LUCARA
DIAMOND

Management's Discussion and Analysis

and

Consolidated Financial Statements

Year Ended December 31, 2022

LUCARA DIAMOND CORP.
ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022

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 audited consolidated financial statements of the Company for the year ended December 31, 2022, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in U.S. dollars unless otherwise indicated.

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

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

The effective date of this MD&A is February 21, 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 – FISCAL 2022

- All key operational and financial metrics from the Company's 2022 Guidance were achieved.
- Total revenue of $212.9 million, including $9.1 million through Clara, was reflective of a strong market early in 2022 and upside exposure to polished diamond prices achieved through the committed sales agreement with HB Trading BV ("HB"). During fiscal 2022, this agreement was extended for a 10-year period, to December 2032.
- Sales of Karowe diamonds continued to generate most of the Company's annual revenue. During the year ended December 31, 2022, a total of 327,028 carats were sold through the Company's three sales channels, generating revenue of $165.4 million (before top-up payments of $38.4 million).
- A total of 795 diamonds greater than 10.8 carats in size ("Specials") were recovered during 2022, representing 7.2% weight percentage of total carats recovered. For the year ended December 31, 2022, a total of 34 diamonds greater than 100 carats were recovered, including 9 diamonds greater than 200 carats.

- Operating cost per tonne processed[(1)] was $27.94, a decrease of 3% over the prior year cost per tonne processed of $28.93. Despite significant inflationary pressures in 2022, particularly for fuel and labour, a strong US dollar, combined with a lower volume of tonnes mined, offset the increase in costs over the year.
- Total sales volumes of $35.7 million (2021: $28.7 million) transacted through the Clara sales platform, with Karowe diamonds sold representing approximately 60% by value of all diamonds transacted.
- Operational highlights from the Karowe Mine for 2022 included:
    - Ore and waste mined of 3.3 million tonnes (2021: 3.7) and 1.5 million tonnes (2021: 2.6), respectively.
    - 2.8 million tonnes (2021: 2.8) of ore processed.
    - A total of 335,769 carats recovered (2021: 369,390) at a recovered grade of 12.12 carats per hundred tonnes of direct milled ore (2021: 12.93).
    - The twelve-month Total Recordable Injury Frequency Rate of 0.40 (2021: 0.1) at the end of Q4 2022 reflects a series of medical treatment cases reported during the third and fourth quarters of 2022.
    - The Karowe Mine has surpassed two years without a lost time injury.
- Financial highlights for 2022 included:
    - Revenues of $212.9 million (2021: $230.1 million). The sales agreement with HB for Karowe's +10.8 production accounted for 60% (2021: 65%) of total revenues recognized in 2022.
    - Adjusted EBITDA[(1)] of $86.7 million decreased from $102.5 million in 2021, attributed primarily to a decrease in revenues.
    - Net income increased to $40.4 million ($0.09 basic earnings per share) from $23.8 million ($0.06 basic earnings per share) in 2021.
    - Cash flow of $96.2 million (2021: $83.4 million) from operating activities.
- An investment of $106 million in the Karowe UGP resulted in the achievement of several significant milestones in 2022 including:
    - Substantial completion of surface civil works, including headgear erection and winder installs on time and within budget.
    - Main shaft sink activities started in both the ventilation and production shafts to depths below collar of 179 metres and 132 metres, respectively.
    - Commencement of grouting programs in each shaft during December.
    - Completion and energization of the bulk power upgrade consisting of a 29km, 132kV power line and the Letlhakane and Karowe substations.
    - Procurement of underground mobile equipment and a signing of a contract for construction and supply of a bulk air cooler.
- Strong cash position and available liquidity as at December 31, 2022:
    - Cash and cash equivalents of $26.4 million.
    - Two draws totalling $45.0 million from the $170.0 million project finance facility for the Karowe UGP resulting in $65.0 million drawn at year-end.
    - Reduced the outstanding balance on the working capital facility from $23.0 to $15.0 million through 2022, resulting in available liquidity of $35.0 million; and,
    - After year-end, the Company drew $25.0 million from the project finance facility and $8.0 million from the working capital facility.

