LUCARA

DIAMOND

Management's Discussion and Analysis

and

Consolidated Financial Statements

Year Ended December 31, 2021

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

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, 2021, 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 – *Standards of Disclosure for Mineral Projects* ("NI 43-101").

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

The effective date of this MD&A is February 24, 2022.

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 and development activities. Clara Diamond Solutions Limited Partnership ("Clara"), a wholly-owned subsidiary of Lucara, has developed a secure, digital sales platform that uses proprietary analytics together with cloud and blockchain technologies to modernize the existing diamond supply chain, driving efficiencies, unlocking value and ensuring diamond provenance from mine to finger. Lucara has an experienced board and management team with extensive diamond development and operations expertise. Lucara and its subsidiaries operate transparently and in accordance with international best practices in the areas of sustainability, health and safety, environment, and community relations.

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".

2021 HIGHLIGHTS

- Revenue of $230.1 million resulted in an average price per carat sold of $603, an 84% and 80% increase over the previous year, respectively that reflected the impact of strong demand for both rough and polished diamonds, combined with supply constraints in certain size classes.
- The Karowe underground expansion project was formally approved by the Board of Directors after closing a $220 million senior secured project debt financing. Total project investment of $86.3 million during 2021 focused on detailed design and engineering, establishing surface infrastructure and shaft pre-sinking.
- First drawdown under the $220 million senior secured project financing debt package for an underground expansion at the Karowe Mine occurred in September 2021. As at December 31, 2021, the Company had drawn $25.0 million from the project loan facility and had reduced the outstanding balance on the working capital facility from $50.0 to $23.0 million. After year-end the Company completed a second draw of $20.0 million from the project finance facility.
- Two equity financings were closed that generated net proceeds of $31.3 million from the sale of 55,157,733 common shares at a price of C$0.75 per share, including the acquisition of 16.4 million common shares by the Company's largest shareholder, Nemesia S.a.r.l. ("Nemesia").

- A total of 841 Specials (single diamonds in excess of 10.8 carats) recovered, representing 7.8% weight percent Specials (2020: 6.7%), the highest annual volume of Specials recovered since Karowe commenced production in 2012. Highlights of these recoveries included:
    - five top white Type IIa gem quality diamonds in excess of 200 carats, including three in excess of 300 carats.
    - a 1,174 carat clivage gem of variable quality with significant domains of high-quality white gem material, the third +1,000 carat diamond recovered from the Karowe Mine since 2015.
    - a 470 carat top light brown clivage diamond.
    - a 62.7 carat high quality, fancy pink Type IIa gem diamond.

- Total Recordable Injury Frequency Rate ("TRIFR") in 2021 declined to 0.1 from 0.3 in 2020, with zero recordable injuries in three of four quarters of 2021.

- Operational highlights for 2021 from the Karowe Mine included:
    - Ore and waste mined of 3.7 million tonnes (2020: 3.0) and 2.6 million (2020: 2.7), respectively.
    - 2.8 million tonnes (2020: 2.7) of ore processed representing a new annual record since the start of production at the Karowe Mine.
    - A total of 369,390 carats recovered at a recovered grade of 12.93 carats per hundred tonnes of direct milled ore.
    - A total of 39 diamonds greater than 100 carats were recovered during the year, including eight diamonds greater than 300 carats, eight diamonds between 200 and 300 carats, along with a further 23 stones between 100 and 200 carats in weight.

- Financial highlights for the year ended December 31, 2021 included:
    - Total revenues of $230.1 million (2020: $125.3 million) or $603 per carat (2020: $335 per carat). The amended and extended sales agreement with HB Trading BV ("HB") accounted for 65% (44%) of total revenues recognized in 2021.
    - Operating cash costs of $30.02 per tonne processed(1) (2020: $27.80 per tonne processed) are 8% higher than the prior year because of a combination of increased mining and processing activity and higher power, labour and insurance costs.
    - Adjusted EBITDA(1) of $102.5 million increased more than five-fold over the adjusted EBITDA(1) of $18.4 million for the same period in 2020, attributed primarily to higher revenues.
    - Net income for the year increased to $23.8 million ($0.06 earnings per share) as compared to net loss of $26.3 million ($0.07 loss per share) in 2020.
    - As at December 31, 2021, the Company had cash and cash equivalents of $27.0 million and $23.0 million drawn ($27.0 million available) from a $50 million working capital facility.

    (1) Operating cash cost per tonne processed and adjusted EBITDA are non-IFRS measures (See "Use of Non-IFRS Financial Performance Measures").

- Recent developments:
    - As a result of strong forecast revenues for 2021 and amidst strengthening prices for large, high value diamonds, a strategic decision was taken late in 2021 to defer the sale of the Sethunya, one of the finest, gem quality, exceptional diamonds produced from the Karowe Mine.
    - In February 2022, the Company's Chairman Lukas Lundin advised the Company of his intention to retire from the Board of Directors upon completion of his term at the Company's upcoming Annual General Meeting to be held May 6, 2022.

DIAMOND MARKET

Diamond price recovery began in the fourth quarter of 2020 and had largely improved to pre-pandemic levels by the end of 2021, owing to strengthening diamond jewelry demand against a backdrop of declining global diamond supply. Importantly, this price strength has been broad based, observed across a range of sizes, qualities and colors for both rough and polished diamonds, highlighting a return to a healthier, balanced supply chain and a positive outlook for sustained price strength going forward. The price performance of very large (+50 carat polished), high value diamonds remained somewhat of an outlier to this trend owing to the significant volume of large, high value rough diamond inventory that was sold by others at deep discounts during the pandemic. Our novel, committed sales agreement with HB, initiated during 2020 and subsequently extended in 2021, afforded us the opportunity to begin protecting and defending prices for this important segment of our production and by December 31, 2021 this market segment had stabilized and began to strengthen also.

UPDATE ON COVID-19 RESPONSE

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

The Company continues to operate under its approved crisis management plan, designed to protect the health and well-being of our employees in Botswana and Canada as well as the financial well-being of the business. The Company has permission to conduct COVID-19 testing at our operations in Botswana which began in January 2021, and regular health screening, temperature checks and the use of infrared measurements are also routine. All contractors and visitors are required to have negative COVID-19 tests and adhere to all COVID-19 protocols while conducting work at company operations in Botswana. A government-sponsored vaccination program commenced in Botswana mid-year. At the end of December 2021, 94% of the Company's workforce was fully vaccinated and 3% had received a first dose. 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.

KAROWE UNDERGROUND UPDATE

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

The Karowe UGP is expected to extend the mine life to at least 2040, with underground carat production predominately from the highest value EM/PK(S) unit and is forecast to contribute approximately $4 billion in additional revenues, using conservative diamond prices. Following satisfaction of certain conditions precedent on September 2, 2021 ("Financial Close") of the senior secured project debt financing, the Company's Board of Directors formally approved the UGP, which has a $534 million capital cost and a five-year construction period. Mine ramp up is expected in Q1 2026 with full production from the UGP expected in H2 2026.

Highlights of the activities undertaken this year, include:

$86.3 million has been spent during the year ended December 31, 2021, primarily in relation to engineering and procurement of long lead items and the commencement of construction activities including:

- Pre-sink activities for both the production and ventilation shafts.
- Clearing for and construction of 40 out of 88 tower foundations for the 29 km 132kV transmission line bulk power upgrade.
- Mobilization of headframe materials and surface infrastructure including a 200-person camp and a water treatment facility.
- Pre-sinking of the ventilation and production shafts to -36 and 41m respectively below the shaft collar with shaft liner toe-in construction completed in the ventilation shaft and shaft lining continuing back to the sub-collar. Toe-in construction also was started in the production shaft by year end.
- Commissioning of the temporary generator farm, which will be used to power the shaft hoists during sinking until line power is commissioned, was completed.

Upcoming Activities for the UGP – 2022

Activities for the UGP in 2022 are expected to include the following:

- Commissioning of the four main sinking winders.
- Completion of the steel headframe structure for the production and ventilation shafts.
- Transition and sustained main sinking for the production and ventilation shafts.
- Continuation of detailed design and engineering of the underground mine infrastructure and layout.
- Commissioning of the 29 km 132kV bulk power supply powerline by December 2022.

JDS Energy & Mining Inc. ("JDS") is the Engineering Procurement Construction Manager for the execution of the Karowe UGP.

EQUITY FINANCINGS – JULY 2021

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

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

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

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

PROJECT DEBT FINANCING, SHAREHOLDER UNDERTAKING AND INTEREST RATE SWAP

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

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

The Project Finance Facility may be used to fund the development, construction costs and construction phase operating costs of the underground expansion project as well as financing costs in relation to the Facilities. The facility matures 8 years after Financial Close, with quarterly repayments commencing on June 30, 2026. As at December 31, 2021, $25.0 million of the $170.0 million facility was drawn. The facility bears interest at a rate of LIBOR (or replacement benchmark) plus margin of 5.5% annually for the period commencing on Financial Close until the project completion date, and 5.0% annually thereafter with commitment fees for the undrawn portion of the facility of 2.0% annually.

The Working Capital Facility may be used for working capital and other corporate purposes. As at December 31, 2021, $23.0 million of the $50.0 million facility was drawn. The facility bears interest at a rate of LIBOR (or replacement benchmark) plus margin of 3.5% annually with commitment fees for the undrawn portion of 1.6%. The facility matures on September 2, 2023 and the outstanding balance must be repaid in full at least once every twelve months for a minimum of five business days.

The Company incurred $11.3 million of debt advisory, legal and due diligence fees in conjunction with arranging the Facilities. At Financial Close, transaction costs of $8.7 million were allocated to the Project Finance Facility, recorded as deferred financing fees until draws are made on the facility and then recorded as transaction costs proportionally to the amount drawn under the facility. Deferred finance fees of $1.3 million were allocated to the initial draw of $25.0 million as transaction costs. Transaction costs of $2.6 million were allocated to the Working Capital Facility and are included in deferred financing fees.

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

As at December 31, 2021, the Company was in compliance with all financial covenants.

Shareholder Undertaking

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

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

Interest Rate Swap

Under the terms of the Project Finance Facility, Lucara Botswana was required to complete an interest rate swap on 75% of the principal amount available to manage its exposure to floating interest rates. On December 14, 2021 Lucara Botswana entered into interest rate swap agreements structured around the expected Project Finance Facility drawdown schedule, swapping a LIBOR variable rate interest payment stream for a 1.682% fixed rate interest payment stream on up to $127.5 million. Under the terms of these agreements, Lucara Botswana receives interest quarterly at the rate equivalent to the three-month USD LIBOR, repriced every three months and pays quarterly interest at the fixed rate starting June 29, 2022. The interest rate swaps mature on March 31, 2028. As at December 31, 2021 the interest rate swaps had a negative unrealized fair value of $0.8 million.

SALES AGREEMENT FOR +10.8 CARAT DIAMOND PRODUCTION

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

Under the amended sales agreement, +10.8 carat gem and near gem diamonds from the Karowe Mine of qualities that can directly enter the manufacturing stream are being sold to HB at prices based on the estimated polished outcome of each diamond. The estimated polished value is determined through state-of-the-art scanning and planning technology, with an adjusted amount payable on actual achieved polished sales, less a fee and the cost of manufacturing. Following the extension of the HB Agreement in Q2 of 2021, all +10.8 carat non-gem quality diamonds and all diamonds less than 10.8 carats in weight which did not meet the criteria for sale on Clara are being sold as rough through the quarterly tender. In the agreement extension, changes to the payment terms were amended to better reflect the timing of mine production and the manufacturing process. This unique pricing mechanism delivers regular cash flow for this important segment of our production profile.

For the year ended December 31, 2021 the Company recorded revenue of $150.4 million from the HB agreement from the sale of 23,832 carats, as compared to $55.2 million in 2020 from the sale of 19,556 carats. The increase is attributed to the contract covering twelve months in 2021, versus six months in 2020. In addition, prices achieved continued to increase through 2021 and certain high value stones delivered in 2020 were sold in 2021, resulting in higher revenue and an increase in the average price per carat sold to $6,433 per carat in 2021 from $2,822 per carat in 2020.

At December 31, 2021 a total of 18 rough diamonds delivered to HB during 2021 were manufactured and achieved net polished prices in excess of $1 million, including a total of eight diamonds that each achieved a price in excess of $2 million and two diamonds that each achieved a price in excess of $5 million. Higher value stones and those stones which are more complex take longer to manufacture. As a result, at December 31, 2021, several of these stones delivered to HB in 2021 have not fully completed the manufacturing and sales process.

CLARA SALES PLATFORM

Clara, Lucara's 100% owned proprietary, secure, web-based digital sales platform, continues to gain scale and interest. Interest in Clara has grown considerably since 2020, sparked by global restrictions on travel, combined with a new openness to purchasing rough diamonds in an innovative way. In 2021, 21 sales (2020: 23 sales) took place with a total sales volume transacted of $28.7 million, a 168% increase from the $10.7 million transacted in 2020. During Q4 2021, the sales volume transacted was $7.7 million (Q4 2020: $4.0 million), a 93% increase when compared to Q4 2020. Clara also observed a steady upward price trend at each subsequent sale throughout fiscal 2021. The number of buyers on the platform increased to 88 at December 31, 2021 with the Company maintaining a waiting list to manage supply and demand.

