



LUCARA

DIAMOND

Management's Discussion and Analysis
and
Consolidated Financial Statements
Quarter Ended September 30, 2023

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2023

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. To better understand the MD&A, it should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the period ended September 30, 2023, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as applicable to interim financial reporting. All amounts are expressed in U.S. dollars unless otherwise indicated.

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

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

The effective date of this MD&A is November 10, 2023.

ABOUT LUCARA

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

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

HIGHLIGHTS – Q3 2023

- The recovery of a 1,080 carat Type IIA white gem quality diamond in August, followed by a recovery of a 692 carat Type IIA diamond later in the month. The fourth +1000 carat stone recovered from the Karowe Mine.
- Total revenue of \$56.9 million in Q3 2023, a 14% increase from total revenue of \$49.9 million in Q3 2022. The third quarter of 2023 reflects a greater proportion of carats recovered from the South Lobe, consistent with the 2023 mine plan.
- During Q3 2023, a total of 111,673 carats (Q3 2022: 99,301) from Karowe were sold through the Company's three sales channels, generating revenue of \$55.3 million before top-up payments of \$0.9 million (Q3 2022: \$37.5 million before top-up payments of \$9.0 million).
- Operating cost per tonne processed⁽¹⁾ was \$28.62, a decrease of 2% over the Q3 2022 cost per tonne processed of \$29.33. Despite continued inflationary pressures, particularly for labour, a strong US dollar offset an increase in costs over the comparable period.
- Operational highlights from the Karowe Mine for Q3 2023 included:

- Ore and waste mined of 0.9 million tonnes (Q3 2022: 0.9) and 1.0 million tonnes (Q3 2022: 0.5), respectively.
- 0.7 million tonnes (Q3 2022: 0.7) of ore processed.
- A total of 98,311 carats recovered, excluding 8,354 carats from the processing of historic final recovery tailings, (Q3 2022: 78,879) at a recovered grade of 13.6 carats per hundred tonnes (“cpht”) of direct milled ore (Q3 2022: 11.4 cpht).
 - A total of 189 Specials (stones larger than 10.8 carats in size) were recovered, with six diamonds greater than 100 carats including three diamonds greater than 300 carats.
 - Recovered Specials equated to 6.8% of the weight percentage of total recovered carats from ore processed during Q3 2023 (Q3 2022 – 7.1%).
- The Karowe Mine has operated continuously for over two and a half years without a lost time injury.
- Financial highlights for Q3 2023 included:
 - Revenues of \$56.9 million (Q3 2022: \$49.9 million) were achieved despite a weaker rough diamond market. The strong performance reflects the weighting of Lucara’s revenue to larger goods where pricing was observed to be stable. In comparison to the revenue earned in the first half of 2023, the revenues reflected a stronger product mix with a return to South Lobe processing in Q2 2023 and several high value stones recovered in June which were sold in the third quarter. During Q3 2023, 16% of the carats processed were recovered from the Centre Lobe and 84% were recovered from South Lobe material (Q3 2022: 100% South Lobe ore).
 - Operating margins of 63% were achieved (Q3 2022: 48%). A strong operating margin continues to be achieved through cost reduction initiatives, a strong U.S. dollar and despite price softness in the rough diamond market.
 - Karowe’s +10.8 carat production, sold through HB Antwerp (“HB”), accounted for 67% (Q3 2022: 58%) of total revenues recognized in Q3 2023.
 - Adjusted EBITDA⁽¹⁾ was \$21.9 million (Q3 2022: \$13.8 million), with the change attributed to an increase in revenues, partially offset by higher administrative expenses in the current quarter.
 - Net income was \$10.5 million (Q3 2022: \$1.8 million), resulting in earnings per share of \$0.02 (Q3 2022: \$0.00).
 - Cash flow of \$15.9 million (Q3 2022: \$22.2 million) was generated from operating activities.
- During Q3 2023, the Company invested \$20.3 million into the Karowe UGP:
 - Sinking and grouting programs were the focus in both the ventilation and production shafts in Q3 2023. The ventilation shaft reached 268.8 metres below collar, with a planned final depth of 731 metres. The production shaft reached 227 metres below collar, with a planned final depth of 765 metres.
 - The ventilation shaft completed two grouting events, remedial grouting of previously dry areas of the shaft and advanced the shaft 55.7 metres in the reporting period. The ventilation shaft has completed sinking through the water-bearing sandstone units.
 - Production shaft activities included completion of two grouting campaigns and remedial grouting of previously dry sections of the shaft. By the end of September, the shaft was sinking through the bottom portion of the water-bearing sandstones. An advance of 32.5 metres was achieved in Q3 2023.
 - Mobilisation for civil works related to construction of the temporary and permanent bulk air cooler commenced in late September.
 - Contract for fabrication of the permanent men and materials winder was signed during the quarter, representing the last major component for the permanent winders.

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

- During Q3 2023, the Company announced management changes with the return of William Lamb as President and CEO, replacing Eira Thomas. Zara Boldt, Chief Financial Officer and Corporate Secretary and Dr. John Armstrong, VP, Technical Services, announced their departures with plans to step down in Q4 2023. Jennifer Harmer has been promoted to VP, Finance, effective November 8, 2023.
- In September 2023, Lucara terminated the definitive sales agreement executed with HB in November 2022 (for all +10.8 carat diamonds recovered from Karowe) due to HB's material breach of its financial commitments.
- Changes were made to the Company's 2023 Guidance in Q3 2023 for revenue, diamond sales, ore and waste tonnes mined, and total operating cash costs per tonne processed. Revisions to diamond revenue guidance reflect changes to the sales mechanism for the rough diamonds larger than 10.8 carats in size following the termination of the Company's agreement with HB, combined with global rough diamond market impacts. Revenue is expected to be lower than initial guidance as the Company looks at the timing of sales of its goods greater than 10.8 carats in size.
- Cash position and liquidity as at September 30, 2023:
 - Cash and cash equivalents of \$16.8 million.
 - Cost overrun facility ("COF") of \$18.4 million.
 - \$90.0 million drawn on the \$170.0 million Project Loan for the Karowe UGP, with no draws on the facility during the third quarter.
 - The outstanding balance on the working capital facility ("WCF") was maintained at \$35.0 million through Q3 2023.
 - The Company is not permitted to make further draws from the WCF or the Project Loan until various amendments to the terms of these loan agreements are negotiated with the Company's lenders (the "Rebase Amendments"). As part of the Rebase Amendments, the Lenders have granted certain waivers and extensions to the Company.
 - The Company has near-term commitments under the Facilities, including the maturity date of the WCF and the requirement to fund a cost overrun facility. Due to these near-term commitments, there is significant doubt regarding the Company's ability to meet its commitments and discharge its obligations in the normal course of business. While Management believes the Company will be able to resolve the noted items through its ongoing engagement with its Lenders, there can be no assurance that those efforts will be successful. See further details in the section "*Liquidity and Capital Resources.*" and refer to Note 1 of the condensed interim consolidated financial statements for the three and nine months ended September 30, 2023.
 - On October 31, 2023, the Company received a short-term extension of the maturity of the WCF and a deferral of the requirement to place \$52.9 million in the COF to the earlier of the conclusion of discussions with its Lenders or November 15, 2023 (the "Longstop Date"). An earlier extension granted by the Lenders on August 23, 2023, was due to expire on November 1, 2023.

DIAMOND MARKET

The longer-term outlook for natural diamond prices remains positive, anchored on improving fundamentals around supply and demand as many of the world's largest mines reach their natural end of life over the next decade. A slow recovery of economic growth in China and a voluntary import ban on rough diamonds into India has muted the recovery of rough diamond prices following a soft market in the first six months of 2023. Global economic concerns combined with increasing geopolitical uncertainty have resulted in a challenging market in Q3 2023 with demand reduced and downward pressure on pricing, especially in the smaller size classes. With supply restricted by the largest producers, it is possible that a floor in pricing will be established that will benefit the broader market, including smaller producers, in late 2023.

Sales of lab-grown diamonds increased beginning in late 2022. Intense competition combined with improvements in technology continue to drive prices of lab grown diamonds down. Signs are emerging of financial instability of producers of lab-grown diamonds. This further differentiates this market segment from the natural diamond market and highlights the unique nature and inherent rarity of natural diamonds. The longer-term market fundamentals for

natural diamonds remain unchanged and positive, pointing to strong price growth over the next few years as demand is expected to outstrip future supply, which is now declining globally.

SALES CHANNELS

Karowe diamonds are sold through three separate and distinct sales channels: through the HB sales agreement (terminated as of September 28, 2023), on the Clara digital sales platform and through quarterly tenders.

HB Sales Agreement for +10.8 carat Diamond Production

Karowe's large, high value diamonds have historically accounted for approximately 60% to 70% of Lucara's annual revenues. In September 2023, Lucara terminated the definitive sales agreement executed with HB in November 2022 (for all +10.8 carat diamonds recovered from Karowe) due to HB's material breach of its financial commitments. The rough diamonds delivered to HB prior to the termination of the agreement will continue to be manufactured and sold as polished diamonds. The Company retains a contractual right to receive "top-up" payments from polished diamond sales for goods delivered prior to the termination of the agreement. The Company plans to sell its +10.8 carat production through its established sales channels, subject to pre-approval from the Government of the Republic of Botswana.

Under the now terminated sales agreement, +10.8 carat gem and near gem diamonds from the Karowe Mine of qualities that could directly enter the manufacturing stream were sold to HB at prices based on the estimated polished outcome of each diamond. The estimated polished value was 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. 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 will continue to be sold as rough through a quarterly tender.

Additional consideration, in the form of a "top-up" payment, is payable to the Company if the final sales price of the polished diamond sold is higher than the initial estimated polished price. Any manufactured diamonds sold to an end buyer for less than the initial estimated polished price (after deductions for HB's fee and the cost of manufacturing) will result in the difference being refunded to HB.

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

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

Sethunya Diamond

In 2021, amidst strengthening prices for large, high value diamonds, a strategic decision was taken to defer the sale of the Sethunya (549 carats), one of the finest, gem quality, exceptional diamonds produced from the Karowe Mine to date. In mid-2022, Lucara and HB agreed to a series of prepayments. As at September 30, 2023, the Company had received prepayments of \$20.0 million from HB for the Sethunya. These prepayments have been recorded as deferred revenue on the Statement of Financial Position.

Clara Sales Platform

Clara is Lucara's 100% owned proprietary, secure web-based digital marketplace which is best suited to transact diamonds between 1 and 15 carats, in better colours and quality. The Clara platform matches buyers to sellers on a stone-by-stone basis based on polished demand and is the only sales platform in the world that uses technology to provide complete assurance on diamond provenance. Clara continues to gain scale and interest as the financial benefits of purchasing rough diamonds in this innovative way are realized for all participants and, buyers become more focused on transparency and traceability of diamonds from mine to retail.

Clara is a completely scalable business solution for the diamond industry. Besides the direct benefit of selling Karowe diamonds at a premium, the business rationale for Clara is compounded by increasing the volume of third-party diamonds transacted in any given period. Clara has been adding third party supply steadily since 2021, including diamonds supplied from other producers, secondary sources and diamonds purchased by the Company and re-sold through the platform. Total volume transacted on the platform was \$4.4 million in Q3 2023, with non-Karowe goods representing 16% of the total sales volume transacted. The Company continues to be focused on growing third party volumes through the platform in 2023, both from primary diamond producers and secondary market sources. The number of buyers on the platform reached 103 as of September 30, 2023.

Quarterly Tenders

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 quarterly tenders. In mid-2020, in response to global travel restrictions put in place to manage the pandemic, the Government of Botswana gave the Company permission to relocate these tender sales to Antwerp, Belgium. Viewings continue to take place in both Gaborone, Botswana and Antwerp, Belgium.

KAROWE UNDERGROUND UPDATE

The Karowe UGP is designed to access the highest value portion of the Karowe orebody, with initial underground carat production predominantly from the highest value eastern magmatic/pyroclastic kimberlite (south) ("EM/PK(S)") unit. The Karowe UGP is expected to extend mine life to at least 2040 and is forecast to contribute approximately \$4 billion in additional revenues using conservative diamond price assumptions which are un-escalated and exclude exceptional stone revenues.

On July 16, 2023, an update to the Karowe UGP schedule and budget was announced ([link to news release](#)). This update was initiated in response to slower than planned ramp up to expected sinking rates in 2022, and, to account for time incurred to date, as well as for anticipated future grouting programs. Grouting programs took longer than anticipated due to a combination of high-water volumes in the sandstone lithologies between 870 and 752 metres above sea level in depth (144 metres to 262 metres below the shaft collar) and technical challenges associated with the transition to main sinking.

