

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2021

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected the performance of Lucara Diamond Corp. and its subsidiaries (the "Company") and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the period ended March 31, 2021, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as applicable to interim financial reporting. All amounts are expressed in U.S. dollars unless otherwise indicated.

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

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

The effective date of this MD&A is May 6, 2021.

ABOUT LUCARA

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

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

HIGHLIGHTS – Q1 2021

- In early January 2021, two top white gem diamonds, weighing 378 carats and 341 carats, were recovered unbroken from ore sourced from the M/PK(S) unit of the South Lobe.
- Also in early January, the Botswana Minister of Mineral Resources, Green Technology and Energy Security approved a 25 year extension of Mining License 2008/6L for the AK06 (Karowe) Mine, to January 2046. This extension covers the balance of the open-pit mine life as well as the mine life for the proposed underground expansion.
- A 24 month extension, to December 31, 2022, to the diamond supply agreement for all +10.8 carat diamonds produced from the Karowe Mine was agreed with HB Antwerp ("HB").
- A mandate for a senior secured project financing package of up to \$220 million to fund an underground mine expansion at Karowe was executed with five international financial institutions (the "MLAs"). In May 2021, Lucara received credit approved commitments for a senior secured project financing debt package of up to \$220 million from the MLAs.
- Revenue increased 56% from Q1 2020 to Q1 2021; average price per carat sold of \$579.
- Operational highlights from the Karowe Mine included:

- Ore and waste mined of 1.1 million tonnes and 0.8 million tonnes, respectively
 - 0.67 million tonnes of ore processed resulting in 80,014 carats recovered, achieving a recovered grade of 11.9 carats per hundred tonnes
 - 188 Specials (+10.8 carats) were recovered from direct milling during the first quarter, representing 6.8% weight percentage of total direct milling recovered carats, in line with resource expectations.
 - 2 diamonds were recovered greater than 300 carats in weight and 2 diamonds were recovered greater than 200 carats in weight.
- Financial highlights for the three months ended March 31, 2021 included:
 - Total revenue of \$53.1 million was recognized in Q1 2021 (Q1 2020: \$34.1 million) or \$579 per carat (Q1 2020: \$396 per carat) from the sale of 91,760 carats (Q1 2020: 86,178 carats). Included in this amount is \$9.9 million from the sale of polished diamonds delivered to HB in 2020.
 - Operating cash cost⁽¹⁾ per tonne of ore processed for the three months ended March 31, 2021 was \$29.24 per tonne (Q1 2020: \$31.43 per tonne), a decrease of approximately 7%.
 - The Company recorded net income of \$3.4 million during the Q1 2021 (earnings per share of \$0.01), as compared to a net loss of \$3.2 million for Q1 2020 (loss per share of \$0.01).
 - Adjusted EBITDA⁽¹⁾ was \$22.2 million as compared to adjusted EBITDA of \$8.1 million for the same period in 2020.
 - The value of the rough diamonds transacted through the Clara platform in Q1 2021 was \$6.0 million over six sales, double the \$3.0 million transacted on the platform in Q1 2020. Strong price increases have been observed in each of the sales conducted since the beginning of the year.
 - As at March 31, 2021, the Company had cash and cash equivalents of \$27.9 million, an increase of \$23.0 million from December 31, 2020 and net debt of \$22.2 million. Following the quarter-end, on May 5, 2021 the Company's \$50 million working capital facility was extended with Rand Merchant Bank, a division of FirstRand Bank Limited, London Branch.

(1) Non-IFRS measure (see pages 9-10 for details)

DIAMOND MARKET

The diamond market began 2021 in a healthier position than it has at any stage over the past five years, resulting in increasing price performance in virtually all sizes and quality of diamonds in Q1 2021. This follows a challenging year in 2020 as a result of the global COVID-19 pandemic, characterized by global travel restrictions, low sales volumes, pricing pressure and overall, difficult economic conditions for miners, manufacturers, retailers and consumers.

During Q1 2021, the diamond market remained buoyant following a strong holiday sales period, particularly in China and the United States. Careful rough diamond supply management by the producers has also helped to re-balance polished diamond inventories and stabilize the market overall. COVID-19 remains a key concern, however, even as vaccination programs are being rolled out in many countries around the world. India, a major manufacturing centre for diamonds, is of particular concern heading into the second quarter as infection rates have increased dramatically, resulting in new lock-down measures.