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

DIAMOND MARKET

2022 began on a solid trajectory following a banner year for diamond prices in 2021. Prices began to soften in the second half of the year in response to increasing global economic and geopolitical uncertainties and resulted in weaker achieved holiday sales results in the US compared to the previous year. Despite this pull back, the market remained stable and price improvement along with increasing market depth has been observed in early 2023. A cautious economic outlook combined with the uncertainty caused by geopolitical events, including the ongoing conflict in Ukraine and continuing implications of the COVID-19 pandemic (specifically in China where the demand for diamonds has not yet recovered) remain a risk to diamond pricing trends in the short term with demand from the US a critical driver on prices of both rough and polished diamonds. The longer-term market fundamentals remain unchanged and positive, pointing to strong price growth over the next few years as demand is expected to outstrip future supply.

SALES CHANNELS

Karowe diamonds are sold through three separate and distinct sales channels: through the HB sales agreement, 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 2020, Lucara announced a partnership agreement with HB, entering into a definitive sales agreement for diamonds recovered that exceed +10.8 carats from the Company's 100% owned Karowe Diamond mine in Botswana. This agreement was extended with certain amendments during 2021 and in November 2022, the agreement was extended again for a further ten-year period through December 31, 2032. The mechanisms of the agreement result in complete transparency within the value chain and create important alignment between the producer and the manufacturer for the first time.

Under the sales agreement, +10.8 carat gem and near gem diamonds from the Karowe Mine of qualities that can directly enter the manufacturing stream are being sold to HB at prices based on the estimated polished outcome of each diamond. 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 a quarterly tender. The estimated polished value is determined through state-of-the-art scanning and planning technology, with an adjusted amount payable on actual achieved polished sales, less a fee and the cost of manufacturing.

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

Top-up payments, net of manufacturing costs, are paid when polished diamonds are sold to an end buyer and the sales prices achieved exceed the initial purchase price paid to Lucara. 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 the most significant impact on the timing of revenue recognition.

The benefits of the committed sales agreement with HB continued to be realized during 2022 as the Company participated in the upside from polished diamond sales for goods delivered in previous quarters. The integrated approach, using state of the art scanning and planning technology has further enhanced the final achieved polished outcome for very large (+50 carat polished) and high value diamonds, a critical production segment for the Company.

Sewelô and Sethunya Diamonds

In 2021, Louis Vuitton resumed its global marketing effort for the historic 1,758 carat "Sewelô", the largest diamond ever mined in Botswana, following delays imposed by COVID-19 related travel restrictions in 2020.

Amidst strengthening prices for large, high value diamonds, and with strong revenue forecast for 2021, a strategic decision was taken late in 2021 to defer the sale of the Sethunya, one of the finest, gem quality, exceptional diamonds produced from the Karowe Mine to date. During the second half of 2022, the Company received a $12 million prepayment from HB which has 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. Clara continued to gain scale and interest as the benefits of purchasing rough diamonds in this innovative way were realized.

Additional supply is required to meet existing demand and drive the platform's growth. Trial sales with a third-party producer continued through Q4 2022, with encouraging results and positive margin earned. Transaction volumes were supplemented with other secondary market supply, which included diamonds purchased by the Company and re-sold through Clara. Karowe goods transacted through Clara represented approximately 60% of the total sales volume transacted during 2022. The Company intends to continue to seek additional supply in 2023, both from third-party producers and the secondary market.

In September 2022, the Company entered into a $4 million revolving credit facility agreement with FirstRand Bank Limited (acting through its Rand Merchant Bank division) which is being used to finance the purchase of additional supply for sale on the platform (see Note 10, "Clara revolving credit facility" disclosure in the consolidated financial statements for the year ending December 31, 2022).

During 2022, the platform was re-factored delivering a better user experience for both buyers and sellers and ensuring the platform will support the growth of Clara. Optimization of the processing power was completed and is expected to reduce operating expenses in 2023. The number of buyers on the platform remained stable (> 90) and the Company continues to maintain a waiting list to manage supply and demand.