While most of the stones transacted through the platform came from the Karowe Mine, during the last half of 2021, certain secondary market stones were also offered for sale through the platform, with good results. Additional supply is required to meet existing demand and drive the platform's growth. The Company intends to continue to seek additional supply in 2022, both from third-party producers and the secondary market.

FINANCIAL HIGHLIGHTS

Table 1

In millions of U.S. dollars, except carats or otherwise noted	**Three months ended December 31** **2021**	2020	**Year ended December 31** **2021**	2020
Revenues	$ 57.9	$ 42.4	$ 230.1	$ 125.3
Operating expenses	(22.3)	(21.7)	(80.3)	(72.6)
Net income (loss) for the period	1.7	(3.9)	23.8	(26.3)
Earnings (loss) per share (basic and diluted)	0.00	(0.01)	0.06	(0.07)
Operating cash flow per share[1]	0.05	0.02	0.24	0.04
Cash on hand	27.0	4.9	27.0	4.9
Amounts drawn on working capital facility	23.0	30.5	23.0	30.5
Average price per carat sold ($/carat)	560	402	603	335
Operating expenses per carat sold ($/carat)	215	205	210	194
Operating margin per carat sold ($/carat)[1]	345	197	393	141
Carats sold	103,501	105,648	381,681	373,748

[1]Operating cash flow per share before working capital adjustments and operating margin per carat sold are non-IFRS measures. See "Use of Non-IFRS Performance Measures".

Beginning in Q2 2020, all +10.8 carat diamonds mined from Karowe were sold to HB pursuant to the terms of the diamond sales agreement described above (see "HB Sales Agreement For +10.8 Carat Diamond Production" above). Following the extension of the HB Agreement in Q2 2021, all +10.8 carat diamonds which did not meet the criteria for polishing by HB and all diamonds less than 10.8 carats by weight which did not meet the criteria for sale on Clara are being sold as rough through the quarterly tender.

The Company recognized revenue of $57.9 million or $560 per carat from the sale of 103,501 carats in the fourth quarter of 2021 resulting in a margin of 62%. In comparison, the Company achieved revenues of $42.4 million or $402 per carat for its sales in the fourth quarter of 2020, generating a margin of 49%. The Q4 2021 average sales price reflects an overall higher market price for diamonds.

The Q4 2021 tender was the strongest tender of 2021 due to increases in rough pricing across all tendered size classes. A total of 97,211 carats were sold in the December 2021 tender, generating revenues of $19.0 million (Q4 2020 tender: $10.2 million). Revenue also includes top-up payments received for polished diamond sales under the HB sales agreement for carats that were delivered in previous quarters. Top-up payments, net of manufacturing costs, are paid when polished diamonds are sold to an end buyer and the sales prices achieved exceed the initial purchase price paid to Lucara. As a result of certain changes included in the extension agreement, effective for the period January 1, 2021 to December 31, 2022, top-up payments are expected to have a reduced impact on revenue. This is attributable to improvements that HB have made in planning for rough stones that should, on average, result in higher initial polished values being assigned to delivered stones.

Q4 2021 Sales Results:

Sales Channel	Rough Carats Sold	Revenue Recognized	Average Price/Carat[3]
HB Agreements	1,895	$ 31.2 million	$ 16,480
Clara[1]	4,395	$ 7.7 million	$ 1,744
Tender[2]	97,211	$ 19.0 million	$ 196
Total	**103,501**	**$ 57.9 million**	**$ 560**

(1) Five sales were completed on Clara in Q4 2021, with the sale of third-party goods increasing the total volume transacted to $7.7 million.
(2) The Q4 2021 tender was held in December in Antwerp; non-gem +10.8 carat diamonds and diamonds less than 10.8 carats in size which did not meet characteristics for sale on Clara were sold through tender.
(3) The revenue recognized and average price per carat sold under the HB Agreement includes top-up payments related to rough stones delivered in previous periods.

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

Revenues include an estimate of variable consideration receivable under the terms of HB Agreement. Variable consideration is a component of the transaction price and represents an area of significant management estimate and judgment.

Payments owing for the final polished sales price and initial and subsequent top-up payments received are estimated, after deductions for HB's fee and the cost of manufacturing, when determining the transaction price recognized for accounting purposes. This estimate is updated at each period end until the transaction price is confirmed.

The timing of deliveries to and polished sales by HB had the most significant impact in 2021 on the timing of revenue recognition.

Sales Results for the Year Ending December 31, 2021

Sales Channel	Rough Carats Sold	Revenue Recognized	Average Price/Carat[1]
HB Agreements[1]	23,382	$150.4 million	$6,433
Clara	17,386	$28.7 million	$1,651
Tender	340,913	$51.0 million	$149
Total	**381,681**	**$230.1 million**	**$603**

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

Operating expenses increased $0.6 million or approximately 3%, from $21.7 million in Q4 2020 to $22.3 million in Q4 2021 due to a combination of higher power, labour and insurance costs.

The operating margin per carat sold[1] however increased from $197/carat, or 49% in Q4 2020 to $345/carat, or 62% in Q4 2021 due to significantly higher revenues.

The change in sales approach for the +10.8 carat production had a positive impact on results for the year ended December 31, 2021 with top-up amounts related to rough carats sold in 2020 recognized in 2021 when the final transaction price was confirmed as HB sold polished diamonds to end buyers. Revenue from diamond sales includes $56.4 million of variable consideration (2020: $7.2 million) at December 31, 2021. The variable consideration will be confirmed as the rough diamonds to which it relates are manufactured, polished and sold.

[1] See "Use of Non-IFRS Performance Measures".

RESULTS OF OPERATIONS – KAROWE MINE

Table 2:

	UNIT	Q4-21	Q3-21	Q2-21	Q1-21	Q4-20
Sales						
Revenues generated from the sale of Karowe diamonds in the quarter	US$M	56.5	72.5	45.9	53.1	42.3
Carats recovered from Karowe sold for revenues recognized during the period	Carats	102,791	117,162	68,806	91,734	105,329
Average price per carat for proceeds received during the period	US$	550	619	667	579	401
Production						
Tonnes mined (ore)[1]	Tonnes	610,072	1,190,856	900,660	967,089	748,296
Tonnes mined (waste)[1]	Tonnes	276,263	696,907	787,227	859,347	434,082
Tonnes processed	Tonnes	705,877	738,986	726,379	673,646	684,768
Average grade processed	cpht (*)	12.8	13.2	13.9	11.9	14.6
Carats recovered	Carats	90,634	97,412	101,330	80,014	100,059
Costs						
Operating expense per carat sold	US$	217	198	219	215	205
Sustaining capital expenditures	US$M	9.1	3.4	2.4	0.4	4.4
Underground expansion project[2]	US$M	21.8	32.0	22.6	9.9	8.3

(*) carats per hundred tonnes

(1) The ore and waste tonnes for Q1 2021, Q2 2021 and Q3 2021 were adjusted in Q4 2021 to reflect the results of the year-end depletion reconciliation, which impacted the allocation of tonnes mined between ore and waste.

(2) Excludes qualifying borrowing cost of $1.5 million capitalized during Q4 2021.

FOURTH QUARTER OVERVIEW – OPERATIONS - KAROWE DIAMOND MINE

Safety: Karowe registered a TRIFR of 0.1 during the three months ended December 31, 2021. During the same time Karowe had no lost time injuries. As of December 31, 2021, the mine has operated for 408 days (3.0 million hours) without a lost time injury.

Environment and Social: As in the first three quarters of 2021, there were no reportable environmental matters during the fourth quarter of 2021. In addition to meeting applicable Botswana national laws, regulations and requirements, Lucara has adopted the IFC Performance Standards and the World Bank Group's Environmental, Health and Safety Guidelines for Mining (2007). Accordingly, the development of the UGP adheres to the Equator Principles. Lucara is committed to upholding high standards while striving to deliver long-term economic benefits to Botswana and the communities in which the Company operates. The Company received certification under ISO 45001, the Occupational Heath and Safety standard in November of 2021 and is working towards certification under the "Towards Sustainable Mining" initiative.

Production: Ore and waste mined during the fourth quarter of 2021 totaled 0.6 million tonnes and 0.3 million tonnes respectively.

During Q4 2021, tonnage processed was on target at 0.7 million tonnes at an average grade of 12.8 cpht, with a total of 90,569 carats recovered from direct milling. Ore processed was entirely from the South Lobe. A total of 180 Specials were recovered, including nine diamonds greater than 100 carats in weight. Recovered Specials equated to 5.7% weight percentage of total recovered carats from ore processed during Q4 2021 (Q4 2020 – 7.1%).

Overall performance during the fourth quarter remains consistent with the strong operational results achieved over the past two years. Mining and processing results were on plan during Q4 2021, except for waste tonnes mined. Ore mining continued to be prioritized over waste to enable de-stacking of benches in the northern part of the pit to enhance flexibility through improved access to South Lobe ore as the pit deepens and to support dewatering activities. Ore gains were realized on the western contact of the South Lobe and have been stockpiled.

Karowe's operating cash cost: Karowe's operating cash cost for 2021 (see "Use of Non-IFRS Financial Performance Measures") was $30.02 per tonne of ore processed (2020: $27.80 per tonne of ore processed) in line with the forecast of $28-$32 per tonne processed and approximately 8% higher than 2020. The current period increase is reflective of cost reductions implemented in 2020 owing to the uncertainty of the impact of the global pandemic that were gradually lifted in 2021, offset by a 6% increase in tonnes processed as compared to 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 southwestern quadrant of the South Lobe M/PK(S) unit.

In May 2021, a 470 carat top light brown clivage diamond was recovered along with a series of top quality gem and clivage quality diamonds including 5 diamonds greater than 100 carats (265ct, 183ct, 161ct, 116ct, 106ct).

In June 2021, a 1,174 carat diamond, described as a clivage gem of variable quality with significant domains of high-quality white gem material, was recovered. The 1,174 carat diamond represented the third +1,000 carat diamond recovered from the South Lobe of the AK6 kimberlite since 2015.

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

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

The recovery of large gem quality diamonds from the EM/PK(S) and M/PK(S) units 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.

SELECT ANNUAL FINANCIAL INFORMATION

The following table sets out selected consolidated financial information and the average grade of carats processed for each of the three most recent completed years:

Table 3:	Year ended December 31,		
In millions of U.S. dollars unless otherwise noted	**2021**	2020	2019
Revenues	$ 230.1	$ 125.3	$ 192.5
Operating expenses	(80.3)	(72.6)	(77.7)
Adjusted operating earnings (1)	**149.8**	**52.7**	**114.8**
Royalty expenses	(24.9)	(13.5)	(19.2)
Exploration expenditures	–	–	(4.6)
Administration	(19.5)	(18.3)	(15.7)
Sales and marketing	(2.9)	(2.5)	(2.2)
Adjusted EBITDA (2)	**102.5**	**18.4**	**73.1**
Depletion and amortization	(49.7)	(46.8)	(51.3)
Finance expenses	(3.7)	(2.5)	(3.1)
Foreign exchange (loss) gain	(2.8)	2.2	(2.6)
Loss on derivative financial instrument	(0.9)	–	–
Loss on disposal of assets	–	(2.6)	–
Current income tax expense	(1.5)	(0.6)	(14.5)
Deferred income tax (expense) recovery	(20.1)	5.7	11.0
Net income (loss) for the year	**23.8**	**(26.3)**	**12.7**
Earnings (loss) per share (basic and diluted)	**0.06**	**(0.07)**	**0.03**
Per carat sold:			
Sales price	**$ 603**	**$ 335**	**$ 468**
Operating expenses	**210**	**194**	**189**
Average grade processed (carats per hundred tonnes) (3)	**12.93**	**14.3**	**14.4**
Cash on hand	**$ 27.0**	**$ 4.9**	**$ 11.2**
Total assets	**412.0**	**333.8**	**346.0**
Total non-current financial liabilities	**111.2**	**78.1**	**87.5**
Change in cash during the year	**22.1**	**(6.3)**	**(13.2)**
Dividends paid during the year	**–**	**–**	**(22.4)**

(1) Adjusted operating earnings is a non-IFRS measure defined as revenues less operating expenses and excludes royalty expenses and depletion and amortization.
(2) Adjusted EBITDA is a non-IFRS measure defined as earnings before depletion and amortization, finance expenses, foreign exchange, financial instrument fair value adjustments, disposal of assets and taxation.
(3) Average grade processed is from direct milling carats and excludes carats recovered from re-processing historic recovery tailings from previous milling.