HB SUPPLY AGREEMENT FOR +10.8 CARAT DIAMOND PRODUCTION

Karowe's large, high value diamonds have historically accounted for approximately 60% to 70% of Lucara's annual revenues. Though the mine remained fully operational following the declaration of COVID-19 as a global pandemic, Lucara 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 partnership agreement with 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. This agreement was subsequently extended for a 24 month period, from January 1, 2021 to December 31, 2022.

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 delivers regular cash flow for this important segment of our production profile.

Revenue from stones delivered to HB in 2020 will continue to be recognised in 2021 as polished diamonds are sold, and "top-up" payments are realised.

UPDATE ON COVID-19 RESPONSE

Measures and guidelines implemented by the GRB in late March 2020 have allowed the Karowe Mine to remain fully operational throughout the pandemic. These measures designated mining as an essential service in Botswana and included increased travel restrictions, reduced overall staffing levels and appropriate social distancing. An initial six-month state of emergency has been extended twice and currently the published end date is September 30, 2021. With increasing cases in Botswana and surrounding countries and limited opportunities for vaccination, 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 has been able to continue mining and processing activities during the state of emergency as most of the workforce (+98%) are Botswana Nationals.

The Company continues to operate under its approved crisis management plan, designed to protect the health and well-being of our employees in Botswana and Canada as well as the financial well-being of the business. The Company has permission to conduct COVID-19 testing at our operations in Botswana and active testing of the workforce began in January 2021. Regular health screening, temperature checks and the use of infrared measurements are also a routine part of the protocol. All contractors and visitors are required to have negative COVID-19 tests and adhere to all COVID-19 protocols while conducting work at company operations in Botswana.

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.

During Q1 2021, the Company spent \$9.9 million on project execution activities including shaft and geotechnical engineering, surface infrastructure, dewatering and power line engineering and procurement. Site construction work commenced early in the quarter and in March, the production and ventilation shaft box cuts were drilled and blasted to bulk excavation elevations. A significant amount of time and effort was also spent on due diligence related to technical, environment and social matters as part of ongoing project financing efforts.

In March 2021, a mandate for a senior secured project financing package of up to \$220 million (the "Mandate") to fund the underground expansion at Karowe was executed with a syndicate of five international financial institutions, including ING Bank N.V., Natixis, Societe Generale, London Branch, Africa Finance Corporation and Afreximbank (collectively, the "MLAs"). The formal Mandate included a non-binding indicative term sheet for debt facilities of up to \$220 million (the "Facilities"). In May 2021, Lucara received credit approved commitments for a senior secured project financing debt package of up to \$220 million from the MLAs. Closing of the Facilities is targeted to be mid-2021, with financing in place for the second half of 2021. The receipt of credit approved commitments is a key milestone in the project financing process for the Karowe underground expansion, which has an estimated capital cost of \$514 million and a five-year development period. The balance of development capital is expected to come from operating cash flow generated by open pit operations at Karowe during the

development period. Detailed due diligence is expected to be concluded in the near term. Financial closing of the Facilities is subject to satisfactory completion of definitive documentation, and satisfaction of certain terms and conditions, including appropriate KYC checks.

An investment decision, subject to receipt of all required authorizations and the arrangement of financing, is expected in H2 2021. Total expenditures on the underground project in 2021 are expected to be \$105 million. Until financial close of the Facilities is complete 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.

CLARA

With global restrictions impeding travel for many diamond manufacturers, interest in Clara, Lucara's proprietary, secure, web-based digital sales platform, grew significantly in 2020 and that positive momentum continued through Q1 2021. Six sales were held in the first quarter with total sales volume transacted of \$6.0 million, more than double the volume from the comparable period in 2020. Encouragingly, Clara also observed consistent price increases at each subsequent sale throughout the period. The number of buyers on the platform increased to 80 and the Company is maintaining a waiting list to manage supply and demand. Discussions continue with third party sellers to build supply.