The updated schedule incorporates a 28% increase in the duration of construction, extending the anticipated commencement of production from the underground from H2 2026 to H1 2028. The revised forecast of costs at completion is \$683 million (including contingency), a 25% increase to the May 2022 estimated capital cost of \$547 million. The increase of \$136.0 million in estimated capital to reach project completion is predominantly related to increased schedule duration and related labour costs (about 56% of the total), grouting costs (approximately 20% of the total capital increase), with the balance of the increase attributable to Owner's costs, procurement, and indirect project costs. As at September 30, 2023, capital expenditures of \$288.4 million had been incurred and total capital commitments of \$385.2 million had been made, inclusive of incurred.

The Karowe UGP remains technically and economically feasible, however, the impact of actual and modelled delays changes the revenue profile due to the use of lower-grade, stockpiled ore for mill feed between 2025 and 2027 rather than high-grade ore from the underground as previously planned. Sufficient surface stockpiles of South, Centre and North Lobe kimberlite ore are available to maintain current, un-interrupted mill feed to the plant for the duration of the anticipated delay. The long-term outlook for diamond prices, combined with the potential for exceptional stone recoveries and the continued strong performance of the open pit could mitigate the modelled impact on project cash flows due to the schedule slippage. The Company has notified its Lenders of the expected increases to both the schedule duration and the projected cost to complete the Karowe UGP and is working closely with its Lenders to agree the Rebase Amendments. During the Rebase Amendments, the Lenders have granted certain waivers and extensions to the Company. The Company's debt package consists of a \$170 million Project Loan and a \$50 million WCF.

The Karowe UGP update includes revisions to the 2019 feasibility study diamond price assumptions for each of the major ore sources. Diamond prices have been adjusted to reflect observed changes to the diamond price for the -10.8 carat goods based on Tender and Clara sales data, revisions to the Size Frequency Distribution for the M/PK(S) unit to better reflect actual +10.8 diamond recoveries and minor improvements to the assumptions around the +10.8 carat diamond price point. No diamond price escalation is applied to future production and the contribution

from Exceptional diamonds (defined by the Company as an individual diamond which sells for >\$10 million) is excluded from the price models, consistent with assumptions used in the 2019 feasibility study.

2023 Karowe Diamond Price Assumptions				
	North	Centre	EM/PK(S)	M/PK(S)
\$/carat	\$ 273	\$ 392	\$ 828	\$ 707

With the update announced July 16, 2023, the Karowe Mine production and cash flow models were updated for the revised project schedule and cost estimate. Open pit mining will continue until mid-2025 and provide mill feed during this time. Stockpiled material (North, Centre, South Lobe) from working stocks and life of mine stockpiles will provide mill feed until the third quarter of 2026 when Karowe UGP development ore will begin to offset stockpiles with underground production feed planned for H1 2028.

During the three months ended September 30, 2023, a total of \$20.3 million was spent on the Karowe UGP development, primarily in relation to ongoing shaft sinking activities, including:

- Main sinking in the production and ventilation shafts:
 - The ventilation shaft reached 268.8 metres below collar, with a planned final depth of 731 metres. The shaft is currently 22 metres ahead of the July schedule update. The production shaft reached 227 metres below collar, with a planned final depth of 765 metres.
 - In response to water inflows from the sandstones, cover grouting continued as a primary activity in both shafts. Backwall grouting programs were completed in the production shaft and ventilation shaft as remedial work in areas of the shaft that were previously dry.
 - Civil works related to construction of the temporary and permanent bulk air cooler contractor started in September and detailed engineering was completed for these units.
- Contract for fabrication of the permanent men and materials winder was signed during the quarter, representing the last major component for the permanent winders.
- Mining engineering advanced with a focus on supporting shaft sinking, underground infrastructure engineering and finalizing level plans.
- The impact of implementing a behavioural-based safety training program in Q4 2022 has been evident in 2023. Year-to-date, the UGP achieved a nine-month period with no reportable incidents delivering a nine-month rolling Total Recordable Injury Frequency Rate of zero.

The capital cost estimate for the underground expansion in 2023 is \$105 million – see “2023 Outlook” below.

Activities for the Karowe UGP in Q4 2023 are expected to include the following:

- Sinking within the ventilation and production shafts is expected to continue.
- Excavation of the 718 level station in the ventilation shaft and sinking to the 670 level station and start of station development
- Planned grouting events to the base of the Mosolotane sandstone/mudstone transition are expected to be completed early in Q4 2023 for the production shaft.
 - Thereafter, further grouting is not anticipated to be required until sinking reaches the granite basement lithologies in late 2024. Grouting in the granite lithologies is expected to be localized, rather than formational in nature.
- Procurement of underground equipment, including dewatering pumps, underground crush and convey systems and the permanent stage winder.

- Construction and commissioning of the temporary bulk air cooler and construction of the permanent of the bulk air cooler system.
- Preparation of tender documents for the underground lateral development work; and,
- Continuation of detailed design and engineering of the underground mine infrastructure and layout.

The update to the UGP schedule that extended the anticipated duration of construction and increased the estimated capital cost was considered to be an indicator of impairment at June 30, 2023 for the Karowe Cash Generating Unit (“CGU”). No further indicators were identified at September 30, 2023. As a result of an impairment indicator being identified, the recoverable amount of the Karowe CGU was estimated and compared against its carrying value. No impairment was identified (see Note 15 of the interim consolidated financial statements for the three and nine months ended September 30, 2023).

SOURCES OF FINANCING

On July 12, 2021, the Company’s wholly-owned subsidiary, Lucara Botswana, with Lucara Diamond Corp. as the sponsor and the guarantor, entered into the \$170 million Project Loan to fund the development of an underground expansion at the Karowe Mine, and a \$50 million senior secured WCF to support on-going operations. Effective June 30, 2023, the Facilities were amended to replace the interest rate of LIBOR with Term Secured Overnight Financing Rate (“SOFR”) plus a credit adjustment spread. There were no changes to the margins as outlined below.

The Project Loan may be used to fund the development, construction costs and construction phase operating costs of the Karowe UGP as well as financing costs on the Facilities. The Project Loan matures on September 2, 2029, with quarterly repayments commencing on September 30, 2026. On September 2, 2021, following satisfaction of certain conditions precedent (“Financial Close”) of the Facilities, the Company’s Board of Directors formally approved the Karowe UGP.

As at September 30, 2023, \$90.0 million was drawn from the Project Loan. The Project Loan has a margin of 5.5% annually until the project completion date, and 5.0% annually thereafter. Commitment fees for the undrawn portion of the Project Loan are 2.0%. The Company is not permitted to make further draws from the WCF or the Project Loan until the Rebase Amendments are completed.

The WCF may be used for working capital and other corporate purposes. As at September 30, 2023, \$35.0 million of the \$50.0 million facility was drawn. This facility has a margin of 3.5% annually with commitment fees for the undrawn portion of 1.6%. Following two extensions effective August 23rd, 2023, and October 31, 2023, the WCF will mature on the Longstop Date. As part of the Rebase Amendments, the Company has requested a longer-term extension to the maturity date of this facility in accordance with the terms of the Facilities. However, there is no guarantee that this facility will be renewed on the same terms as the maturing facility.

Prior to the Rebase Amendments, the Company was required to place \$52.9 million in the COF as a condition of the Facilities. The Facilities Agreement includes specific provisions for how and when these funds may be released from the COF. The Lenders have granted an extension of the time required to meet the COF funding requirement to the Longstop Date in connection with the extension of the WCF. The COF balance was \$18.4 million as at September 30, 2023.

Under the terms of the Project Loan, 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. In connection with the Rebase Amendments and with the same maturity, Nemesia has also provided a liquidity support guarantee of up to \$15.0 million in aggregate in the event the Company’s cash balance decreases below \$10.0 million while discussions with the Lenders are ongoing.

As at September 30, 2023, the Company was in compliance with all covenants under the Facilities. As a result of the Company’s near-term commitments related to the COF and the maturity date of the WCF, there is significant doubt regarding the Company’s ability to meet its commitments and discharge its obligations in the normal course of business. While Management believes the Company will be able to resolve the noted items through its ongoing engagement with its Lenders, there can be no assurance that those efforts will be successful.

INTEREST RATE SWAP

On December 14, 2021, under the terms of the Project Loan, the Company became party to a series of interest rate swap agreements on 75% of the principal amount available, up to \$127.5 million. Structured around the expected Project Loan drawdown schedule, the Company receives interest at the rate equivalent to the three-month USD LIBOR and pays interest at a fixed rate of 1.682% on a quarterly basis. The interest rate swaps mature on March 31, 2028.

Effective June 30, 2023, the interest rate swaps were amended to replace LIBOR with Term SOFR plus a credit adjustment spread.

As at September 30, 2023, the interest rate swaps had a total unrealized fair value of \$11.4 million (December 31, 2022: \$9.8 million), of which \$2.8 million has been classified as a current asset in the Statement of Financial Position. For the nine months ended September 30, 2023, the Company recorded a \$1.1 million gain (Q3 2022: gain of \$3.7 million) on this derivative financial instrument. Movements in the unrealized fair value are recorded through the Statements of Operations.

CLARA REVOLVING CREDIT FACILITY

On September 28, 2022, the Company's wholly owned subsidiary, Clara, with Lucara Diamond Corp. as guarantor, entered into a revolving credit facility agreement of \$4.0 million with FirstRand Bank Limited, acting through its Rand Merchant Bank Division (the "Clara Facility").

The Clara Facility is used for inventory and working capital purposes. The facility was extended in September 2023 for a one-year period and matures on September 28, 2024. As at September 30, 2023, \$nil (December 31, 2022: \$0.3 million) of the facility was drawn. The facility bears interest at SOFR plus a margin of 6.0%.

FINANCIAL HIGHLIGHTS

<i>In millions of U.S. dollars, except carats or otherwise noted</i>	Three months ended		Nine months ended	
	2023	September 30, 2022	2023	September 30, 2022
Revenues	\$ 56.9	49.9	\$ 140.8	170.5
Operating expenses	(21.3)	(25.8)	(56.3)	(60.8)
Net income for the period	10.5	1.8	16.5	33.3
Earnings per share (basic and diluted)	0.02	0.00	0.04	0.07
Operating cash flow per share ⁽¹⁾	0.04	0.03	0.11	0.17
Cash on hand	16.8	34.8	16.8	34.8
Cost overrun facility (restricted cash)	18.4	-	18.4	-
Amounts drawn on WCF ⁽²⁾	35.0	-	35.0	-
Amounts drawn on Project Loan	90.0	65.0	90.0	65.0
Revenue from the sale of Karowe diamonds	56.2	46.5	136.1	163.7
Carats sold from Karowe	111,673	99,301	267,764	245,763

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

⁽²⁾ Excludes amounts drawn from the Clara Facility.

Q3 2023 Analysis

The Company recognized total revenues of \$56.9 million in Q3 2023. This included \$56.2 million from the sale of 111,673 carats from Karowe (including top-up payments of \$0.9 million) as well as \$0.7 million from the sale of third-party goods on the Clara platform. In comparison, the Company achieved total revenues of \$49.9 million in Q3 2022 which included \$46.5 million from the sale of 99,301 carats from Karowe, top-up payments of \$9.0 million, and \$3.4 million in revenue from third party goods sold through the Clara platform. The 14% increase in quarterly revenue was driven by i) a 12% increase in the carats sold, ii) several high value stones produced in June 2023

which were moved through the manufacturing process with HB in the third quarter, and iii) a softening of prices for smaller goods.

A softer diamond market in the first nine months of 2023 resulted in lower achieved prices for the goods less than 10.8 carats in size, when compared to Q3 2022, when prices reached a multi-year high early in the year. The average price for goods less than 10.8 carats in Q3 2023 was \$157 per carat, a decrease of 20% from the average price per carat of \$197 per carat in Q3 2022. The Company's product mix (which is weighted to larger, high value goods of sizes greater than 10.8 carats) is impacted less by price movements in the smaller goods. Under the sales agreement with HB, Karowe's +10.8 production accounted for 67% (Q3 2022: 58%) of total revenues recognized in Q3 2023.

Total operating expenses are lower from Q3 2023 (\$21.3 million) to Q3 2022 (\$25.8 million) predominantly due to the benefit from the stronger U.S. Dollar (+9%) and cost optimization initiatives. On a total operating cost per tonne processed basis, costs are mostly comparable when quoted in US dollars (decrease of 2%). On a total operating cost per carat sold basis, in BWP terms, costs were down 15% from Q3 2022 to Q3 2023, inclusive of inflation. An increase in carats sold (+12%) mitigated some of the lower costs incurred in total operating expenses. There have been minimal power cost increases in Botswana in the past year and fuel costs decreased in the first eight months of 2023. Fuel costs increased at the end of the third quarter of 2023. Please see Table 4: "Select Financial Information" below for details on the expense line items which had the most significant impact on net income of \$10.5 million (Q3 2022: \$1.8 million) in the quarter.