Revenues and royalties

Total revenue increased 84% from $125.3 million in 2020 to $230.1 million in 2021 due to the strong recovery in rough and polished diamond prices through 2021 attributable to resurgent consumer demand and rough diamond supply shortages after challenging market conditions prevailed for much of 2020. During the year ended December 31, 2021, Lucara sold 381,681 carats at an average price of $603 carat (2020: 373,748 carats at an average price of $335 per carat), an increase of 2% by volume and 80% by value.

The year ended December 31, 2021 was the first full annual period that the majority of stones greater than +10.8 carats in size were sold through the sales agreement with HB, with stones less than 10.8 carats by weight sold through tender and suitable stones in the 1 to 10 carat size range sold through Clara. Stones sold under the terms of the HB sale agreements accounted for approximately 65% of the revenue earned in 2021 (2020: 44%). Revenue earned under the sales agreement is recognized on a net basis, after deductions for fees and the cost of manufacturing due 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.

The process plant achieved a record 2,844,888 milled tonnes during 2021, a 6% increase from 2020. The recovery of 369,390 carats was 3% lower than 2020 as the higher throughput was offset by the lower grade of milled material. During 2021, Specials recovered equated to 7.8% (2020: 6.7%) weight percentage of total recovered carats, achieving a record volume of Specials recovered for the second consecutive year.

In 2021, thirty-nine stones greater than 100 carats were recovered, of which eight stones exceeded 300 carats. Of note were the recoveries of three top white gem diamonds at 341, 378 and 393 carats and the 1,174 carat clivage gem, which represented the third +1,000 carat diamond recovered from the Karowe mine.

For the historic 1,758 carat "Sewelô", the largest diamond ever mined in Botswana, Louis Vuitton ("LV") resumed its global marketing effort in 2021 following delays imposed by COVID-19 related travel restrictions in 2020. The partners have agreed and are excited to be moving forward into the next stage of the collaboration in 2022, which includes planning and manufacturing of an exclusive, bespoke, collection of polished diamonds.

As a result of strong forecast revenues for 2021 and amidst strengthening prices for large, high value diamonds, a strategic decision was taken late in 2021 to defer the sale of the Sethunya, one of the finest, gem quality, exceptional diamonds produced from the Karowe Mine to date.

Adjusted Operating Earnings and Expenses

Adjusted operating earnings[1] for the year ended December 31, 2021 were $149.8 million (2020: $52.7 million) after operating expenses of $80.3 million or $210 per carat sold (2020: operating expenses of $72.6 million or $194 per carat sold), which resulted in an operating margin[1] (before royalties, depletion and amortization) of $393 per carat or 65% (2020: operating margin of $141 per carat or 42%). The 8% increase in operating expenses per carat sold is attributed to a 3% appreciation of the Botswana Pula against the U.S. dollar and a combination of higher power, labour and insurance costs.

During 2021, Lucara achieved an average grade of 12.93 carats per hundred tonnes ("cpht") from direct milling during the year compared to an average grade of 14.3 cpht in the prior year. The 6% increase in tonnes processed was offset by lower grades in material processed.

Depletion and amortization

In 2021, the Company recorded depletion and amortization expense of $49.7 million (2020: $46.8 million). This non-cash expense increased 6% year over year, which is attributed to a 20% decrease in rough diamond inventory which resulted in depletion and amortization capitalized to inventory at December 31, 2020 being released to the statement of operations, offset by a 3% decrease in carats recovered. Depletion expense on assets that are amortized on a unit of production basis is affected by the volume of carats recovered in any given year.

Net income

Net income for the year ended December 31, 2021 was $23.8 million (2020: $26.3 million net loss). Net income for the year ended December 31, 2021 was materially impacted by increased revenue due to the higher pricing achieved in 2021.

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

Adjusted EBITDA for the year ended December 31, 2021 was $102.5 million compared to $18.4 million in 2020. The change year to year is directly attributable to an 84% increase in revenue in 2021, reduced by an 11% increase in operating expense.

Adjusted EBITDA is a non-IFRS measure and is reconciled in Table 3: Select Financial Information above.

[1] See "Use of Non-IFRS Performance Measures".

Operating Cost Per Tonne of Ore Processed

For the year ended December 31, 2021, operating cost per tonne processed was $30.02 (2020: $27.80), 8% higher than the prior year. The increase is attributed to a 3% appreciation of the Botswana Pula against the U.S. dollar and a combination of higher power, labour and insurance costs, offset by a 6% increase in tonnes processed

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.

SELECT QUARTERLY FINANCIAL INFORMATION

Table 4: The following table sets out selected consolidated financial information for each of the eight most recent completed quarters:

Three months ended	Dec-21	Sep-21	Jun-21	Mar-21	Dec-20	Sept-20	Jun-20	Mar-20
A. Revenues	57,931	72,716	46,334	53,097	42,387	41,297	7,462	34,117
B. Administration expenses	(7,149)	(4,256)	(3,659)	(4,395)	(4,913)	(5,643)	(3,653)	(4,071)
C. Net income (loss)	1,662	12,760	5,998	3,407	(3,834)	(5,368)	(13,915)	(3,161)
D. Earnings (loss) per share (basic)	0.00	0.03	0.02	0.01	(0.01)	(0.01)	(0.04)	(0.01)

The primary factor causing variation to the quarterly metrics are the sale of Specials (diamonds greater than 10.8 carats), but more particularly the unique and high value Specials. Net income achieved in each quarter is most impacted by the revenue earned during that quarter, while the impact of fluctuating inventory levels, foreign exchange gains and losses, the loss on derivative financial instruments (specifically from Q4 2021), the impact of asset dispositions and income tax expenses introduce volatility to net income.

Revenue of $34.1 million recognized in the quarter ended March 31, 2020 was significantly lower than other quarters, due to 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. The diamond market experienced a sharp and sudden decline for most of Q2 2020 as global travel restrictions disrupted supply chains and many workplaces were shut-down in response to stay-at-home orders. As a result, the Company made a deliberate decision not to tender any of its +10.8 carat production in the Q2 2020 tender. Instead, in July 2020, the Company announced a sales 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. 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.

Diamond prices improved significantly in 2021, in response to strong demand and supply constraints in certain size classes. The Company's revenue in 2021 includes regular sales to and top-up payments from HB, as well as proceeds from regular sales through Clara and the quarterly tenders.

NON-IFRS FINANCIAL MEASURES

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

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

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

Operating cash flow per share is the term the Company uses to assess its ability to generate cash flow from operations, while also taking into consideration changes in the number of outstanding common shares of the Company. Operating cash flow per share is calculated by taking cash flows from operating activities, less changes in non-cash working capital items, divided by the basic weighted average number of common shares outstanding. The most directly comparable measure calculated in accordance with IFRS is cash flows from operating activities. A 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**	
	2021	2020	**2021**	2020
Cash flows from operating activities	$ 43,894	$ (2,635)	83,390	$ (1,526)
Add: Changes in non-cash working capital	(22,698)	9,969	17,286	18,793
Total cash flow from operating activities before changes in non-cash working capital	21,196	7,334	100,676	17,267
Weighted average common shares outstanding	448,060,783	396,896,733	422,894,218	396,889,357
Operating cash flow per share[1]	**$0.05**	**$0.02**	**$0.24**	**$0.04**

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

Operating margin per carat sold (see "Karowe Mine, Botswana" and "Select Annual Financial Information") is the term the Company uses to describe the contribution to adjusted operating earnings for each single diamond carat sold. This is calculated as Adjusted operating earnings per carat of diamonds sold.

Operating cost per tonne of ore processed is the term the Company uses to describe operating expenses per tonne processed on a cash basis. This is calculated as 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, **2021**	2020
Operating expenses	$ 80.3	$ 72.6
Net change rough diamond inventory, excluding depletion and amortization [(1)]	(1.3)	0.3
Net change ore stockpile inventory, excluding depletion and amortization [(2)]	6.4	1.5
Total operating costs for ore processed	85.4	74.4
Tonnes processed	2,844,888	2,676,066
Operating cost per tonne of ore processed[(3)]	**$ 30.02**	**$ 27.80**

(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, 2021, the Company had cash and cash equivalents of $27.0 million and had drawn $23.0 million from its $50 million working capital facility. After adjustments for working capital items, cash flow from operations totaled $83.4 million.

The Company's $50 million revolving credit facility was refinanced on May 5, 2021 and repaid with proceeds from the Company's new working capital facility (see "Project Debt Financing, Shareholder Undertaking and Interest Rate Swaps" above). As at December 31, 2021 the amount outstanding under this new facility was $23.0 million (December 31, 2020 - $30.5 million drawn under the previous revolving credit facility). The facility matures on September 2, 2023 and the outstanding balance must be repaid in full at least once every twelve months for a minimum of five business days, and is therefore classified as current on December 31, 2021.

Working capital as at December 31, 2021 was $50.5 million as compared to $46.7 million as at December 31, 2020, an increase of 8%. Following a very challenging year in 2020, the Company's working capital increased in 2021 to a level more consistent with previous periods. Trade receivables (December 31, 2021: $38.8 million) increased during the year and current inventories (December 31, 2021: $36.5 million) decreased from the balances at December 31, 2020 (receivables: $20.9 million; inventories: $68.4 million). The decrease in current inventories relates to ore stockpiles classified as non-current as at December 31, 2021 because these stockpiles are expected to be processed more than 12 months from the reporting date in accordance with the mine plan and approval of the underground project. The receivable balance at December 31, 2021 includes $17.5 million (December 31, 2020: $13.4 million) due from HB and represents rough diamond sales from November and December, and the value of diamond sales for which the transaction price was finalized and adjusted in December.

Current liabilities increased to $51.8 million as of December 31, 2021 from $47.6 million at December 31, 2020. The Company reduced the amount drawn on its short-term financing facilities in 2021, which was offset by increases in trade payables and accrued liabilities, primarily because of increased expenditure on the UGP.

Capital spending during the year remained focused on the underground expansion project (2021: $86.3 million; 2020: $18.7 million) and sustaining capital expenditures of $15.3 million (2020: $15.2 million) including construction costs for a community sports complex in Letlhakane, dewatering and upgrades to certain processing circuits.

Long-term liabilities consist of the project financing facility of $23.7 million, derivative financial instrument liabilities of $0.8 million related to interest rate swaps entered into pursuant to the requirements of the Facilities agreement, restoration provisions of $15.3 million (December 31, 2020: $21.2 million), deferred income taxes of $70.3 million (December 31, 2020: $55.9 million), and other non-current liabilities of $1.0 million (December 31, 2020: $1.0 million) which consist of leases classified under IFRS 16: Leases.

Financing activities during 2021 included equity financings for net proceeds of $31.3 million, a net repayment of $30.5 million balance on the old revolving credit facility using proceeds from the new working capital facility, leaving an outstanding balance of $23.0 million at December 31, 2021. A first draw of $25.0 million under the Project Facility was made during September 2021. Cash transaction costs incurred to arrange the Facilities amounted to $11.0 million.

Total shareholders' equity increased to $249.0 million from $208.2 million at December 31, 2020 due to the July equity financing and the reduction in the deficit as a result of earnings generated during the year. Other changes to share capital and contributed surplus were related to share units vesting and the recording of share-based compensation during the year, and the cumulative impact of the currency translation adjustment.

RELATED PARTY TRANSACTIONS

A description of key management compensation can be found in Note 19 of the audited consolidated financial statements for the year ended December 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, 2021. As of December 31, 2021, 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. As of December 31, 2021, the platform had not generated positive EBITDA.

COMMITMENTS

As at December 31, 2021, purchase orders and contracts that give rise to commitments for future minimum payments for services to be provided related to the underground expansion project amounted to $86.7 million (December 31, 2020 - $9.9 million).

Table 7: The following table summarizes the undiscounted approximate timing of the commitments at December 31, 2021:

		2022	2023	2024	2025 and 2026	Total
Underground expansion project	*$ million*	67.4	9.0	4.5	5.8	**86.7**

2022 OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2022. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements. Based on updated expectations for revenue in 2022, attributed to the recent and expected strength in the rough and polished diamond markets, diamond revenue guidance has been increased to between $195.0 million and $225.0 million (from $185.0 million to $215.0 million). Diamond revenue guidance does not include revenue related to the sale of exceptional stones, or the Sethunya.

Karowe Mine, Botswana

Table 8: 2022 Diamond Sales, Production and Outlook

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

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

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

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

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

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

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

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

Lucara Botswana's progressive tax rate computation allows for the immediate deduction of operating costs, including capital expenditures, in the year in which they are incurred. Based on the updated 2022 revenue guidance of $195 million to $225 million and assuming the underground development expenditures are incurred, the expected tax rate will be 0% for 2022.

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 21 in the Company's audited consolidated financial statements for the year ending December 31, 2021. Note 21 includes a discussion of the methods used to value financial instruments, as well as any significant assumptions made as part of the valuation.