FINANCIAL HIGHLIGHTS

Table 1:

<i>In millions of U.S. dollars except carats or otherwise noted</i>	Three months ended March 31,	
	2021	2020
Revenues	\$ 53.1	\$ 34.1
Net income (loss) for the period	3.4	(3.2)
Earnings (loss) per share (basic and diluted)	0.01	(0.01)
Operating cash flow per share*	0.06	0.02
Cash on hand	27.9	27.4
Amounts drawn on working capital facility	50.0	19.0
Average price per carat sold (\$/carat)*	579	396
Operating expenses per carat sold (\$/carat)*	215	201
Operating margin per carat sold (\$/carat)*	364	195
Carats sold	91,760	86,178

(*) Operating cash flow per share, average price per carat sold, operating expenses per carat sold and operating margin per carat sold are Non-IFRS measures, see Table 3: Results of Operations for reconciliations and page 9 for "Non-IFRS measures" below.

The Company recognized revenue of \$53.1 million from the sale of 91,760 carats in Q1 2021. Included in this amount is variable consideration of \$9.1 million which relates to "top-up" payments which arise from polished diamond sales in excess of the initial purchase price paid to Lucara. Beginning in Q2 2020, all +10.8 carat diamonds mined from Karowe were sold to HB pursuant to the terms of the diamond supply agreement described above. 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.

Table 2: Q1 2021 Sales Results:

Sales Channel	Rough Carats Sold	Revenue Recognized	Average Price/Carat
HB Agreements	10,687	\$38.0 million	\$ 3,554
Clara ¹	4,302	\$ 6.0 million	\$ 1,406
Tender ²	76,771	\$ 9.1 million	\$ 118
Total	91,760	\$53.1 million	\$ 579

- (1) Six sales were completed on Clara in Q1 2021, with total sales volume transacted increasing by 30% as compared to Q4 2020.
- (2) The Q1 2021 tender was held in March 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.

The Q1 2020 tender, which generated a majority of the \$34.1 million revenue recognized (with a small number of diamonds by volume and value sold through Clara) was the only tender in 2020 which

included +10.8 carat diamonds. The Q1 2020 tender closed shortly before the declaration of COVID-19 as a global pandemic and the average price per carat sold of \$396 reflects downward pressure on rough diamond prices.

Operating expenses increased approximately 14%, from \$17.3 million in Q1 2020 to \$19.7 million in Q1 2021 due to combination of higher power, labour and insurance costs, slightly offset by lower fuel expense. Operating expenses were also affected by a larger volume of carats sold. Operating margin per carat sold increased to \$364/carat, or 63%, in Q1 2021 due to significantly higher revenues in Q1 2021 (Q1 2020: \$195/carat, or 49% operating margin).

Adjusted Earnings Before Interest, Tax, Depletion and Amortization (“Adjusted EBITDA”, a non-IFRS measure, see page 10 for details), increased 174% in Q1 2021 to \$22.2 million as compared to \$8.1 million in Q1 2020. Significantly higher quarterly revenues drove this increase.

Depletion and amortization, a non-cash expense, increased 21%, from \$10.5 million in Q1 2020 to \$12.7 million in Q1 2021 due to increases in the opening inventory balance and carats sold (+6%) in the current quarter.

Net income was \$3.4 million in Q1 2021, resulting in earnings per share of \$0.01. This compares to a loss of \$3.2 million in Q1 2020, resulting in a loss per share of \$0.01. The increase in revenue had the most significant impact on the current quarter’s earnings.

RESULTS OF OPERATIONS – KAROWE MINE

Table 3:

	UNIT	Q1-21	Q4-20	Q3-20	Q2-20 ⁽¹⁾	Q1-20
Sales						
Revenues generated from the sale of Karowe diamonds in the quarter	US\$M	53.1	42.3	41.2	7.3 ⁽¹⁾	33.8
Carats recovered from Karowe sold for revenues recognized during the period	Carats	91,734	105,329	112,741	68,861	86,010
Average price per carat for proceeds received during the period	US\$	579	401	366	107 ⁽¹⁾	393
Production						
Tonnes mined (ore)	Tonnes	1,100,622	748,296	678,110	683,282	878,087
Tonnes mined (waste)	Tonnes	756,494	434,082	436,781	591,804	1,199,660
Tonnes processed	Tonnes	673,646	684,768	646,447	705,421	639,430
Average grade processed	cpht ⁽¹⁾	11.9	14.6	13.8	14.3	14.3
Carats recovered	Carats	80,014	100,059	88,909	101,203	91,536
Costs						
Operating costs per carats sold (see page 9 Non-IFRS measures)	US\$	215	205	192	174	201
Sustaining capital expenditures	US\$M	0.4	4.4	4.7	3.7	2.4
Underground expansion project	US\$M	9.9	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.