Quarterly Tenders

Until mid-2020, the majority of Karowe's production was sold through a tender process held quarterly in Gaborone, Botswana. 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 where the sales have been held since. All +10.8 carat non-gem quality diamonds and all diamonds less than 10.8 carats in weight which did not meet the criteria for sale on Clara are being sold as rough through the quarterly tenders.

COVID-19 GLOBAL PANDEMIC, ECONOMIC AND GEOPOLITICAL RISKS

While COVID-19 is less impactful than in recent years, circumstances remain dynamic and other challenges, which include 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, 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.

In response to the ongoing Russian military invasion of Ukraine, strict economic sanctions were imposed against Russia and its interests. While the Company does not have any operations in Ukraine or Russia, its business may be impacted as the conflict and economic sanctions has given rise to indirect economic impacts, including but not limited to, increased prices for fuel and other commodities, increased volatility in the prices achieved in the rough and polished diamond markets, supply chain challenges and disruptions, logistics and transport disruptions and heightened cybersecurity disruptions and threats. Increased prices for fuel and other commodities may have adverse impacts on the Company's cost of doing business.

The continuation or further escalation of this military conflict could aggravate ongoing global economic challenges and a possible resultant economic downturn could adversely affect the Company's business. These conditions may also result in increased volatility in the market for the Company's securities and could have other effects which are currently unknown. The Company cannot accurately predict the impact that ongoing conflict in Ukraine, or the prevailing global economic uncertainty, will have on its financial position or operations.

KAROWE UNDERGROUND UPDATE

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

The Karowe UGP is expected to extend the mine life to at least 2040, with initial underground carat production predominantly from the highest value eastern magmatic/pyroclastic kimberlite ("EM/PK(S)") unit and is forecast to contribute approximately $4 billion in additional revenues at estimated diamond prices. During 2022, the Company updated the estimated capital cost for the Karowe UGP to $547 million (including contingency) to reflect expected pricing changes following execution of the main sink contract in Q2 2022. Mine ramp up is expected in 2026 with full production from the Karowe UGP expected in H2 2026. The Company is using a combination of cash flow from operations and project debt for the investment in the Karowe UGP, which is fully financed. See "*Sources of Financing*" below for details.

During the three months ended December 31, 2022, a total of $22.3 million was spent on the Karowe UGP development, primarily in relation to ongoing construction activities and procurement of long lead items, including:

- Main sinking in the production and ventilation shafts:
  - Cover grouting began in the production and ventilation shafts in December 2022 in response to expected water inflows from the sandstones. Planned methodology, which includes the use of chemical grouting, has been effective. Experiences gained from this first grouting event, which was subsequently completed in February in the production shaft and remains ongoing in the ventilation shaft, will inform future anticipated cover grouting events as the shafts progress to depth.
  - Main sinking activities continued to ramp up in Q4, however, equipment and operational challenges continued to negatively impact planned cycle times. Cycle time is the period it takes to complete a series of activities within the sinking process to achieve the next planned vertical advance. Active interventions and mitigations implemented in Q4 including equipment and personnel changes as well as shift and rotation schedule optimization along with the roll-out of a behavioural-based safety training program are helping to resolve these issues.
  - The Company intends to assess the impact of incurred delays against the effectiveness of the operational changes implemented in Q4 2022 combined with recent grouting experiences to refresh estimates around planned sinking rates and overall project schedule and budget, before the end of Q2, 2023.
- The 29 km, 132kV bulk power supply powerline, including the Letlhakane and Karowe substations, was energized and handed over to the Botswana Power Corporation at the end of December 2022.
- The 11kV transmission line to the project site was commissioned in mid-January 2023. This represents a significant milestone for the Karowe UGP as it is now fully powered through grid-supplied electricity. Back-up power will continue to be provided by diesel generators.
- Procurement of shaft station underground mobile equipment progressed with equipment deliveries expected to commence in Q1 2023.
- The underground mine bulk air cooler and shaft cooling tender was awarded.

