities (the "Facilities"), a project finance facility of \$170 million to fund the development of an underground expansion at the Karowe Mine (the "Project Finance Facility"), and a \$50 million senior secured working capital facility which repaid the Company's previous revolving credit facility and will be used to support on-going operations (the "Working Capital Facility").

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

As at September 30, 2022, \$65.0 million of the \$170.0 million facility was drawn. The Project Finance Facility bears interest at a rate of LIBOR (or replacement benchmark) plus margin of 5.5% annually until the project completion date, and 5.0% annually thereafter with commitment fees for the undrawn portion of the facility of 2.0%.

The Working Capital Facility may be used for working capital and other corporate purposes. As at September 30, 2022, the \$50.0 million facility was undrawn. The facility, when utilized, 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.

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

As at September 30, 2022, the Company was in compliance with all covenants under the Facilities. Certain conditions subsequent which required completion by October 2022, and that the Company expects to resolve in November 2022, remained outstanding at the date of this interim MD&A.

INTEREST RATE SWAP

On December 14, 2021, under the terms of the Project Finance Facility, the Company became party to a series of interest rate swap agreements on 75% of the principal amount available, up to \$127.5 million. Structured around the expected Project Finance Facility drawdown schedule, the Company receives interest at the rate equivalent to

the three-month USD LIBOR and pays interest at a fixed rate of 1.682% on a quarterly basis. The interest rate swaps mature on March 31, 2028.

As at September 30, 2022 the interest rate swaps had a total unrealized fair value of \$10.0 million (December 31, 2021: \$0.8 million negative unrealized fair value) with \$1.4 million classified as current and \$8.7 million classified as non-current in the Statement of Financial Position. In Q3 2022, the Company recorded a \$3.7 million gain (September 30, 2021 - \$nil) on this derivative financial instrument.

CLARA REVOLVING CREDIT FACILITY

On September 28, 2022, the Company's wholly-owned subsidiary, Clara, with Lucara Diamond Corp. as guarantor, entered into a revolving credit facility agreement of \$4 million with FirstRand Bank Limited, acting through its Rand Merchant Bank Division (the "Clara Facility").

The Clara Facility will be used for working capital purposes and will mature on September 28, 2023. As at September 30, 2022, the facility was undrawn. The facility, when utilized, bears interest at the Secured Overnight Financing Rate plus a margin of 6.0%.

FINANCIAL HIGHLIGHTS

<i>In millions of U.S. dollars, except carats or otherwise noted</i>	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Revenues	49.9	72.7	\$ 170.5	172.1
Operating expenses	(25.8)	(23.2)	(60.8)	(58.0)
Net income for the period	1.8	12.8	33.3	22.2
Earnings per share (basic)	0.00	0.03	0.07	0.05
Earnings per share (diluted)	0.00	0.03	0.07	0.05
Operating cash flow per share ¹	0.03	0.08	0.17	0.19
Cash on hand	34.8	26.6	34.8	26.6
Amounts drawn on working capital facility	—	30.0	—	30.0
Amounts drawn on project finance facility	65.0	25.0	65.0	25.0
Revenue from the sale of Karowe diamonds	46.5	72.5	163.7	171.4
Average price per carat sold (\$/carat) ²	377	596	528	546
Carats sold	99,301	117,162	245,763	277,702

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

² The Company's revenue is primarily generated from the sale of Karowe diamonds. The average price per carat sold presented in this table relates exclusively to the sale of Karowe diamonds and excludes top-up payments received during the quarter. The value of diamonds purchased from third parties and sold by the Company through Clara is also excluded. See Table 2 below for additional information. Average price per carat sold is a non-IFRS measure. See "Use of Non-IFRS Performance Measures" below.

Following the extension of the HB Agreement (see "HB Sales Agreement for +10.8 Carat Diamond Production" below) in Q2 2021, all +10.8 carat diamonds mined from Karowe which did not meet the criteria for polishing by HB and all diamonds less than 10.8 carats by weight which did not meet the criteria for sale on Clara are being sold as rough through the quarterly tender.

The Company recognized total revenues of \$49.9 million in Q3 2022. This included \$46.5 million from the sale of 99,301 carats from Karowe (including top-up payments of \$9.0 million) as well as \$3.4 million from the sale of third-party goods on the Clara platform. In comparison, the Company achieved revenues of \$72.7 million which included \$72.5 million from the sale of 117,162 carats from Karowe (including top-up payments of \$2.7 million) as well as \$0.2 million in revenue from third party goods sold through the Clara platform.

