

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. (the "Company") and its subsidiaries performance and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2016, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in U.S. dollars unless otherwise indicated. The effective date of this MD&A is February 16, 2017.

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

FINANCIAL UPDATE

Net Cash Position: The Company's year-end cash balance was \$53.3 million (2015: \$134.8 million). The decrease in cash during the year is primarily due to the Company's special and regular dividend payments of \$149.7 million to its shareholders. The Company's \$50 million credit facility remains undrawn.

Cash flows and Operating Cost Per Tonne of Ore Processed: During the year, the Company sold 358,806 carats for total revenues of \$295.5 million (2015: \$223.8 million) at an average sales price of \$824 per carat (2015: \$593 per carat). Excluding the sale of the 813 carat Constellation diamond, the 2016 average sales price was \$649 per carat. The Company's focus on cost control resulted in a cost per tonne processed of \$26.5 (Revised guidance \$25.0-\$28.0 per tonne - see table 5 and page 9 Non-IFRS measures).

Earnings and Earnings Per Share: Earnings for 2016 were \$70.7 million (2015: \$77.8 million) and earnings per share were \$0.19 for the year ended December 31, 2016 (2015: \$0.21) and \$0.03 per share for the quarter ended December 31, 2016 (2015: \$0.05). The Company's earnings per share were negatively impacted by \$0.03 per share due to a foreign exchange loss of \$11 million as compared to 2015's foreign exchange gain of \$15 million which contributed \$0.04 to 2015 earnings per share. Withholding taxes of \$7.4 million on funds remitted from Botswana for the payment of the special dividend in 2016 reduced earnings per share by a further \$0.02.

Earnings Before Interest, Tax, Depreciation and Amortization "EBITDA" and Operating Margin: The Company recorded EBITDA for the year of \$185.4 million (2015: \$133.9 million) and an operating margin of 81% (2015: 78%) (see table 4 and page 9 Non-IFRS measures). The increase in EBITDA and operating margin was largely due to the sale of the Constellation, an 813 carat Type IIA diamond sold for a world record rough diamond price of US\$63.1 million or US\$77,649 per carat.

Dividends: The Company paid its quarterly dividend of CA\$0.015 per share on December 15, 2016 for a cumulative dividend of CA\$0.51 per share in 2016. The \$149.7 million cash dividend paid in 2016 resulted in a milestone achievement for the Company as the cumulative dividends paid since 2014 exceed the total amount of share capital ever raised by the Company.

In 2017, the Company is increasing its regular annual dividend to CA\$0.10 per share to be paid in four equal payments on a quarterly basis. The Company has declared a first quarter dividend of CA\$ 2.5 cents per share which will be paid on March 30, 2017 to holders of securities on the record of the Company's common shares at the close of business on March 17, 2017. The Company anticipates that it will declare a further three payments of CA\$0.025 per share in 2017 by the end of each quarter for a total yearly dividend of CA\$0.10 per share. However the declaration of all future quarterly dividends remains at the discretion of the Board of Directors and is subject to the requirements of the Company's dividend policy.

OPERATIONAL UPDATE

Karowe Operating Performance: Karowe's performance was better than forecast for the year in terms of ore processed and carats recovered. In February 2017, the Company's new mining contractor, Moolman Mining Botswana (Pty) Ltd a subsidiary of Aveng Mining ("Aveng Moolmans") commenced mobilization to the Karowe mine. Ore and waste mined for the year was lower than forecast as the Company transition to its new mining contractor. Since December 2016, during the period of transition to Aveng Mining, Karowe processed ore from stockpile. Forecast 2017 operating outlook remains in line with market guidance (see press release dated November 30, 2016).

