LUCARA DIAMOND CORP.
ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2020

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, 2020, 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.

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

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

The effective date of this MD&A is February 22, 2021.

ABOUT LUCARA

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

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

2020 HIGHLIGHTS

- Mining and processing operations continued without interruption at the Karowe Mine, where more than 98% of the workforce are Botswana Nationals.
- In response to the uncertainty presented by the pandemic, certain operational changes were implemented resulting in significant cost savings without impacting current or future ore mining or carat recoveries.
- Received approval from the Government of the Republic of Botswana ("GRB") to temporarily move quarterly tender sales to Antwerp, Belgium from Gaborone, Botswana.
- A record setting year for the recovery of Specials (single diamonds in excess of 10.8 carats):
    - a 549 carat top-white gem diamond "Sethunya" (February 2020)
    - a 998 carat, high white clivage diamond (November 2020)
    - throughout the year, a total of 34 stones in excess of 100 carats, of which 10 stones exceeded 200 carats

- Two unique collaboration agreements entered into with Louis Vuitton and HB Antwerp to create a high jewellery collection from the historic 1,758 carat “Sewelô”, the largest diamond ever mined in Botswana, and the 549 carat “Sethunya”.
- An innovative supply agreement with HB Antwerp for the highest value part of Karowe’s production, leading to regular cash flows and the opportunity to participate in additional revenue generated from the sale of polished diamonds.
- Clara’s customer base increased from 25 to 75 customers (+178% in 2020), with a waiting list of new clients now being maintained.
- Regular, bi-weekly sales on Clara throughout 2020 provided regular cash flow and visibility into price trends.
- Work on the Karowe underground expansion project continued with an investment of $18.7 million under a re-scoped budget focused on de-risking the project schedule (procurement of long lead equipment, detailed design and engineering).
- The GRB granted a 25 year extension of the mining license at Karowe to 2046, sufficient to cover the remaining open-pit life (to 2026) and the expected life of the proposed underground expansion, currently planned to 2040.
- Operational highlights from the Karowe Mine included:
    - Continuous operations with implementation of new health and safety protocols to protect the health and well-being of employees, contractors and local communities.
    - Ore and waste mined of 3.0 million tonnes and 2.7 million tonnes, respectively.
    - 2.7 million tonnes of ore processed resulting in 381,706 carats recovered, achieving a recovered grade of 14.3 carats per hundred tonnes.
    - Successful completion of planned XRT upgrades, a key component of the diamond recovery circuit.
- Financial highlights for the year ended December 31, 2020 included:
    - Total revenues of $125.3 million (2019: $192.5 million) or $335 per carat (2019: $468 per carat). Revenue from the HB Antwerp agreement will continue to be recognised in 2021 as rough diamonds delivered in 2020 are sold as polished, and “top-up” payments are realised. Price improvement was observed in all size categories in sales concluded in December 2020.
    - Operating cash costs of $27.80 per tonne processed[(1)] (2019: $31.88 per tonne processed), 13% lower than the prior year.
    - Adjusted EBITDA[(1)] of $18.4 million as compared to adjusted EBITDA for the same period in 2019 of $73.1 million, a decrease driven by lower revenues.
    - Net loss for the year of $26.3 million ($0.07 loss per share) as compared to net income of $12.7 million ($0.03 per share) in 2019.
    - As at December 31, 2020, the Company had cash and cash equivalents of $4.9 million and $30.5 million drawn ($19.5 million available) from a $50 million working capital facility. No long-term debt.

[(1)] Operating cash cost per tonne processed and Adjusted EBITDA are non-IFRS measures (see page 10)

- Recent developments:
    - In January 2021, the Company announced the recoveries of two, top white gem quality diamonds (341 carats and 378 carats) from ore sourced from the M/PK(s) unit within the South Lobe. Both stones were recovered unbroken.

DIAMOND MARKET

The diamond industry begins 2021 with a healthier supply-demand balance than it has had at any stage in the past five years. This follows an incredibly challenging year in 2020, characterized by global travel restrictions, low sales volumes, pricing pressure and overall, difficult economic conditions for miners, manufacturers, retailers and consumers.

Since the end of 2020, the rough market has seen healthy price improvements, supported by a strong holiday sales period. Looking ahead, supply curtailments and a pick up in consumer demand are expected to support a continuation of a stable, positive price trend in both the rough and polished markets. Longer-term fundamentals are expected to remain strong, with the lack of new projects in the pipeline and the expected increase in demand from growth markets, particularly in China, due to rising wealth levels and consumerism.

SUPPLY AGREEMENT FOR +10.8 CARAT DIAMOND PRODUCTION

Karowe's large, high value diamonds have historically accounted for approximately 60% to 70% of Lucara's annual revenues. Though the mine remained fully operational following the declaration of COVID-19 as a global pandemic, Lucara made a decision not to tender any of its +10.8 carat production after early March 2020 amidst the uncertainty caused by the global crisis and the significant weakness observed in the rough diamond market. The polished diamond market performed better through this period and subsequently, in July 2020, Lucara announced a ground breaking partnership agreement with HB Antwerp ("HB"), entering into a definitive supply agreement for the remainder of 2020, for all of the diamonds produced in excess of +10.8 carats from our 100% owned Karowe Diamond mine in Botswana.