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 December 31, 2021, the Company was exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately $2.5 million in net income for the year.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. To manage liquidity risk, regular cash flow forecasting is performed in the operating entities of the Company and aggregated in the head office to understand what level of capital is required. Rolling forecasts of the Company's liquidity requirements are prepared and monitored to assess whether there is sufficient cash available to meet the Company's short and longer-term operational needs. Such forecasting takes into consideration the Company's ability to generate cash from the sale of diamonds and additional liquidity which can be accessed through the working capital facility. The contractual maturities of long-term debt, and interest rate swaps are disclosed in Note 10 of the audited, consolidated financial statements for the year ended December 31, 2021.

Credit risk

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

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

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

Interest rate risk

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

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

Price risk

The Company derives its income from the sale of rough diamonds mined in Botswana, a majority of which are sold through a quarterly tender process from Botswana. In response to the disruptions caused by the COVID-19 pandemic, the Company received approval from the Government of Botswana to conduct quarterly tenders in Antwerp, Belgium and each quarterly tender since June 2020 has been conducted in Antwerp. 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 sales agreement with the HB, the ultimate achieved sales prices of stones larger than 10.8 carats in size is based on a polished diamond pricing mechanism. This pricing mechanism results in the Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than it is currently through its traditional tender process for rough diamonds. The pricing of both polished and rough diamonds demonstrated significant improvement during 2021 as a result of improved market supply and demand dynamics after the COVID-19 pandemic negatively impacted global demand for luxury commodities in 2020, including jewelry containing diamonds. To the extent that the supply of rough or polished diamonds exceeds demand, this is likely to result in price deterioration and negatively impact the Company's revenue and ability to generate positive cash flow from operations.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 453,034,981 common shares outstanding, 4,977,218 share units, 1,234,510 deferred share units, and 6,249,000 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 growth of Clara. The material risk factors and uncertainties, which should be considered in assessing the Company's activities, are described under the heading "Risks and Uncertainties" in the Company's most recent Annual Information Form and in the Prospectus dated July 12, 2021, both 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 for the balance of 2020 and all of 2021 were held in Antwerp due to varying international travel restrictions. The Government of Botswana extended the state of emergency several times before it was lifted on September 30, 2021. Concern remains over how governments across the jurisdictions in which Lucara and many of its customers operate will respond to increasing infection numbers and variants of COVID-19, even as mass vaccination campaigns are in progress in many countries. Due to the ongoing uncertainty resulting from the global pandemic, Lucara's operations could be impacted in a number of ways including, but not limited to: a suspension of operations at the Karowe Mine, disruptions to supply chains, worker absenteeism due to illness, disruption to the progress of the Karowe Mine underground expansion project and an inability to ship or sell rough and/or polished diamonds during this period. These possible impacts could result from government directives, the need to modify work practices to meet appropriate health and safety standards, a lack of demand for rough and/or polished diamonds, a lack of available liquidity to meet ongoing operational expenses and, due to or by other COVID-19 related impacts on the availability of labour or to the supply chain.

COVID-19 negatively impacted both demand and prices for rough and polished diamonds through much of 2020 but the market has recovered to pre-pandemic levels over the course of 2021. 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. Current circumstances remain 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.

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 6, 2022 in Vancouver, Canada.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and make estimates and assumptions about the future. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The Company has identified the following areas where significant accounting judgments, estimates and assumptions has been made in the preparation of the consolidated financial statements:

Areas of judgment

(a) Satisfaction of performance obligations under the HB sales agreement

The Company has determined that, under the terms of the Company's sales agreement with HB, control is transferred when the delivery and analysis of the rough diamonds are completed. At this point the initial estimated polished outcome price of the rough diamond is determined and HB assumes responsibility for its manufacturing, polishing and sale to an end buyer.

(b) *Assessment of impairment indicators*

The Company carries its mineral properties and plant and equipment at depleted cost less any provision for impairment. 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.

(c) *Deferred Taxes*

Judgment is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized and what tax rate is expected to be applied in the year when the related temporary differences reverse Judgment is also required on the application of income tax legislation. These judgments are subject to risk and uncertainty and could result in an adjustment to the deferred tax provision.

(d) *Going concern and liquidity risk*

Management is required to exercise judgment with respect to evaluating the Company's ability to continue as a going concern and to ensure that disclosures relating to liquidity 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, ensuring access to credit facilities, 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.

Sources of estimation uncertainty

(a) *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 diamond 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 forecast commodity prices, diamond 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 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, changes in the deferred tax rate, and impairment charges recorded in the statement of operations.

(b) *Estimated variable consideration in determining revenue*

Revenues include an estimate of variable consideration receivable under the terms of the Company's sales agreement with HB. Variable consideration is a component of the transaction price and represents an area of significant management estimate and judgment. Under the sales agreement, at the time of sale of a rough diamond, the Company receives an initial payment based on an estimated polished outcome price. When the manufactured diamond is sold to an end buyer, HB is entitled to receive a fee and reimbursement for the cost of manufacturing. If the final sales price is higher than the initial estimated polished price a true up payment is payable to the Company. Any manufactured diamonds sold to an end buyer for less than the initial estimated polished price (after deductions for HB's fee and the cost of manufacturing) will result in the difference being refunded to HB.

Variable consideration is estimated using the most likely approach, as the Company considers this approach to be more predictive. The transaction price is reassessed each reporting period, including any adjustments to the amount of variable consideration recognized. 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, significant judgment includes market conditions, the current estimated polished value provided by HB and the probability that the variable consideration would be realized.

(c) *Decommissioning and site restoration*

The Company has obligations for site restoration and decommissioning related to the Karowe Mine. The restoration provision is based on cost estimates of the future decommissioning and site restoration activities and are estimated by the Company using mine closure plans or other similar studies which outline the activities that will be carried out to meet the obligations. The restoration provision requires significant estimates and assumptions because the obligations are dependent on the laws and regulations of the country in which the mine operates and are based on future expectations of the timing, extent and cost of required decommissioning and site restoration activities. As a result, there could be significant adjustments to the provisions established.

(d) *Deferred 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. 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 assumptions 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.

CHANGES IN ACCOUNTING POLICIES

There have been no changes to accounting policies described in Note 4 of the audited consolidated financial statements for the year ended December 31, 2021.

Certain pronouncements have been issued by the IASB that are mandatory for accounting periods after December 31, 2021. There are currently no such pronouncements that are expected to have a significant impact on the Company's consolidated financial statements upon adoption.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of this document along with the 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, 2021, 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, 2021, 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 in this MD&A contain certain "forward-looking information" and "forward-looking statements" as defined in applicable securities laws. Generally, any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance and often (but not always) using forward-looking terminology such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "budgets", "scheduled", "forecasts", "assumes", "intends", "strategy", "goals", "objectives", "potential", "possible" or variations thereof or stating that certain actions, events, conditions or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements.

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

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

- general global financial and economic conditions;
- future market prices for diamonds;
- the supply and demand for rough and polished diamonds and in particular, the demand for diamonds greater than +10.8 carats;
- potential to achieve better prices by selling +10.8 carat stones under the terms of the agreement with HB;
- reliance on one counter-party to acquire a significant percentage of the Karowe production (by value);
- ability to access capital and liquidity risk;
- fluctuations in interest rates, foreign currency exchange rates and tax rates;
- inherent hazards and risks associated with mining operations, places of work, and within Lucara's supply chain;
- estimations of Lucara's production and sales volume for the Karowe Mine;
- the assumptions raised in the December 2019 Technical Report for the feasibility of constructing and operating an underground diamond mine at Karowe, including the expected development costs, start-up timing, exploration and development plans, projected tax benefits and/or expected production costs;
- operational costs, including costs of power and diesel, compensation of employees and consultants, and inflation, etc.;
- operational difficulties, including power failures, failure of plant, equipment or processes to operate in accordance with specifications or expectations and labour disputes;
- widespread diamond industry adoption of the Clara Platform;
- the regulatory regime governing blockchain technologies and the degree of development and acceptance of blockchain technologies;
- the Company's ability to protect its intellectual property;
- risks inherent in the implementation of new technologies, including the Clara Platform and potential intellectual property infringement claims and cyber-security risks;
- recovered grade, size distribution and quality of diamonds;
- the successful mitigation of issues inherent in the mining of diamonds, such as theft and diamond breakage;
- environmental and other regulatory requirements, including changes in the same and ability to obtain all necessary regulatory approvals;
- acts of the governments where Lucara's operations are located;
- obtaining, maintaining and renewing governmental approvals and permits including but not limited to mining licenses;
- variation in mineral resources and estimation of mineral resources, including the continuity of grade of diamondiferous mineralization;
- risks related to property titles;
- the effect of the coronavirus outbreak as a global pandemic and new variants of COVID-19 on the Company's business and operations;
- the dependence on transportation facilities, infrastructure and information technology systems;
- the Company is required to carry uninsurable risks and the risk that the Company's insurance does not cover all risks;
- the mining industry is competitive;

- risks associated with current and future legal proceedings;
- conflicts of interest;
- dependence on management and technical personnel;
- the failure to secure and maintain skilled employees and maintain key relationships with financing partners, local communities and other stakeholders;
- risks associated with volatility in the securities market;
- risks associated with reliance on secure information technology systems that could be compromised;
- risks associated with climate change including the impact of extreme weather events on mining operations;
- risks associated with the production and increased consumer demand for synthetic gem-quality diamonds;
- ability to maintain obligations or comply with the Facilities;
- risks associated with financing requirements;
- capital costs relating to the development of the Underground Project may increase;
- in 2020, the Company experienced a period of negative operating cash flow;
- discretion in the use of proceeds from the equity financings completed on July 15, 2021;
- volatility of the trading price for the Shares;
- investors may lose their entire investment;
- sales of a significant number of Shares in the public markets, or the perception of such sales, could depress the market price of the Shares;
- holders of Shares will be diluted;
- global financial conditions can reduce prices of the Shares and limit access to financing;
- the Shares do not currently pay dividends;
- difficulty in enforcing judgments and effecting service of process on directors; and
- active liquid trading market for the Shares.

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

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

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

LUCARA
DIAMOND

Consolidated Financial Statements
For the year ended December 31, 2021

Independent auditor's report

To the Shareholders of Lucara Diamond Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Lucara Diamond Corp. and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Assessment of impairment indicators of plant and equipment and mineral properties *Refer to note 3 – Significant accounting judgments, estimates and assumptions, note 4 – Summary of significant accounting policies, note 7 – Plant and equipment and note 8 – Mineral properties to the consolidated financial statements.* The Company's total plant and equipment and mineral properties as at December 31, 2021 amounted to $245 million. Management assesses at each reporting period-end whether there is an indication that an asset or group of assets may be impaired. Management applies significant judgment 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 quantity of the recoverable resources and reserves; (iii) changes in diamond prices, capital and operating costs and recoveries; and (iv) changes in inflation, interest and exchange rates, are evaluated by management in determining whether there are any indicators of impairment. We considered this a key audit matter due to (i) the significance of the plant and equipment and mineral properties balances and (ii) the significant judgment made by management in assessing whether there are any indicators of impairment, which led to significant audit effort and subjectivity in performing procedures to test management's assessment.	Our approach to addressing the matter included the following procedures, among others: ● Evaluated management's assessment of impairment indicators, which included the following: – Assessed the completeness of internal or external factors that could be considered as indicators of impairment of the Company's plant and equipment and mineral properties, including consideration of evidence obtained in other areas of the audit. – Assessed whether there have been significant declines in the market value of the Company's share price, which may indicate a decline in value of the Company's plant and equipment and mineral properties. – Assessed the changes in diamond prices, the quantity of recoverable resources and reserves, capital and operating costs and recoveries, and inflation, interest and exchange rates by considering external market data, current and past performance of the Company and evidence obtained in other areas of the audit, as applicable.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Craig McMillan.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
February 24, 2022

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In thousands of U.S. Dollars)

		December 31, 2021		December 31, 2020
ASSETS				
Current assets				
Cash and cash equivalents	$	27,011	$	4,916
Receivables and other (Note 5)		38,779		20,933
Inventories (Note 6)		36,522		68,374
		102,312		94,223
Investments		2,256		1,651
Inventories (Note 6)		29,852		–
Plant and equipment (Note 7)		87,321		107,224
Mineral properties (Note 8)		157,578		104,002
Intangible assets (Note 9)		20,724		21,986
Deferred financing charges (Note 10)		7,471		–
Other non-current assets		4,441		4,763
TOTAL ASSETS	$	411,955	$	333,849
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities	$	26,285	$	14,874
Credit facilities (Note 10)		23,000		30,528
Tax and royalties payable		347		1,376
Lease liabilities		2,173		781
		51,805		47,559
Credit facilities (Note 10)		23,730		–
Derivative financial liability (Note 10)		842		–
Restoration provision (Note 11)		15,346		21,229
Deferred income taxes (Note 17)		70,285		55,905
Other non-current liabilities		975		963
TOTAL LIABILITIES		162,983		125,656
EQUITY				
Share capital (unlimited common shares, no par value)		347,442		314,924
Contributed surplus		9,180		8,646
Deficit		(33,945)		(57,772)
Accumulated other comprehensive loss		(73,705)		(57,605)
TOTAL EQUITY		248,972		208,193
TOTAL LIABILITIES AND EQUITY	$	411,955	$	333,849

The accompanying notes are an integral part of these consolidated financial statements.