Botswana Prospecting Licenses: In 2014, the Company was awarded two precious stone prospecting licenses (PL367/2014 and PL371/2014) which are known to host the kimberlites, BK02, AK11 and AK12, AK13 and AK14. The prospecting licenses are located within a distance of 15 km and 30 km from the Karowe Diamond mine. During the fourth quarter of 2016, the Company completed processing an additional 5000 tonnes of kimberlite from the BK02 kimberlite. Processing of audit material and diamond sorting will be complete in Q1 2017. Drilling will progress at the AK13 and AK14 kimberlites during Q1 2017.

Diamond Market: Supply and demand fundamentals in the diamond market remain unbalanced, resulting in a very cautious market. The large volume of rough diamonds sold into the market in 2016 has not translated into increased sales of polished diamonds. Polished diamond price indices remain at very low levels, restricting the ability for rough diamond prices to see short term and sustainable growth.

Demonetisation in India towards the end of 2016 resulted in low to almost no liquidity for polishers to pay their employees. Although this is a short term concern for the sector, additional supply being brought into the market by three new diamond producers may continue to have an impact on prices for the smaller and lower quality rough diamonds.

The market for large high value rough diamonds remains resilient and there remains strong demand for these goods. Lucara continues to receive a high number of bids for its high value single stones as polishers look to move into the higher margin areas of the industry.

FINANCIAL HIGHLIGHTS

Table 1:

<i>In millions of U.S. dollars unless otherwise noted</i>	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Revenues*	\$ 66.0	\$ 65.2	\$ 295.5	\$ 223.8
Net income for the period	11.2	19.0	70.7	77.8
Earnings per share (basic)	0.03	0.05	0.19	0.21
Earnings per share (diluted)	0.03	0.05	0.18	0.20
Cash on hand	\$ 53.3	\$ 134.8	\$ 53.3	\$ 134.8
Average price per carat sold (\$/carat)**	743	693	824	593
Operating expenses per carat sold (\$/carat)**	197	137	156	133
Operating margin per carat sold (\$/carat)**	546	556	668	460

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

(**) Average price per carat sold, operating expenses per carat sold and operating margin per carat sold are Non-IFRS measures, see table 3: results of operations for reconciliations and page 9 for Non-IFRS measures.

2017 OUTLOOK

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

Karowe Mine, Botswana

Karowe is forecast to process 2.2-2.5 million tonnes of ore, producing between 290,000 and 310,000 carats of diamonds in 2017. Revenue is forecast between \$200 and \$220 million. This excludes the anticipated sale of the Lesedi La Rona held in inventory at December 31, 2016.

Ore mined is forecast between 2.4-2.7 million tonnes and waste mined is expected to be between 17.0-20.0 million tonnes.

Karowe's operating cash costs (see page 9 Non-IRFS measures) are expected to be between \$36.00 and \$40.00 per tonne processed following a planned increase in waste mining as the Company advances toward early completion of a major push back by the end of 2018. This will create further optionality for accessing the high value south lobe ore.

Capital expenditure in 2017 is forecast at between \$33-\$35 million. This capital investment is largely for the completion of the Mega Diamond Recovery (MDR) and -8+4mm sub-middles XRT projects, which commenced in 2016 and are to be completed in 2017. Both projects are forecast to be completed within budgeted costs between \$15-\$18 million and up to \$30 million respectively. Sustaining capital is forecast to be between \$7-\$9 million in 2017.

A budget of up to \$10.0 million is allocated to advance exploration work and the completion of a pre-feasibility level underground study. The Company continues its advanced bulk sampling and drilling work at BK02, AK11 and AK13. Deep drilling on the Karowe AK06 kimberlite south lobe is to be completed in 2017 with the aim of converting inferred resources below 400 metres depth to an indicated resource and to determine the economic viability of underground mining with a view to potentially extending the life of the mine.

The USD/Pula budgeted foreign exchange rate for 2017 is 10.3.