Under the supply agreement with HB, Lucara's +10.8 carat production is being sold at prices based on the estimated polished outcome of each diamond, determined through state of the art scanning and planning technology, with a true up amount payable to Lucara on actual achieved polished sales in excess of the initial estimated polished price, less a fee and the cost of manufacturing. This unique pricing mechanism has delivered regular cash flow for this important segment of our production profile. The decision to enter into the supply agreement with HB for the remainder of 2020 followed a trial period during Q2 2020 where approximately 3,100 carats of +10.8 carat rough diamonds were placed into manufacturing ("Shipment 1"). Lucara is receiving payment for the polished diamonds from Shipment 1 as those diamonds are sold by HB to end customers, less a fee and the cost of manufacturing.

For the year ended December 31, 2020, the Company recognized revenue totalling $55.2 million from the two agreements with HB, including an accrual for estimated variable consideration of $7.2 million related to "top-up" payments arising from polished diamond sales in excess of the initial purchase price paid to Lucara. Revenue from the HB agreement will continue to be recognised in 2021 as polished diamonds are sold, and "top-up" payments are realised.

UPDATE ON COVID-19 RESPONSE

During 2020, the Karowe Mine remained fully operational under new measures and guidelines implemented by the GRB in late March 2020. These measures designated mining as an essential service in Botswana and included increased travel restrictions, reduced overall staffing levels and appropriate social distancing. The GRB has subsequently extended the state of emergency to March 31, 2021. With increasing cases in Botswana and surrounding countries, restrictions on the movement of people within zones in Botswana and curfews have been implemented and are subject to change with limited notice. The Company was able to continue mining and processing activities during 2020 as most of the workforce (+98%) are Botswana Nationals.

The Company continues to operate under its crisis management strategy, designed to protect the health and well-being of our employees in Botswana and Canada as well as the financial well-being of the business. The Company was recently granted permission to conduct COVID-19 testing at our operations in Botswana and active testing of the workforce began in January 2021. Regular health screening, temperature checks and the use of infrared measurements are a routine part of the operations. The

Company has also constructed several isolation pods for use by the community as a government-sponsored isolation facility has not yet been constructed in the Letlhakane area.

KAROWE UNDERGROUND UPDATE

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

In November 2019, Lucara's Board of Directors approved a $53 million capital program for the Karowe underground expansion project, with most of the budget scheduled to be spent in the latter part of 2020 and funded through the cash flow from current operations. Given the uncertainty in global markets resulting from COVID-19, the originally planned capital budget was reduced to $22 million for 2020.

During the year ended December 31, 2020, $18.7 million was spent on project execution activities including the following: site earthworks (consisting of laydown preparation and clearing of shaft and surface infrastructure locations), geotechnical test pitting and drilling, and completion of two pilot holes at the shaft locations, a 746 metre hole for the ventilation shaft and a 768 metre hold for the production shaft. The Company was able to complete on-site earth works and geotechnical studies by using local contractors while a State of Emergency remained in effect in Botswana. Long lead time item orders were also placed for shaft muckers, and hoist and winder refurbishment was initiated. In addition, power line engineering and detailed shaft design and engineering (consistent with original targets for 2020) progressed. In Q4 2020, the Government of Botswana approved the proposed powerline route and granted a 25-year extension to the Karowe Mine License to 2046, sufficient to cover the remaining open-pit life (to 2026) and the expected life of the proposed underground expansion, currently planned to 2040.

The Company is actively exploring opportunities to arrange debt financing for the underground expansion for those amounts which are expected to exceed the Company's cash flow from operations during the construction period. The underground expansion program has an estimated capital cost of $514 million and a five year period of development.

CLARA

With global restrictions impeding travel for many diamantaires, interest in Clara, Lucara's digital sales platorm, grew significantly in 2020 with the number of buyers on the platform increasing from 27 to 75. During 2020, Clara began selling stones on behalf of third party sellers, which was a significant objective for the year.

Five sales were completed during the fourth quarter of 2020, with total transaction volumes of $4.6 million increasing the total number of sales in 2020 to twenty-three and total transaction volumes, including third-party transaction volumes, to $11.6 million. Clara sells rough diamonds, on a stone by stone basis, between 1 and 15 carats and of better qualities. A more frequent sales schedule during 2020 provided current pricing information during a period of significant uncertainty and limited sales. Offered prices and volumes transacted dropped sharply between March and June 2020 but rebounded in the second half of the year. As Clara becomes the online marketplace of choice for rough buyers, discussions are underway with several producers to begin trials for the sale of their diamonds on Clara.

FINANCIAL HIGHLIGHTS

Table 1

In millions of U.S. dollars, except carats or otherwise noted	Three months ended December 31 **2020**	2019	Year ended December 31 **2020**	2019
Revenues	$ 42.4	$ 56.0	$ 125.3	$ 192.5
Net income (loss) for the period	(3.9)	8.7	(26.3)	12.7
Earnings (loss) per share (basic and diluted)	(0.01)	0.02	(0.07)	0.03
Operating cash flow per share*	0.02	0.05	0.04	0.15
Cash on hand	4.9	11.2	4.9	11.2
Amounts drawn on working capital facility	30.5	-	30.5	-
Average price per carat sold ($/carat)*	402	568	335	468
Operating expenses per carat sold ($/carat)*	205	209	194	189
Operating margin per carat sold ($/carat)*	196	359	141	279
Carats sold	105,648	98,547	373,748	411,732

(*) Operating cash flow per share before working capital adjustments, average price per carat sold, operating expenses per carat sold and operating margin per carat sold are Non-IFRS measures, see Table 2: Results of Operations for reconciliations and page 10 for Non-IFRS measures.