QUARTERLY SALES RESULTS

Table 2

Q3 2023 - Sales Channel	Rough Carats Sold	Revenue US\$ M
HB Agreements	3,038	\$ 37.5
Clara ⁽¹⁾	2,487	3.7
Tender ⁽²⁾	106,148	14.1
Subtotal – Karowe diamonds sold	111,673	\$ 55.3
HB top-up payments		0.9
Total Revenue – Karowe Diamonds		\$ 56.2
3 rd party goods (Clara) ⁽¹⁾		0.7
Total Revenue – Q3 2023		\$ 56.9

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

(1) Four sales were completed on Clara in Q3 2023 (Q3 2022: four), with the sale of third-party goods continuing to supplement the total volume transacted.

(2) 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.

HB Sales Agreement – Q3 2023

For the three months ended September 30, 2023, the Company recorded revenue of \$38.4 million from the HB agreement (inclusive of top-up payments of \$0.9 million), as compared to revenue of \$27.1 million (inclusive of top-up payments of \$9.0 million) for the three months ended September 30, 2022. The third quarter saw several high value stones recognized through the HB sales agreement accounting for much of the 107% increase in initial revenue of \$37.5 million. The remaining increase in revenue was due to the 26% increase in carats sold through

the HB agreement versus the comparable quarter. The product mix delivered in Q3 2023 was predominantly from the South Lobe ore body, with some contribution from the Centre Lobe (Q3 2022 – 100% South Lobe ore).

A decrease in top-up payments in Q3 2023 versus the comparative quarter can be attributed primarily to the number of high value diamonds delivered to HB in preceding quarters which were sold during the comparative period. Top-up values will typically increase as the more valuable stones move through production and are sold. The lower top-ups recognized in Q3 2023 reflect the value of the stones delivered earlier in the year, consistent with the change in product mix during H1 2023.

Recovered Specials equated to 6.8% of the weight percentage of total recovered carats from ore processed during Q3 2023, with 84% of carats recovered coming from the South Lobe and 16% recovered from the Centre Lobe (Q3 2022: 7.1%; 100% South Lobe ore). Natural variability in the quality profile of the +10.8ct production in any production period or fiscal quarter results in fluctuations in recorded revenue and associated top-ups. This result is consistent with the resource model and expected.

The large stone diamond market fundamentals continued to support healthy prices from the multi-year highs observed at the peak in Q1 2022, despite an overall softening of demand in the market.

Clara

During Q3 2023, the sales volume transacted was \$4.4 million (Q3 2022: \$8.3 million), as lower volumes and lower valued goods were placed for sale (due to the shift in product mix from the Karowe Mine). Some sales are recognized on a net revenue basis. A softer market was observed; however, prices decreased in most size categories from Q3 2022. Price stability continues to be observed in the stones between 5 to 10.8 carats in size.

Quarterly Tender

A total of 106,148 carats were sold in the August 2023 tender, generating revenues of \$14.1 million (Q3 2022 tender: \$14.5 million from the sale of 94,486 carats). Rough diamond prices began to soften in the third quarter of 2022 following a significant increase that started in 2021. The Q3 2023 tender reflected a 16% decrease in the market from the comparative quarter's tender.

RESULTS OF OPERATIONS – KAROWE MINE

Table 3:

	UNIT	Q3-23	Q2-23	Q1-23	Q4-22	Q3-22
Sales						
Revenues from the sale of Karowe diamonds	US\$M	56.2	38.6	41.3	40.1	46.5
Karowe carats sold	Carats	111,673	72,717	83,374	81,264	99,301
Production						
Tonnes mined (ore)	Tonnes	869,188	682,636	541,400	484,705	920,410
Tonnes mined (waste)	Tonnes	954,226	907,051	761,295	199,385	453,860
Tonnes processed	Tonnes	724,640	720,345	700,678	690,946	693,398
Average grade processed ⁽¹⁾	cpht ^(*)	13.6	12.6	12.8	12.5	11.4
Carats recovered ⁽¹⁾	Carats	98,311	90,497	89,640	86,655	78,879
Costs						
Operating cost per tonne of ore processed ⁽²⁾	US\$	28.62	27.97	26.65	26.20	29.33
Capital Expenditures						
Sustaining capital expenditures	US\$M	3.2	2.4	0.8	9.9	4.0
Underground expansion project ⁽³⁾	US\$M	20.3	22.5	30.5	22.3	23.9

(*) carats per hundred tonnes

- (1) Average grade processed is from direct milling carats and excludes carats recovered from re-processing historic recovery tailings from previous milling.
- (2) Operating cost per tonne of ore processed is a non-IFRS measure. See Table 7.
- (3) Excludes qualifying borrowing cost capitalized.

THIRD QUARTER OVERVIEW – OPERATIONS - KAROWE DIAMOND MINE

Safety: Karowe registered no lost time injuries during the three months ended September 30, 2023. As of September 30, 2023, the mine had operated for 1,047 days without a lost time injury. The twelve-month Total Recordable Injury Frequency Rate was 0.09 (Q3 2022: 0.22).

Environment and Social:

- There were no reportable environmental matters during the third quarter of 2023.
- Work continues as part of Lucara Botswana's adoption of the "Towards Sustainable Mining" initiative (an initiative developed by the Mining Association of Canada and adopted by the Botswana Chamber of Mines).
- ISO 45001 surveillance audit underway, with expected completion in Q4 2023.
- The development and implementation of an updated tailings framework aligned to the Global International Standard for Tailings Management ("GISTM") continued. A feasibility study commenced for the Underground Life of Mine tailing facility, with expected completion in Q4 2023.

Production: Ore and waste mined during the third quarter of 2023 totaled 0.9 million tonnes and 1.0 million tonnes respectively. During Q3 2023, tonnage processed was on target at 0.7 million tonnes at an average grade of 13.6 cpht, with a total of 98,311 carats recovered from direct milling. Ore processed was 84% from the South Lobe, with the remainder from the Centre Lobe. Predominantly the feed has been from the South Lobe for 2021-2022 production years.

Diamond Recoveries: A total of 189 Specials were recovered, with six diamonds greater than 100 carats in weight including three diamonds greater than 300 carats. A 1,080 carat Type IIA white gem stone was recovered in August, the fourth +1000 carat stone to be recovered from the Karowe Mine. Recovered Specials equated to 6.8% of the weight percentage of total recovered carats from ore processed during Q3 2023 (Q3 2022 – 7.1%).

Karowe's operating cash cost: Karowe's operating cash cost for Q3 2023 (see "*Use of Non-IFRS Financial Performance Measures*") was \$28.62 per tonne of ore processed (Q3 2022: \$29.33 per tonne of ore processed), below the 2023 annual forecast of \$32.50-\$35.50 per tonne processed. The 2% improvement in cost per tonne of ore processed reflects the benefit of a comparatively stronger U.S. Dollar (+9%) offset by cost inflation (-7%). A cost optimization process commenced in Q2 2023.

Overall performance: Mine performance during the third quarter remained consistent with the strong operational results achieved over the past several years. Mining and processing results were on plan during Q3 2023.

SELECT FINANCIAL INFORMATION

Table 4:

<i>In millions of U.S. dollars unless otherwise noted</i>	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenues	\$: 56.9	49.9	140.8	170.5
Operating expenses	(21.3)	(25.8)	(56.3)	(60.8)
Adjusted operating earnings⁽¹⁾	35.6	24.1	84.5	109.7
Royalty expenses	(6.3)	(5.5)	(15.6)	(19.6)
Administration	(6.7)	(4.2)	(14.2)	(14.0)
Sales and marketing	(0.7)	(0.6)	(1.9)	(1.9)
Adjusted EBITDA⁽²⁾	21.9	13.8	52.8	74.2
Depletion and amortization	(6.3)	(7.5)	(14.3)	(18.2)
Finance expenses	(1.2)	(0.8)	(3.4)	(2.5)
Foreign exchange (loss) gain	(1.4)	(2.0)	(7.4)	(3.0)
Gain on derivative financial instrument	1.1	3.7	1.6	10.9
Current income tax expense	(0.7)	-	(0.7)	-
Deferred income tax expense	(2.7)	(5.2)	(12.2)	(28.0)
Net income for the period	10.5	1.8	16.5	33.3
Earnings per share (basic)	0.02	0.00	0.04	0.07
Operating cash flow per share⁽³⁾	0.04	0.03	0.11	0.17

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

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

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

(4) Numbers may not foot due to rounding.

Revenues and royalties

Total revenue increased 14%, from \$49.9 million in Q3 2022 to \$56.9 million in Q3 2023. During the three months ended September 30, 2023, Lucara recognized revenue of \$56.2 million from the sale of 111,673 carats from Karowe (including top-up payments of \$0.9 million) and generated \$0.7 million from the sale of third-party goods on the Clara platform. In comparison, the Company achieved total revenues of \$49.9 million in Q3 2022 which included \$37.5 million from the sale of 99,301 carats from Karowe, top-up payments of \$9.0 million, and generated \$3.4 million in revenue from third party goods sold through the Clara platform.

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

Adjusted Operating Earnings and Expenses

Adjusted operating earnings for the three months ended September 30, 2023 were \$35.6 million (Q3 2022: \$24.1 million) after operating expenses of \$21.3 million (Q3 2022: \$25.8 million). The decrease in operating expenses is attributed to several variables: a 9% depreciation of the Botswana Pula against the U.S. dollar, decreased fuel costs beginning in Q2 2023, partially offset by the impact of higher labour and fuel costs. Carats sold increased by 12%. The proportion of ore mined was lower in Q3 2023 compared to Q3 2022. Power cost increases that were anticipated did not materialize in the first nine months of 2023.

Ore tonnes processed totalled 724,640 during Q3 2023 consistent with the 693,398 tonnes processed in Q3 2022. The recovery of 98,311 carats from direct milled ore in Q3 2023 was 25% higher than the 78,879 carats recovered in Q3 2022. This increase is attributed to a higher average grade in Q3 2023 of 13.6 cpht (Q3 2022: 11.4 cpht). The mine call factor achieved in Q3 2023 was 16% below plan.

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

Depletion and amortization

In Q3 2023, the Company recorded depletion and amortization expense of \$6.3 million (Q3 2022: \$7.5 million). This non-cash expense decreased 16% from the comparative period. In Q4 2022, as part of a regular review of assumptions, the Company completed a reassessment of the useful life of all the plant and equipment assets. The depletion and amortization expense on assets which are primarily amortized on a unit of production basis will be affected by both the volume of carats recovered in any given period and the reserves that are expected to be recovered. Depletion and amortization expense on assets put into use on the Karowe UGP is capitalized to the project. Formal approval of the Karowe UGP in Q3 2021 increased the reserve base used for this calculation, resulting in the lower depletion and amortization expense historically. The foreign exchange rate movement from the strengthening of the USD also decreased the expense in Q3 2023.

Derivative financial instrument

A \$1.1 million gain on a derivative financial instrument (Q3 2022: gain of \$3.7 million) relates to changes in the fair value of the interest rate swap in response to changing market interest rates (*see Note 8 of the interim consolidated financial statements for the three and nine months ended September 30, 2023*). The Company holds its interest rate swaps at fair value and as such, the movement in the fair value within any given period creates an adjustment to the Statement of Operations. As at September 30, 2023, the interest rate swaps were in an asset position, with a fair value of \$11.4 million (December 31, 2022: \$9.8 million) on the Statements of Financial Position, with \$2.8 million classified as a current asset based on the timing of expected settlement.

Net income

Net income for the three months ended September 30, 2023 was \$10.5 million (Q3 2022: \$1.8 million) with the change from the comparable period predominantly related to the increase in net revenue of \$6.2 million and lower operating expenses of \$4.5 million. As noted above, while the derivative financial instrument continues to generate further gains to the Company, a \$2.6 million reduction in the amount of gain (Q3 2023: \$1.1 million; Q2 2023: \$3.7 million) contributed to the change in net income.

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

Adjusted EBITDA for the three months ended September 30, 2023 was \$21.9 million compared to \$13.8 million in Q3 2022. The increase in earnings is directly attributable to the increase in net revenue and reduction in operating expenses.

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

Operating Cash Flow per Share

For the three months ended September 30, 2023, operating cash flow per share was \$0.04 (Q3 2022: \$0.03). The increase in operating cash flow per share is primarily related to the change in revenue.

Operating cash flow per share 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 cash flow from operating activities.