BUSINESS OVERVIEW

The Company is a diamond mining company focused in Africa. The Company's business consists of the acquisition, exploration, development and operation of diamond properties. The Company's head office is in Vancouver, BC, Canada and its common shares trade on the Toronto Stock Exchange, the Nasdaq Stockholm Exchange in Sweden and the Botswana Stock Exchange under the symbol "LUC".

The principal assets of the Company and the focus of the Company's operations, development and exploration activities reside in Botswana.

Table 2: Company's current land holdings:

Country	Name	Interest Held	Area (km ²)
Botswana	Karowe Diamond License	100%	15.3
Botswana	Prospecting License No. 371/2014	100%	55.4
Botswana	Prospecting License No. 367/2014	100%	1.1

RESULTS OF OPERATIONS

Table 3: Karowe Mine, Botswana

	UNIT	Year 2016	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15
Sales							
Revenues	US\$m	295.5	66.0	38.1	140.8	50.6	65.2
Proceeds generated from sales tenders conducted in the quarter are comprised of:	US\$m	295.5	66.0	29.8	149.1	50.6	65.2
Sales proceeds received during the quarter	US\$m	295.5	66.0	38.1	140.8	50.6	65.2
Q2 2016 tender proceeds received in Q3 2016	US\$m	-	-	(8.3)	8.3	-	-
Carats sold for proceeds generated during the period	Carats	358,806	88,957	84,059	107,801	77,990	94,026
Carats sold for revenues recognized during the period	Carats	358,806	88,957	114,659	77,200	77,990	94,026
Average price per carat for proceeds generated during the period**	US\$	824	743	355	1,383	649	693
Average price per carat for proceeds received during the period***	US\$	824	743	332	1,824	649	693
Production							
Tonnes mined (ore) (****)	Tonnes	2,722,375	582,169	650,290	884,212	605,705	672,110
Tonnes mined (waste) (****)	Tonnes	11,058,041	2,728,915	3,092,110	2,868,798	2,368,218	2,631,224
Tonnes processed	Tonnes	2,613,217	630,471	650,646	680,190	651,909	567,966
Average grade processed	cpht (*)	13.5	13.0	12.5	14.6	13.9	15.6
Carats recovered	Carats	353,974	82,272	81,423	99,582	90,697	89,247
Costs							
Operating costs per carats sold (see page 9 Non-IRFS measures)	US\$	156	197	149	141	136	137
Capital project expenditures							
Plant Optimization	US\$m	-	-	-	-	-	1.6
-8+4mm sub-middles XRT project	US\$m	7.2	7.2	-	-	-	-
LDR and MDR circuit	US\$m	6.0	0.8	2.3	2.9	-	-
Sustaining capital	US\$m	10.0	2.0	5.8	1.7	0.5	0.6
Bulk Sample Plant	US\$m	0.1	-	-	-	0.1	0.7
Total	US\$m	23.3	10.0	8.1	4.6	0.6	2.9

(*) carats per hundred tonnes

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

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

(****) restated following Q3 2016 survey

OPERATIONS: KAROWE MINE

Safety performance was excellent for the year with a Safety and Health Lost Time Injury Frequency rates for 2016 of zero (measured per 1,000,000 hours) (2015: less than 0.4). All safety, health, environmental and corporate responsibility indices were within target. The Company has achieved five million man hours without a lost time injury.

Ore mined in Q4 2016 was 0.6 million tonnes and waste was 2.7 million tonnes. Tonnes of ore and waste mined were lower than forecast as Karowe's previous mine contractor commenced demobilization from site and ore was processed from stockpile. The process plant has performed well during Q4 with tonnes processed being 14% ahead of forecast for the quarter and 6% ahead of forecast for the year resulting in Karowe achieving its carats recovered forecast in excess of 350,000 carats.

As greater volumes of south lobe ore are processed the recovered grade has decreased in line with the resource model. The south lobe contains high value diamonds resulting in higher revenue per tonne ore processed compared to the centre and north lobes.