The Company recognized revenue of $42.4 million or $402 per carat from the sale of 105,648 carats in the fourth quarter of 2020 resulting in a margin of 49%. In comparison, the Company achieved revenues of $56.0 million or $568 per carat for its sales in the fourth quarter of 2019. That tender was the strongest tender of 2019 due to a stabilization of rough pricing in all size classes.

Fourth quarter revenue included 89,772 carats sold through tender in December 2020 and the remainder sold through a combination of Clara and HB under the supply agreement announced in July 2020. Under the HB supply agreement, Lucara's +10.8 carat production is being sold at prices based on the estimated polished outcome, with a true up amount paid on the actual achieved polished sales thereafter, less a fee and the cost of manufacturing. The +10.8ct diamonds of poorer quality (clivage low, rejection goods) are sold as rough parcels and do not enter the polishing pipeline at HB. The unique pricing mechanism from the HB sales agreements has delivered regular cash flow for this important segment of our production profile, which represents about 60-70% of Lucara's revenue annually. Regular shipments of +10.8 carat stones commenced in the third quarter of 2020 with payments for the initial value of these shipments received 60 days after delivery to HB. A slower than expected ramp-up in both manufacturing and polished sales resulted in certain amounts, that would otherwise have been recorded as revenue in 2020, now expected to be realized in 2021.

Price recovery was observed in many size classes in the fourth quarter of 2020 and prices achieved for goods sold on Clara (under 10.8 carats in size) in January 2021 have now recovered to the level of pricing achieved early in 2020.

Q4 2020 Sales Results:

Sales Channel	Rough Carats Sold	Revenue Recognized	Average Price/Carat
HB Agreements[1]	13,045	$ 28.2 million	$ 2,160
Clara[2]	2,831	$ 4.0 million	$ 1,425
Tender[3]	89,772	$ 10.2 million	$ 113
Total	**105,648**	**$ 42.4 million**	**$ 402**

(1) Includes the sale of 2,512 rough carats from Shipment 1.
(2) Five sales were completed on Clara in Q4 2020, with the sale of third-party goods increasing the total volume transacted to $4.6 million, a 45% increase in volume compared to Q3 2020. Clara's customer base grew 5% from 71 to 75 customers by December 31, 2020.
(3) The Q4 2020 tender was held in December in Antwerp; diamonds less than 10.8 carats in size which did not meet quality characteristics for extraction for sale on Clara were sold through tender.

Revenue recognized under the new HB supply agreement is inherently more conservative at the time an initial valuation is determined. This is because while Lucara participates in any upside from the sale of polished stones, the structure of the agreement requires HB to assume all downside risk arising from the manufacturing process. Variable consideration, in the form of "top-up" payments owing when the final polished sales price exceeds the initial payment to Lucara, is estimated when determining the transaction price recognized for accounting purposes, updated at each period end. Upon the sale of the final polished diamonds, Lucara recognizes the top-up achieved. As such, in 2020, the timing of revenue recognition was affected by the change in the sales approach for the Company's +10.8 carat production and variability arising from the quantity and quality of the goods produced in any period. The new arrangement also resulted in delayed cash flows from operations compared to the prior year. The estimate of variable consideration at December 31, 2020 of $7.2 million was predominantly based on upgrades achieved for stones polished during the period. As additional stones delivered in 2020 are polished and certainty is achieved regarding the manufactured stones, additional variable consideration is expected. Further revenue from stones delivered to HB in 2020, and included above as rough carats sold, is expected to be realized in 2021 under the HB agreement as those rough diamonds are polished and sold. As certain large, high value diamonds take longer to plan and manufacture (Shipment 1) there is an impact to overall average price as smaller, lower total value stones and rejection stones are sold disproportionally earlier in the process.

Operating expenses were comparable between the two periods, however the operating margin decreased from $359/carat in Q4 2019 to $196/carat in Q4 2020 from the reduced revenue recognized in Q4 2020 and a 7% decrease in the number of carats sold. Operating margins continue to be strong at 49% (Q4 2019 – 63%).

Sales Results for the Year Ending December 31, 2020

Sales Channel	Rough Carats Sold	Revenue Recognized	Average Price/Carat
HB Agreements[1]	19,556	$55.2 million	$2,822
Clara	7,384	$10.7 million	$1,452
Tender	346,808	$59.4 million	$171
Total	**373,748**	**$125.3 million**	**$335**

(1) Includes 12,493 carats of +10.8 carats stones sold as rough at an average price per carat of $271 and 7,063 carats placed into manufacturing with revenue recognized as of December 31, 2020 of $7,334 per carat. Several, large, high value rough diamonds from Shipment 1 have yet to be sold and planning is incomplete on several other large diamonds delivered in 2020. The average 2020 price per carat for the HB Agreements is negatively impacted by the fact that these large, higher value stones have not yet been sold.

The change in sales approach for the +10.8 carat production had the most significant impact on results for the year ended December 31, 2020. The change had a similar impact to the results for the year ended December 31, 2020 as described above in the Q4 sales results. This change affected revenue, loss from mining operations, Adjusted Earnings Before Interest, Tax, Depletion and Amortization ("Adjusted EBITDA", a non-IFRS measure, see page 10 for details), net income (loss) and earnings (loss) per share when compared to results from the year ended December 31, 2019.