Operating expenses increased \$2.6 million or approximately 11%, from \$23.2 million in Q3 2021 to \$25.8 million in Q3 2022, reflecting increases to input costs, particularly as it relates to labour, fuel and power costs, offset by the

benefit of a stronger U.S. Dollar, as well as the release of inventory cost that was built up in the previous quarter due to the timing of scheduled quarterly tenders.

Please see Table 4: “*Select Financial Information*” below for details on the expense line items which had the most significant impact on net income of \$1.8 million (Q3 2021: \$12.8 million) in the quarter.

SALES AGREEMENT FOR +10.8 CARAT DIAMOND PRODUCTION

Karowe’s large, high value diamonds have historically accounted for approximately 60% to 70% of Lucara’s annual revenues. In 2020, Lucara announced a partnership agreement with HB, entering into a definitive sales agreement for diamonds recovered that exceed +10.8 carats from the Company’s 100% owned Karowe Diamond mine in Botswana. This agreement was subsequently amended and extended to December 31, 2022. The mechanisms of the agreement result in complete transparency within the value chain and create important alignment between the producer and the manufacturer for the first time.

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

For the three months ended September 30, 2022, the Company recorded revenue of \$27.1 million from the HB agreement (inclusive of top-up payments of \$9.0 million), as compared to revenue of \$50.5 million in Q3 2021 (inclusive of top-up payments of \$2.7 million). The decrease in revenue in Q3 2022 versus the comparative quarter can be attributed primarily to the number of high value diamonds delivered to HB in Q3 2021 (four pink diamonds and two Type IIa top white gem diamonds (393.5 carats and 257.5 carats)) for which an initial MPV payment was received in Q3 2021. In addition, more carats were delivered to HB in the comparative quarter (6,258 carats vs. 2,412 carats). Despite the overall decrease in revenue recognized in Q3 2022, diamond market fundamentals continued to support healthy prices as steady demand and some inventory shortages were reported. Natural variability in the quality profile of the +10.8ct production in any production period or fiscal quarter results in fluctuations in recorded revenue and associated top-ups between periods is expected. During Q3 2022, 7.1% weight percentage Specials of total carats recovered was consistent with the Karowe resource model.

As a result of the sales agreement with HB, the Company also participated in polished diamond price increases during Q3 2022 as rough diamonds sold to HB in previous quarters were polished and sold. In Q3 2022, estimated top-up payments of \$9.0 million (Q3 2021: \$2.7 million) were included in revenue for the quarter. At September 30, 2022 a number of higher value and more technically complex stones that take longer to manufacture had not fully completed the manufacturing and sales process. These stones were delivered to HB in 2021 and the first nine months of 2022. As these stones finish the manufacturing process and are sold, the Company may record additional revenue in the form of “top-up” payments from these sales.

CLARA SALES PLATFORM

Clara, Lucara’s 100% owned proprietary, secure, web-based digital sales platform, continues to gain scale and interest. Interest in Clara continues to grow as the benefits of purchasing rough diamonds in an innovative way become evident. In Q3 2022, four sales (Q3 2021: four sales) took place with a total sales volume transacted of \$8.3 million, a 26% increase from the \$6.6 million transacted in Q3 2021, as Karowe goods were supplemented by growth in supply from additional sources. The number of buyers on the platform remained stable during the quarter with the Company maintaining a waiting list to manage supply and demand.

Additional supply is required to meet existing demand and drive the platform’s growth and the Company continued trial sales on the Clara platform with a third-party producer in Q3 2022. The Company intends to continue to seek additional supply in 2022, both from third-party producers and the secondary market. In September 2022, the Company entered into a \$4 million revolving credit facility agreement with FirstRand Bank Limited (acting through

its Rand Merchant Bank division) which can be used to finance the purchase of additional supply for sale on the platform (see Note 8, “Clara revolving credit facility” disclosure in the condensed interim consolidated financial statements for the three and nine months ending September 30, 2022).

QUARTERLY SALES RESULTS

Table 2

Q3 2022 - Sales Channel	Rough Carats Sold	Revenue US\$ M	Average Price/Carat
HB Agreements	2,412	\$ 18.1	\$ 7,481
Clara ¹	2,403	4.9	2,038
Tender ²	94,486	14.5	153
Subtotal – Karowe diamonds sold	99,301	\$ 37.5	\$ 377
HB top-up payments		9.0	
Total Revenue – Karowe Diamonds		\$ 46.5	
3 rd party goods (Clara) ¹		3.4	
Total Revenue – Q3 2022		\$ 49.9	