The project to increase the top size of diamonds recoverable by the existing Large Diamond Recovery was successfully implemented on schedule and within budget. The MDR circuit project is on schedule at 45% complete. The related civil work has commenced at site and fabrication is on schedule and forecast to be completed in Q2 2017.

The sub-middles XRT project (targeting the recovery of diamonds between 4mm and 8mm using XRT technology) is 25% complete. Excavation in preparation of civil work has commenced. The project is on schedule for completion in Q3 2017. This project will further address processing of the very dense high quality South lobe ore at depth and is anticipated to result in a highly efficient and cost effective processing methodology for processing this ore.

In January 2017, the Company announced the appointment of Aveng Moolmans as the new mining contractor for the Karowe mine. Aveng Moolmans is contracted for a six year period to provide full mining services including all drill, blast, load and haul functions for both ore and waste. In February 2017, Aveng Moolmans has commenced mobilization of its mining equipment fleet into the Karowe mine.

EXPLORATION AND MOTHAE

Karowe Resource Upgrade Drilling

Drilling commenced on the planned 10,000 metre deep drill programme designed to test the Karowe AK06 kimberlite at depths below 400m with the objective of converting inferred mineral resources into the indicated category in support of underground mining studies. The drilling component of the program is expected to be completed in February 2017.

Botswana Prospecting Licenses:

In 2014, the Company was awarded two precious stone prospecting licenses (PL367/2014 and PL371/2014) which are known to host kimberlites, BK02, AK11 and AK12, AK13 and AK14. The prospecting licenses are located within a distance of 15 km and 30 km from the Karowe mine. Ground geophysical surveys were conducted over the known kimberlite occurrences within the prospecting licenses during Q4 2014, Q1 2015 and Q2 2016. The geophysical results confirmed the kimberlite localities and have provided information that has been used to plan our core drilling and surface sampling programs.

BK02

In Q2 2016, the company completed processing a bulk sample with a total of 274.33 carats being recovered from the processing of 5,916 tonnes, for a sample grade of 4.6 cpht. The largest diamond recovered was a 5.48 carat brownish octahedron. In addition, a total of 24 stones were recovered greater than 1 carat in weight, including 3 diamonds in excess of 2 carats in weight. In Q3 2016, the Company completed sampling of an additional 5,000 tonnes of kimberlite in order to recover a parcel of diamonds sufficient for basic valuation purposes. Processing of the second BK02 sample was completed in Q4 2016 with audit samples and diamond sorting forecast to be complete in Q1 2017.

During Q4 2016, 14 drill holes totaling 1670 metres were drilled into the BK02 kimberlite. An additional three drill holes (320m) were completed in early Q1 2017. Drill core logging is underway and will be sampled for microdiamond analysis and is forecast to be complete in Q3 2017.

AK 11

During Q3 a drill program was initiated and completed at AK11 with a total of ten core holes (1570 metres of drilling). This program constituted the first ever drilling on AK11. Nine holes were drilled at AK11 and all intersected kimberlite, the tenth hole which did not intersect kimberlite tested a geophysical anomaly to the west of AK11. Preliminary core logging indicates that AK11 has two distinct pipe infill sequences, a well preserved crater infill (graded bedding, re-sediment kimberlite) and a more magmatic/pyroclastic kimberlite phase. Drilling confirmed the size of AK11 at approximately 2.5 hectares. Logging and sampling of the drill core is underway, microdiamond samples are currently being processed and is forecast to be completed by Q2 2017.

Drilling will progress to AK13 and AK14 during Q1 2017.

Mothae Diamond Project, Lesotho

On March 31, 2016, the Company completed the transfer of its shares of Mothae Diamonds Pty Ltd and the Mothae site bulk sample plant to the Government of Lesotho. As consideration, the Government of Lesotho has released the Company from all liabilities relating to the rehabilitation of the Mothae Diamond Project. Lucara has no remaining ownership in this project.