QUARTERLY RESULTS OF OPERATIONS – KAROWE MINE
Table 2:

	UNIT	Q4-20	Q3-20	Q2-20[1]	Q1-20	Q4-19
Sales						
Revenues generated from the sale of Karowe diamonds in the quarter	US$M	42.3	41.2	7.3[1]	33.8	56.0
Carats recovered from Karowe sold for revenues recognized during the period	Carats	105,329	112,741	68,861	86,010	98,394
Average price per carat for proceeds received during the period	US$	401	366	107[1]	393	568
Production						
Tonnes mined (ore)	Tonnes	748,296	678,110	683,282	878,087	694,591
Tonnes mined (waste)	Tonnes	434,082	436,781	591,804	1,199,660	740,593
Tonnes processed	Tonnes	684,768	646,447	705,421	639,430	647,502
Average grade processed	cpht (*)	14.6	13.8	14.3	14.3	13.3[2]
Carats recovered	Carats	100,059	88,909	101,203	91,536	86,422[2]
Costs						
Operating costs per carats sold (see page 10 Non-IFRS measures)	US$	205	192	174	201	209
Sustaining capital expenditures	US$M	4.4	4.7	3.7	2.4	13.0
Underground expansion project	US$M	8.3	4.8	3.9	1.7	-

(*) carats per hundred tonnes

(1) During the three months ended June 30, 2020 the Company made a deliberate decision to withhold from sale all +10.8 carat stones due to market uncertainty arising from the global pandemic. As a result, the quarterly revenue recognized during Q2 2020 and the average price per carat sold are not directly comparable to the other quarterly results presented in the table above.

(2) Carats recovered during the period included 273 carats recovered from re-processing historic recovery tailings from previous milling and are excluded from the average grade processed.

FOURTH QUARTER OVERVIEW – OPERATIONS - KAROWE DIAMOND MINE

Safety: Karowe had one lost time injury during the three months ended December 31, 2020 resulting in a twelve-month rolling Lost Time Injuries Frequency Rate (“LTIFR”) of 0.43 and an All Injury Frequency Rate of 0.60 (“AIFR”).

Production: Ore and waste mined during the fourth quarter of 2020 totaled 0.7 million tonnes and 0.4 million tonnes respectively. Tonnage processed was on target at 0.7 million tonnes, with a total of 100,059 carats recovered. Ore processed was predominantly from the South Lobe. During Q4 2020, a total of 195 Specials (single diamonds larger than 10.8 carats) were recovered including nine diamonds greater than 100 carats in weight. Included in this total were four diamonds greater than 200 carats, including one 998 carat stone.

SELECT ANNUAL FINANCIAL INFORMATION

Table 4:	Year ended December 31,		
In millions of U.S. dollars unless otherwise noted	**2020**	2019	2018
Revenues	$ 125.3	$ 192.5	$ 176.2
Operating expenses	(72.6)	(77.7)	(75.7)
Operating earnings [(1)]	**52.7**	**114.8**	**100.5**
Royalty expenses	(13.5)	(19.2)	(17.6)
Exploration expenditures	(2.0)	(4.6)	(3.4)
Administration	(16.3)	(15.7)	(16.4)
Sales and marketing	(2.5)	(2.2)	(2.6)
Adjusted EBITDA [(2)]	**18.4**	**73.1**	**60.5**
Depletion and amortization	(46.8)	(51.3)	(31.4)
Finance expenses	(2.5)	(3.1)	(2.6)
Foreign exchange gain (loss)	2.2	(2.6)	(2.3)
Loss on disposal of assets	(2.6)	-	-
Current income tax expense	(0.6)	(14.5)	(5.9)
Deferred income tax expense (recovery)	5.7	11.0	(6.7)
Net income (loss) for the year	**(26.3)**	**12.7**	**11.6**
Earnings (loss) per share (basic)	**(0.07)**	**0.03**	**0.03**
Earnings (loss) per share (diluted)	**(0.07)**	**0.03**	**0.03**
Per carat sold:			
Sales price	**$ 335**	**$ 468**	**$ 502**
Operating expenses	**194**	**189**	**216**
Average grade processed (carats per hundred tonnes) [(3)]	**14.3**	**14.4**	**13.9**
Cash on hand	**$ 4.9**	**$ 11.2**	**$ 24.4**
Total assets	**333.8**	**346.0**	**370.1**
Total non-current financial liabilities	**78.1**	**87.5**	**93.7**
Change in cash during the year	**(6.3)**	**(13.2)**	**(36.7)**
Dividends paid during the year	**-**	**(22.4)**	**(30.3)**

[(1)] Operating earnings is a non-IFRS measure defined as revenues less operating expenses.
[(2)] Adjusted EBITDA is a non-IFRS measure defined as earnings before foreign exchange, interest, taxation, depreciation and amortization.
[(3)] Average grade processed is from direct milling carats and excludes carats recovered from re-processing historic recovery tailings from previous milling.

Revenues

While total revenue increased 9.3% from 2018 to 2019, total revenue decreased 35% to $125.3 million in 2020 due to a combination of challenging market conditions, and a longer ramp-up for production and polished sales in the latter half of 2020. During the year ended December 31, 2020, Lucara sold 373,748 carats at an average price of $335 carat (2019: 411,732 carats at an average price of $468 per carat), a decrease of 9% by volume and 28% by value.

For most of the year ended December 31, 2020, a majority of stones greater than +10.8 carats in size were sold through the supply agreement with HB, with -10.8 carat stones sold through tender and stones in the 1 to 10 carat size classes and better qualities sold through Clara. Stones sold under the terms of the HB sale agreements accounted for approximately 44% of the revenue earned in 2020. Revenue earned under the supply agreement is recognized on a net basis, after deductions for fees and the cost of manufacturing, both payable to HB. Royalties to the Government of Botswana are paid based on the final gross sales price achieved from the sale of all diamonds, rough or polished.