FIRST QUARTER OVERVIEW – OPERATIONS - KAROWE MINE

Safety: Karowe had no lost time injuries during the three months ended March 31, 2021 resulting in a twelve-month rolling Lost Time Injury Frequency Rate of 0.

Permitting: In January 2021, Mining Licence No 2008/6L in respect of its AK06 (Karowe) Mine was approved by Botswana’s Minister of Mineral Resources, Green Technology and Energy Security for a period of 25 years, to January 2046. The receipt of the mining licence renewal and extension to 2046 represent an important milestone for the proposed Karowe underground expansion project, which has a projected mine life to 2040.

Production: Operations in the first quarter of 2021 were consistent with expectations, although mining in the first quarter was more heavily weighted to ore (1.1 million tonnes mined) versus waste (0.8 million tonnes mined) as mining was directed to benches in the north and central areas of the pit to create

flexibility later in the year in the southern part of the pit and to support dewatering activities. A total of 0.67 million tonnes of ore was processed at an average grade of 11.9 cpht and just over 80,000 carats were recovered.

During Q1 2021, ore processed was almost entirely from the South lobe. A total of 188 Specials were recovered including 2 diamonds greater than 300 carats in weight and 2 diamonds greater than 200 carats in weight. Recovered Specials equated to 6.8% weight percentage of total recovered carats from ore processed during Q1 2021, consistent with expectations.

Overall performance during the first quarter remains consistent with the strong operational results achieved over the past two years. Processing capacity returned to normal levels in Q1 2021, as compared to the lower volume achieved in Q1 2020 due to a planned extended shutdown early in the year for improvements to the XRT circuit in the process plant. Mining and processing results were on plan during Q1 2021.

Karowe's operating cash cost: Karowe's year to date operating cash cost (see page 9 Non-IFRS measures) was \$29.24 per tonne of ore processed (YTD 2020: \$31.43 per tonne of ore processed) in line with the forecast of \$28-\$32 per tonne processed and approximately 7% lower than the same period in 2020. The current period result includes realized cost savings following insourcing of the process contractor in mid-2020 and the effect of a 5% increase in tonnes processed as compared to Q1 2020.

Significant diamond recoveries: In January 2021, two top white gem quality diamonds weighing 341 carats and 378 carats were recovered unbroken from milling of ore sourced from the south western quadrant of the South Lobe M/PK(S) unit. The recovery of large gem quality diamonds from the M/PK(S) unit of the South Lobe is in line with expectations and historical South Lobe recoveries. The consistent recovery of these large diamonds is a testament to the continued strong resource and plant performance at Karowe.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2021, the Company had cash and cash equivalents of \$27.9 million. Cash flow from operations totalled \$14.2 million, a significant increase from the \$2.4 million generated from operations in the first quarter of 2020. A stronger diamond price environment, combined with top-up payments from the HB agreement, were the main drivers for this difference. Capital spending during the three months ended March 31, 2021 was focused on the underground expansion project (Q1 2021: \$9.9 million; Q1 2020: \$1.7 million).

Financing activities during the first quarter of 2021 included draw downs from the working capital facility of \$19.5 million (Q1 2020: draw of \$19.0 million) to manage fluctuations in working capital and in advance of a refinancing of the facility effective May 5, 2021.

Working capital as at March 31, 2021 was \$54.3 million as compared to \$46.7 million as at December 31, 2020, and \$58.8 million as at March 31, 2020. Despite a very challenging year in 2020, the Company's working capital improved in Q1 2021 to a level more consistent with the same quarter in 2020.