Q3 2021 - Sales Channel	Rough Carats Sold	Revenue US\$ M	Average Price/Carat
HB Agreements	6,258	\$ 47.8	\$ 7,645
Clara ¹	3,195	6.4	1,994
Tender ²	107,709	15.6	145
Subtotal – Karowe diamonds sold	117,162	\$ 69.8	\$ 596
HB top-up payments		2.7	
Total Revenue – Karowe Diamonds		\$ 72.5	
3 rd party goods (Clara) ¹		0.2	
Total Revenue – Q3 2021		\$ 72.7	

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

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

Top-up payments, net of manufacturing costs, are paid when polished diamonds are sold to an end buyer and the sales prices achieved exceed the initial purchase price paid to Lucara. Top-up payments primarily relate to carats delivered in previous quarters. The amount and timing of top up payments received is impacted by the complexity of certain rough diamonds and the qualitative assumptions that are part of the initial planning process. At various points during the manufacturing process, the stones are re-assessed and adjustments may be made to the manufacturing plan, with the objective of maximizing the final sales price.

At September 30, 2022, the cumulative invoiced diamond sales to HB that was considered variable was \$33.7 million (December 31, 2021: \$56.4 million) and included deliveries made in the first half of 2022 and 2021. Variable consideration is a component of the transaction price and represents an area of significant management estimate and judgment. The variable consideration will be confirmed as the rough diamonds to which it relates are manufactured, polished and sold.

Payments owing for the final polished sales price and top-up payments received are estimated, after deductions for HB’s fee and the cost of manufacturing, when determining the transaction price recognized for accounting purposes. This estimate is updated at each period end until the transaction price is confirmed. Timing of deliveries to and polished sales by HB have the most significant impact on the timing of revenue recognition.

The Q3 2022 tender reflected a good performance in rough diamond pricing across all tendered size classes, although lower than what was achieved in the first two quarterly tenders of 2022 as concerns of a global economic slowdown became more prominent against a backdrop of high inflation, interest rate increases and uncertainty in supply chains. A total of 94,485 carats were sold in the September 2022 tender, generating revenues of \$14.5 million (Q3 2021 tender: \$15.6 million for 107,709 carats).

RESULTS OF OPERATIONS – KAROWE MINE

Table 3:

	UNIT	Q3-22	Q2-22	Q1-22	Q4-21	Q3-21
Sales						
Revenues from the sale of Karowe diamonds	US\$M	46.5	50.0	67.2	56.5	72.5
Karowe carats sold	Carats	99,301	66,167	80,295	102,791	117,162
Average price per carat - excluding top-ups ⁽¹⁾	US\$	377	557	690	436	596
Production						
Tonnes mined (ore)	Tonnes	920,410	1,091,192	811,947	610,072	1,190,856
Tonnes mined (waste)	Tonnes	453,860	357,764	482,104	276,263	696,907
Tonnes processed	Tonnes	693,398	719,207	666,488	705,877	738,986
Average grade processed ⁽²⁾	cpht ⁽¹⁾	11.4	12.0	12.6	12.8	13.0
Carats recovered	Carats	78,879	86,317	83,917	90,634	97,412
Costs						
Operating expense per Karowe carat sold ⁽³⁾	US\$	227	221	212	200	193
Margin (mining operations) per Karowe carat sold	US\$	150	336	478	236	403
Operating cost per tonne of ore processed ⁽⁴⁾	US\$	29.33	28.78	27.80	29.74	29.73
Capital Expenditures						
Sustaining capital expenditures	US\$M	4.0	4.1	0.8	9.1	3.4
Underground expansion project ⁽⁵⁾	US\$M	23.9	29.1	31.1	21.8	32.0

(*) carats per hundred tonnes

- (1) Previously presented as \$418 (Q4 2021) and \$588 (Q3 2021) per carat, respectively due to a reallocation between the top-up and the minimum polished values.
- (2) Average grade processed is from direct milling carats and excludes carats recovered from re-processing historic recovery tailings from previous milling.
- (3) Previously presented as \$224 (Q1 2022), \$217 (Q4 2021), and \$198 (Q3 2021) per carat, respectively to exclude the operating cost contribution from the corporate and other segment which was marginal in previous periods.
- (4) Operating cost per tonne of ore processed is a non-IFRS measure. See Table 7.
- (5) Excludes qualifying borrowing cost capitalized in each quarter since Q4 2021.

SECOND QUARTER OVERVIEW – OPERATIONS - KAROWE DIAMOND MINE

Safety: Karowe registered no lost time injuries during the three months ended September 30, 2022. As of September 30, 2022, the mine has operated for 682 days (6.1 million hours) without a lost time injury.