SELECT QUARTERLY FINANCIAL INFORMATION

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

Three months ended	Sep-23	Jun-23	Mar-23	Dec-22	Sep-22	Jun-22	Mar-22	Dec-21
A. Revenues	56,944	41,125	42,760	42,465	49,926	52,348	68,195	57,931
B. Administration expenses	(6,768)	(4,012)	(3,417)	(5,138)	(4,220)	(4,005)	(5,756)	(7,149)
C. Net income	10,544	4,996	954	7,103	1,831	12,532	18,968	1,662
D. Earnings per share (basic)	0.02	0.01	0.00	0.02	0.00	0.03	0.04	0.00

Quarterly revenue in the table above 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. Sales of Specials, but more particularly the unique and high value Specials are the primary factor causing variation to the quarterly metrics.

Diamond prices improved significantly through late 2021 before peaking in Q1 2022. While softening from the peak, diamond prices remained strong through most of 2022 in response to supply constraints in certain size classes and strong demand, despite ongoing economic and other uncertainties. Lower revenue in H1 2023 resulted from a combination of weaker prices and plant feed (more Centre lobe ore early in 2023).

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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

Table 6: Operating cash flow per share reconciliation:

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

		Three months ended September 30,		Nine months ended September 30,	
		2023	2022	2023	2022
Cash flows from operating activities	\$	15,914	22,154	45,583	79,226
Add: Changes in non-cash working capital		4,300	(7,187)	5,011	(3,276)
Total cash flow from operating activities before changes in non-cash working capital		20,214	14,967	50,594	75,950
Weighted average common shares outstanding		454,756,970	453,566,923	454,414,034	453,450,013
Operating cash flow per share⁽¹⁾	\$	0.04	\$ 0.03	\$ 0.11	\$ 0.17

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

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

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

		Three months ended September 30,		Nine months ended September 30,	
		2023	2022	2023	2022
Operating expenses	\$	21.3	\$ 25.8	\$ 56.3	\$ 60.8
Corporate and other segment operating expenses ⁽¹⁾		(0.9)	(3.3)	(5.0)	(6.7)
Net change rough diamond inventory, excluding depletion and amortization		(2.3)	(4.1)	1.0	0.3
Net change ore stockpile inventory, excluding depletion and amortization		2.7	1.9	7.2	5.0
Total operating costs for ore processed	\$	20.8	20.3	59.5	59.4
Tonnes processed		724,640	693,398	2,145,663	2,079,093
Operating cost per tonne of ore processed⁽²⁾	\$	28.62	\$ 29.33	\$ 27.72	\$ 28.57

⁽¹⁾ Calculated as the difference between Revenue and Loss from Operations of the Corporate and other segment, excluding depletion and amortization. See Note 13 – Segment Information in the condensed interim consolidated financial statements for the three and nine months ended September 30, 2023.

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

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2023, the Company had cash and cash equivalents of \$16.8 million. Cash flow from operating activities for the nine months ended September 30, 2023 totaled \$45.6 million.

Working capital (current assets minus current liabilities) as at September 30, 2023 was \$1.3 million as compared to \$40.5 million as at December 31, 2022, a decrease reflective of the increase in current liabilities and reclassification from cash to long-term other assets of \$18.0 million funded to the COF. Trade and other receivables (September 30, 2023: \$38.0 million; December 31, 2022: \$33.1 million) increased due to timing of payments received from the sales of large stones to HB and an increase in the amount of value-added and income taxes receivable due from Botswana Unified Revenue Service. The receivable balance at September 30, 2023 includes \$23.4 million (December 31, 2022: \$18.8 million) due from HB and represents rough diamond sales in Q3 2023, as well as the value of diamond sales for which the transaction price was finalized and adjusted in September 2023.

The Company has a \$50.0 million WCF, of which \$35.0 million was outstanding at September 30, 2023. Following two extensions effective August 23, and October 31, 2023, the WCF will mature on the Longstop Date, November 15, 2023. The Company has requested an extension to the maturity date of this facility in accordance with the terms of the Facilities. However, there is no guarantee that this facility will be renewed on the same terms as the maturing facility. Historically, the Company has used the WCF to manage its short-term working capital requirements.

Prior to the Rebase Amendments, the Company was required to place \$52.9 million in the COF as a condition of the Facilities. The Facilities Agreement includes specific provisions for how and when these funds may be released. An extension of the time required to meet the requirement has been granted by the lenders in connection with the extension of the WCF, to the Longstop Date. As at September 30, 2023, the COF balance was \$18.4 million. This amount is classified within other non-current assets on the Statement of Financial Position.

In connection with the Rebase Amendments, the Company's largest shareholder, Nemesia S.a.r.l. ("Nemesia"), has provided a liquidity support guarantee of up to \$15.0 million in aggregate in the event the Company's cash balance decreases below \$10.0 million while discussions with the Lenders are ongoing.

Current liabilities increased to \$91.1 million as of September 30, 2023 from \$59.9 million at December 31, 2022. The Company had \$35.0 million drawn on its short-term financing facilities, an increase of \$19.7 million from the \$15.3 million drawn at December 31, 2022. During the nine months ended September 30, 2023, the Company received prepayments of \$8.0 million towards the future sale of Sethunya from HB. These amounts, combined with prepayments of \$12.0 million received in H2 2022 are classified as deferred revenue. Minor increases in trade payables and accrued liabilities and the timing of royalty payments contributed to the increase in current liabilities as of September 30, 2023.

As a result of the Company's near-term commitments to place funds in the COF, the maturity date of the WCF, and commitments on the UGP, there is doubt regarding the Company's ability to meet its commitments and discharge its obligations in the normal course of business. While Management believes the Company will be able to resolve the noted items through its ongoing engagement with its Lenders, there can be no assurance that those efforts will be successful. These factors give rise to material uncertainties that may cast significant doubt on the ability of the Company to continue to meet its obligations as they come due. See Note 1 to the condensed interim consolidated financial statements for the three and nine months ended September 30, 2023.

Long-term liabilities consist of the Project Loan of \$86.4 million (December 31, 2022: \$62.2 million), restoration provisions of \$13.6 million (December 31, 2022: \$13.6 million), deferred income taxes of \$93.9 million (December 31, 2022: \$87.8 million), and other non-current liabilities of \$3.4 million (December 31, 2022: \$2.3 million) which consist of leases classified under IFRS 16: *Leases* and a liability for deferred share unit grants.

Financing activities during the nine months ended September 30, 2023 consisted of draws from the project financing facility of \$25.0 million, draws from the working capital facilities of \$19.7 million, and principal payments on leases and withholding taxes on share units totaling \$1.6 million. No further amounts were drawn on the debt facilities in the third quarter. The Company is not permitted to make further draws from the working capital facility or the project loan until the Rebase Amendments are finalized.

Total shareholders' equity increased to \$273.2 million from \$270.1 million at December 31, 2022. The increase resulted from positive net income during nine months ended September 30, 2023, which was mostly offset by an increase in the currency translation adjustment. Other changes to share capital and contributed surplus were related

to the issuance of shares to Nemesia for providing the liquidity support guarantee, share units vesting and share-based compensation recorded during the period.

RELATED PARTY TRANSACTIONS

A description of key management compensation can be found in Note 12 of the interim consolidated financial statements for the three and nine months ended September 30, 2023.

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 Notes 9 and 19 of the consolidated financial statements for the year ended December 31, 2022. As of September 30, 2023, none of the Performance Milestones had been achieved.

A profit sharing mechanism also exists, whereby a total of 3.45% of the EBITDA generated by the platform has been assigned to Ms. Thomas (former CEO of the Company) and Ms. McLeod-Seltzer (who was appointed to the Lucara Board of Directors following the Clara acquisition) as founders of the platform, with the remaining 3.22% of the EBITDA generated by the platform to be distributed to management, including Dr. Armstrong (Vice-President, Technical Services) and Ms. Boldt (who was appointed as Lucara’s CFO & Corporate Secretary after the Clara acquisition) (collectively, “Clara Management”), at the discretion of Lucara’s Compensation Committee based on key performance targets. As of September 30, 2023, no amounts have been paid pursuant to this profit-sharing mechanism and no contingent consideration has been recorded.

COMMITMENTS

As at September 30, 2023, purchase orders and contracts that give rise to commitments for future minimum payments for services to be provided related to the Karowe UGP amounted to \$96.8 million (December 31, 2022 - \$111.5 million).

Table 8: Approximate undiscounted timing of Karowe UGP commitments at September 30, 2023:

		2023	2024	2025	2026 and 2027	Total
Underground expansion project	<i>\$ million</i>	30.2	33.2	24.0	9.4	96.8

2023 OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2023. These are “forward-looking statements” and subject to the cautionary note regarding the risks associated with forward-looking statements. Diamond revenue guidance does not include revenue related to the sale of exceptional stones (an individual rough diamond which sells for more than \$10 million), or the Sethunya.

Changes were made to the Company’s 2023 Guidance in Q3 2023 for revenue, diamond sales, ore and waste tonnes mined, and total operating cash costs per tonne processed as indicated below.

Revisions to diamond revenue guidance reflect changes to the sales mechanism for the rough diamonds larger than 10.8 carats in size following the termination of the Company’s agreement with HB, combined with global rough diamond market impacts. Revenue is expected to be lower than initial guidance as the Company looks at the timing of sales of its goods greater than 10.8 carats in size.

Karowe Mine, Botswana**Table 9 : 2023 Diamond Sales, Production and Outlook**

Karowe Diamond Mine <i>In millions of U.S. dollars unless otherwise noted</i>	Initial - 2023 Full Year	Revised – 2023 Full Year
Diamond revenue (millions)	\$200 to \$230	\$160 to \$190
Diamond sales (thousands of carats)	385 to 415	365 to 385
Diamonds recovered (thousands of carats)	395 to 425	395 to 405
Ore tonnes mined (millions)	1.9 to 2.3	2.4 to 2.6
Waste tonnes mined (millions)	2.2 to 2.8	2.8 to 3.1
Ore tonnes processed (millions)	2.6 to 2.9	2.6 to 2.9
Total operating cash costs ⁽¹⁾ including waste mined ⁽²⁾ (per tonne processed)	\$32.50 to \$35.50	\$28.00 to \$30.50

(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 \$6.00 to \$6.50 (per tonne mined) and processing cash costs of \$9.00 to \$10.00 (per tonne processed).

Tonnes mined have been adjusted to reflect the acceleration of mining in the open pit which has been implemented to access high value ore from the south lobe earlier in the mine plan as well as to optimize costs. Following the expected completion of processing of the ex-pit material, in Q1 2026, the plant will transition to processing stockpiled material until the delivery of ore from the underground expansion project begins in Q1 2028.

The assumptions for revenue and carats sold have been adjusted to reflect the changes to the ore mined and processed following the change in the open pit mine plan as well as the changes following the termination of the diamond sales agreement on September 28, 2023 for the Company’s diamonds larger than 10.8 carats in size. With the change in the sales plan for rough diamonds larger than 10.8 carats in size, a shift in revenue is expected due to the uncertainty of the timing of recognition of sales between the fourth quarter of 2023 and 2024.

The number of tonnes processed remains consistent with earlier released guidance. The estimated processing cost per tonne processed increases have not materialized as expected due to the strong US dollar, lower electricity costs than planned and cost optimization efforts.

In July 2023, the Company provided an update to the schedule and budget for the Karowe UGP. The duration of the construction period increased, extending the anticipated commencement of production from the underground from H2 2026 to H1 2028. The revised forecast of costs at completion is \$683 million.

In 2023, capital costs expectations for the underground expansion remain at \$105 million and will focus predominantly on shaft sinking activities, along with construction of the bulk air cooler, tendering the underground development contract and underground equipment purchases. Ramp-up to planned sinking rates for both the ventilation and production shaft continues, following several operational changes implemented with the intention of improving cycle times. Cover grout programs commenced at the end of Q4 2022 and are expected to be completed early in Q4 2023 as the production shaft reaches the Mosolotane sandstone/mudstone transition.

As a result of the rebase announced in July 2023, a review of sustaining capital and project expenditures related to the open pit mining operations commenced. Sustaining capital and project expenditures may be up to \$16 million in 2023, previously up to \$20 million, with a focus on replacement and refurbishment of key asset components in addition to dewatering activities, an expansion of the tailings storage facility in accordance with GISTM and completion of a community sports facility.