As at March 31, 2021, the Company's working capital facility was fully drawn at \$50.0 million (December 31, 2020 - \$30.5 million drawn). Short-term liabilities increased to \$68.2 million as of March 31, 2021 from \$47.6 million at December 31, 2020. The increase is almost entirely attributable to the higher amount drawn from the working capital facility. Long-term liabilities consist of restoration provisions of \$20.9 million (December 31, 2020: \$21.2 million), deferred income taxes of \$58.5 million (December 31, 2020: \$55.9 million), and other non-current liabilities of \$0.7 million (December 31, 2020: \$1.0 million) which consist of leases reclassified under *IFRS 16: Leases*.

Total shareholders' equity remained consistent at \$208.2 million and December 31, 2020 and March 31, 2021, with the reduction in the deficit offset by an increase in the cumulative translation adjustment. 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.

COMMITMENTS

As at March 31, 2021, commitments of \$47.9 million (December 31, 2020 - \$9.9 million) relate to purchase orders and contracts for services to be provided related to the underground expansion project.

Most of the commitments relate to shaft pre-sink procurement expenses. Of the committed amount, \$45.3 million relates to expenditures planned for 2021 and \$2.6 million relates to expenditures in 2022. The estimated cancellation cost of these commitments is \$7.9 million as of March 31, 2021. The estimated cancellation cost does not include an estimate for deposits on long-lead equipment orders that would be forfeited if the orders were cancelled.

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. There are no changes from the guidance previously released in February 2021.

Karowe Mine, Botswana

Table 4: 2021 Diamond Sales, Production and Outlook

Karowe Diamond Mine	Full Year – 2021
<i>In millions of U.S. dollars unless otherwise noted</i>	
Diamond revenue (millions)	\$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
Effective 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 9.

⁽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. 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. Like 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 effective 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).

SELECT FINANCIAL INFORMATION

	Three months ended March 31,	
	2021	2020
Revenues	\$ 53.1	\$ 34.1
Operating expenses	(19.7)	(17.3)
Operating earnings⁽¹⁾	33.4	16.8
Royalty expenses	(5.9)	(3.5)
Exploration expenditures	-	(0.6)
Administration	(4.4)	(4.1)
Sales and marketing	(0.9)	(0.5)
Adjusted EBITDA⁽²⁾	22.2	8.1
Depletion and amortization	(12.7)	(10.5)
Finance expenses	(0.7)	(0.8)
Foreign exchange loss (gain)	(0.9)	0.4
Current income tax expense	(0.4)	(2.0)
Deferred income tax expense (recovery)	(4.2)	1.6
Net income (loss) for the period	3.4	(3.2)
Change in cash during the period	23.0	16.2
Cash on hand	27.9	27.4
Earnings (loss) per share (basic and diluted)	0.01	(0.01)
Per carat sold:		
Sales price	\$ 579	\$ 396
Operating expenses	215	201
Average grade (carats per hundred tonnes)⁽³⁾	11.9	14.3

⁽¹⁾ Operating earnings is a non-IFRS measure (see page 9) defined as revenues less operating expenses.

⁽²⁾ Adjusted EBITDA is a non-IFRS measure (see page 9) defined as earnings before 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.

Please refer to the “Financial Highlights” and “First Quarter Overview – Karowe Mine” above for an explanation of the Company’s financial results for the three months ended March 31, 2021 and 2020.

SUMMARY OF QUARTERLY RESULTS

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

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

Three months ended	Mar-21	Dec-20	Sept-20	Jun-20	Mar-20	Dec-19	Sept-19	Jun-19
A. Revenues	53,097	42,387	41,297	7,462	34,117	55,993	45,317	42,541
B. Administration expenses	(4,395)	(4,205)	(4,387)	(3,653)	(4,071)	(4,993)	(3,921)	(3,960)
C. Net income (loss)	3,407	(3,834)	(5,368)	(13,915)	(3,161)	8,635	(4,012)	675
D. Earnings (loss) per share (basic and diluted)	0.01	(0.01)	(0.01)	(0.04)	(0.01)	0.02	(0.01)	0.00

The Company’s quarterly results, including net income (loss) and earnings (loss) per share are most directly affected by the sale of special diamonds, greater than 10.8 carats, but more particularly the unique and high value diamonds. In July 2020, the Company announced a supply agreement with HB for all stones sized above +10.8 carats. This agreement was subsequently extended for a 24-month period, from January 1, 2021 to December 31, 2022. Under the terms of the supply agreement, the

purchase price paid shall be based on the estimated polished outcome, with a true up paid on actual achieved polished sales thereafter, less a fee and the cost of manufacturing. The +10.8 carat diamonds of poorer quality (clivage low, rejection goods) are sold as rough parcels and do not enter the polishing pipeline at HB. This change provides a more stable monthly cash flow stream, with access to price improvements along the value chain, when compared to previous quarters where all diamonds recovered were typically sold in the quarterly tender or through Clara. The Company's quarterly revenue is also affected by the number and quality of stones available for sale in any given quarter.