Activities for the Karowe UGP in Q1 2023 are expected to include the following:

- Sinking and grouting within both the ventilation and production shafts.
- Procurement of underground equipment, including dewatering pumps and underground crush and convey systems.

- Development of a request for proposal for the underground lateral development work.
- Continuation of detailed design and engineering of the underground mine infrastructure and layout.
- Transition of the temporary power supply to a back-up power configuration; and,
- Stage two of the bulk power supply upgrade to connect all mine power requirements to the new Karowe Substation and 132kV power line.

The capital cost estimate for the underground expansion in 2023 is $105 million – see “2023 Outlook” below. The program will focus predominantly on shaft sinking and grouting activities in both shafts, along with construction of the bulk air cooler, tendering of the underground development contract and underground equipment purchases. Ramp-up to planned sinking rates for both the ventilation and production shaft continues.

SOURCES OF FINANCING

In July 2021, the Company closed two equity financings for gross proceeds of $31.3 million and the proceeds were used to provide a $30.0 million cash contribution to Lucara Botswana for capital requirements of the Karowe UGP.

On July 12, 2021, the Company’s wholly-owned subsidiary, Lucara Botswana, with Lucara Diamond Corp. as the sponsor and the guarantor, entered into a senior secured project financing debt package of $220 million which consisted of two facilities (the “Facilities”), a project finance facility of $170 million (the “Project Finance Facility”) to fund the development of an underground expansion at the Karowe Mine, and a $50 million senior secured working capital facility which repaid the Company’s previous revolving credit facility and will be used to support on-going operations (the “Working Capital Facility”).

The Project Finance Facility 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 Finance Facility matures on September 2, 2029, with quarterly repayments commencing on June 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 and on September 9, 2021, the Company drew $25.0 million from the $170 million project loan facility.

As at December 31, 2022, $65.0 million of the $170.0 million facility was drawn. The Project Finance Facility bears interest at a rate of LIBOR (or replacement benchmark) plus margin of 5.5% annually until the project completion date, and 5.0% annually thereafter with commitment fees for the undrawn portion of the facility of 2.0%.

The Working Capital Facility may be used for working capital and other corporate purposes. As at December 31, 2022, $15.0 million was drawn on the facility, with $35.0 million available. The facility bears interest at a rate of LIBOR (or replacement benchmark) plus margin of 3.5% annually with commitment fees for the undrawn portion of 1.6%. The facility matures on September 2, 2023.

Prior to the second anniversary of Financial Close in September 2023, the Company must place $52.9 million into a cost overrun facility (the “COF”). The Facilities Agreement includes specific provisions for how and when these funds may be released.

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 Finance Facility and initially recorded as deferred financing fees that are transferred to reflect as transaction costs proportional to the amount drawn under the Project Finance Facility. Costs of $2.6 million were allocated to the Working Capital Facility as deferred financing fees. Transaction costs under the Project Financing Facility and deferred financing fees related to the Working Capital Facility are amortized over the remaining facility terms.

As at December 31, 2022, the Company was in compliance with all covenants under the Facilities.

INTEREST RATE SWAP

On December 14, 2021, under the terms of the Project Finance Facility, 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 Finance Facility 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.

As at December 31, 2022, the interest rate swaps had a total unrealized fair value of $9.8 million (December 31, 2021: $0.8 million negative unrealized fair value) with $2.4 million classified as current and $7.3 million classified as non-current in the Statement of Financial Position. In 2022, the Company recorded a $10.7 million gain (2021 – loss of $0.9 million) on this derivative financial instrument.

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 will be used for working capital purposes and will mature on September 28, 2023. As at December 31, 2022, $0.3 million of the facility was utilized. The facility bears interest at the Secured Overnight Financing Rate plus a margin of 6.0%.