INVESTMENT

In Q4 2016, the Company acquired 4,476,773 Units of Tsodilo Resources Limited for \$2.5 million in a private placement financing. Each Unit is comprised of one common share and one common share purchase warrant, each such warrant entitling the holder to purchase one common share of Tsodilo for a period until the close of business on December 12, 2018 at an exercise price of USD\$0.75. Lucara was granted a pre-emptive right to maintain its percentage ownership in Tsodilo as well as a right of first refusal to purchase all or any portion of Tsodilo's or its subsidiaries' rights, title or interest in or to Tsodilo's BK16 project pursuant to a right of first refusal agreement. The funds received by Tsodilo from Lucara are specifically designated and ring fenced for work on BK16. The BK16 property covers an area of 1.02 square kilometers and is located 28 km northeast from the Karowe mine and is 14 km from BK02.

SELECT FINANCIAL INFORMATION

Table 4:

In millions of U.S. dollars unless otherwise noted

	Year ended December 31,		
	2016	2015	2014
Revenues	\$ 295.5	\$ 223.8	\$ 265.5
Operating expenses	(56.1)	(50.1)	(47.2)
Operating earnings ⁽¹⁾	239.4	173.7	218.3
Royalty expenses	(29.5)	(22.4)	(26.6)
Exploration expenditures	(4.1)	(1.0)	-
Care and maintenance	(0.1)	(0.6)	(1.2)
Administration	(14.8)	(13.0)	(12.8)
Sales and marketing	(5.5)	(2.8)	(4.3)
EBITDA ⁽²⁾	185.4	133.9	173.4
Depletion, amortization and accretion	(15.9)	(13.7)	(14.6)
Finance income (expenses)	(1.5)	(0.3)	0.8
Foreign exchange gain (loss)	(11.0)	15.5	(19.4)
Loss on disposition - Mothae	(1.2)	-	-
Restoration and impairment charge - Mothae	-	-	(21.2)
Current income tax expense	(85.6)	(44.7)	(41.6)
Deferred income tax expense	0.5	(12.9)	(31.7)
Net income for the year	70.7	77.8	45.7
Change in cash during the year	(81.4)	33.9	51.5
Cash on hand	53.3	134.8	100.8
Earnings per share (basic)	0.19	0.21	0.13
Earnings per share (diluted)	0.18	0.20	0.13
Per carats sold			
Sales price	\$ 824	\$ 593	\$ 644
Operating expenses	156	133	115
Average grade (carats per hundred tonnes)	13.5	16.3	17.7

⁽¹⁾ Operating earnings is a non-IFRS measure defined as sales less operating expenses and royalty expenses.

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

Table 5: Operating cost per tonne ore processed reconciliation:

Year ended December 31,

	2016	2015
In millions of U.S. dollars with the exception of tonnes processed and operating cost per tonne processed		
Operating expenses	\$ 56.1	\$ 50.1
Capitalized production stripping costs ⁽¹⁾	9.4	12.6
Net change rough diamond inventory ⁽²⁾	3.6	(1.2)
Net change ore stockpile inventory ⁽³⁾	0.1	3.1
Total operating costs for ore processed	69.2	64.5
Tonnes processed	2,613,217	2,238,975
Operating cost per tonne ore processed⁽⁴⁾	26.50	28.85

⁽¹⁾ Capitalized production stripping cost in investing activities in the audited consolidated statements of cash flows.

⁽²⁾ Net change in rough diamond inventory for the year ended December 31, 2016 and December 31, 2015.

⁽³⁾ Net change in ore stockpile inventory for the year ended December 31, 2016 and December 31, 2015.

⁽⁴⁾ Operating cost per tonne processed for the year is a non-IFRS measure defined as the sum of operating expenses, capitalized production stripping costs, and net change in rough diamond inventory and ore stockpile divided by the tonnes ore processed for the period.