Revenue in the quarter ending March 31, 2021 totaled \$53.1 million from the sale of 91,760 carats for an average price per carat of \$579. Included in this amount is variable consideration of \$9.1 million which relates to top-up payments from diamonds delivered to HB during fiscal 2020. Top-up payments arise from polished diamond sales which are in excess of the initial purchase price paid to Lucara.

Revenue in the quarter ended December 31, 2020 totaled \$42.4 million or \$402 per carat from the sale of 105,648 carats in Q4 2020, resulting in an operating margin of 49%. In comparison, the Company achieved revenues of \$56.0 million or \$568 per carat for its sales in Q4 2019. The last tender of 2019 was the strongest tender that year due to a stabilization of rough pricing in all size classes.

Revenue in the quarter ended September 30, 2020 reflected a return, in July 2020, to sales of +10.8 carat stones recovered from Karowe. The +10.8 carat stones typically account for 60 to 70% of Lucara's revenue by value. Beginning in Q3 2020, revenue was recognized from three separate sales channels: through committed sales of +10.8 carat diamonds to HB, sales on Clara, our secure web based digital sales platform, and, through regular tenders of our smaller stones.

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

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

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

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

NON-IFRS FINANCIAL MEASURES

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

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

Operating cash flow per share is the term the Company uses to assess its ability to generate cash flow from operations, while also taking into consideration changes in the number of outstanding common shares of the Company. Operating cash flow per share is calculated by taking cash flows from operating

activities, less changes in non-cash working capital items, divided by the basic weighted average number of common shares outstanding. The most directly comparable measure calculated in accordance with IFRS is cash flows from operating activities. A table reconciling the two measures is presented below.

Table 7: Operating cash flow per share reconciliation:

<i>In millions of U.S. dollars with the exception of weighted average common shares outstanding and operating cash flow per share</i>	Three months ended March 31	
	2021	2020
Cash flows from operating activities	\$ 14,216	\$ 2,357
Changes in non-cash working capital	8,412	4,547
Total cash flow from operating activities before changes in non-cash working capital	22,628	6,904
Weighted average common shares outstanding	396,939,602	396,867,068
Operating cash flow per share⁽¹⁾	\$0.06	\$0.02

⁽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 8: Operating cost per tonne of ore processed reconciliation:

<i>In millions of U.S. dollars with the exception of tonnes processed and operating cost per tonne processed</i>	Three months ended March 31,	
	2021	2020
Operating expenses	\$ 19.7	\$ 17.3
Net change rough diamond inventory, excluding depletion and amortization ⁽¹⁾	(2.0)	0.5
Net change ore stockpile inventory, excluding depletion and amortization ⁽²⁾	2.0	2.3
Total operating costs for ore processed	19.7	20.1
Tonnes processed	673,646	639,430
Operating cost per tonne of ore processed ⁽³⁾	\$ 29.24	\$ 31.43

⁽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.

RELATED PARTY TRANSACTIONS

A description of key management compensation can be found in Note 10 of the condensed interim consolidated financial statements for the three months ended March 31, 2021.

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

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

FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

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

Currency risk

The Company is exposed to the financial risk related to fluctuating foreign exchange rates. All sales revenues are denominated in U.S. dollars, while directly related costs are denominated in Botswana Pula. At March 31, 2021, the Company is exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately \$2.4 million in net income for the period.

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. Most 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 supply agreement with HB, a larger proportion of the Company's goods, by value, are sold through HB to buyers of polished diamonds. The credit risk associated with these sales is concentrated with one individual customer and payment terms are longer than the Company's traditional tender sales.

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 HB, the ultimate achieved sales prices of stones larger than 10.8 carats in size is based on a polished diamond pricing mechanism. This pricing mechanism results in the Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than it is currently through its traditional sales processes 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.