Continued improvements in the process plant including better plant availability, an increasing mine call factor, and stable operations between 2018 and 2020 have led to an increase in the number of diamonds recovered year-over-year. During 2020, Specials recovered equated to 6.7% weight percentage of total

recovered carats, the fourth year to achieve greater than 6% weight percentage of total recovered carats, in line with expectations and a record year by weight for the mine's history (2019 – 6.1%). In 2020, thirty-four stones greater than 100 carats were recovered, of which 10 stones exceeded 200 carats. Of particular note were the recoveries of the top white, 549 carat "Sethunya" in February 2020 and the 998 carat high white clivage stone recovered in November 2020.

Proceeds from two unique collaboration agreements with Louis Vuitton and HB Antwerp, both entered into in 2020, are expected to be realized in 2021. The objective of the collaboration agreements is to create a high jewellery collection from the historic 1,758 carat "Sewelô", the largest diamond ever mined in Botswana, and the 549 carat "Sethunya".

Operating Earnings and Expenses

Operating earnings for the year ended December 31, 2020 were $52.7 million (2019: $114.8 million) after operating expenses of $72.6 million or $194 per carat sold (2019: operating expenses of $77.7 million or $189 per carat sold), which resulted in an operating margin (before royalties, depletion and amortization) of $141 per carat or 42% (2019: operating margin of $279 per carat or 60%). The 7% decrease in operating expenses is from consistent continued operations in 2020, including the decision to defer approximately 2 million tonnes of waste mining to 2022/2023 as a cost savings measure in response to the uncertainty arising from the pandemic. This change, combined with a favourable exchange rate from a weakening of the Botswana Pula compared to the US dollar and insourcing of the process plant contract completed mid-year all contributed to a decrease in operating expenses for the year ended December 31, 2020.

During 2020, Lucara achieved an average grade of 14.3 carats per hundred tonnes ("cpht") during the year compared to an average grade of 14.4 cpht in the prior year. Carat recoveries of 381,706 carats (2019: 403,070 carats recovered, excluding 29,990 carats recovered from re-processing of historic tailings) decreased by 5% as compared to 2019 consistent with the 5% decrease in tonnes processed due to additional planned downtime for the upgrade of XRT technology, a key component of the recovery circuit at the Karowe Mine. In an uncertain year with additional safety measures in place to curb the spread of COVID-19, the operations performed consistently and according to plan throughout 2020.

Depletion and amortization

In 2020, the Company recorded depletion and amortization expense of $46.8 million (2019: $51.3 million). The decrease in this non-cash expense year over year is a direct result of the 5% decrease in carats recovered. Depletion expense on assets that are amortized on a unit of production basis, including deferred stripping costs, is affected by the volume of carats recovered in any given year.

Net income

Net loss for the year ended December 31, 2020 was $26.3 million (2019: $12.7 million net income). Net loss for the year ended December 31, 2020 was materially impacted by decreased revenue due to the change in timing of revenue recognition and the pricing achieved in 2020.

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

Adjusted EBITDA for the year ended December 31, 2020 was $18.4 million compared to $73.1 million in 2019. The change year to year is directly attributable to reduced revenue in 2020, offset by a reduction in operating expense of 7%.

Adjusted EBITDA is a non-IFRS measure and is reconciled in Table 4 above.

Operating Cost Per Tonne of Ore Processed

For the year ended December 31, 2020, operating cost per tonne processed was $27.80 (2019: $31.88), 13% lower than the prior year. Positive impacts were felt from a 6% depreciation of the Botswana Pula against the U.S. dollar and cost management in a year of uncertainty. Completion of the process plant

contract insourcing contributed to the lower cost, partially offset by a 4% decrease in tonnes processed due to planned XRT upgrades completed in the second and third quarters of 2020.

Operating cost per tonne processed is a non-IFRS measure and is reconciled in Table 6 below to the most directly comparable measure calculated in accordance with IFRS, which is operating expenses.

NON-IFRS FINANCIAL MEASURES

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

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

Operating earnings (see "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 defined as revenues less operating expenses.

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

Table 5: Operating cash flow per share reconciliation:

In millions of U.S. dollars except weighted average common shares outstanding and operating cash flow per share	**Three months ended December 31**		**Twelve months ended December 31**	
	2020	2019	**2020**	2019
Cash flows from operating activities	$ (2,635)	$ 19,103	$ (1,526)	$ 50,092
Add: Changes in non-cash working capital	9,969	1,677	18,793	10,670
Total cash flow from operating activities before changes in non-cash working capital	7,334	20,780	17,267	60,762
Weighted average common shares outstanding	396,896,733	396,858,168	396,889,357	396,790,950
Operating cash flow per share[(1)]	**$0.02**	$0.05	**$0.04**	$0.15

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

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

Table 6: Operating cost per tonne of ore processed reconciliation:

In millions of U.S. dollars with the exception of tonnes processed and operating cost per tonne processed	Twelve months ended December 31, **2020**	2019
Operating expenses	$ 72.6	$ 77.7
Net change rough diamond inventory, excluding depletion and amortization [(1)]	0.3	3.8
Net change ore stockpile inventory, excluding depletion and amortization [(2)]	1.5	7.9
Total operating costs for ore processed	74.4	89.4
Tonnes processed	2,676,066	2,804,517
Operating cost per tonne of ore processed[(3)]	**$ 27.80**	**$ 31.88**

[(1)] Net change in rough diamond inventory, excluding depletion and amortization.