Revenues

During the year the Company had sales totalling 358,806 carats for gross proceeds of \$295.5 million at an average price of \$824 per carat. Excluding the sale of the 813 carat Constellation diamond, the 2016 average price sold was \$649 per carat. The exceptional stone sales resulted in an average price of \$34,301 per carat from the sale of 2,624 carats in 2016 (2015: \$31,597 per carat from the sale of 3,114 carats), with the regular tenders achieving \$400 per carat (2015: \$335 per carat).

Operating Earnings

Operating earnings for 2016 were \$239.4 million and operating expenses during the year totalled \$56.1 million, or \$156 per carat, which resulted in an operating margin (before royalties and depletion and amortization) of \$668 per carat or 81% compared to prior year of 78%.

Income Tax Expense

The Company's 2016 income tax expense was \$85.0 million, which consisted of a current income tax charge of \$85.5 million and a deferred income tax recovery of \$0.5 million for the year. The Company is subject to a variable tax rate in Botswana that increases as profit as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55% only if taxable income was equal to revenue. At the Company's 2016 performance, its tax rate for 2016 was 44% (2015: 40%). The Company has paid \$76.3 million of its current year tax expense and the remaining current tax accrual of \$9.2 million is due by April 30, 2017.

Foreign Exchange

The Company recorded a foreign exchange loss of \$11.0 in 2016 compared to a gain of \$15.5 million in 2015. This non-cash foreign exchange loss of \$11.0 million has been recorded due to the Company's Botswana subsidiary's functional currency being Pula. The functional currency is the currency used in the primary economic environment where an entity operates. Under international accounting standards the Company's US dollar cash balance is translated to Pula in its Botswana operating entity and then reconverted to US dollar for reporting purposes. The strengthening of the Pula compared to the year-end December 2015 rate resulted in a foreign exchange loss during the year.

Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)

Full year EBITDA was \$185.4 million compared to \$133.9 million in 2015. The EBITDA is higher than the prior year largely due to the increase in revenue compared to the prior year.

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

Operating Cost Per Tonne Ore Processed

The year ended December 31, 2016 operating cost per tonne processed was \$26.5 per tonne processed (2015: \$28.85 per tonne processed) and was within the revised 2016 guidance of \$25.0-\$28.0 per tonne processed. The lower cost compared to 2015 is largely due to an increase in processed volumes of ore general costs savings and a devaluation of the average pula exchange rate to the US dollar during 2015. Operating cost per tonne processed is a non-IFRS measure and is reconciled in the table on table 5 to the most directly comparable measure calculated in accordance with IFRS, which is operating expenses.

Liquidity and Capital Resources

As at December 31, 2016, the Company had cash of \$53.3 million (2015: \$134.8 million).

Cash decreased during the year by \$81.4 million. This decrease is mainly due to the Company's special dividend and regular quarter dividend payments to its shareholders of \$149.7 million. Also during the year, the Company incurred capital expenditure of \$23.3 million, largely for the LDR and MDR circuits of \$6 million and -8+4mm sub middles project of \$7.2 million and \$9.4 million of capitalized production stripping costs.

SUMMARY OF QUARTERLY RESULTS

(All amounts expressed in thousands of U.S. dollars, except per share data). The Company's financial statements are reported under IFRS issued by the IASB.

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

Three months ended	Dec-16	Sept-16	Jun-16	Mar-16	Dec-15	Sept-15	Jun-15	Mar-15
A. Revenues	66,017	38,098	140,785	50,566	65,212	90,878	38,122	29,634
B. Administration expenses	(6,429)	(3,226)	(2,678)	(2,448)	(5,214)	(3,005)	(2,353)	(2,425)
C. Net income (loss)	11,204	(3,804)	46,116	17,141	18,958	44,181	8,625	6,006
D. Earnings (loss) per share (basic and diluted)	0.03	(0.01)	0.12	0.05	0.05	0.12	0.02	0.02

Revenues

During the three months ended December 31, 2016, the Company completed two diamond tenders, one of which was an exceptional diamond tender. The exceptional diamond tender generated gross proceeds of \$38.7 million and the regular tender in the fourth quarter achieved \$27.3 million.