Environment and Social: There were no reportable environmental matters during the third quarter of 2022. In Q3 2022 efforts continued to close non-conformance matters in anticipation of an ISO 45001 surveillance audit in Q4 2022. Work continues to address the gaps identified through external verification as part of Lucara Botswana's adoption of the "Towards Sustainable Mining" initiative (an initiative developed by the Mining Association of Canada and adopted by the Botswana Chamber of Mines). Work continues around the development and implementation of an updated tailings framework aligned to the Global International Standard for Tailings Management ("GISTM"). During Q3 2022, a new slimes dam paddock, constructed according to GISTM guidelines was completed, as was an updated dam breach analysis. A study commenced related to the closure requirements for the existing slimes dam facilities. In anticipation of underground operations commencing in 2026, a training plan for that workforce was developed and underground mine rescue training was initiated.

Production: Ore and waste mined during the third quarter of 2022 totaled 0.9 million tonnes and 0.5 million tonnes respectively. During Q3 2022, tonnage processed was on target at 0.7 million tonnes at an average grade of 11.4 cpht, with a total of 78,879 carats recovered from direct milling. Ore processed was entirely from the South Lobe.

Diamond Recoveries: A total of 183 Specials were recovered, with six diamonds greater than 100 carats including one diamond greater than 200 carats in weight. Recovered Specials equated to 7.1% weight percentage of total

recovered carats from ore processed during Q3 2022 (Q3 2021 – 7.9%). During Q3 2021, ore processed was from the EM/PK(S) and M/PK(S) units of the South Lobe and recoveries during the quarter were within the expected range of the South Lobe resource model.

Karowe’s operating cash cost: Karowe’s operating cash cost for Q3 2022 (see “Use of Non-IFRS Financial Performance Measures”) was \$29.33 per tonne of ore processed (Q3 2021: \$29.73 per tonne of ore processed) and remained slightly below the full year forecast of \$29.50-\$33.50 per tonne processed. Cost per tonne of ore processed reflects cost inflation and the denominator impact of a decrease in tonnes processed of 6% in Q3 2022 from the comparative period, offset by the benefit of comparatively stronger U.S. Dollar.

Karowe’s operating margin per carat sold: the operating margin per carat sold (see Table 3: “Results of Operations – Karowe Mine” and “Use of Non-IFRS Financial Performance Measures”) decreased from \$403/carat, or 68% in Q3 2021 to \$150/carat, or 40% in Q3 2022 due to a combination of lower revenues and lower sales volumes. Revenue in Q3 2021 was positively impacted by the recovery of four pink diamonds and two Type IIa top white gem diamonds, each in excess of 250 carats. In addition, increased costs as a result of inflationary pressures, net of foreign exchange benefits and the release of inventory cost that was built up in the previous quarter had a negative impact on the Q3 2022 margin.

Overall performance: Performance during the third quarter remained consistent with the strong operational results achieved over the past several years. Mining and processing results were on plan during Q3 2022 and the Company remains on track to meet, or exceed, market guidance.

SELECT FINANCIAL INFORMATION

Table 4: <i>In millions of U.S. dollars unless otherwise noted</i>	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Revenues	\$ 49.9	72.7	\$ 170.5	172.1
Operating expenses	(25.8)	(23.2)	(60.8)	(58.0)
Adjusted operating earnings⁽¹⁾	24.1	49.5	109.7	114.1
Royalty expenses	(5.5)	(7.8)	(19.6)	(18.3)
Administration	(4.2)	(4.3)	(14.0)	(12.3)
Sales and marketing	(0.6)	(0.6)	(1.9)	(2.1)
Adjusted EBITDA⁽²⁾	13.8	36.8	74.2	81.4
Depletion and amortization	(7.5)	(13.6)	(18.2)	(36.6)
Finance expenses	(0.8)	(1.3)	(2.5)	(3.4)
Foreign exchange loss	(2.0)	(0.3)	(3.0)	(1.5)
Gain on derivative financial instrument	3.7	–	10.9	–
Current income tax expense	–	(0.5)	–	(2.0)
Deferred income tax expense	(5.2)	(8.5)	(28.0)	(15.8)
Net income for the period	1.8	12.8	33.3	22.2
Earnings per share (basic)	0.00	0.03	0.07	0.05
Operating cash flow per share⁽³⁾	0.03	0.08	0.17	0.19
Change in cash during the period	(6.0)	12.9	7.8	21.7

(1) Adjusted operating earnings is a non-IFRS measure defined as revenues less operating expenses and excludes royalty expenses and depletion and amortization.

(2) Adjusted EBITDA is a non-IFRS measure defined as earnings before depletion and amortization, finance expenses, foreign exchange, financial instrument fair value adjustments, disposal of assets and taxation.

(3) Operating cash flow per share is a non-IFRS measure. See Table 6 below for more details.