COVID-19 GLOBAL PANDEMIC, ECONOMIC AND GEOPOLITICAL RISKS

While the potential risks associated with COVID-19 are less impactful than in recent years, the ongoing Russian military invasion of Ukraine, conflict in Gaza-Israel, and other geopolitical risks mean that circumstances remain dynamic and other challenges, including high inflation and the possibility of a global recession, make the impact on our financial position or operations difficult to reasonably estimate. It remains possible for Lucara’s operations to be impacted in several ways including, but not limited to, a suspension of operations at the Karowe Mine, increased prices for fuel, power, and other commodities, 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. Increased prices for fuel, power, and other commodities may have adverse impacts on the Company's cost of doing business. The Company cannot accurately predict the impact that ongoing conflicts, or the prevailing global economic uncertainty, will have on its financial position or operations.

FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

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

Currency risk

The Company is exposed to the financial risk related to fluctuating foreign exchange rates. All sales revenues are denominated in U.S. dollars, while directly related costs are denominated in Botswana Pula. At September 30, 2023, the Company was exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately \$3.5 million in net income for the period.

Liquidity risk

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

The WCF matures on the Longstop Date. The Company has requested an extension to the maturity date of this facility in accordance with the terms of the Facilities. However, there is no guarantee that this facility will be renewed on the same terms as the maturing facility. Historically, the Company has used the WCF to manage its short-term working capital requirements. The Company is not permitted further draws from the WCF while the Rebase Amendments are ongoing. The Company's major shareholder Nemesia has provided a \$15 million Liquidity Guarantee in aggregate in the event the Company's cash balance decreases below \$10.0 million while discussions with the Lenders are ongoing (see Note 9 of the condensed interim consolidated financial statements for the three and nine months ended September 30, 2023).

As a condition of the Facilities Agreement, the Company was required to place \$52.9 million in the COF by September 2, 2023. The Facilities Agreement includes specific provisions for how and when these funds may be released. An extension of the time required to meet the requirement has been granted by the Lenders in connection with the Rebase Amendments. As at September 30, 2023, the COF balance was \$18.4 million. This amount is classified within other non-current assets.

Further details regarding the Company's liquidity risk are disclosed under the heading "Liquidity and Capital Resources".

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 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.

On September 28, 2023, the Company terminated the sales agreement with HB. The termination increased the credit risk on amounts due from HB. Under the terms of this sales agreement, a larger proportion of the Company's goods, by value, were sold through HB to buyers of polished diamonds. The credit risk associated with these sales was concentrated with HB, a single customer, and payment terms were longer (60 to 120 days) than the Company's traditional tender sales and sales held through Clara (5 days). The Company maintained legal title over goods sold

to HB until the initial determined estimated polished price was paid and monitored outstanding amounts for collectability. Amounts which were overdue at September 30, 2023 were settled in October. The remaining amount at risk of the balance due from HB at September 30, 2023 is \$6.1 million. As goods continue through the manufacturing process with HB, further receivable may result as the Company has a contractual right to future top-up payments for stones delivered prior to termination of the agreement. 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 Loan through interest rate swaps that exchange the variable rate inherent in the term debt for a fixed rate (see Note 8 of the condensed interim consolidated financial statements for the three and nine months ended September 30, 2023). 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.

As described above in the section "Interest Rate Swaps", in December 2021 the Company entered into contracts to exchange the variable interest rate (three-month USD LIBOR; amended to Term SOFR) for a fixed interest rate of 1.682% on 75% of its expected borrowings from the Project Loan (approximately \$127.5 million). Interest rates increased rapidly through 2022. The Company is exposed to these interest rate increases through 25% of its expected borrowings from the Project Loan, any amounts drawn from its \$50 million WCF and from its \$4 million Clara Facility, each of which remain subject to market interest rates (LIBOR and Term SOFR). Higher interest rates decrease the amount of cash flow available for other uses.

Price risk

The Company derives its income from the sale of rough diamonds mined in Botswana and margin earned on the sale of rough diamonds sold through Clara. 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 now terminated supply agreement with the HB, the ultimate achieved sales prices of stones larger than 10.8 carats in size was based on a polished diamond pricing mechanism. This pricing mechanism resulted in the Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than through its traditional tender process for rough diamonds. The pricing of both polished and rough diamonds softened in the first half of 2023 following significant price improvements between late 2021 and mid-2022.

To the extent that the supply of rough or polished diamonds exceeds demand, this is likely to result in price deterioration which could have a negative impact on the Company's revenue and ability to generate positive cash flow from operations. The Company is using excess cash flow from operations, on combination with the Project Loan, to fund the \$683 million estimated capital cost for the Karowe UGP.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 455,599,893 common shares outstanding, 5,077,000 share units, 2,970,594 deferred share units, and 6,997,666 stock options outstanding under its share-based incentive plans.

RISKS AND UNCERTAINTIES

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

the addition of the following risks. Any one or more of these risks and uncertainties could have a material adverse effect on the Company.

Access to Capital and Financing Requirements, Liquidity Risk

The Underground Project has an updated capital cost of \$683 million. The Company expects to use a combination of cash flow from operations and external financing for this expansion project and as such a substantial portion of the Company's revenues and cash flows are committed to the Underground Project at the Karowe Mine. As a result of the Company's near-term commitments to place funds in the COF and the maturity date of the WCF, there is doubt regarding the Company's ability to meet its commitments and discharge its obligations in the normal course of business. While Management believes the Company will be able to resolve the noted items through its ongoing engagement with its Lenders, there can be no assurance that those efforts will be successful. These factors give rise to material uncertainties that may cast significant doubt on the ability of the Company to continue to meet its obligations as they come due.

To the extent that Lucara does not generate sufficient revenues and operating cash flow to satisfy its obligations in connection with the UGP and its debt obligations, including the fulfillment of the COF, it will require additional capital. If the Company raises additional capital by issuing equity, such financing may dilute the interests of shareholders and reduce the value of their investment. Moreover, Lucara may not be successful in locating suitable additional or alternate financing when required or at all or, if available, may incur substantial fees and costs and the terms of such financing might not be favourable to the Company. A failure to raise capital when needed could have a material adverse effect on Lucara's business, financial condition, and results of operations. Failure to obtain any financing necessary for our capital expenditure plans may result in a delay or indefinite postponement of exploration, development activities related to the Karowe UGP, or production from the Karowe Mine.

If the Karowe UGP is delayed for any number of reasons, the overall cost of the Karowe UGP could materially increase, and the completion of the Karowe UGP could be materially delayed or prevented from reaching completion. If the Karowe UGP is materially delayed or impeded, the Company will not be able to extend the life of the Karowe Mine and future financial performance and the Company's share price would be materially negatively impacted.

OFF-BALANCE SHEET ARRANGEMENTS

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

CHANGES IN ACCOUNTING POLICIES

During the three and nine months ended September 30, 2023 there were no changes to the accounting policies described in Note 4 of the audited consolidated financial statements for the year ended December 31, 2022.

Certain pronouncements have been issued by the IASB that are mandatory for accounting periods starting January 1, 2023. There are currently no such pronouncements that are expected to have a significant impact on the Company's consolidated financial statements upon adoption.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of this document along with the unaudited condensed interim consolidated financial statements. Management is responsible for the integrity and objectivity of this document, ensuring the fair presentation of its financial results. The Audit Committee is responsible for reviewing the contents of this document along with the condensed interim consolidated financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended September 30, 2023.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

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

Internal controls over financial reporting

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

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

There have been no changes in the Company’s internal control over financial reporting during the three months ended September 30, 2023 that have materially affected or are reasonably likely to materially affect the Company’s internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

In particular, forward-looking information and forward-looking statements may include, but are not limited to, information or statements with respect to the Company’s ability to continue as a going concern, the project schedule and capital costs for the Karowe UGP, the diamond sales, projection and outlook disclosure under “2023 Outlook”, the Company’s ability to successfully agree the Rebase Amendments with its Lenders, the Company’s ability to receive a deferral of the deadline to fill the COF, the impact of supply and demand of rough or polished diamonds, expectations regarding top-up values, estimated capital costs, the timing, scope and cost of additional grouting events at the Karowe UGP, the Company’s ability to comply with the terms of the Facilities which are required to construct the Karowe UGP, including future funding requirements to the COF, that expected cash flow from operations, combined with external financing will be sufficient to complete construction of the Karowe UGP, that the estimated timelines to achieve mine ramp up and full production from the Karowe UGP can be achieved, that sufficient stockpiled ore will be available to generate revenue prior to the achievement of commercial production of the Karowe underground mine, the economic potential of a mineralized area, the size and tonnage of a mineralized area, anticipated sample grades or bulk sample diamond content, expectations that the Karowe UGP will extend mine life, forecasts of additional revenues, future production activity, that depletion and amortization expense on assets will be affected by both the volume of carats recovered in any given period and the reserves that are expected to be recovered, the future price and demand for, and supply of, diamonds, expectations regarding the scheduling of activities for the Karowe UGP in 2023, future forecasts of revenue and variable consideration in determining revenue, the impact of the termination of the HB sales agreement on the Company’s projected revenue and sales channels, estimation of mineral resources, exploration and development plans, cost and timing of the development of deposits and estimated future production, interest rates, including expectations regarding the impact of market

interest rates on future cash flows and the fair value of derivative financial instruments, currency exchange rates, rates of inflation, success of exploration, credit risk, price risk, requirements for and availability of additional capital, capital expenditures, operating costs, timing of completion of technical reports and studies, production and cost estimates, 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, the profitability of Clara and the Clara Platform, and the scaling of the digital platform for the sale of rough diamonds owned by Clara, expectations regarding the Clara platform's growth, the expected use of the Clara Facility, that the Company intends to continue to seek additional supply, both from third-party producers and the secondary market for Clara, and the potential impacts of COVID-19, economic and geopolitical risks, including potential impacts from the Russian military invasion of Ukraine and the escalating conflict between Israel and Hamas.

Forward-looking information and statements are based on the opinions and estimates of management as of the date such statements are made, and they are subject to several known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward-looking statements. The Company believes that expectations reflected in this forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct. Certain risks which could impact the Company are discussed under the heading "Risks and Uncertainties" in this MD&A and in the Company's most recent Annual Information Form available at <http://www.sedar.com> (the "AIF").

The foregoing 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 CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited - in thousands of U.S. Dollars)

	September 30, 2023	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 16,841	\$ 26,418
Receivables and other (Note 3)	37,980	33,102
Derivative financial instrument (Note 8)	2,772	2,447
Inventories (Note 4)	34,890	38,372
	92,483	100,339
Investments	692	661
Inventories (Note 4)	37,591	27,867
Plant and equipment (Note 5)	118,441	88,239
Mineral properties and related construction assets (Note 6)	259,945	244,130
Intangible assets (Note 7)	17,241	18,224
Deferred financing fees (Note 8)	4,213	5,410
Derivative financial instrument (Note 8)	8,639	7,373
Other non-current assets (Note 14c)	22,407	3,596
TOTAL ASSETS	\$ 561,652	\$ 495,839
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	\$ 33,481	\$ 29,689
Deferred revenue	20,000	12,000
Credit facilities (Note 8)	35,000	15,338
Tax and royalties payable	1,222	1,719
Lease liabilities	1,433	1,111
	91,136	59,857
Credit facilities (Note 8)	86,409	62,151
Restoration provisions	13,579	13,649
Deferred income taxes	93,925	87,808
Other non-current liabilities	3,391	2,313
TOTAL LIABILITIES	288,440	225,778
EQUITY		
Share capital, unlimited common shares, no par value (Note 9)	349,567	348,083
Contributed surplus	9,621	10,129
Retained earnings	22,983	6,489
Accumulated other comprehensive loss	(108,959)	(94,640)
TOTAL EQUITY	273,212	270,061
TOTAL LIABILITIES AND EQUITY	\$ 561,652	\$ 495,839

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

Nature of operations and going concern – Note 1
Commitments – Note 16

Approved on Behalf of the Board of Directors:
“Marie Inkster”
Director

“Catherine McLeod-Seltzer”
Director

LUCARA DIAMOND CORP.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited - in thousands of U.S. Dollars, except for share and per share amounts)**

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenues	\$ 56,944	\$ 49,926	\$ 140,829	\$ 170,469
Cost of goods sold				
Operating expenses	21,322	25,841	56,264	60,783
Royalty expenses (Note 6)	6,341	5,549	15,603	19,635
Depletion and amortization	6,331	7,546	14,304	18,223
	33,994	38,936	86,171	98,641
Income from mining operations	22,950	10,990	54,658	71,828
Other expenses				
Administration (Note 11)	6,768	4,220	14,197	13,981
Sales and marketing	659	618	1,898	1,911
Finance expenses	1,221	763	3,448	2,472
Gain on derivative instrument (Note 8)	(1,089)	(3,676)	(1,591)	(10,885)
Foreign exchange loss	1,416	2,018	7,365	2,982
	8,975	3,943	25,317	10,461
Net income before tax	13,975	7,047	29,341	61,367
Income tax expense				
Current income tax	681	–	691	7
Deferred income tax	2,750	5,216	12,156	28,029
	3,431	5,216	12,847	28,036
Net income for the period	\$ 10,544	\$ 1,831	\$ 16,494	\$ 33,331
Earnings per common share				
Basic	\$ 0.02	\$ 0.00	\$ 0.04	\$ 0.07
Diluted	\$ 0.02	\$ 0.00	\$ 0.04	\$ 0.07
Weighted average common shares outstanding				
Basic	454,756,970	453,566,923	454,414,034	453,450,013
Diluted	464,910,987	462,525,510	464,826,087	461,791,006