Administration Expenses

During the three months ended December 31, 2016, administration expenses increased to \$6.4 million with full year costs in line with the previous year.

NON-IFRS FINANCIAL MEASURES

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

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. EBITDA comprises earnings before deducting interest and other financial charges, income taxes, depreciation and amortization and net loss attributable to non-controlling interests.

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

Operating cost per tonne ore processed (see "Select Financial Information") is the term the Company uses to describe operating expenses per tonne processed on a cash basis. This is calculated as Operating cost divided by tonnes of ore processed for the period. This ratio provides the user with the total cash costs incurred by the mine during the period per tonne of ore processed, including waste capitalisation costs, mobilization costs and working capital movements. The most directly comparable measure calculated in accordance with IFRS is operating expenses. A table reconciling the two measures is presented in table 5.

RELATED PARTY TRANSACTIONS

For the year ended December 31, 2016, the Company paid \$0.3 million (2015 \$0.6 million) to a charitable foundation directed by certain of the Company's directors to carry out social programs on behalf of the Company.

FINANCIAL INSTRUMENTS

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statements of operations or consolidated statements of comprehensive loss. Those categories are: fair value through profit or loss; loans and receivables; available for sale assets; and, for liabilities, amortized cost.

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

In the normal course of business, the Company is inherently exposed to currency and commodity price risk. For a discussion of certain risks and assumptions that relate commodity price risk, currency risk, liquidity risk and credit risk, refer to Note 18 in the Company's consolidated financial statements. For a discussion of the methods used to value financial instruments, as well as any significant assumptions, refer also to Note 18 of the Company's consolidated financial statements.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 382,246,001 common shares outstanding, 1,067,493 share units and 3,346,670 stock options outstanding under its stock-based incentive plan.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high risk nature of its business which includes acquisition, financing, exploration, development and operation of diamond properties. The material risk factors and uncertainties, 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 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

The Company has no off-balance sheet arrangements.

FINANCIAL INFORMATION

The report for the quarter ended March 31, 2017 is expected to be published on May 3, 2017. In addition, the Company's annual general meeting of shareholders will be held on May 11, 2017 in Vancouver, British Columbia.

NEW ACCOUNTING PRONOUNCEMENTS

The Company prepared its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Note 3 of the audited consolidated financial statements for the year ended December 31, 2016 provides details of significant accounting policies and accounting policy decisions for significant or potentially significant areas that have had an impact on our financial statements or may have an impact in future periods.

The following are new IFRS pronouncements that have been issued but are not yet effective are listed below. The Company plans to apply the new standards or interpretations in the annual period for which it is first required.

IFRS 2 - Share-based payments

The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

The completed version of IFRS 2 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard and its related amendments on our financial statements.

IFRS 9 - Financial Instruments

IFRS 9, Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: those measured at fair value through profit and loss, those measured at fair value through other comprehensive income and those measured at amortized cost. Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, there is an irrevocable option to present fair value changes in other comprehensive income. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard and its related amendments on our financial statements.

IFRS 15 - Revenue from Contracts with Customers

The new revenue standard introduces a single, principles based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The five steps are: identify the contract(s) with the customer, identify the performance obligations in the

contract, determine transaction price, allocate the transaction price and recognize revenue when a performance obligation is satisfied. IFRS 15 also requires enhanced disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers and improves the comparability of revenue from contracts with customers.

IFRS 15 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard on our financial statements.

IFRS 16 - Leases

The new Leases standard requires lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases.

IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently assessing the effect of this standard on our financial statements.

IAS 12 – Income taxes – Deferred tax

This amendment is to clarify the requirements for recognising deferred tax assets on unrealised losses and the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. This amendment also clarifies certain aspects of accounting for deferred tax assets.