[(2)] Net change in ore stockpile inventory, excluding depletion and amortization.

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

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2020, the Company had cash and cash equivalents of $4.9 million and had drawn $30.5 million from its $50 million working capital facility. After adjustments for working capital items, cash flow expended on operations totalled $1.5 million.

Working capital as at December 31, 2020 was $46.7 million as compared to $60.9 million as at December 31, 2019. The 23% decrease in working capital reflects increases in both accounts receivable, mainly from accrued revenue and taxes receivable, and the credit facility balance. The Company utilized the working capital facility more in 2020 due to the change in sales approach for the +10.8 carat stones and the effects of COVID-19 on rough diamond prices, particularly mid-year.

Amounts available to be drawn from the credit facility totaled $19.5 million as of December 31, 2020 ($50.0 million as of December 31, 2019). The facility matures on May 5, 2021. The Company is currently looking to extend the facility in conjunction with the underground expansion project. If the Company is not able to extend, amend or replace that facility, it will be required to repay all amounts drawn as at the maturity date.

Capital spending during the year remained focused on the underground expansion project (2020: $18.7 million; 2019: $9.2 million) and sustaining capital expenditures of $15.2 million (2019: $17.6 million) including improvements to the XRT technology used in the recovery circuit and raising of the slimes dam walls.

The Company is actively exploring opportunities to arrange debt financing for the underground expansion for those amounts which are expected to exceed the Company's cash flow from operations during the construction period.

Long-term liabilities consist of restoration provisions of $21.2 million (2019: $23.6 million), deferred income taxes of $55.9 million (2019: $63.0 million), and other non-current liabilities of $1.0 million (2019: $0.8 million) which consist of leases reclassified under *IFRS 16: Leases* as of January 1, 2020.

Financing activities during 2020 included draw downs from the working capital facility of $30.5 million (2019: repayment of $10.0 million) to manage fluctuations in working capital. In addition, during 2019, the Company paid dividends of $22.4 million for which there is no comparable allocation in 2020. The Company suspended the quarterly dividend payment in November 2019 to allow excess capital to be directed to the underground expansion program.

The working capital facility contains financial and non-financial covenants customary for a facility of this size and nature. In September 2020, this facility was amended to include FirstRand Bank Limited (London Branch), a division of Rand Merchant Bank, alongside The Bank of Nova Scotia. As at December 31, 2020, the Company was in compliance with all financial and non-financial covenants. Outstanding amounts under the facility bear interest at LIBOR or an alternative base rate plus an applicable margin.

Total shareholders' equity decreased from $236.9 million as at December 31, 2019 to $208.2 million as at December 31, 2020, mainly due to increases in the deficit and accumulated other comprehensive loss. Other minor changes to share capital and contributed surplus were related to share units vesting and the recording of share-based compensation during the year.

RELATED PARTY TRANSACTIONS

A description of key management compensation can be found in Note 16 of the audited consolidated financial statements for the year ended December 31, 2020.

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

Name	Position	Lucara shares issued as consideration for Clara in February 2018	Lucara shares to be issued if Performance Milestones are achieved
Eira Thomas	President, CEO & Director (Founder of Clara)	1,192,000	1,788,001
Catherine McLeod-Seltzer	Director (Founder of Clara)	400,000	600,000
John Armstrong	VP, Technical Services	50,000	74,999
Zara Boldt	CFO & Corporate Secretary	50,000	74,999

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. In March 2020, the EBITDA sharing agreement between Clara and Eira Thomas and Clara and the Clara Management was amended. Under the terms of the amendment, each of Eira Thomas and the Clara Management waived their respective rights to the EBITDA payment to the extent that such payment relates to net income earned by Clara on the sale of rough diamonds from Karowe Mine. This waiver was in effect from the date of the share purchase agreement in February 2019 through to December 31, 2020.

2021 OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2021. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements.

Karowe Mine, Botswana

Table 7: 2021 Diamond Sales, Production and Outlook

Karowe Diamond Mine *In millions of U.S. dollars unless otherwise noted*	**Full Year – 2021**
Diamond revenue (millions)	$180 to $210
Diamond sales (thousands of carats)	350 to 390
Diamonds recovered (thousands of carats)	340 to 370
Ore tonnes mined (millions)	2.8 to 3.2
Waste tonnes mined (millions)	2.8 to 3.4
Ore tonnes processed (millions)	2.6 to 2.9
Total operating cash costs[(1)] including waste mined[(2)] (per tonne processed)	$28.00 to $32.00
Botswana general & administrative expenses including marketing costs (per tonne processed)	$3.00 to $4.00
Tax rate[(3)]	0% or 25%
Average exchange rate – USD/Pula	11.0

(1) Operating cash costs are a non-IFRS measure. See "Non-IFRS Measures" on page 10.
(2) Includes ore and waste mined cash costs of $5.00 to $5.50 (per tonne mined) and processing cash costs of $11.15 to $12.15 (per tonne processed).
(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, a tax rate of 0% is forecasted. Should capital expenditures vary from plan, the tax rate will increase from 0% to 25%.