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

LUCARA DIAMOND CORP.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
(Unaudited - in thousands of U.S. Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Net income for the period	\$ 10,544	\$ 1,831	\$ 16,494	\$ 33,331
Other comprehensive (loss) income				
<i>Items that will not be reclassified to net income</i>				
Change in fair value of marketable securities	16	166	31	(1,083)
<i>Items that may be subsequently reclassified to net income</i>				
Currency translation adjustment	(4,567)	(18,187)	(14,350)	(29,627)
	(4,551)	(18,021)	(14,319)	(30,710)
Comprehensive income (loss) for the period	\$ 5,993	\$ (16,190)	\$ 2,175	\$ 2,621

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

LUCARA DIAMOND CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - in thousands of U.S. Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Cash flows from (used in):				
Operating activities				
Net income for the period	\$ 10,544	\$ 1,831	\$ 16,494	\$ 33,331
Items not affecting cash:				
Depletion and amortization	6,424	7,730	14,183	18,808
Unrealized foreign exchange loss	1,668	2,947	6,928	3,269
Share-based compensation	567	316	1,605	1,516
Unrealized gain on derivative instruments	(1,089)	(3,676)	(1,591)	(10,885)
Deferred income taxes	2,750	5,216	12,156	28,029
Finance costs (income)	(650)	603	819	1,882
	20,214	14,967	50,594	75,950
Net changes in working capital:				
Receivables and other	(7,677)	(6,136)	(9,047)	(743)
Inventories	(203)	2,839	(9,390)	(6,626)
Trade payables, deferred revenue, and other current liabilities	3,597	9,296	13,823	7,263
Tax and royalties payable	(17)	1,188	(397)	3,382
	15,914	22,154	45,583	79,226
Financing activities				
Drawdown (repayment) on working capital facilities, net	(1,573)	–	19,662	(23,000)
Drawdown on project finance facility, net	–	–	25,000	40,000
Share units vested	(193)	(96)	(461)	(144)
Lease payments	(381)	(556)	(1,163)	(1,657)
	(2,147)	(652)	43,038	15,199
Investing activities				
Acquisition of plant and equipment	(3,235)	(5,856)	(6,683)	(9,126)
Mineral property expenditure	(20,298)	(20,951)	(73,112)	(76,446)
Development of intangible assets	(12)	(26)	(36)	(87)
Funds allocated to cost overrun facility	–	–	(18,000)	–
	(23,545)	(26,833)	(97,831)	(85,659)
Effect of exchange rate change on cash and cash equivalents	(43)	(655)	(367)	(937)
Increase (decrease) in cash and cash equivalents	(9,821)	(5,986)	(9,577)	7,829
Cash and cash equivalents, beginning of the period	26,662	40,826	26,418	27,011
Cash and cash equivalents, end of the period ⁽¹⁾	\$ 16,841	\$ 34,840	\$ 16,841	\$ 34,840
Supplemental information – investing activities				
Interest paid	(3,963)	(1,861)	(10,398)	(4,540)
Taxes paid	(688)	(391)	(722)	53
Changes in trade payables and accrued liabilities related to plant and equipment and mineral properties ⁽²⁾	3,280	2,822	(1,446)	8,922

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

(2) Included within accounts payable and accrued liabilities at each period end are additions to property, plant and equipment and mineral properties, acquired on normal course payment terms, of \$12.6 million at September 30, 2023 (\$11.3 million at December 31, 2022).

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

LUCARA DIAMOND CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited – 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, 2023	453,566,923	\$ 348,083	\$ 10,129	\$ 6,489	\$ (94,640)	\$ 270,061
Net income for the period	–	–	–	16,494	–	16,494
Other comprehensive loss	–	–	–	–	(14,319)	(14,319)
Total comprehensive income (loss)	–	–	–	16,494	(14,319)	2,175
Share-based compensation	–	–	1,324	–	–	1,324
Shares issued for liquidity guarantee	450,000	113	–	–	–	113
Shares issued from share units vested	1,582,970	1,371	(1,371)	–	–	–
Withholding tax for share units vested	–	–	(461)	–	–	(461)
Balance, September 30, 2023	455,599,893	\$ 349,567	\$ 9,621	\$ 22,983	\$ (108,959)	\$ 273,212
Balance, January 1, 2022	453,034,981	\$ 347,442	\$ 9,180	\$ (33,945)	\$ (73,705)	\$ 248,972
Net income for the period	–	–	–	33,331	–	33,331
Other comprehensive loss	–	–	–	–	(30,710)	(30,710)
Total comprehensive income (loss)	–	–	–	33,331	(30,710)	2,621
Share-based compensation	–	–	1,319	–	–	1,319
Shares issued from share units vested	531,942	641	(641)	–	–	–
Withholding tax for share units vested	–	–	(144)	–	–	(144)
Balance, September 30, 2022	453,566,923	\$ 348,083	\$ 9,714	\$ (614)	\$ (104,415)	\$ 252,768

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

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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 3500, The Stack, 1133 Melville Street, Vancouver, British Columbia, V6E 4E5, Canada.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for a period of at least twelve months from September 30, 2023. During the nine months ended September 30, 2023, the Company earned net income of \$16.5 million and generated cash of \$45.6 million from operating activities. As at September 30, 2023, the Company had cash and cash equivalents of \$16.8 million, working capital (current assets less current liabilities) of \$1.3 million and had drawn \$35.0 million from its \$50 million working capital facility. The Company is not permitted to make further draws from the working capital facility or the project loan until various amendments to the terms of these loan agreements are negotiated with the Company’s lenders (the “Rebase Amendments”).

In July 2023, the Company provided an update to the schedule and budget for the Karowe Underground Expansion project (the “UGP”). The duration of the construction period increased, extending the anticipated commencement of production from the underground from H2 2026 to H1 2028. The revised forecast of costs at completion is \$683 million, an increase of 28% from the prior estimate in May 2022. Committed, not yet incurred, costs under the UGP are \$96.8 million at September 30, 2023 (Note 16). The Company has notified its lenders of the expected increases to both the schedule duration and the projected cost to complete the UGP and is working closely with its lenders on the Rebase Amendments. The Company’s 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 Loan”), of which \$90.0 million has been drawn at September 30, 2023, and a \$50 million senior secured working capital facility (the “WCF”).

As part of the ongoing Rebase Amendments, the lenders have granted certain waivers and extensions to the Company. The WCF will mature on the earlier of November 15, 2023 and the date on which the Rebase Amendments become effective (the “Longstop Date”). The Company has requested an extension to the maturity date of the WCF in accordance with the terms of the Facilities. However, there is no guarantee that this facility will be renewed on the same terms as the maturing facility. Historically, the Company has used the WCF to manage its short-term working capital requirements. If the Company is not able to extend, amend or replace that facility, it will be required to repay all amounts drawn as at the maturity date.

The Company is required to place \$52.9 million in a cost overrun facility (the “COF”) as a condition of the Facilities. The Facilities Agreement includes specific provisions for how and when these funds may be released from the COF. An extension of the time required to meet the requirement has been granted by the lenders in connection with the extension of the WCF, to the Longstop Date. The COF balance was \$18.4 million as at September 30, 2023.

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

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

1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

Under the terms of the Project Loan, the Company's largest shareholder, Nemesia S.a.r.l. ("Nemesia") provided a limited standby undertaking to the Company of up to \$25.0 million in the event of a funding shortfall occurring up to September 2, 2024. In connection with the ongoing Rebase Amendments and with the same maturity, Nemesia has also provided a liquidity support guarantee of up to \$15.0 million in aggregate in the event the Company's cash balance decreases below \$10.0 million while discussions with the Lenders are ongoing (Note 9).

As a result of the Company's near-term commitment to place funds in the COF and the maturity date of the WCF, there is doubt regarding the Company's ability to meet its commitments and discharge its obligations in the normal course of business. While management believes the Company will be able to resolve the noted items through its ongoing engagement with its Lenders, there can be no assurance that those efforts will be successful. These factors give rise to material uncertainties that may cast significant doubt on the ability of the Company to continue to meet its obligations as they come due. These financial statements do not include adjustments or disclosures that may result should the Company not be able to continue as a going concern. If the going concern assumption were not appropriate for these financial statements, then adjustments would be required to the carrying value of assets and liabilities, the expenses, the reported comprehensive loss, and balance sheet classifications used. These adjustments could be material.

2. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES

(i) Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, IAS 34: Interim Financial Reporting. The condensed interim consolidated financial statements do not contain all of the information required for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements as at December 31, 2022.

These financial statements were approved by the Board of Directors for issue on [November 10, 2023.]

(ii) Adoption of new accounting standards and accounting developments

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2022 and with the following additions.

The Company adopted the IASB published amendments to *IAS 1 - Presentation of Financial Statements - Classification of liabilities as current or non-current and non-current liabilities with covenants* at January 1, 2023. As part of its amendments, the IASB has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. A company classifies a liability as non-current if it has a right to defer settlement for at least 12-months after the reporting period. The amendments clarify how a company classifies a liability that includes a counterparty conversion option, which could be recognized as either equity or a liability separately from the liability component under IAS 32 - Financial Instruments Presentation. Further modification was issued in October 2022 amendments in *Non-current liabilities with covenants*. Only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as

LUCARA DIAMOND CORP.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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2. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES (continued)

current or non-current. The Company has concluded that the adoption of the amendments had no significant impact on its interim condensed consolidated financial statements.

The Company adopted the IASB published amendments to IAS 12 - Income Taxes at January 1, 2023. The amendments require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The proposed amendments typically apply to transactions such as leases for the lessee and decommissioning and restoration obligations related to assets in operation. The Company has concluded that the adoption of the amendments had no significant impact on its interim condensed consolidated financial statements.

3. RECEIVABLES AND OTHER

	September 30, 2023		December 31, 2022
Trade	\$ 23,410	\$	18,769
Value-added and income taxes	10,419		5,301
Deferred financing fees (Note 8)	-		975
Prepayments	4,034		7,078
Other	117		979
	\$ 37,980	\$	33,102

Trade receivables at September 30, 2023 were \$23.4 million (December 31, 2022 – \$18.8 million) due from HB Antwerp (“HB”) under the Company’s sales agreement. Amounts overdue at September 30, 2023 of \$10.9 million were received in October. All other 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.

Revenue from diamond sales during the nine months ended September 30, 2023 includes \$88.8 million (2022: \$104.7 million) sold to HB.

Value-added and income taxes receivable include \$6.8 million at September 30, 2023 which has been remitted to tax authorities, through the withholding of value-added tax refunds to dispute an income tax assessment in Botswana.

4. INVENTORIES

	September 30, 2023		December 31, 2022
Rough diamonds	\$ 19,329	\$	17,988
Ore stockpile	1,978		6,967
Parts and supplies	13,583		13,417
Total current inventories	\$ 34,890	\$	38,372
Non-current inventories – ore stockpile	\$ 37,591	\$	27,867

Inventory expensed during the nine months ended September 30, 2023 totaled \$56.3 million (2022: \$60.8 million). There were no inventory write-downs during the nine months ended September 30, 2023 and 2022.