Commitments – Note 22

Approved on behalf of the Board of Directors:

"Marie Inkster"
Director

"Catherine McLeod-Seltzer"
Director

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In thousands of U.S. Dollars, except for share and per share amounts)

		2021		2020
Revenues (Note 15)	$	230,078	$	125,263
Cost of goods sold				
Operating expenses		80,348		72,643
Royalty expenses (Note 8)		24,871		13,511
Depletion and amortization		49,724		46,841
		154,943		132,995
Income (loss) from mining operations		75,135		(7,732)
Other expenses				
Administration and other (Note 16)		19,459		18,280
Sales and marketing		2,920		2,465
Finance expenses		3,704		2,487
Foreign exchange loss (gain)		2,766		(2,186)
Loss on derivative financial instrument (Note 10)		893		–
Loss on disposal of plant and equipment		–		2,620
		29,742		23,666
Net income (loss) before tax		45,393		(31,398)
Income tax expense (recovery) (Note 17)				
Current income tax expense		1,518		593
Deferred income tax expense (recovery)		20,048		(5,713)
		21,566		(5,120)
Net income (loss) for the year	$	23,827	$	(26,278)
Earnings (loss) per common share (Note 18)				
Basic	$	0.06	$	(0.07)
Diluted	$	0.06	$	(0.07)
Weighted average common shares outstanding (Note 18)				
Basic		422,894,218		396,889,357
Diluted		428,811,506		396,889,357

The accompanying notes are an integral part of these consolidated financial statements.

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In thousands of U.S. Dollars)

		2021		2020
Net income (loss) for the year	$	23,827	$	(26,278)
Other comprehensive (loss) income				
Items that will not be reclassified to net income				
Change in fair value of marketable securities		605		1,411
Items that may be subsequently reclassified to net income				
Currency translation adjustment		(16,705)		(4,946)
		(16,100)		(3,535)
Comprehensive income (loss) for the year	$	7,727	$	(29,813)

The accompanying notes are an integral part of these consolidated financial statements.

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In thousands of U.S. Dollars)

		2021		2020
Cash flows from (used in):				
Operating activities				
Net income (loss) for the year	$	23,827	$	(26,278)
Items not involving cash and cash equivalents:				
Depletion and amortization		51,192		47,879
Unrealized foreign exchange loss (gain)		1,044		(4,136)
Share-based compensation		1,852		1,352
Unrealized loss on derivative financial instruments		893		–
Deferred income taxes		20,048		(5,713)
Finance costs		1,820		1,543
Loss on disposal of plant and equipment		–		2,620
		100,676		17,267
Net changes in working capital items:				
Receivables and other		(18,452)		(12,423)
Inventories		(5,730)		(973)
Trade payables and other current liabilities		7,941		(2,604)
Tax and royalties payable		(1,045)		(2,793)
		83,390		(1,526)
Financing activities				
Equity financing, net		31,308		–
Revolving credit facility (repayment) drawdown		(30,500)		30,500
Net drawdowns on senior secured project facility		48,000		–
Transaction costs related to senior secured project facility		(10,970)		–
Withholding tax for share units vested		(107)		(8)
Lease payments		(936)		(1,121)
		36,795		29,371
Investing activities				
Acquisition of plant and equipment		(15,252)		(15,208)
Mineral property expenditure		(82,251)		(18,661)
Development of intangible assets		(38)		(83)
		(97,541)		(33,952)
Effect of exchange rate change on cash and cash equivalents		(549)		(174)
Increase (decrease) in cash and cash equivalents during the year		22,095		(6,281)
Cash and cash equivalents, beginning of year		4,916		11,197
Cash and cash equivalents, end of year[1]	$	27,011	$	4,916
Supplemental information				
Taxes paid		(974)		(5,115)
Changes in trade payables and accrued liabilities related to plant and equipment		5,266		(88)

[1] Cash and cash equivalents are composed of 100% cash deposits held with accredited financial institutions.

The accompanying notes are an integral part of these consolidated financial statements.

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

	Number of shares issued and outstanding		Share capital		Contributed surplus		Retained earnings (deficit)		Accumulated other comprehensive loss		Total
Balance, January 1, 2021	396,896,733	$	314,924	$	8,646	$	(57,772)	$	(57,605)	$	208,193
Net income for the year	–		–		–		23,827		–		23,827
Other comprehensive loss	–		–		–		–		(16,100)		(16,100)
Total comprehensive income	–		–		–		23,827		(16,100)		7,727
Shares issued from equity financing, net	55,157,733		31,308		–		–		–		31,308
Shares issued for project funding standby undertaking	600,000		365		–		–		–		365
Share-based compensation	–		–		1,486		–		–		1,486
Shares issued from share units vested	380,515		845		(845)		–		–		–
Withholding tax for share units vested	–		–		(107)		–		–		(107)
Balance, December 31, 2021	**453,034,981**	**$**	**347,442**	**$**	**9,180**	**$**	**(33,945)**	**$**	**(73,705)**	**$**	**248,972**
Balance, January 1, 2020	396,858,168	$	314,820	$	7,679	$	(31,494)	$	(54,070)	$	236,935
Net loss for the year	–		–		–		(26,278)		–		(26,278)
Other comprehensive loss	–		–		–		–		(3,535)		(3,535)
Total comprehensive loss	–		–		–		(26,278)		(3,535)		(29,813)
Share-based compensation	–		–		1,079		–		–		1,079
Shares issued from share units vested	38,565		104		(104)		–		–		–
Withholding tax for share units vested	–		–		(8)		–		–		(8)
Balance, December 31, 2020	**396,896,733**	**$**	**314,924**	**$**	**8,646**	**$**	**(57,772)**	**$**	**(57,605)**	**$**	208,193

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

Lucara Diamond Corp. together with its subsidiaries (collectively referred to as the "Company" or "Lucara") is a diamond mining company focused on the development and operation of diamond properties in Africa. The Company holds a 100% interest in the Karowe Mine located in Botswana and a 100% interest in Clara Diamond Solutions Limited Partnership ("Clara"). Clara operates a secure, digital diamond sales platform that uses proprietary analytics together with cloud and blockchain technologies.

The Company's common shares are listed on the TSX, NASDAQ Stockholm and Botswana Stock Exchanges. The Company was continued into the Province of British Columbia under the Business Corporations Act (British Columbia) in August 2004 and its registered office is located at Suite 2600 - 595 Burrard Street, Vancouver, British Columbia, V7X 1L3, Canada.

COVID-19 Global pandemic

On March 11, 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a global pandemic and on April 2, 2020 the Government of Botswana declared an initial state of emergency. Mining was declared an essential service and as a result, the Karowe Mine continued to operate with additional health and safety protocols implemented. Quarterly diamond tenders for the balance of 2020 and 2021 were held in Antwerp due to varying international travel restrictions. The Government of Botswana extended the state of emergency several times before it was lifted on September 30, 2021. Concern remains over how governments across the jurisdictions in which Lucara and many of its customers operate will respond to new variants of COVID-19. 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 labor or to the supply chain.

COVID-19 negatively impacted both demand and prices for rough and polished diamonds through much of 2020 but the market recovered to pre-pandemic levels over the course of 2021. 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.

As at December 31, 2021, the Company had cash and cash equivalents of $27.0 million. After adjustments for working capital items, cash flow generated from operations totaled $83.4 million for the year ended December 31, 2021 (2020 – $1.5 million used in operations). Working capital as at December 31, 2021 was $50.5 million (2020 – $46.7 million) and the Company had drawn $23.0 million from its $50.0 million working capital facility which refinanced its previous revolving credit facility. The working capital facility matures on September 2, 2023, but the outstanding balance must be repaid in full before September 2, 2022 for at least five consecutive business days.

2. BASIS OF PREPARATION AND NEW IFRS PRONOUNCEMENTS

(a) Basis of measurement

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Other than changes due to new and amended standards and interpretations the accounting policies adopted are consistently applied in all periods presented.

These financial statements were approved by the Board of Directors for issue on February 24, 2022.

(b) New IFRS Pronouncements

Amendments to IFRS 9 – Financial Instruments; IAS 39 – Financial Instruments: Recognition and Measurement; IFRS 7 – Financial Instruments: Disclosures and IFRS 16 – Leases – Interest rate benchmark reform – Phase 2

Amendments were issued to these standards as part of Phase 2 of the International Accounting Standards Board's Interest Rate Benchmark Reform project. The amendments address issues arising in connection with reform of benchmark interest rates including the replacement of one benchmark rate with an alternative one. The amendments were effective January 1, 2021.

These amendments did not affect the Company's financial statements. The Company is exposed to finance expenses based on the London Inter-bank Offered Rate (LIBOR) on its credit facilities (Note 10) and these agreements provide for switching to an alternative benchmark interest rate. While there remains some uncertainty around the timing of adoption, the replacement of the rate is not expected to result in a significant change in the Company's interest rate risk management strategy or interest rate risk.

Several other amendments and interpretations were applied for the first time in 2021 but did not have an impact on the consolidated financial statements of the Company, while the standards and amendments to standards and interpretations which have been issued but are not yet effective are not expected to have a significant effect on the Company's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and make estimates and assumptions about the future. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The Company has identified the following areas where significant accounting judgments, estimates and assumptions has been made in the preparation of the consolidated financial statements:

Areas of judgment

(a) Satisfaction of performance obligations under the HB sales agreement

The Company has determined that, under the terms of the Company's sales agreement with HB Trading BV ("HB"), control is transferred when the delivery and analysis of the rough diamonds are completed. At this point the initial estimated polished outcome price of the rough diamond is determined and HB assumes responsibility for its manufacturing, polishing and sale to an end buyer.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

(b) *Assessment of impairment indicators*

The Company carries its mineral properties and plant and equipment at depleted cost less any provision for impairment. 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.

(c) *Deferred Taxes*

Judgment is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized and what tax rate is expected to be applied in the year when the related temporary differences reverse Judgment is also required on the application of income tax legislation. These judgments are subject to risk and uncertainty and could result in an adjustment to the deferred tax provision.

(d) *Going concern and liquidity risk*

Management is required to exercise judgment with respect to evaluating the Company's ability to continue as a going concern and to ensure that disclosures relating to liquidity 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, ensuring access to credit facilities, 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.

Sources of estimation uncertainty

(a) *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 diamond 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 forecast commodity prices, diamond 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 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, changes in the deferred tax rate, and impairment charges recorded in the statement of operations.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

(b) *Estimated variable consideration in determining revenue*

Revenues include an estimate of variable consideration receivable under the terms of the Company's sales agreement with HB. Variable consideration is a component of the transaction price and represents an area of significant management estimate and judgment. Under the sales agreement, at the time of sale of a rough diamond, the Company receives an initial payment based on an estimated polished outcome price. When the manufactured diamond is sold to an end buyer, HB is entitled to receive a fee and reimbursement for the cost of manufacturing. If the final sales price is higher than the initial estimated polished price a true up payment is payable to the Company. Any manufactured diamonds sold to an end buyer for less than the initial estimated polished price (after deductions for HB's fee and the cost of manufacturing) will result in the difference being refunded to HB.

Variable consideration is estimated using the most likely approach, as the Company considers this approach to be more predictive. The transaction price is reassessed each reporting period, including any adjustments to the amount of variable consideration recognized. 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, significant judgment includes market conditions, the current estimated polished value provided by HB and the probability that the variable consideration would be realized.

(c) *Decommissioning and site restoration*

The Company has obligations for site restoration and decommissioning related to the Karowe Mine. The restoration provision is based on cost estimates of the future decommissioning and site restoration activities and are estimated by the Company using mine closure plans or other similar studies which outline the activities that will be carried out to meet the obligations. The restoration provision requires significant estimates and assumptions because the obligations are dependent on the laws and regulations of the country in which the mine operates and are based on future expectations of the timing, extent and cost of required decommissioning and site restoration activities. As a result, there could be significant adjustments to the provisions established.

(d) *Deferred 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. 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 assumptions 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

(a) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for investments in equity securities and derivative financial instruments, which are measured at fair value.

(b) Consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries (see *Note 14 – Principal subsidiaries*).

Subsidiaries are entities controlled by the Company. An entity is controlled by the Company when as a group; it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. Where the Company's interest is less than 100%, the Company recognizes non-controlling interests. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses have been eliminated on consolidation.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the person that makes strategic decisions. The CEO is deemed the chief operating decision-maker of the Company.

The Company's primary reporting segments are based on individual operating segments, being the Karowe Mine and Corporate and other. The Corporate office provides support to the Karowe Mine with respect to sales, treasury and finance, technical support, regulatory reporting and corporate administration and includes operations of the secure, digital diamond sales platform, Clara.