In 2021, the Company's revenue forecast incorporates an increase in the proportion of carats recovered from the higher value M/PK(S) and EM/PK(S) units within the South Lobe in accordance with the mine plan. The assumptions for carats recovered and sold are consistent with achieved performance in recent years. The number of tonnes processed is also consistent with recent achievements, noting that actual tonnes processed in 2020 was lower than 2019 due to several multi-day shut-downs for upgrades within the XRT recovery circuit. Waste tonnes that were deferred in 2020 as a cost saving measure are expected to be caught up in 2022 and 2023. The estimated processing cost per tonne processed is lower than previous years, reflecting a combination of strong operating performance in the plant and insourcing of the process plant contract in 2020.

The proposed underground expansion at the Karowe Mine has an estimated capital cost of $514 million and a five year development period. An investment decision, subject to receipt of all required authorizations and the arrangement of financing, is expected in H2 2021. The year one capital spend on the expansion program is expected to be $105 million. Until financing can be arranged and an investment decision is made, a limited amount of funding has been approved for H1 2021, based on the Company's ability to fund the initial capital expenditures from operating cash flow. Similar to the 2020 program, the 2021 program will focus on early works, including detailed engineering and design work, with the objective of mitigating key risks related to the development schedule.

Lucara Botswana's progressive tax rate computation allows for the immediate deduction of operating costs, including capital expenditures, in the year in which they are incurred. Based on 2021 revenue guidance of $180 million to $210 million and assuming the underground development expenditures are incurred, the expected tax rate will be 0% for 2021. Changes to the timing and amount of capital expenditures may result in a rate of up to 25% for 2021.

Sustaining capital and project expenditures are expected to be up to $21.0 million in 2021, including expenditures associated with further upgrades to the XRT recovery circuit to create redundancy in the Large Diamond Recovery circuit and implementation of body scanning technology (to enhance security) which

had originally been planned for 2020 but was delayed whilst regulatory approval was pending (required approvals were received in Q4 2020).

FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

In the normal course of business, the Company is inherently exposed to certain financial risks, including currency, credit, price and liquidity risks. A discussion of these risks and related assumptions can be found below and in Note 18 in the Company's audited consolidated financial statements for the year ending December 31, 2020. Note 18 includes a discussion of the methods used to value financial instruments, as well as any significant assumptions made as part of the valuation.

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. A majority of the Company's cash and cash equivalents are held through a large Canadian financial institution with a high investment grade rating. 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 new supply agreement with HB, a larger proportion of the Company's goods will be sold through HB to buyers of polished diamonds. The credit risk associated with these sales will concentrate with one individual customer and payment terms are longer (60 days) than the Company's traditional tender sales (5 days).

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

Price risk
The Company derives its income from the sale of rough diamonds mined in Botswana, a majority of which are sold through a quarterly tender process from 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 the HB Group, 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 COVID-19 pandemic has negatively impacted global demand for luxury commodities, which includes jewelry containing diamonds. Restrictions on international travel have also disrupted the diamond supply chain. To the extent that the supply of rough or polished diamonds exceeds demand, this is likely to result in price deterioration and negatively impact the Company's revenue, thereby increasing the risk that not only will operations not be profitable, the Company may not have sufficient liquidity to meet its financial obligations as they come due.

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 revolving term credit facility.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 396,896,733 common shares outstanding, 2,946,527 share units, 613,547 deferred share units, and 4,423,000 stock options outstanding under its stock-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 potential construction of an underground mine at Karowe and the continued commercialization 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 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.

COVID-19 Global pandemic risk

On March 11, 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a global pandemic and on April 2, 2020 the Government of Botswana declared an initial state of emergency. Mining was declared an essential service and as a result, the Karowe Mine continued to operate with additional health and safety protocols implemented. Quarterly diamond tenders were held in Antwerp in June, September and December due to varying international travel restrictions. The Government of Botswana has since extended the state of emergency, which is expected to remain in place until March 31, 2021. Concern remains over how governments across the jurisdictions in which Lucara and many of its customers operate will respond to increasing infection numbers and variants of COVID-19, even as mass vaccination campaigns begin in many countries. Due to the ongoing uncertainty resulting from the global pandemic, Lucara's operations could be impacted in a number of ways including, but not limited to: a suspension of operations at the Karowe Mine, disruptions to supply chains, worker absenteeism due to illness, disruption to the progress of the Karowe Mine underground expansion project and an inability to ship or sell rough and/or polished diamonds during this period. These possible impacts could result from government directives, the need to modify work practices to meet appropriate health and safety standards, a lack of demand for rough and/or polished diamonds, a lack of available liquidity to meet ongoing operational expenses and, due to or by other COVID-19 related impacts on the availability of labour or to the supply chain.

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

In preparing our consolidated financial statements, we make judgments in applying our accounting policies. In addition, we make assumptions about the future in deriving estimates used in preparing our condensed interim consolidated financial statements. As disclosed in Note 3c of the audited, consolidated financial statements for the year ending December 31, 2020, the most significant sources of estimation uncertainty include estimated recoverable reserves and resources, valuation of mineral properties and plant and equipment, estimated variable consideration in determining revenue, the provision for deferred taxes, the valuation of decommissioning and site restoration provisions, and going concern and liquidity.

Management is required to exercise judgment to ensure that disclosures relating to indicators of impairment, liquidity and the Company's ability to continue as a going concern are appropriate. To this end, the Company manages liquidity risk by maintaining an adequate level of cash and cash equivalents to meet its short-term ongoing obligations and reviews its actual expenditures and forecast cash flows on a regular basis. Changes in demand for rough and/or polished diamonds and diamond prices, production levels and related costs, foreign exchange rates and other factors all impact the Company's liquidity position. In addition, the Company's $50 million working capital facility matures on May 5, 2021. If the Company is not able to extend, amend or replace that facility, it will be required to repay all amounts drawn

as at the maturity date. As of December 31, 2020, the Company had drawn $30.5 million for working capital.