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

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5. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Furniture and office equipment	Vehicles	Right of use assets	Total
Balance, January 1, 2022	\$ 13,645	\$ 208,279	\$ 14,262	\$ 4,227	\$ 4,205	\$ 244,618
Additions	18,785	–	–	–	3,145	21,930
Reclassification	(11,937)	9,692	1,955	335	–	45
Translation differences	(1,353)	(17,205)	(1,225)	(355)	(451)	(20,589)
Balance, December 31, 2022	\$ 19,140	\$ 200,766	\$ 14,992	\$ 4,207	\$ 6,899	\$ 246,004
Additions	4,918	–	–	–	1,570	6,488
Reclassification (Note 6)	(1,919)	20,204	1,058	419	23,620	43,382
Disposals and other	–	(28)	(6)	–	(184)	(218)
Translation differences	(1,328)	(13,400)	(989)	(285)	(1,176)	(17,178)
Balance, September 30, 2023	\$ 20,811	\$ 207,542	\$ 15,055	\$ 4,341	\$ 30,729	\$ 278,478
Accumulated amortization						
Balance, January 1, 2022	\$ –	\$ 144,306	\$ 8,913	\$ 2,282	\$ 1,796	\$ 157,297
Depletion and amortization	–	7,843	2,469	618	2,854	13,784
Translation differences	–	(12,052)	(809)	(208)	(247)	(13,316)
Balance, December 31, 2022	\$ –	\$ 140,097	\$ 10,573	\$ 2,692	\$ 4,403	\$ 157,765
Depletion and amortization	–	8,814	2,033	474	1,584	12,905
Disposals and other	–	(4)	(4)	–	(184)	(192)
Translation differences	–	(9,196)	(735)	(188)	(322)	(10,441)
Balance, September 30, 2023	\$ –	\$ 139,711	\$ 11,867	\$ 2,978	\$ 5,481	\$ 160,037
Net book value						
As at December 31, 2022	\$ 19,140	\$ 60,669	\$ 4,419	\$ 1,515	\$ 2,496	\$ 88,239
As at September 30, 2023	\$ 39,991	\$ 49,105	\$ 2,909	\$ 1,188	\$ 25,248	\$ 118,441

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

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

6. MINERAL PROPERTIES AND RELATED CONSTRUCTION ASSETS

Cost	Capitalized production stripping asset	Karowe Mine	Karowe Underground Construction	Total
Balance, January 1, 2022	\$ 66,073	\$ 41,857	\$ 126,117	\$ 234,047
Additions	—	—	106,389	106,389
Borrowing cost capitalized	—	—	6,676	6,676
Adjustment to restoration asset	—	(1,669)	—	(1,669)
Reclassification	—	—	(45)	(45)
Translation differences	(5,368)	(3,336)	(14,277)	(22,981)
Balance, December 31, 2022	\$ 60,705	\$ 36,852	\$ 224,860	\$ 322,417
Additions	—	—	70,750	70,750
Borrowing cost capitalized	—	—	6,942	6,942
Reclassification (Note 5)	—	—	(43,382)	(43,382)
Depreciation capitalized	—	—	3,931	3,931
Translation differences	(3,932)	(2,387)	(15,690)	(22,009)
Balance, September 30, 2023	\$ 56,773	\$ 34,465	\$ 247,411	\$ 338,649
Accumulated depletion				
Balance, January 1, 2022	\$ 43,381	\$ 33,088	—	\$ 76,469
Depletion	7,042	1,286	—	8,328
Translation differences	(3,776)	(2,734)	—	(6,510)
Balance, December 31, 2022	\$ 46,647	\$ 31,640	—	\$ 78,287
Depletion	4,467	1,187	—	5,654
Translation differences	(3,153)	(2,084)	—	(5,237)
Balance, September 30, 2023	\$ 47,961	\$ 30,743	—	\$ 78,704
Net book value				
As at December 31, 2022	\$ 14,058	\$ 5,212	\$ 224,860	\$ 244,130
As at September 30, 2023	\$ 8,812	\$ 3,722	\$ 247,411	\$ 259,945

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 nine months ended September 30, 2023, the Company incurred a royalty expense of \$15.6 million (nine months ended September 30, 2022: \$19.6 million).

The Karowe Underground Construction will not be depreciated until the asset is available for its intended use.

A 132 kV bulk power supply powerline, including the Letlhakane and Karowe substations, and an 11 kV transmission line to the Karowe Mine were completed and put into use on March 31, 2023. The assets, constructed pursuant to a self-build agreement, were handed over to Botswana Power Corporation who will own and operate the substations and lines. Consequently, \$23.3 million has been reclassified from Karowe Underground Construction to Plant and Equipment as a right of use asset.

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6. MINERAL PROPERTIES AND RELATED CONSTRUCTION ASSETS (continued)

Total borrowing costs of \$14.0 million (December 31, 2022 – \$7.8 million) during the period of construction relating to the Karowe Underground Construction asset have been capitalized to date. Capitalized borrowing costs include interest and amortized initial arrangement costs related to the Project Loan (Note 8).

7. INTANGIBLE ASSETS**Cost**

Balance, January 1, 2022	\$	23,916
Development expenditures		90
Translation differences		(1,495)
Balance, December 31, 2022	\$	22,511
Development expenditures		36
Translation differences		(58)
Balance, September 30, 2023	\$	22,489

Accumulated amortization

Balance, January 1, 2022	\$	3,192
Amortization		1,348
Translation differences		(253)
Balance, December 31, 2022	\$	4,287
Amortization		981
Translation differences		(20)
Balance, September 30, 2023	\$	5,248

Net book value

As at December 31, 2022	\$	18,224
As at September 30, 2023	\$	17,241

In 2018, the Company acquired the Clara platform, a secure, digital sales platform for rough diamonds. The consideration paid was allocated to intangible assets which will continue to be amortized over the remaining estimated useful economic life of approximately 13.5 years as at September 30, 2023.

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 Earnings Before Interest, Tax, Depletion and Amortization (“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. As of September 30, 2023, no contingent consideration has been recorded as no obliging event has occurred.

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8. CREDIT FACILITIES

	September 30, 2023	December 31, 2022
<i>Current</i>		
Working capital facility	\$ 35,000	\$ 15,000
Revolving credit facility	–	338
Deferred financing fees	\$ –	\$ (975)
<i>Non-current</i>		
Project Loan, net of fees	\$ 86,409	\$ 62,151
Deferred financing fees	\$ (4,213)	\$ (5,410)

Senior secured project facility

On July 12, 2021, the Company's wholly-owned subsidiary, Lucara Botswana, with Lucara Diamond Corp. as sponsor and 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 Facilities are made up of the Project Loan of \$170 million to fund the development of an underground expansion at the Karowe Mine, and a \$50 million senior secured WCF. Effective June 30, 2023, the Facilities were amended to replace LIBOR with Term Secured Overnight Financing Rate ("SOFR") plus a credit adjustment spread. There were no changes to the margins as outlined below.

The Project Loan may be used to fund the development, construction costs and construction phase operating costs of the underground expansion project as well as financing costs on the Facilities. The Project Loan matures on September 2, 2029, with quarterly repayments commencing on June 30, 2026. As at September 30, 2023, \$90.0 million of the \$170.0 million facility was drawn. The Project Loan has a margin of 5.5% annually until the project completion date, and 5.0% annually thereafter. Commitment fees for the undrawn portion of the Project Loan are 2.0%.

The Company was required to place \$52.9 million in the COF as a condition of the Facilities. The Facilities Agreement includes specific provisions for how and when these funds may be released from the COF. An extension of the time required to meet the requirement has been granted by the lenders in connection with the extension of the WCF, to the Longstop Date. The COF balance was \$18.4 million as at September 30, 2023.

The WCF may be used for working capital and other corporate purposes. As at September 30, 2023, \$35.0 million of the \$50.0 million facility was drawn. This facility has a margin of 3.5% annually with commitment fees for the undrawn portion of 1.6%. The facility matures at the Longstop Date, November 15, 2023 (Note 1). The Company has requested an extension to the maturity date of this facility in accordance with the terms of the Facilities. However, there is no guarantee that this facility will be renewed on the same terms as the maturing facility.

The Company incurred \$11.3 million of debt advisory, legal and due diligence fees in conjunction with arranging the Facilities. Costs of \$8.7 million were allocated to the Project Loan and initially recorded as deferred financing fees that are subsequently transferred as transaction costs proportional to the amount drawn under the Project Loan. Costs of \$2.6 million were allocated to the WCF as deferred financing fees, fully amortized. Transaction costs under the Project Loan are amortized over the remaining facility terms.

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

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

8. CREDIT FACILITIES (continued)

As at September 30, 2023, the Company was in compliance with all covenants under the Facilities but until the Rebase Amendments are effective, the Company is not permitted further draws from the Facilities. The Company has several commitments in the near term under the Facilities that are outlined in Note 1.

Interest rate swap agreements

On December 14, 2021, under the terms of the Project Loan, the Company became party to a series of interest rate swap agreements on 75% of the principal amount available, up to \$127.5 million. Structured around the expected Project Loan drawdown schedule, the Company receives interest at the rate equivalent to the three-month USD LIBOR and pays interest at a fixed rate of 1.682% on a quarterly basis. Effective June 30, 2023, the interest rate swaps were amended to replace LIBOR with Term SOFR plus a credit adjustment spread. The final interest rate swap matures on March 31, 2028.

As at September 30, 2023, the interest rate swaps had a total unrealized fair value of \$11.4 million (December 31, 2022: \$9.8 million), of which \$2.8 million has been classified as a current asset. The fair value of the interest rate swap is based on the difference between the three-month USD Term SOFR forward curve and the fixed rate of 1.682%, with the net interest due in the next twelve months classified as current.

Clara revolving credit facility

On September 28, 2022, the Company's wholly-owned subsidiary, Clara, with Lucara Diamond Corp. as guarantor, entered into a revolving credit facility agreement of \$4.0 million with FirstRand Bank Limited, acting through its Rand Merchant Bank Division (the "Clara Facility"). The Clara Facility is used for inventory and working capital purposes. During the quarter ended September 30, 2023, the facility was extended for a further year, until September 28, 2024. As at September 30, 2023, \$nil (December 31, 2022: \$0.3 million) of the facility was drawn. The facility bears interest at SOFR plus a margin of 6.0%.

9. SHARE CAPITAL

Under the Project Loan (Note 8), the Company's largest shareholder, Nemesia provided a limited standby undertaking to the Company 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.

In connection with the ongoing Rebase Amendments (Note 1), in August 2023 Nemesia provided a liquidity support guarantee of up to \$15.0 million in aggregate (the "Liquidity Guarantee") to the Longstop Date. The Company has agreed to issue a debenture (the "Debenture") to Nemesia to be drawn down if Nemesia is required to make a payment under the Liquidity Guarantee. As consideration for providing the Liquidity Guarantee, Lucara issued 450,000 common shares to Nemesia. A further 450,000 common shares will be issuable should the Liquidity Guarantee be called upon in the event the Company's cash balance decreases below \$10.0 million. For each \$500,000 drawn down under the Liquidity Guarantee, the Company will be required to issue 7,500 common shares per month to Nemesia until the amounts borrowed are repaid.

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

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

10. 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 and has since been amended, with Shareholder approval, several times. Amendments to the Option Plan were most recently approved by Shareholders on May 12, 2023. 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 historically 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. Options granted in 2023 cliff vest following a three-year period and expire five 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, 2022	6,249,000	\$ 1.26
Granted	2,332,000	0.66
Expired	(1,065,000)	2.35
Forfeited	(1,102,000)	1.06
Balance at December 31, 2022	6,414,000	\$ 0.89
Granted	2,412,000	0.57
Expired	(1,134,000)	1.64
Forfeited	(694,334)	0.66
Balance at September 30, 2023	6,997,666	\$ 0.68

Options granted to acquire common shares outstanding at September 30, 2023 are as follows:

Range of exercise prices CA\$	Outstanding Options		Exercisable Options			
	Number of options outstanding	Weighted average contractual life (years)	Weighted average exercise price (CA\$)	Number of options exercisable	Weighted average contractual life (years)	Weighted average exercise price (CA\$)
\$0.50 - \$0.74	4,150,666	3.46	0.61	1,358,665	2.99	0.63
\$0.75 - \$0.79	2,847,000	1.00	0.78	2,404,000	0.92	0.78
	6,997,666	2.45	\$ 0.68	3,762,665	1.67	\$ 0.73

During the nine months ended September 30, 2023, an amount of \$0.3 million (2022 – \$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:

	2023	2022
Assumptions:		
Risk-free interest rate (%)	2.99	1.59
Expected life (years)	4.54	3.63
Expected volatility (%)	49.81	51.56
Expected dividend	Nil	Nil
Results:		
Weighted average fair value of options granted (per option)	CA\$0.25	CA\$0.25

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10. 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 decrease in the common shares reserved for issuance upon the vesting of SUs to 17,000,000 were approved by Shareholders at the May 12, 2023 annual meeting.

SUs typically vest three years from the date of grant and certain share units include performance metrics, some of which provide for annual vesting. 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 nine months ended September 30, 2023, the Company recognized a share-based payment charge of \$1.0 million (2022 – \$1.0 million) for the SUs granted.