(4) Numbers may not foot due to rounding.

Revenues and royalties

Total revenue decreased 31% from \$72.7 million in Q3 2021 to \$49.9 million in Q3 2022. During the three months ended September 30, 2022, Lucara recognized revenue of \$37.5 million from the sale of 99,301 carats from Karowe at an average price of \$377 per carat as well as \$9.0 million in top-up payments (Q3 2021: \$69.8 million from the sale of 117,162 carats from Karowe at an average price of \$596 per carat and \$2.7 million in top-up payments). Sales of third-party goods through Clara generated revenues of \$3.4 million (Q3 2021 - \$0.2 million).

Royalties to the Government of Botswana are paid at the rate of 10% of the final gross sales price achieved from the sale of all diamonds, rough or polished.

Sewelô and Sethunya Diamonds

In 2021, Louis Vuitton (“LV”) resumed its global marketing effort for the historic 1,758 carat “Sewelô”, the largest diamond ever mined in Botswana, following delays imposed by COVID-19 related travel restrictions in 2020. The partners are in active discussions in respect of next steps for this historic diamond.

Due to strong forecast revenues for 2021 and amidst strengthening prices for large, high value diamonds, a strategic decision was taken late in 2021 to defer the sale of the Sethunya, one of the finest, gem quality, exceptional diamonds produced from the Karowe Mine to date. During Q3 2022, the Company received a \$6 million prepayment from HB which has been recorded as deferred revenue on the Statement of Financial Position.

Adjusted Operating Earnings and Expenses

Adjusted operating earnings for the three months ended September 30, 2022 were \$24.1 million (Q3 2021: \$49.5 million) after operating expenses of \$25.8 million (Q3 2021: operating expenses of \$23.2 million). The 11% increase in operating expenses is attributed to the net impact of higher labour, fuel and energy costs offset by the depreciation of the Botswana Pula against the U.S. dollar as well as the release of inventory costs that were built up in the previous quarter.

The process plant milled 693,398 ore tonnes during Q3 2022, 6% lower than the processing performance in the comparative quarter of 2021. The recovery of 78,879 carats in Q3 2022 was 19% lower than Q3 2021, the result of fewer ore tonnes processed and an average grade of 11.4 carats per hundred tonnes (“cpht”) from direct milling during Q3 2022 compared to an average grade of 13.2 cpht in Q3 2021.

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

Depletion and amortization

In Q3 2022, the Company recorded depletion and amortization expense of \$7.5 million (Q3 2021: \$13.6 million). This non-cash expense decreased 45% from the comparative quarter. The depletion and amortization expense on assets which are primarily amortized on a unit of production basis will be affected by both the volume of carats recovered in any given period and the reserves that are expected to be recovered. Formal approval of the Karowe UGP in Q3 2021 increased the reserve base used for this calculation, resulting in the lower depletion and amortization expense for the current quarter.

Derivative financial instrument

A \$3.7 million gain on a derivative financial instrument (Q3 2021: \$nil) relates to changes in the fair value of the interest rate swap in response to changing market interest rates (see *Note 8 of the condensed interim consolidated financial statements for the three months ended September 30, 2022*). As at September 30, 2022, the interest rate swaps were recorded at a fair value of \$10.0 million on the Statements of Financial Position, with \$1.4 million classified as a current asset based on the timing of expected settlement.

Net income

Net income for the three months ended September 30, 2022 was \$1.8 million (Q3 2021: \$12.8 million), with net income for the three months ended September 30, 2022 reflecting lower revenue and higher operating expenses, lower depreciation charges, a gain on the derivative financial liability and lower deferred income tax expense. Deferred income tax expense primarily relates to the significant capital expenditures for the Karowe UGP. These expenditures are tax deductible in the year that the costs are incurred.

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

Adjusted EBITDA for the three months ended September 30, 2022 was \$13.8 million compared to \$36.8 million in Q3 2021. The change is directly attributable to the decrease in revenue and increase in operating and other expenses.

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

Operating Cost Per Tonne of Ore Processed

For the three months ended September 30, 2022, operating cost per tonne of ore processed was \$29.33 (Q3 2021: \$29.73). The cost per tonne of ore processed reflects cost inflation (primarily related to labour, fuel, power and insurance) offset by fluctuations in currency exchange rates. The full year cost guidance range is \$29.50 to \$33.50 per tonne of ore.