IAS 12 is effective on January 1, 2017. This policy amendment does not affect the Company's financial statements.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The application of certain accounting policies requires the Company to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

Note 3 to the audited consolidated financial statements for the year ended December 31, 2016 includes a summary of the significant accounting policies adopted by the Company. The following policies are considered to be critical accounting policies since they involve the use of significant estimates.

Estimated Recoverable Reserves and Resources

Mineral reserve and resource estimates are based on various assumptions relating to operating matters. These include production costs, mining and processing recoveries, cut-off grades, long term commodity prices and, in some cases, exchange rates, inflation rates and capital costs. Cost estimates are based on feasibility study estimates or operating history. Estimates are prepared by appropriately qualified persons, but will be affected by forecasted commodity prices, inflation rates, exchange rates, capital and production costs and recoveries amongst other factors. Estimated recoverable reserves and resources are used to determine the depreciation of property, plant and equipment at the operating mine site, in accounting for deferred stripping costs and in performing impairment testing. Therefore, changes in the assumptions used could affect the carrying value of assets, depreciation and impairment charges recorded in the income statement.

Depreciation, Depletion and Accretion

Mineral properties and plant and equipment comprise a large component of the Company's assets and as such, depreciation and depletion of these assets have a significant effect on the Company's financial statements. Upon commencement of commercial production, the Company amortizes mineral property and mining equipment and other assets over the life of the mine based on the

depletion of the mine's proven and probable reserves. In the case of mining equipment and other assets, if the useful life of the asset is shorter than the life of the mine, the asset is amortized over its expected useful life.

Proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves geological and geophysical studies and economic data and the reliance on a number of assumptions. The estimates of the reserves may change based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production.

A change in the original estimate of reserves would result in a change in the rate of depreciation and amortization of the related mining assets and could result in an impairment of the mining assets.

Mineral Properties

The Company carries its mineral properties at cost less any provision for impairment. The costs of each property will be amortized over the economic life of the property on a unit of production basis. Costs are charged to operations when a property is abandoned or when impairment in value, other than temporary, has been determined. Exploration costs are charged to operations as incurred.

The Company undertakes a periodic review of the carrying values of mineral properties and whenever events or changes in circumstances indicate that their carrying value may exceed their fair value. In undertaking this review, management of the Company is required to make significant estimates. These estimates are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the mineral properties and related expenditures.

Income Taxes

Deferred income tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases ("temporary difference"), and losses carried forward. Deferred income tax assets and liabilities are measured using tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by year end. The effect on deferred income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is substantively enacted. The amount of deferred income tax assets recognized is limited to the extent that it is probable that future tax profits will be available against which the temporary difference can be utilized.

Management of the Company is required to exercise judgments and make assumptions about the future performance of the Company in determining its ability to utilize loss carry-forwards and realize the benefits of deferred income tax assets.

Decommissioning and Site Restoration

The Company has obligations for site restoration and decommissioning related to its diamond properties. The future obligations for decommissioning and site restoration activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The decommissioning and site restoration provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The Company's policy for recording decommissioning and site restoration provisions is to establish provisions for future mine closure costs at the commencement of mining operations based on the present value of the future cash flows required to satisfy the obligations. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of the mine through a charge to finance costs. Actual results could differ from estimates made by management during the preparation of these consolidated financial statements and those differences may be material.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2016, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of December 31, 2016, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

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

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

Forward-looking statements are based on the opinions, assumptions and estimates of management as of the date such statements are made, and they are subject to a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward-looking statements. Such assumptions include: the Company's ability to obtain necessary financing; the Company's expectations regarding the economy generally, results of operations and the extent of future growth and performance; and assumptions that the Company's activities will not be adversely disrupted or impeded by development, operating or regulatory risk. The Company believes that expectations reflected in this forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A should not be unduly relied upon.

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

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