(d) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in U.S. dollars. The functional currency of the parent company, Lucara Diamond Corp., is the Canadian dollar.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the statement of operations.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Group companies

The functional currency of the most significant subsidiary of the Company, Lucara Botswana Proprietary Limited ("Lucara Botswana"), is the Botswana Pula. The functional currency of the Company and its other active subsidiary, Clara, is the Canadian dollar. The results and financial position of the group companies, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement.

(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

(iii) All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on account, demand deposits and money market investments with maturities from the date of acquisition of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant changes in value. Cash and cash equivalents are recorded at fair value and subsequently measured at amortized cost.

(f) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires. All recognized financial assets are measured subsequently at amortized cost or fair value through profit or loss or fair value through other comprehensive income.

At initial recognition, the Company classifies its financial instruments in the following categories:

(i) Fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of operations. Gains and losses arising from changes in fair value are presented in the consolidated statement of operations within "other gains and losses" in the period in which they arise.

(ii) *Fair value through other comprehensive income*: The Company has made an irrevocable election to designate its investments in marketable equity securities as classified at fair value through other comprehensive income. Fair values are determined by reference to quoted market prices at the reporting date. When investments in marketable equity securities are disposed of or impaired, the cumulative gains and losses recognized in other comprehensive income are not recycled to profit and loss and remain within equity.

(iii) *Financial assets and liabilities at amortized cost*: Financial assets and liabilities at amortized cost include cash, trade receivables, credit facility and trade payables and are included in current classification due to their short-term nature. Trade receivables and payables are non-interest bearing if paid when due and are recognized at their face amount, less, when material, a discount, except when fair value is materially different. Amounts drawn on the credit facility are interest-bearing and are recorded at fair value upon inception. These are subsequently measured at amortized cost.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Inventories

Inventories, which include rough diamonds, ore stockpiles and parts and supplies, are measured at the lower of cost and net realizable value. The amount of any write-down of inventories to net realizable value is recognized in the period the write-down occurs. Cost is determined using the weighted average method. Cost includes directly attributable mining overhead but excludes borrowing costs.

Net realizable value represents the estimated selling price in the ordinary course of business, less all estimated costs to completion and selling expenses.

(h) Plant and equipment

Plant and equipment are stated at cost less accumulated amortization and impairment losses. The cost of an asset consists of its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Amortization of each asset is calculated using the straight line or unit of production method to allocate its cost less its residual value over its estimated useful life. The estimated useful lives of plant and equipment are as follows:

Machinery	5 to 10 years
Plant facilities	based on recoverable reserves on a unit of production basis
Furniture and office equipment	2 to 3 years

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains and losses" in the statement of operations.

(i) Exploration and evaluation expenditures

Exploration and evaluation expenditures relate to the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activities include:

- Researching and analyzing historical exploration data;
- Gathering exploration data through topographical, geochemical and geophysical studies;
- Exploratory drilling, trenching and sampling; and
- Determining and examining the volume and grade of the resource.

Exploration and evaluation expenditures are expensed in the statement of operations as incurred on mineral properties not sufficiently advanced as to identify their development potential.

(j) Mineral properties

Costs associated with acquiring a mineral property are capitalized as incurred. When it has been established that a mineral property is considered to be sufficiently advanced and an economic analysis has been completed, all further expenditures for the current year and subsequent years are capitalized as incurred. Mineral property costs are amortized from the date of commencement of commercial production of the related mine on a units of production basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Capitalized production stripping costs

During the production phase, mining expenditures (exploration or development costs) incurred either to develop new ore bodies or to develop mine areas in advance of current production are capitalized to mineral properties. Stripping costs incurred in the production phase are accounted for as variable production costs. However, stripping costs are capitalized and recorded as deferred stripping, a component of mineral properties, when the stripping activity provides access to sources of reserves or resources that will be produced in future periods that would not have otherwise been accessible in the absence of this activity. The deferred stripping costs are depleted on a unit-of-production basis over the reserves or resources that directly benefited from the stripping activity.

(l) Intangible assets

Intangible assets with finite lives consist of acquired trademarks, copyrights, patents and intellectual property that are initially capitalized at the purchase price plus any other directly attributable costs. These assets are amortized using the straight-line method over their estimated useful lives. Amortization of intangible assets will be included in the cost of sales, administrative expenses and/or research and development expenses, as appropriate.

Development expenditures relating to intangible assets are capitalized only if the expenditure can be measured reliably, the process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Judgment is required in determining the technical and commercial feasibility and in assessing the probability of future economic benefits. Amortization related to capitalized development costs is classified within depletion and amortization under operating expenses.

(m) Contingent consideration

Contingent consideration relating to an asset acquisition is recognized using the cost accumulation method when: (a) the conditions associated with the contingent payment are met; (b) the Company has a present legal or constructive obligation that can be estimated reliably; and (c) it is probable that an outflow of economic benefits will be required to settle the obligation.

(n) Impairment of non-financial assets

Long lived assets are reviewed at each reporting period for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are reviewed for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(o) Provisions

Asset retirement obligations

The Company recognizes a liability for an asset retirement obligation on long-lived assets when a present legal or constructive obligation exists, as a result of past events and the amount of the liability is reasonably determinable. Asset retirement obligations are initially recognized and recorded as a liability based on estimated future cash flows discounted at a risk-free rate. This is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the risk-free discount rate. Corresponding amounts and adjustments are added to the carrying value of the related long-lived asset and amortized or depleted to operations over the life of the related asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other provisions

Provisions are recognized when:

- the Company has a present legal or constructive obligation as a result of a past event;
- a reliable estimate can be made of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as finance costs.

(p) Income taxes

Income taxes are recognized in the statement of operations, except where they relate to items recognized in other comprehensive income or directly in equity, in which case the related taxes are recognized in other comprehensive income or equity.

Current taxes receivable or payable are based on estimated taxable income for the current year at the statutory tax rates enacted or substantively enacted less amounts paid or received on account.

Deferred taxes are recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the sliding tax rate that is expected at the time of reversal and the laws that have been enacted or substantively enacted by the year end.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities where there is a legal right to do so, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future tax profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each year end and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Uncertain tax positions and interest and penalties related to uncertain tax positions are accounted for under IFRIC 23, Uncertainty over Income Tax Treatments. The Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more-likely-than-not recognition threshold it is then measured to determine the amount of benefit or liability to recognize in the financial statements. The tax position is measured as the amount of benefit or liability that is likely to be realized upon ultimate settlement. The Company assesses the validity of conclusions regarding uncertain tax positions on a quarterly basis to determine if facts or circumstances have arisen that might cause the Company to change their judgment regarding the likelihood of a tax position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(r) Revenue recognition

Revenues from diamond sales are recognized when the purchaser obtains control of the diamond. For diamonds sold through tender or Clara, control is transferred when the Company receives payment for the diamonds sold and title is transferred to the purchaser according to contract terms.

In 2020, the Company entered into a sales agreement, amended and extended in 2021, to sell its large stone production (diamonds greater than 10.8 carats) to HB. For diamonds sold to HB, control is transferred when the stones are delivered and the analysis of the rough diamond is agreed upon according to the contract terms. Under the terms of the HB sales agreement, rough diamonds are sold to HB based on the estimated polished outcome price, with a true up paid to the Company if the actual achieved polished sales price (less HB's cost of manufacturing and profit margin) exceeds the initial price paid, or a repayment to HB if the actual achieved polished sales price (less HB's cost of manufacturing and profit margin) is below the initial price paid, after HB's fees and the cost of manufacturing. Thus, the arrangement contains elements of variable consideration as the Company's final consideration is contingent on price obtained in the future sale by HB. Variable consideration is recognized to the extent that it is highly probable that its inclusion will not result in a significant revenue reversal when the uncertainty has been subsequently resolved when the manufactured diamond is sold to an end buyer.

(s) Share-based compensation

The Company has share-based compensation plans, under which the entity receives services as consideration for equity instruments (stock options or share units) of the Company.

Stock options and equity-settled share units granted to employees are measured on the grant date. Stock options granted to non-employees are measured on the date that the goods or services are received. Share units which do not meet the criteria for equity-settlement are recorded as a liability and measured at fair value at each reporting period.

The fair value of the employee and non-employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the stock options and share units granted and the vesting periods. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The cash subscribed for the shares issued when the options are exercised is credited to share capital, net of any directly attributable transaction costs.

(t) Earnings (loss) per share

Earnings (loss) per share is calculated by dividing the income or loss attributable to the shareholders of the Company by the weighted average number of common shares issued and outstanding during the year. Diluted income per share is calculated using the treasury stock method.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Company leases various properties. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants but leased assets may not be used as security for borrowing purposes.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(v) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

5. RECEIVABLES AND OTHER

		2021		2020
Trade	$	17,467	$	13,396
VAT		11,196		4,493
Deferred financing fees (Note 10)		2,143		–
Prepayments		5,502		2,450
Other		2,471		594
	$	**38,779**	$	**20,933**

Trade receivables at December 31, 2021 were $17.5 million (2020 – $13.4 million) due from HB under the Company’s sales agreement. All amounts receivable from HB are current. The amounts receivable relate to the timing difference between revenue recognized under the sales agreement and the receipt of payment.

6. INVENTORIES

		2021		2020
Rough diamonds	$	18,337	$	25,956
Ore stockpile		3,361		29,572
Parts and supplies		14,824		12,846
Total current inventories	**$**	**36,522**	$	68,374
Non-current inventories – ore stockpile	**$**	**29,852**	$	–

Inventory expensed during the year ended December 31, 2021 totaled $80.3 million (2020 – $72.6 million). There were no inventory write-downs during the years ended December 31, 2021 and 2020.

The portion of the ore stockpile that is expected to be processed more than 12 months from December 31, 2021 is classified as non-current inventory.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

7. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Vehicles	Furniture and office equipment	Leased assets	Total
Balance, January 1, 2020	$ 11,388	$ 216,398	$ 2,654	$ 9,173	$3,723	$ 243,336
Additions	14,655	43	–	138	551	15,387
Reclassification	(15,790)	11,984	360	3,446	–	–
Disposals and other	–	(5,750)	(123)	–	(1,784)	(7,657)
Translation differences	(235)	(2,713)	(24)	82	(128)	(3,018)
Balance, December 31, 2020	**$ 10,018**	**$ 219,962**	**$ 2,867**	**$ 12,839**	**$ 2,362**	**$ 248,048**
Additions	16,011	382	–	3	2,143	18,539
Reclassification	(11,297)	6,687	1,732	2,878	–	–
Disposals and other	–	(731)	(43)	(288)	–	(1,062)
Translation differences	(1,087)	(18,021)	(329)	(1,170)	(300)	(20,907)
Balance, December 31, 2021	**$ 13,645**	**$ 208,279**	**$ 4,227**	**$ 14,262**	**$ 4,205**	**$ 244,618**
Accumulated amortization						
Balance, January 1, 2020	$ –	$ 104,173	$ 1,871	$ 5,600	$ 1,584	$ 113,228
Depletion and amortization	–	29,269	343	1,685	987	32,284
Disposals and other	–	(3,116)	(123)	–	(1,460)	(4,699)
Translation differences	–	51	(14)	25	(51)	11
Balance, December 31, 2020	$ –	**$ 130,377**	**$ 2,077**	**$ 7,310**	**$ 1,060**	**$ 140,824**
Depletion and amortization	–	26,588	439	2,603	869	30,499
Disposals and other	–	(731)	(43)	(288)	–	(1,062)
Translation differences	–	(11,928)	(191)	(712)	(133)	(12,964)
Balance, December 31, 2021	**$ –**	**$ 144,306**	**$ 2,282**	**$ 8,913**	**$ 1,796**	**$ 157,297**
Net book value						
As at December 31, 2020	**$ 10,018**	**$ 89,585**	**$ 790**	**$ 5,529**	**$ 1,302**	**$ 107,224**
As at December 31, 2021	**$ 13,645**	**$ 63,973**	**$ 1,945**	**$ 5,349**	**$ 2,409**	**87,321**

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

8. MINERAL PROPERTIES

Cost	Capitalized production stripping asset	Karowe Mine	Total
Balance, January 1, 2020	**$ 73,028**	**$ 84,677**	**$ 157,705**
Additions	–	18,749	18,749
Adjustment to restoration asset	–	(3,199)	(3,199)
Translation differences	(1,083)	(348)	(1,431)
Balance, December 31, 2020	**$ 71,945**	**$ 99,879**	**$ 171,824**
Additions	–	86,339	86,339
Adjustment to restoration asset	–	(5,474)	(5,474)
Translation differences	(5,872)	(12,770)	(18,642)
Balance, December 31, 2021	**$ 66,073**	**$ 167,974**	**$ 234,047**
Accumulated depletion			
Balance, January 1, 2020	**$ 24,425**	**$ 28,037**	**$ 52,462**
Depletion	10,250	4,998	15,248
Translation differences	236	(124)	112
Balance, December 31, 2020	**$ 34,911**	**$ 32,911**	**$ 67,822**
Depletion	12,006	3,037	15,043
Translation differences	(3,536)	(2,860)	(6,396)
Balance, December 31, 2021	**$ 43,381**	**$ 33,088**	**$ 76,469**
Net book value			
As at December 31, 2020	**$ 37,034**	**$ 66,968**	**$ 104,002**
As at December 31, 2021	**$ 22,692**	**$ 134,886**	**$ 157,578**

Karowe Mine

A royalty of 10% of the gross sales value of diamonds produced from Karowe is payable to the government of Botswana, regardless of whether the diamond is sold as rough or polished. During the year, the Company incurred a royalty expense of $24.9 million (2020: $13.5 million).