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

SELECT QUARTERLY FINANCIAL INFORMATION

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

Three months ended	Sept-22	Jun-22	Mar-22	Dec-21	Sep-21	Jun-21	Mar-21	Dec-20
A. Revenues	49,926	52,348	68,195	57,931	72,716	46,334	53,097	42,387
B. Administration expenses	(4,220)	(4,005)	(5,756)	(7,149)	(4,256)	(3,659)	(4,395)	(4,913)
C. Net income (loss)	1,831	12,532	18,968	1,662	12,760	5,998	3,407	(3,834)
D. Earnings (loss) per share (basic)	0.00	0.03	0.04	0.00	0.03	0.02	0.01	(0.01)

Revenue is 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. Sales of Specials (diamonds greater than 10.8 carats), but more particularly the unique and high value Specials are the primary factor causing variation to the quarterly metrics.

Diamond prices improved significantly through 2021 and have remained robust throughout 2022 in response to supply constraints in certain size classes and strong demand, despite ongoing economic and other uncertainties.

Net income achieved in each quarter is most impacted by the revenue earned during that quarter, while the impact of changes in depreciation, fluctuating inventory levels, foreign exchange gains and losses, the gain or loss on derivative financial instruments (from Q4 2021 onwards), the impact of asset dispositions and income tax expenses introduce volatility to net income.

NON-IFRS FINANCIAL MEASURES

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

Adjusted EBITDA (see Table 4: "*Select Financial Information*") is the term the Company uses as an approximate measure of the Company's pre-tax operating cash flow and is generally used to measure performance and evaluate trends of individual assets. Adjusted EBITDA comprises earnings before depletion and amortization, finance expenses, foreign exchange, financial instrument fair value adjustments, disposal of assets and taxation.

Adjusted operating earnings (see Table 4: "*Select Financial Information*") is the term the Company uses as an approximate measure of the earnings from the operations under an accrual basis of accounting and is defined as revenues less operating expenses, before royalty expenses and depletion and amortization.

Operating cash flow per share is the term the Company uses to assess its ability to generate cash flow from operations, while also taking into consideration changes in the number of outstanding common shares of the Company. Operating cash flow per share is calculated by taking cash flows from operating activities, less changes in non-cash working capital items, divided by the basic weighted average number of common shares outstanding. The most directly comparable measure calculated in accordance with IFRS is cash flows from operating activities. A reconciliation of the two measures is presented in Table 6: “Operating cash flow per share reconciliation”.

Table 6: Operating cash flow per share reconciliation:

Thousands of U.S. dollars except weighted average common shares outstanding and operating cash flow per share

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Cash flows from operating activities	\$ 22,154	17,022	\$ 79,226	39,496
Add: Changes in non-cash working capital	(7,187)	19,643	(3,276)	39,984
Total cash flow from operating activities before changes in non-cash working capital	\$ 14,967	36,665	75,950	79,480
Weighted average common shares outstanding	453,566,923	443,290,345	453,450,013	412,788,084
Operating cash flow per share¹	\$ 0.03	0.08	\$ 0.17	\$0.19

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

Operating margin per carat sold (see Table 3: “Results of Operations – Karowe Mine”) is the term the Company uses to describe the contribution to adjusted operating earnings, excluding top-up payments pursuant to the HB agreement and third-party goods, for each single diamond carat sold. This is calculated as Adjusted operating earnings (before top-up payments related to the HB agreement and revenue from third party goods) per carat of diamonds sold.

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

Table 7: Operating cost per tonne of ore processed reconciliation:

In millions of U.S. dollars except for tonnes processed and operating cost per tonne processed

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Operating expenses	\$ 25.8	23.2	\$ 60.8	58.0
Corporate and other segment operating expenses ⁽¹⁾	(3.3)	(0.6)	(6.7)	(1.4)
Net change rough diamond inventory, excluding depletion and amortization	(4.1)	(3.3)	0.3	(1.8)
Net change ore stockpile inventory, excluding depletion and amortization	1.9	2.7	5.0	6.6
Total operating costs for ore processed	\$ 20.3	22.0	59.4	61.4
Tonnes processed	693,398	738,986	2,079,093	2,139,011
Operating cost per tonne of ore processed²	\$ 29.33	29.73	\$ 28.57	28.70

⁽¹⁾ Calculated as the difference between Revenue and Loss from Operations of the Corporate and other segment, excluding depletion and amortization. See Note 13 – Segment Information in the condensed interim consolidated financial statements for the nine months ended September 30, 2022.

⁽²⁾ Operating cost per tonne processed for the period is a non-IFRS measure defined as the sum of operating expenses, capitalized production stripping costs, and the net changes in rough diamond inventories and ore stockpiles divided by the tonnes of ore processed for the period.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2022, the Company had cash and cash equivalents of \$34.8 million and cash flow from operating activities for the three months ended September 30, 2022 totaled \$22.1 million.