	Number of share units	Estimated fair value at date of grant (CA\$)
Balance at January 1, 2022	5,234,848	\$ 0.83
Granted	2,860,000	0.64
Redeemed	(1,038,848)	1.14
Balance at December 31, 2022	7,056,000	\$ 0.71
Granted	3,337,000	0.57
Redeemed	(2,876,001)	0.74
Cancelled	(2,439,999)	0.60
Balance at September 30, 2023	5,077,000	\$ 0.65

c. Deferred share units ("DSUs")

The Company's deferred share unit plan was approved by the Company's Shareholders initially on May 8, 2020. Amendments providing for the issuance of up to 4,500,000 DSUs to eligible directors were most recently approved on May 12, 2023. 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 nine months ended September 30, 2023, the Company recognized a share-based payment charge of \$0.3 million (2022 – \$0.3 million) related to the DSUs granted.

	Number of DSUs	Estimated fair value (CA\$)
Balance at January 1, 2022	1,234,510	\$ 0.59
Granted	881,593	\$ 0.58
Balance at December 31, 2022	2,116,103	\$ 0.50
Granted	854,491	\$ 0.49
Balance at September 30, 2023	2,970,594	\$ 0.50

LUCARA DIAMOND CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

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

11. ADMINISTRATION

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Salaries and benefits	\$ 3,060	\$ 1,795	\$ 5,182	\$ 5,521
Professional fees	955	874	2,581	2,067
Insurance, office, exploration and general	1,589	368	2,378	1,579
Promotion	195	365	833	1,413
Stock exchange, transfer agent, shareholder communication	51	65	273	282
Travel	173	228	537	640
Share-based compensation (Note 10)	567	316	1,605	1,516
Depreciation	64	209	138	656
Sustainability and donations	114	-	670	307
	\$ 6,768	\$ 4,220	\$ 14,197	\$ 13,981

12. RELATED PARTY TRANSACTIONS

a) 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:

	Nine months ended September 30,	
	2023	2022
Salaries and wages	\$ 2,565	\$ 1,432
Short term benefits	27	26
Share based compensation	1,212	929
	\$ 3,804	\$ 2,387

b) Clara acquisition

At the time of Lucara's acquisition of Clara, a current officer of the Company was also a shareholder of Clara. If all the Clara performance milestones are reached, this individual will receive an additional 74,999 common shares 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 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 described in Note 7, a total of 3.45% of the EBITDA generated by the platform has been assigned to a former director and officer of Lucara and a director of Lucara, both founders 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 at September 30, 2023, no amounts have been paid under this profit sharing mechanism to date.

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13. SEGMENT INFORMATION

The Company's primary business activity is the operation of an open-pit diamond mine in Botswana. The Company has two operating segments: Karowe Mine and Corporate and other.

Three months ended September 30, 2023

	Karowe Mine	Corporate and other	Total
Revenues	\$ 56,277	\$ 667	\$ 56,944
Income (loss) from operations	23,614	(664)	22,950
Finance expenses	(980)	(241)	(1,221)
Gain on derivative financial instrument	1,089	–	1,089
Foreign exchange loss	(1,708)	292	(1,416)
Administrative and other	(3,304)	(4,123)	(7,427)
Taxes	(3,431)	–	(3,431)
Net income (loss) for the period	\$ 15,280	\$ (4,736)	\$ 10,544
Capital expenditures	\$ 23,533	\$ 12	\$ 23,545

Three months ended September 30, 2022

	Karowe Mine	Corporate and other	Total
Revenues	\$ 46,489	\$ 3,437	\$ 49,926
Income (loss) from operations	11,329	(339)	10,990
Finance expenses	(712)	(51)	(763)
Gain on derivative financial instrument	3,676	–	3,676
Foreign exchange loss	(2,127)	109	(2,018)
Administrative and other	(2,216)	(2,622)	(4,838)
Taxes	(5,216)	–	(5,216)
Net income (loss) for the period	\$ 4,734	\$ (2,903)	\$ 1,831
Capital expenditures	\$ 29,079	\$ 26	\$ 29,105

Depletion and amortization expense for Karowe Mine and Corporate and other during the three months ended September 30, 2023 totaled \$5.9 million and \$0.5 million, respectively (2022 – \$7.1 million and \$0.4 million).

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13. SEGMENT INFORMATION (continued)

	Nine months ended September 30, 2023		
	Karowe Mine	Corporate and other	Total
Revenues	\$ 136,131	\$ 4,698	\$ 140,829
Income (loss) from operations	56,228	(1,570)	54,658
Finance expenses	(3,336)	(112)	(3,448)
Gain on derivative financial instrument	1,591	–	1,591
Foreign exchange loss	(7,306)	(59)	(7,365)
Administrative and other	(7,086)	(9,009)	(16,095)
Taxes	(12,847)	–	(12,847)
Net income (loss) for the period	\$ 27,244	\$ (10,750)	\$ 16,494
Capital expenditures	\$ 79,795	\$ 36	\$ 79,831
Total assets	\$ 539,288	\$ 22,364	\$ 561,652
	Nine months ended September 30, 2022		
	Karowe Mine	Corporate and other	Total
Revenues	\$ 163,679	\$ 6,790	\$ 170,469
Income (loss) from operations	73,060	(1,232)	71,828
Finance expenses	(2,279)	(193)	(2,472)
Gain on derivative financial instrument	10,885	–	10,885
Foreign exchange loss	(3,047)	65	(2,982)
Administrative and other	(7,023)	(8,869)	(15,892)
Taxes	(28,029)	(7)	(28,036)
Net income (loss) for the period	\$ 43,567	\$ (10,236)	\$ 33,331
Capital expenditures	\$ 87,844	\$ 87	\$ 87,931
Total assets	\$ 434,319	\$ 26,227	\$ 460,546

Depletion and amortization expense for Karowe Mine and Corporate and other during the nine months ended September 30, 2023 totaled \$13.0 million and \$1.3 million, respectively (2022 – \$16.9 million and \$1.3 million).

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14. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

a) *Measurement categories and fair values*

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.

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).

	September 30, 2023	December 31, 2022
Level 1: Fair value through other comprehensive income		
– Investments	\$ 692	\$ 661
Level 2: Derivative financial instruments	\$ 11,411	9,820
Level 3: N/A		

b) *Financial risk management*

The Company's financial instruments are exposed to certain financial risks, including currency, credit, liquidity and price risks.

Currency risk

The Company is exposed to the financial risk related to fluctuating foreign exchange rates. All sales revenues are denominated in U.S. dollars, while directly related costs are denominated in Botswana Pula. At September 30, 2023, the Company was exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately \$3.5 million in net income for the period.

Liquidity risk

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

The contractual maturities of long-term debt, and interest rate swaps are disclosed in Note 8.

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14. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

The WCF matures on the Longstop Date. The Company has requested an extension to the maturity date of this facility in accordance with the terms of the Facilities. However, there is no guarantee that this facility will be renewed on the same terms as the maturing facility. Historically, the Company has used the WCF to manage its short-term working capital requirements. The Company is not permitted further draws from the WCF while the Rebase Amendments are ongoing.

As a condition of the Facilities Agreement, the Company was required to place \$52.9 million in the COF by September 2, 2023. The Facilities Agreement includes specific provisions for how and when these funds may be released. An extension of the time required to meet the requirement has been granted by the lenders as part of the ongoing Rebase Amendments. As at September 30, 2023, the COF balance was \$18.4 million. This amount is classified within other non-current assets.

Further details regarding the Company's liquidity risk are disclosed in Note 1.

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.

On September 28, 2023, the Company terminated the sales agreement with HB. The termination increased the credit risk on amounts due from HB. Under the terms of this sales agreement, a larger proportion of the Company's goods, by value, were sold through HB to buyers of polished diamonds. The credit risk associated with these sales was concentrated with HB, a single customer, and payment terms were longer (60 to 120 days) than the Company's traditional tender sales and sales held through Clara (5 days). The Company maintained legal title over goods sold to HB until the initial determined estimated polished price was paid and monitored outstanding amounts for collectability. Amounts which were overdue at September 30, 2023 were settled in October. The remaining amount at risk of the balance due from HB at September 30, 2023 is \$6.8 million. As goods continue through the manufacturing process, further amounts receivable from HB may result.

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 Loan through interest rate swaps that exchange the variable rate inherent in the term debt for a fixed rate (see Note 8). 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.

In December 2021, the Company entered into contracts to exchange the variable interest rate (three-month USD LIBOR; amended to Term SOFR) for a fixed interest rate of 1.682% on 75% of its expected borrowings from the Project Loan (approximately \$127.5 million). Interest rates increased rapidly through 2022. The Company is exposed to these interest rate increases through 25% of its expected borrowings from the Project Loan, amounts drawn from its \$50 million WCF and from its \$4 million

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14. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

Clara Facility, each of which remain subject to market interest rates (LIBOR and Term SOFR). Higher interest rates decrease the amount of cash flow available for other uses.

Price risk

The Company derives its income from the sale of rough diamonds mined in Botswana, margin earned on the sale of rough diamonds sold through Clara and polished diamond sales through HB. 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 now terminated supply agreement with HB, the ultimate achieved sales prices of stones larger than 10.8 carats in size was based on a polished diamond pricing mechanism. This pricing mechanism resulted in the Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than through its traditional tender process for rough diamonds. The pricing of both polished and rough diamonds softened in the first half of 2023 following significant price improvements between late 2021 and mid-2022.

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.

15. IMPAIRMENT TEST – KAROWE MINE

The Company completed an assessment of impairment indicators for the Karowe Cash Generating Unit ("CGU"). On July 16, 2023, the Company announced an update to the UGP schedule that extended the anticipated duration of construction and increased the estimated capital cost. This update was considered to be an indicator of impairment at June 30, 2023. No further indicators of impairment have been noted since June 30, 2023.

As a result of an impairment indicator being identified, the recoverable amount of the Karowe CGU was estimated and compared against its carrying value. No impairment was identified.

The recoverable amount of the Karowe CGU is based on the discounted projected after-tax cash flows expected to be derived from the mining properties and represents the CGU's fair value less cost of disposal ("FVLCD"). The determination of FVLCD requires use of Level 2 and Level 3 valuation inputs. The key assumptions that impact the discounted projected cash flows used in determining the FVLCD are set out below.

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15. IMPAIRMENT TEST – KAROWE MINE (continued)*Key assumptions as at June 30, 2023*

Discount rate	A discount rate of 11.0%, calculated based on a real weighted cost of capital including the effect of factors such as market, project, and country risk.
Economically recoverable reserves and resources, including production timing and volume	<p>The current Karowe mine plan anticipates planned commencement of production from the underground by mid-2028.</p> <p>Production volumes and life of mine plans include economically recoverable reserves from the most recent reserve and resource estimate based on technical studies undertaken in-house and by third party specialists that consider internal management forecasts and long-term development plans and expectations for the Karowe mine.</p> <p>The current mine plan does not assume the conversion of additional resources which are not currently categorized as reserves.</p>
Diamond prices	<p>The diamond price range is between \$392 and \$828 per carat, depending on the source of the ore, and these prices have been set with reference to recently achieved pricing and market trends, supported by industry views of long-term diamond market fundamentals.</p> <p>Diamond prices are not escalated and remain unchanged over the life of mine. The estimated contribution of exceptional diamonds, defined as an individual diamond sold for more than \$10.0 million, is determined with reference to historical trends and management's expectations based on the source of future production.</p>
Capital expenditure to complete development of the UGP, production costs and future sustaining capital expenditures	Capital to complete development of the UGP is based on the revised project schedule and an estimated cost to complete of \$419 million at June 30, 2023.
Exchange rates	Exchange rates are estimated based on an assessment of current market fundamentals and long-term expectations. With operations in Botswana, a large proportion of operating costs and sustaining capital expenditure is denominated in Botswana pula. The exchange rate range used for the Karowe CGU is between 12.50 and 13.00 Botswana pula to the U.S. dollar.

Sensitivity analysis Q2 2023

The Company analyzed the sensitivity of the impairment test to reasonably possible changes in the key assumptions used to determine the recoverable amount for the Karowe CGU. At June 30, 2023, no changes to any of the key assumptions would, individually, result in an impairment of the CGU:

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15. IMPAIRMENT TEST – KAROWE MINE (continued)

- Increase in discount rate by 3%;
- Reducing diamond pricing by 15% over the life of mine;
- Reducing production over the life of mine by 10%, through lower grades, recovery rates or a combination of these and other factors;
- Increasing underground project capex, operating cost and sustaining capital by 20%, whether through escalation of costs, the impact of changes in foreign exchange rate or other factors.

16. COMMITMENTS

As at September 30, 2023, 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 \$96.8 million (December 31, 2022 - \$111.5 million). The following table summarizes the approximate timing of the commitments (undiscounted) at September 30, 2023:

		2023	2024	2025	2026 and 2027	Total
Underground expansion project	\$ million	30.2	33.2	24.0	9.4	96.8