Karowe Mine includes $126.1 million related to the Karowe underground expansion which will not be depreciated until construction is complete and the assets are available for their intended use.

Borrowing costs of $1.5 million (2020 – $ nil) relating to the Karowe underground expansion are capitalized in Karowe Mine. Capitalized borrowing costs include interest and other costs related to the project finance facility (Note 10).

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

9. INTANGIBLE ASSETS

Cost		
Balance, January 1, 2020	$	23,203
Development expenditures		83
Translation differences		512
Balance, December 31, 2020	$	23,798
Development expenditures		38
Translation differences		80
Balance, December 31, 2021	**$**	**23,916**
Accumulated amortization		
Balance, January 1, 2020	$	(429)
Amortization		(1,298)
Translation differences		(85)
Balance, December 31, 2020	$	(1,812)
Amortization		(1,392)
Translation differences		12
Balance, December 31, 2021	**$**	**(3,192)**
Net book value		
As at December 31, 2020	$	21,986
As at December 31, 2021	**$**	**20,724**

In 2018, the Company acquired the Clara platform, a secure, digital sales platform for rough diamonds. The consideration paid was allocated entirely to the intangible assets which will continue to be amortized over the remaining useful economic life of 17 years.

As part of the purchase, contingent consideration was agreed to and will be recognized as additional purchase consideration for the intangible asset, if the obliging events occur. The contingent consideration consists of a profit-sharing allocation: cash payments based on 3.45% of the annual EBITDA generated by the sales platform and a pre-existing 13.3% annual EBITDA performance based contingent payments payable to the founders of the technology, to a maximum of $20.9 million per year for 10 years and additional Lucara share payments to a combined maximum of 13.4 million shares if certain revenue triggers are reached beginning at $200 million of cumulative revenue to $1.6 billion of cumulative revenue.

10. CREDIT FACILITIES

		2021	2020
Current			
Revolving credit facility, net of fees	$	–	30,528
Working capital facility	$	23,000	–
Deferred financing fees (Note 5)	$	(2,143)	–
Non-current			
Project finance facility, net of fees	$	23,730	–
Deferred financing fees	$	(7,471)	–

10. CREDIT FACILITIES (continued)

Revolving credit facility

The Company had a $50 million revolving term credit facility with FirstRand Bank Limited (London Branch), a division of Rand Merchant Bank that was refinanced on September 9, 2021 with proceeds from the new working capital facility. Interest was calculated with reference to LIBOR plus an applicable margin based on the Company's adjusted leverage ratio.

Senior secured project facility

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

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

The Project Finance Facility may be used to fund the development, construction costs and construction phase operating costs of the underground expansion project as well as financing costs in relation to the Facilities. The Project Finance Facility matures 8 years after Financial Close, with quarterly repayments commencing on June 30, 2026. As at December 31, 2021, $25.0 million of the $170.0 million facility was drawn. On January 6, 2022, subsequent to year-end, an additional amount of $20.0 million was drawn to fund a portion of the forecast Q1 2022 underground project expenditure. The Project Finance Facility bears interest at a rate of LIBOR (or replacement benchmark) plus margin of 5.5% annually for the period commencing on Financial Close until the project completion date, and 5.0% annually thereafter with commitment fees for the undrawn portion of the facility of 2.0%.

The Working Capital Facility may be used for working capital and other corporate purposes. As at December 31, 2021, $23.0 million of the $50.0 million facility was drawn. The facility bears interest at a rate of LIBOR (or replacement benchmark) plus margin of 3.5% annually with commitment fees for the undrawn portion of 1.6%. The facility matures on September 2, 2023 and the outstanding balance must be repaid in full at least once every twelve months for a minimum of five business days, and is therefore classified as current on December 31, 2021.

The Company incurred $11.3 million of debt advisory, legal and due diligence fees in conjunction with arranging the Facilities. At Financial Close, transaction costs of $8.7 million were allocated to the Project Finance Facility. This amount was initially recorded as deferred financing fees. As draws are made from the Working Capital Facility these costs will be recorded as transaction costs proportionally to the amount drawn under the facility. Deferred financing fees of $1.3 million were allocated to the initial draw of $25.0 million as transaction costs. Transaction costs of $2.6 million were allocated to the Working Capital Facility and are included in deferred financing fees.

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

As at December 31, 2021, the Company was in compliance with all financial covenants.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

10. CREDIT FACILITIES (continued)

Interest rate swap

Under the terms of the Project Finance Facility, the Company was required to complete an interest rate swap on 75% of the principal amount available to manage its exposure to floating interest rates.

On December 14, 2021 the Company entered into interest rate swap agreements structured around the expected Project Finance Facility drawdown schedule, swapping a LIBOR variable rate interest payment stream for a 1.682% fixed rate interest payment stream on up to $127.5 million.

Under the terms of these agreements, the Company receives interest quarterly at the rate equivalent to the three-month USD LIBOR, repriced every three months and pays quarterly interest at the fixed rate starting June 29, 2022.

The interest rate swaps mature on March 31, 2028. As at December 31, 2021 the interest rate swaps had a negative unrealized fair value of $0.8 million.

11. RESTORATION PROVISIONS

The Company's restoration provisions relate to the rehabilitation of the Karowe Mine in Botswana. The provisions have been calculated based on total estimated rehabilitation costs and discounted back to their present values. The pre-tax discount rates and inflation rates are adjusted annually and reflect current market assessments. The Company has applied a pre-tax discount rate of 7.1% at December 31, 2021 (2020 – 5.9%) and an annual inflation rate of 4.4% at December 31, 2021 (2020 – 4.0%). Rehabilitation costs at the Karowe Mine are expected to commence during 2046 (the end of the current mining license). The estimated liability for reclamation and remediation costs on an undiscounted basis is approximately $29.7 million (2020 - $33.7 million).

		2021		2020
Balance, beginning of year	$	**21,229**	$	23,629
Changes in rates and estimates		(5,474)		(3,800)
Accretion of liability component of obligation		1,163		1,863
Foreign currency translation adjustment		(1,572)		(463)
Restoration provisions	**$**	**15,346**	$	**21,229**

12. SHARE CAPITAL

On July 15, 2021, the Company closed a bought deal financing and concurrent private placement. Under the bought deal financing a total of 33,810,000 common shares of the Company, including 4,410,000 common shares issued pursuant to the over-allotment option, which was exercised in full, were sold at a price of C$0.75 per common share, for aggregate gross proceeds of $20.3 million, less share issuance costs of $1.8 million. Pursuant to the concurrent private placement, a total of 21,347,733 common shares were sold at a price of C$0.75 per share for additional gross proceeds of $12.8 million.

Under the senior secured project facility (Note 10), the Company's largest shareholder, Nemesia S.a.r.l. ("Nemesia") provided a limited standby undertaking of up to $25.0 million in the event of a funding shortfall occurring up to September 2, 2024. As consideration pursuant to the undertaking provided, the Company issued 600,000 common shares to Nemesia on July 15, 2021. A further 600,000 common shares will be issuable should the undertaking be called upon. For each $500,000 drawn down under the standby undertaking, the Company will be required to issue 5,000 common shares per month to Nemesia until the amounts borrowed are repaid.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

13. SHARE BASED COMPENSATION

a. Stock options

The Company's stock option plan (the 'Option Plan') was approved by the Company's shareholders initially on May 13, 2015, with amendments approved on May 8, 2020. Under the terms of the amended Option Plan, a maximum of 10,000,000 shares are reserved for issuance upon the exercise of stock options. The Option Plan provides the Board of Directors with discretion to determine the vesting period for each stock option grant. Options typically vest in thirds over a three-year period beginning on the first anniversary of the date of grant and expire four years from the date of grant.

Movements in the number of stock options outstanding and their related weighted average exercise prices are as follows:

	Number of shares issuable pursuant to stock options	**Weighted average exercise price per share (CA$)**	
Balance at January 1, 2020	4,522,000	$	2.19
Granted	1,604,000		0.77
Expired	(1,480,000)		2.45
Forfeited	(223,000)		1.52
Balance at December 31, 2020	**4,423,000**		1.62
Granted	2,357,000		0.78
Expired	(375,000)		2.76
Forfeited	(156,000)		0.78
Balance at December 31, 2021	**6,249,000**	**$**	**1.26**

Options to acquire common shares have been granted and which are outstanding at December 31, 2021 are as follows:

	Outstanding Options			**Exercisable Options**		
Range of exercise prices CA$	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CA$)	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price (CA$)
$0.50 - $1.00	3,733,000	2.79	0.78	486,667	2.16	0.77
$1.50 - $2.00	1,341,000	1.15	1.64	894,000	1.15	1.64
$2.01 - $2.50	1,175,000	0.29	2.33	1,175,000	0.29	2.33
	6,249,000	**1.97**	**$ 1.26**	**2,555,667**	**0.95**	**$ 1.79**

During the year ended December 31, 2021, an amount of $0.4 million (2020 – $0.3 million) was charged to operations in recognition of share-based compensation expense, based on the vesting schedule for the options granted.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

	2021	**2020**
Assumptions:		
Risk-free interest rate *(%)*	0.38	1.33
Expected life *(years)*	3.63	3.63
Expected volatility *(%)*	50.74	35.04
Expected dividend	Nil	Nil
Results:		
Weighted average fair value of options granted *(per option)*	CA$0.27	CA$0.21

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

13. SHARE BASED COMPENSATION (continued)

b. Restricted and performance share units

The Company has a share unit ('SU') plan that provides for the issuance of SUs as a long-term incentive for certain members of the management team. Amendments to the SU plan, including a reallocation of 10,000,000 common shares now reserved for issuance upon the vesting of SUs (from the pool originally allocated for the exercise of stock options) were approved by Shareholders at the May 8, 2020 annual meeting.

SUs vest three years from the date of grant and certain share units include performance metrics. Each SU entitles the holder to receive one common share and the cumulative dividend equivalent SU earned during the SU's vesting period. The value of each SU at the vesting date is equal to the closing value of one Lucara common share plus the cumulative dividend equivalent which was earned over the vesting period.

For the year ended December 31, 2021, the Company recognized a share-based payment charge of $1.1 million (2020: $0.7 million) for the SUs granted during the year.

	Number of share units	Estimated fair value at date of grant (CA$)	
Balance at January 1, 2020	1,084,990	$	1.95
February 26, 2020 grant	1,918,000		0.77
March 8, 2020 vesting	(56,463)		2.57
Balance at December 31, 2020	**2,946,527**	$	1.17
February 25, 2021 grant	2,854,000		0.75
March 1, 2021 vesting	(276,576)		2.29
April 7, 2021 vesting	(137,195)		2.01
July 6, 2021 vesting	(151,908)		2.06
Balance at December 31, 2021	**5,234,848**	**$**	**0.83**

c. Deferred share units

In February 2020, the Company approved a deferred share unit ('DSU') plan, ratified by Shareholders at the May 8, 2020 annual meeting, that provides for the issuance of up to 4,000,000 DSUs to eligible directors. Directors can elect to receive up to 100% of their fees earned in DSUs, awarded quarterly. DSUs vest immediately and are paid out upon retirement from the Board of Directors of the Company. Each DSU entitles the holder to receive one common share and the cumulative dividend equivalent DSU earned prior to the payout date. The value of each DSU at the grant date is equal to the closing value of one Lucara common share. The DSU plan is a cash-settled share-based compensation plan and is recorded as a liability. Upon payout, the director can elect to receive the value in cash or common shares of the Company.