The Company's \$50 million working capital facility was undrawn at September 30, 2022. The facility matures on September 2, 2023.

Working capital as at September 30, 2022 was \$64.0 million as compared to \$50.5 million as at December 31, 2021, an increase of 27%. Trade and other receivables (September 30, 2022: \$33.2 million) reduced and current inventories (September 30, 2022: \$37.5 million) increased from the balances at December 31, 2021 (receivables: \$38.8 million; inventories: \$36.5 million). The receivable balance at September 30, 2022 includes \$17.3 million (December 31, 2021: \$17.5 million) due from HB and represents rough diamond sales in Q3 2022, as well as the value of diamond sales for which the transaction price was finalized and adjusted in September 2022.

Current liabilities decreased to \$42.9 million as of September 30, 2022 from \$51.8 million at December 31, 2021. The Company fully repaid the amount drawn on its short-term financing facilities, which was offset by increases in trade payables and accrued liabilities primarily because of increased expenditure on the Karowe UGP, the timing of royalty payments and a \$6.0 million advance that was received from HB as a prepayment on the 549-carat Sethunya diamond and recorded as deferred revenue.

Long-term liabilities consist of the project financing facility of \$62.0 million (December 31, 2021: \$23.7 million), restoration provisions of \$14.3 million (December 31, 2021: \$15.3 million), deferred income taxes of \$87.5 million (December 31, 2021: \$70.3 million), and other non-current liabilities of \$1.0 million (December 31, 2021: \$1.0 million) which consist of leases classified under IFRS 16: *Leases* and a liability for issued deferred share units.

Financing activities during the quarter consisted of lease payments of \$0.6 million.

Total shareholders' equity increased to \$252.8 million from \$249.0 million at December 31, 2021 as earnings generated during the quarter reduced the accumulated deficit. Other changes to share capital and contributed surplus were related to share units vesting and the recording of share-based compensation during the period, and the cumulative impact of the currency translation adjustment.

RELATED PARTY TRANSACTIONS

A description of key management compensation can be found in Note 12 of the condensed interim consolidated financial statements for the three months ended September 30, 2022.

In relation to the acquisition of Clara in February 2018, certain related parties may receive additional shares of Lucara if Clara, now a wholly-owned subsidiary of Lucara, achieves certain levels of revenue generated by sales on the platform (the "Performance Milestones"). The Performance Milestones are detailed in Note 9 of the audited consolidated financial statements for the year ended December 31, 2021. As of September 30, 2022, none of the Performance Milestones had been achieved.

A profit sharing mechanism also exists, whereby a total of 3.45% of the EBITDA generated by the platform has been assigned to Ms. Thomas (Lucara's CEO and a director) and Ms. McLeod-Seltzer (who was appointed to the Lucara Board of Directors following the Clara acquisition) as founders of the platform, with the remaining 3.22% of the EBITDA generated by the platform to be distributed to management, including Dr. Armstrong (Vice-President, Technical Services) and Ms. Boldt (who was appointed as Lucara's CFO & Corporate Secretary after the Clara acquisition) (collectively, "Clara Management"), at the discretion of Lucara's Compensation Committee based on key performance targets. As of September 30, 2022, no amounts have been paid pursuant to this profit sharing mechanism and no contingent consideration has been recorded.

COMMITMENTS

As at September 30, 2022, purchase orders and contracts that give rise to commitments for future minimum payments for services to be provided related to the Karowe UGP amounted to \$126.1 million (December 31, 2021 - \$86.7 million).

Table 8: Approximate undiscounted timing of Karowe UGP commitments at September 30, 2022:

		2022	2023	2024	2025 and 2026	Total
Underground expansion project	<i>\$ million</i>	27.6	43.8	39.7	15.0	126.1

2022 OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2022. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements. No changes were made to the Company's 2022 Guidance as of Q3 2022. In February 2022, based on updated expectations for revenue in 2022, the diamond revenue guidance issued was increased to between \$195.0 million and \$225.0 million (from \$185.0 million to \$215.0 million). Diamond revenue guidance does not include revenue related to the sale of exceptional stones (an individual rough diamond which sells for more than \$10 million), or the Sethunya.

Karowe Mine, Botswana

Table 9: 2022 Diamond Sales, Production and Outlook

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

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

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

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

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

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

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

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

FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

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

Currency risk

The Company is exposed to the financial risk related to fluctuating foreign exchange rates. All sales revenues are denominated in U.S. dollars, while directly related costs are denominated in Botswana Pula. At September 30, 2022, the Company was exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately \$3.1 million in net income for the period.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. To manage liquidity risk, regular cash flow forecasting is performed in the operating entities of the Company and aggregated in the head office to understand what level of capital is required. Rolling forecasts of the Company's liquidity requirements are prepared and monitored to assess whether there is sufficient cash available to meet the Company's short and longer-term operational needs. Such forecasting takes into consideration the Company's ability to generate cash from the sale of diamonds and additional liquidity which can be accessed through the working capital facility.