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

OFF-BALANCE SHEET ARRANGEMENTS

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

ANNUAL MEETING INFORMATION

The Company's annual general meeting of shareholders will be held on May 11, 2021 in Vancouver, Canada.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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, 2020 includes a summary of the significant accounting policies adopted by the Company. The following include the use of significant estimates and judgments:

Estimated Variable Consideration (Revenue)

Revenues include Management's estimate of variable consideration receivable under the terms of the HB Antwerp supply agreement. Variable consideration is a component of the transaction price and represents an area of significant management judgment and estimation. Under the HB Antwerp supply agreement, rough diamonds are sold to HB Antwerp and the Company receives an initial payment based on an estimated polished outcome price (less a fee and the cost of manufacturing). If the manufactured diamond is sold to an end buyer for a price higher than the initial estimated polished price received by Lucara a true up payment (variable consideration including in the calculation of the transaction price) is payable by HB Antwerp to the Company once the final sales is made.

Variable consideration is estimated using the most likely approach, as Management considers this approach to be more predictive. The transaction price is reassessed each reporting period, including any estimated amount of variable consideration. The revenue recognized as the transaction price, including any variable consideration, is recognized within the constraint of "*highly probable*".

In evaluating the most likely approach, Management takes into consideration market conditions, the current estimated polished value provided by HB Antwerp (on a stone by stone basis) and the probability that the variable consideration would be realized through the manufacturing process. Any changes in the estimated amount of the variable consideration will affect the reported amounts for revenue, net income (loss) and earnings (loss) per share in a given period as well as other, non-IFRS measures (see page 10) such as operating earnings, Adjusted EBITDA, average price per carat sold and margin.

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 diamond prices, commodity prices, inflation rates, exchange rates, capital and production costs and recoveries amongst other factors.

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.

Estimated recoverable reserves and resources are used to determine the depletion and amortization of property, plant and equipment at the operating mine site, in accounting for deferred stripping costs and mineral properties, determining a deferred tax rate and in performing impairment testing. Therefore, changes in the assumptions used could affect the carrying value of assets, depletion and amortization and impairment charges recorded in the income statement.

Valuation of Mineral Properties and Plant and Equipment

The Company carries its mineral properties and plant and equipment at depleted 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 assesses at each reporting period whether there is an indication of impairment. Significant judgment is applied in assessing whether indicators of impairment exist that would necessitate impairment testing. Internal and external factors, such as i) a significant decline in the market value of the Company's share price; ii) changes in the quantity of the recoverable resources and reserves; and iii) changes in diamond prices, capital and operating costs and recoveries; and iv) changes in inflation, interest and exchange rates, are evaluated in determining whether there are any indicators of impairment. Estimated quantities of the recoverable resources and reserves are based on information compiled by qualified persons Following the release of a new Mineral Resource Estimate for Karowe in mid-2019, the remaining life-of-mine reserve base was adjusted, resulting in a higher depletion rate than in previous years. 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

The deferred tax provisions are calculated by the Company whilst the actual amounts of income tax expense are not final until tax returns are filed and accepted by the relevant authorities. Judgment is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet and what tax rate is expected to be applied in the year when the related temporary differences reverse. Deferred tax liabilities arising from temporary differences are recognized unless the reversal of the temporary differences is not expected to occur in the foreseeable future and can be controlled. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future production and sales volumes, diamond prices, reserves and resources, operating costs, decommissioning and restoration costs, capital expenditures, dividends and other capital management transactions. These estimates and judgments are subject to risk and uncertainty and could result in an adjustment to the deferred tax provision and a corresponding credit or charge to profit.

Decommissioning and Site Restoration

The Company has obligations for site restoration and decommissioning related to the Karowe Diamond Mine. 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 Botswana, 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 amortized 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.

CHANGES IN ACCOUNTING POLICIES

There have been no changes to accounting policies except the additional revenue policy described in Note 3 of the audited consolidated financial statements for the year ended December 31, 2020.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of this document along with the audited 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 audited consolidated financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. The Board of Directors, based on recommendations from Lucara's Audit Committee, reviews and approves the financial information contained in the audited consolidated financial statements and the MD&A.

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, 2020, 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, 2020, 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 impact of COVID-19 pandemic on the Company's operations and cash flows and its plans with respect to the Karowe underground expansion project; the estimates of the Company's mineral reserves and resources; estimates of the Company's production and sales volumes for the Karowe Diamond Mine; estimated costs for capital expenditures related to the Karowe Diamond Mine; production costs; exploration and development expenditures and reclamation costs; expectation of diamond prices and the potential for the supply agreement with HB Antwerp to achieve both higher prices from the sale of polished diamonds and to provide more regular cash flow than in previous periods; estimates of variable consideration receivable pursuant to the HB Antwerp supply agreement; changes to foreign currency exchange rates; assumptions and expectations related to the possible development of an underground mining operation at Karowe including associated capital costs, financing strategies and timing; expectations in respect of the development and functionality of the technology related to the Clara platform, the intended benefits and performance of the Clara platform, including ability to complete sales without viewing diamonds, the growth of the Clara platform, the timing and frequency of sales on the Clara Platform, and the quantum and timing of participation of third parties on the Clara platform; expectations regarding the need to raise capital and its availability; 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 "COVID -19 Global Pandemic" in

this MD&A and 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.