For the year ended December 31, 2021, the Company recognized a share-based payment charge of $0.4 million (2020: $0.3 million) for the DSUs granted during the period.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

13. SHARE BASED COMPENSATION (continued)

	Number of share units	Estimated fair value (CA$)	
February 26, 2020 grant	278,000	$	0.77
May 7, 2020 vesting	(74,000)		0.51
July 2, 2020 grant	90,923		0.62
September 30, 2020 grant	159,312		0.50
December 31, 2020 grant	159,312		0.50
Balance at December 31, 2020	**613,547**	**$**	**0.52**
February 25, 2021 grant	251,000		0.75
March 31, 2021 grant	102,738		0.73
June 30, 2021 grant	98,683		0.75
September 30, 2021 grant	120,965		0.62
December 31, 2021 grant	47,577		0.57
Balance at December 31, 2021	**1,234,510**	**$**	**0.59**

14. PRINCIPAL SUBSIDIARIES

The Company had the following direct and indirect wholly owned subsidiaries at December 31, 2021 and 2020:

Name	Country of incorporation and place of business	Nature of business
African Diamonds Ltd.	UK	(1)
Clara Diamond Solutions Limited Partnership	Canada	Diamond sales platform
Clara Diamond Solutions GP Inc.	Canada	(1)
Lucara Management Services Limited	UK	(1)
Lucara Diamond Holdings Inc.	Mauritius	(1)
Mothae Diamond Holdings Inc.	Mauritius	(1)
Boteti Diamond Holdings Inc.	Mauritius	(1)
Wati Ventures Proprietary Limited	Botswana	(1)
Debwat Exploration Proprietary Limited	Botswana	(1)
Lucara Botswana Proprietary Limited	Botswana	Diamond mining

(1) Intermediate holding company

The Company has pledged the shares held in Lucara Botswana Proprietary Limited, through the various intermediate holding companies, to secure the senior secured project facility (Note 10). The Company is not allowed to pledge the shares held as security for other borrowings.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

15. REVENUE

		2021		2020
Revenue from diamond sales	$	230,078	$	125,263

Revenue from diamond sales includes $56.4 million (2020: $7.2 million) in invoiced diamond sales to HB that is considered variable.

The Company's right to consideration is contingent on the manufactured diamond being sold to an end buyer, with market conditions and the current estimated polished value provided by HB (on a stone-by-stone basis) being considered in estimating the amount of variable consideration that is highly probable as at the reporting date.

16. ADMINISTRATION

		2021		2020
Salaries and benefits	$	7,696	$	6,510
Professional fees and exploration		3,818		4,377
Insurance, office and general[1]		2,512		2,540
Marketing		823		859
Stock exchange, transfer agent, shareholder communication		305		300
Travel		273		360
Share-based compensation (Note 13)		1,852		1,352
Management fees		96		219
Depreciation		1,441		1,039
Sustainability and donations[1]		643		724
	$	**19,459**	$	18,280

(1) Included are amounts incurred for the Company's COVID-19 response totaling $1.0 million (2020 – $0.8 million) for the year ended December 31, 2021. The amount for the year ended December 31, 2020 also included a $0.3 million donation to the Government of Botswana's COVID-19 Response Fund.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

17. INCOME TAXES

		2021		2020
Current	$	1,518	$	593
Deferred		20,048		(5,713)
Income tax expense (recovery)	**$**	**21,566**	$	(5,120)

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to net income before tax. These differences result from the following items:

		2021		2020
Statutory tax rate		27.00%		27.00%
Net income (loss) before tax		45,393		(31,398)
Computed income tax expense (recovery)		12,256		(8,477)
Differences between Canadian and foreign tax rates		3,726		(1,055)
Non-deductible expenses and other permanent differences		2,066		1,011
Change in deferred tax assets not recognized		2,798		2,837
Exchange rate differences		(6)		(293)
Withholding taxes		726		857
	$	**21,566**	$	(5,120)

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). The Company has estimated the variable tax rate to be 33.3% for deferred income taxes based on current financial performance and the life of mine plan which includes the Karowe underground expansion.

The Company has not recognized deferred tax liabilities in respect of historical unremitted earnings from foreign subsidiaries for which the Company is able to control the timing of the remittance and which are considered by the Company to be reinvested for the foreseeable future. At December 31, 2021, these earnings amount to $147.6 million (2020: $125.3 million). All of these earnings would be subject to withholding taxes if they were remitted by the foreign subsidiaries.

The movement in deferred tax liabilities during the year, without taking into consideration the offsetting balances within the same tax jurisdiction, is as follows:

		2021		2020
Balance, beginning of year	$	55,905	$	63,015
Deferred income tax expense (recovery)		20,048		(5,713)
Foreign currency translation adjustment		(5,668)		(1,397)
Balance, end of year	**$**	**70,285**	$	55,905

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

17. INCOME TAXES (continued)

Deferred income tax assets and liabilities recognized		**2021**		**2020**
Deferred income tax assets				
Non-capital losses	$	2,342	$	6,976
Accounts payable and other		730		1,598
Unrealized foreign exchange loss		234		–
Restoration provisions		3,376		7,131
Total deferred income tax assets		6,682		15,705
Deferred income tax liabilities				
Mineral properties, plant and equipment		76,524		66,856
Future withholding taxes		443		625
Unrealized foreign exchange gains		–		1,995
Other		–		2,134
Deferred income tax liabilities		76,967		71,610
Deferred income tax liabilities, net	**$**	**70,285**	$	55,905

Deferred income tax assets not recognized		**2021**		**2020**
Tax losses	$	29,863	$	26,611
Mineral property, plant and equipment		43		43
Other deductible temporary differences		758		675
	$	**30,664**	$	27,329

As at December 31, 2021, the Company has non-capital losses for income tax purposes which expire as follows:

		2022		**2023**		**2024**		**Subsequent to 2024**		**No expiry date**		**Total**
Botswana	$	–	$	–	$	–	$	–	$	1,691	**$**	**1,691**
Canada		–		–		–		107,065		–		**107,065**
United Kingdom		–		–		–		–		6,009		**6,009**
	$	–	$	–	$	–	$	107,065	$	7,700	**$**	**114,765**

No tax benefit has been recorded for the Canadian and United Kingdom non-capital losses.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

18. EARNINGS (LOSS) PER COMMON SHARE

a) *Basic*

Basic earnings per common share is calculated by dividing the net income or loss attributable to the shareholders of the Company by the weighted average number of common shares outstanding during the year.

b) *Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. For stock options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company’s outstanding shares for the year), based on the exercise prices attached to the stock options. The number of shares calculated below is compared with the number of shares that would have been issued assuming the exercise of stock options. Share units are, by their nature, dilutive and included in the calculation on a weighted average basis during the year.

		2021		**2020**
Income (loss) for the year	$	23,827	$	(26,278)
Weighted average number of common shares outstanding		422,894,218		396,889,357
Adjustment for share units		5,917,288		–
Weighted average number of common shares for diluted earnings (loss) per share		428,811,506		396,889,357
Basic and diluted earnings (loss) per share	**$**	**0.06**	$	**(0.07)**

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

19. RELATED PARTY TRANSACTIONS

Key management compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's named executive officers and members of its Board of Directors. The remuneration of key management personnel was as follows:

		2021		2020
Salaries and wages, including directors' fees	$	2,642	$	2,290
Short term benefits		34		32
Share-based compensation		1,274		976
	$	**3,950**	$	3,298

Clara acquisition

At the time of Lucara's acquisition of Clara, a current director and a current officer of the Company were also shareholders of Clara and received 1,192,000 common shares and 50,000 common shares, respectively, of Lucara. If all of the Clara performance milestones (Note 9) are reached, these individuals will receive an additional 1,788,001 common shares and 74,999 common shares, respectively, of Lucara. Following the acquisition of Clara, Lucara appointed a new director and a new officer, each of whom had been a shareholder of Clara at the time of its acquisition by the Company. If all of the Clara performance milestones are reached, these individuals will be entitled to receive an additional 600,000 common shares and 74,999 common shares of Lucara.

Pursuant to the profit-sharing mechanism described in Note 9, a total of 3.45% of the EBITDA generated by the platform has been assigned to two directors of Lucara, each of whom was a founder of Clara. A further 3.22% of the EBITDA generated by the platform may be distributed to members of management, at the discretion of Lucara's Compensation Committee, based on the achievement of key performance targets. As of December 31, 2021, no amounts have been paid to date under this profit-sharing mechanism.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

20. SEGMENT INFORMATION

The Company's primary business activity is the development and operation of diamond properties in Botswana. The Company has two operating segments: Karowe Mine and Corporate and other. The Company's assets and operations in Clara are included under Corporate and other.

2021

	Karowe Mine	Corporate and other	Total
Revenues[(1)]	227,977	2,101	230,078
Income (loss) from operations	77,779	(2,644)	75,135
Finance expenses and loss on derivative liability	(3,577)	(1,020)	(4,597)
Foreign exchange (loss) gain	(2,981)	215	(2,766)
Other	(11,129)	(11,250)	(22,379)
Taxes	(21,275)	(291)	(21,566)
Net income (loss) for the year	**38,817**	**(14,990)**	**23,827**
Capital expenditures	**97,503**	**38**	**97,541**
Total assets	**382,793**	**29,162**	**411,955**

2020

	Karowe Mine	Corporate and other	Total
Revenues[(1)]	$ 124,490	$ 773	$ 125,263
Loss from operations	(5,648)	(2,084)	(7,732)
Exploration expenditures	(1,964)	-	(1,964)
Finance expenses	(2,073)	(414)	(2,487)
Foreign exchange gain (loss)	2,298	(112)	2,186
Loss on disposal of assets	(2,620)	-	(2,620)
Other	(8,883)	(9,898)	(18,781)
Taxes	5,120	-	5,120
Net loss for the year	**(13,770)**	**(12,508)**	**(26,278)**
Capital expenditures	**(33,869)**	**(83)**	**(33,952)**
Total assets	**307,892**	**25,957**	**333,849**

[(1)] During the year ended December 31, 2021, one customer generated 65% (2020 – 44%) of the Company's 2021 revenue.

The geographic distribution of non-current assets is as follows:

	Plant and equipment 2021	Plant and equipment 2020	Mineral properties 2021	Mineral properties 2020	Other 2021	Other 2020
Canada	$ 117	$ 102	$ –	$ –	$ 22,980	$ 21,986
Belgium	78	147	–	–	–	-
Botswana	87,126	106,975	157,578	142,002	41,764	4,764
	$ 87,321	$ 107,224	$ 157,578	$ 142,002	$ 64,744	$ 26,750

$1.4 million of depletion expense in 2021 (2020 - $1.3 million) relates to intangible assets located in Canada. All remaining depletion and amortization expense relates to the assets at the Karowe Mine located in Botswana.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

21. FINANCIAL INSTRUMENTS

a) *Measurement categories and fair values*

As explained in Note 4, financial assets and liabilities have been classified into categories that determine their basis of measurement. Those categories are: fair value through profit and loss; fair value through other comprehensive income and amortized cost.

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

b) *Fair value hierarchy*

The following table classifies financial assets and liabilities that are recognized at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

		December 31, 2021		December 31, 2020
Level 1: Fair value through other comprehensive income – Investments	$	2,256	$	1,651
Level 2: Derivative financial instruments	$	(842)		–
Level 3: N/A				

c) *Financial risk management*

The Company's financial instruments are exposed to certain financial risks, including currency, credit, price and liquidity 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 December 31, 2021, the Company was exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately $2.5 million in net income for the year.

Liquidity risk

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

The contractual maturities of long-term debt, and interest rate swaps are disclosed in Note 10.

21. FINANCIAL INSTRUMENTS (continued)

Credit risk

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

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

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

Interest rate risk

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

The Company mitigates interest rate risk on its Project Finance Facility through interest rate swaps that exchange the variable rate inherent in the term debt for a fixed rate (see Note 10). Therefore, fluctuations in market interest rates should not materially impact future cash flows related to the credit facilities. Changes in the fair value of the derivative financial instrument will however fluctuate in response to changing market interest rates that will result in a corresponding credit or charge to profit.

Price risk

The Company derives its income from the sale of rough diamonds mined in Botswana, a majority of which are sold through a quarterly tender process from Botswana. In response to the disruptions caused by the COVID-19 pandemic, the Company received approval from the Government of Botswana to conduct quarterly tenders in Antwerp, Belgium and each quarterly tender since June 2020 has been conducted in Antwerp. 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, the ultimate achieved sales prices of stones larger than 10.8 carats in size is based on a polished diamond pricing mechanism. This pricing mechanism results in the Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than it is currently through its traditional tender process for rough diamonds. The pricing of both polished and rough diamonds demonstrated significant improvement during 2021 as a result of improved market supply and demand dynamics after the COVID-19 pandemic negatively impacted global demand for luxury commodities in 2020, including jewelry containing diamonds. To the extent that the supply of rough or polished diamonds exceeds demand, this is likely to result in price deterioration and negatively impact the Company's revenue and ability to generate positive cash flow from operations.

(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)

22. COMMITMENTS

As at December 31, 2021, purchase orders and contracts that give rise to commitments for future minimum payments for services to be provided related to the underground expansion project amounted to $86.7 million (December 31, 2020 - $9.9 million). The following table summarizes the approximate timing of the commitments (undiscounted) at December 31, 2021:

		2022	**2023**	**2024**	**2025 and 2026**	**Total**
Underground expansion project	$ million	67.4	9.0	4.5	5.8	**86.7**

The total of all commitments can be cancelled at an estimated cost of $6.7 million as of December 31, 2021.

23. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes costs of capital at an acceptable risk.

In the management of capital, the Company considers items included in equity attributable to shareholders and its debt facility to be capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's assets. In order to maintain or adjust the capital structure, the Company may attempt to issue new shares or debt instruments, acquire or dispose of assets, or to bring in joint venture partners.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditures budgets and life-of-mine plans which are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets and life-of-mine plan are approved by the Board of Directors.