Credit risk

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

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

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

Interest rate risk

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

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

Price risk

The Company derives its income from the sale of rough diamonds mined in Botswana. 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, the ultimate achieved sales prices of stones larger than 10.8 carats in size is based on a polished diamond pricing mechanism. This pricing mechanism results in the

Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than it is currently through its traditional tender process for rough diamonds. The pricing of both polished and rough diamonds continued to increase during the first six months of 2022 but has softened in Q3 2022 after significant price improvements in late 2021 and the beginning of 2022 because of positive market supply and demand dynamics. The global demand for luxury commodities, including jewelry containing diamonds, was negatively impacted in 2020 by the COVID-19 pandemic.

To the extent that the supply of rough or polished diamonds exceeds demand, this is likely to result in price deterioration and negatively impact the Company's revenue and ability to generate positive cash flow from operations.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 453,566,923 common shares outstanding, 7,056,000 share units, 1,927,353 deferred share units, and 6,423,000 stock options outstanding under its share-based incentive plans.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business which includes the acquisition, financing, exploration, development and operation of diamond properties, the construction of an underground mine at Karowe and the growth of Clara. The material risk factors and uncertainties, which should be considered in assessing the Company's activities, are described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form which is available at <http://www.sedar.com> (the "AIF"). Any one or more of these risks and uncertainties could have a material adverse effect on the Company.

OFF-BALANCE SHEET ARRANGEMENTS

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

CHANGES IN ACCOUNTING POLICIES

During the three months ended September 30, 2022 there were no changes to the accounting policies described in Note 4 of the audited consolidated financial statements for the year ended December 31, 2021.

Certain pronouncements have been issued by the IASB that are mandatory for accounting periods starting January 1, 2022. There are currently no such pronouncements that are expected to have a significant impact on the Company's consolidated financial statements upon adoption.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of this document along with the unaudited condensed interim consolidated financial statements. Management is responsible for the integrity and objectivity of this document, ensuring the fair presentation of its financial results. The Audit Committee is responsible for reviewing the contents of this document along with the condensed interim consolidated financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended September 30, 2022.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information related to the Company is identified and communicated on a timely basis. Management of the Company, under the

supervision of the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), is responsible for the design and operation of disclosure controls and procedures.

Internal controls over financial reporting

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

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

There have been no changes in the Company’s internal control over financial reporting during the three months ended September 30, 2022 that have materially affected or are reasonably likely to materially affect the Company’s internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

In particular, forward-looking information and forward-looking statements may include, but are not limited to, information or statements with respect to the equity and project debt financings completed in 2021, the intended use of proceeds, the Company’s ability to comply with the terms of the Facilities which are required to construct the Karowe UGP, that expected cash flow from operations, combined with external financing will be sufficient to complete construction of the Karowe UGP, that the estimated timelines to achieve mine ramp up and full production from the Karowe UGP can be achieved, the economic potential of a mineralized area, the size and tonnage of a mineralized area, anticipated sample grades or bulk sample diamond content, future production activity, the future price and demand for diamonds, future forecasts of revenue and variable consideration in determining revenue, estimation of mineral resources, exploration and development plans, cost and timing of the development of deposits and estimated future production, permitting time lines, currency exchange rates, success of exploration, requirements for and availability of additional capital, capital expenditures, operating costs, timing of completion of technical reports and studies, tax rates, timing of drill programs, government regulation of operations, environmental risks and ability to comply with all environmental regulations, reclamation expenses, title matters including disputes or claims, limitations on insurance coverage, negotiations and agreements among the Company and the Botswana Mine Workers Union, the completion of transactions and timing and possible outcome of pending litigation, the profitability of Clara and the Clara Platform, and the scaling of the digital platform for the sale of rough diamonds owned by Clara, the benefits to the Company of diamond supply agreements with HB and the ability to generate better prices from the sale of the Company’s +10.8 carat production as a polished stone. The foregoing list is not exhaustive of the factors that may affect any of our forward-looking statements.

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

can be given that these expectations will prove to be correct. Certain risks which could impact the Company are discussed under the heading “Risks and Uncertainties” in the Company’s most recent Annual Information Form available at <http://www.sedar.com> (the “AIF”).

Forward-looking statements are statements about the future and are inherently uncertain, and our actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in this MD&A.

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