The Company has a \$50 million revolving term credit facility with a maturity date of the earlier of completion of the underground expansion project financing or November 5, 2021. On May 5, 2021, this facility was extended with one of the Company's existing lenders, FirstRand Bank Limited (London Branch), a division of Rand Merchant Bank, becoming the sole lender. Funds drawn under the revolving

credit facility are due in full at maturity. The facility contains financial and non-financial covenants customary for a facility of this size and nature. As at March 31, 2021, 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 based on the Company's adjusted leverage ratio.

The Company has provided security for the facility by way of a charge over the Company's Karowe assets and a guarantee by the Company's subsidiaries, which hold the Karowe assets.

As at March 31, 2021, \$50.0 million was drawn on the facility for working capital purposes (December 31, 2020 - \$30.5 million). The current interest rate on the amount drawn is LIBOR plus a margin of 3.50%.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 397,125,340 common shares outstanding, 5,386,756 share units, 967,285 deferred share units, and 6,189,000 stock options outstanding under its share-based incentive plans.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business which includes the acquisition, financing, exploration, development and operation of diamond properties, the potential construction of an underground mine at Karowe and the continued commercialization of Clara. The material risk factors and uncertainties, which should be taken into account in assessing the Company's activities, are described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form 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 for the balance of 2020 and in March 2021 due to varying international travel restrictions. The Government of Botswana has since extended the state of emergency several times, and the most recent extension is expected to remain in place until September 30, 2021. Concern remains over how governments across the jurisdictions in which Lucara and many of its customers operate will respond to increasing infection numbers and variants of COVID-19, even as mass vaccination campaigns are in progress in many countries. Due to the ongoing uncertainty resulting from the global pandemic, Lucara's operations could be impacted in a number of ways including, but not limited to: a suspension of operations at the Karowe Mine, disruptions to supply chains, worker absenteeism due to illness, disruption to the progress of the Karowe Mine underground expansion project and an inability to ship or sell rough and/or polished diamonds during this period. These possible impacts could result from government directives, the need to modify work practices to meet appropriate health and safety standards, a lack of demand for rough and/or polished diamonds, a lack of available liquidity to meet ongoing operational expenses and, due to or by other COVID-19 related impacts on the availability of labour or to the supply chain.

COVID-19 negatively impacted both demand and prices for rough and polished diamonds through much of 2020. 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 condensed interim consolidated financial statements, we make judgments in applying our accounting policies. The areas of policy judgement are consistent with those reported in our 2020 annual consolidated financial statements. In addition, we make assumptions about the future in deriving estimates used in preparing our condensed interim consolidated financial statements. As disclosed in our 2020 annual consolidated financial statements, the most significant sources of estimation uncertainty include estimated variable consideration (revenue), estimated recoverable reserves and resources, valuation of mineral properties and plant and equipment, the provision for deferred taxes and the valuation of decommissioning and site restoration provisions.

Management is required to exercise judgment to ensure that disclosures relating to indicators of impairment, liquidity and the Company's ability to continue as a going concern are appropriate. To this end, the Company manages liquidity risk by maintaining an adequate level of cash and cash equivalents to meet its short-term ongoing obligations and reviews its actual expenditures and forecast cash flows on a regular basis. Changes in demand for rough and/or polished diamonds and diamond prices, production levels and related costs, foreign exchange rates and other factors all impact the Company's liquidity position. In addition, the Company's \$50 million working capital facility matures at the earlier of completion of the underground expansion project financing or November 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 March 31, 2021, the Company had drawn \$50.0 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

Except for 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.

CHANGES IN ACCOUNTING POLICIES

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

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of this document along with the unaudited condensed interim consolidated financial statements. Management is responsible for the integrity and objectivity of this document, ensuring the fair presentation of its financial results. The Audit Committee is responsible for reviewing the contents of this document along with the condensed interim consolidated financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended March 31, 2021.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information related to the Company is identified and communicated on a timely basis. Management of the Company, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), is responsible for the design and operation of disclosure controls and procedures.

Internal controls over financial reporting

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

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

There have been no changes in the Company's internal control over financial reporting during the three months ended March 31, 2021 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain of the statements made 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 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 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.