FINANCIAL HIGHLIGHTS

Table 1

In millions of U.S. dollars, except carats or otherwise noted		**Three months ended December 31, 2022**	**2021**		**Year ended December 31, 2022**	**2021**
Revenues	$	42.5	57.9	$	212.9	230.1
Operating expenses		(18.5)	(22.3)		(79.3)	(80.3)
Net income for the period		7.1	1.7		40.4	23.8
Earnings per share (basic and diluted)		0.02	0.00		0.09	0.06
Operating cash flow per share[(1)]		0.03	0.05		0.19	0.24
Cash on hand		26.4	27.0		26.4	27.0
Amounts drawn on working capital facility[(2)]		15.0	23.0		15.0	23.0
Amounts drawn on project finance facility		65.0	25.0		65.0	25.0
Revenue from the sale of Karowe diamonds		40.1	56.5		203.8	227.9
Average price per carat sold ($/carat)[(3)]		450	473		506	536
Carats sold		81,264	102,791		327,028	380,493

[(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 revolving credit facility.

[(3)] The Company's revenue is primarily generated from the sale of Karowe diamonds. The average price per carat sold presented in this table relates exclusively to the sale of Karowe diamonds and excludes top-up payments received during the period. The value of diamonds purchased from third parties and sold by the Company through Clara is also excluded. See Table 2 below for additional information. Average price per carat sold is a non-IFRS measure. See "Use of Non-IFRS Performance Measures" below.

Q4 2022 Analysis

The Company recognized total revenues of $42.5 million in Q4 2022. This included $40.1 million from the sale of 81,264 carats from Karowe (including top-up payments of $3.6 million) as well as $2.4 million from the sale of third-party goods on the Clara platform. In comparison, the Company achieved revenues of $57.9 million which included $56.5 million from the sale of 102,791 carats from Karowe (including top-up payments of $7.9 million) as well as $1.4 million in revenue from third party goods sold through the Clara platform. The change in quarterly revenue was predominantly driven by a 21% decrease in carats sold during Q4 2022.

Operating expenses decreased $3.8 million or approximately 17%, from $22.3 million in Q4 2021 to $18.5 million in Q4 2022, reflecting the decrease in carats sold. Increases to input costs, particularly as it relates to labour, fuel and power costs, are being experienced and have been offset by the benefit of a stronger U.S. Dollar. Please see Table 5: *"Select Annual Financial Information"* below for details on the expense line items which had the most significant impact on net income of $7.0 million (Q4 2021: $1.7 million) in the quarter.

QUARTERLY SALES RESULTS

Table 2

Q4 2022 - Sales Channel	**Rough Carats Sold**		**Revenue US$ M**		**Average Price/Carat**
HB Agreements	2,812	$	20.5	$	7,301
Clara(1)	2,188		3.8		1,751
Tender(2)	76,264		12.2		160
Subtotal – Karowe diamonds sold	**81,264**	**$**	**36.5**	**$**	**450**
HB top-up payments			3.6		
Total Revenue – Karowe Diamonds		**$**	**40.1**		
3rd party goods (Clara)(1)			2.4		
Total Revenue – Q4 2022		**$**	**42.5**		

Q4 2021 - Sales Channel	**Rough Carats Sold**		**Revenue US$ M**		**Average Price/Carat**
HB Agreements	1,895	$	23.3	$	12,306
Clara(1)	3,685		6.3		1,710
Tender(2)	97,211		19.0		196
Subtotal – Karowe diamonds sold	**102,791**	**$**	**48.6**	**$**	**473**
HB top-up payments			7.9		
Total Revenue – Karowe Diamonds		**$**	**56.5**		
3rd party goods (Clara)(1)			1.4		
Total Revenue – Q4 2021		**$**	**57.9**		

(1) Three sales were completed on Clara in Q4 2022 (Q4 2021: five), with the sale of third-party goods continuing to supplement the total volume transacted.

(2) Non-gem +10.8 carat diamonds (since Q3 2021) 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 – Q4 2022

For the three months ended December 31, 2022, the Company recorded revenue of $24.1 million from the HB agreement (inclusive of top-up payments of $3.6 million), as compared to revenue of $31.2 million in Q4 2021 (inclusive of top-up payments of $7.9 million). The decrease in revenue in Q4 2022 versus the comparative quarter can be attributed primarily to the number of high value diamonds delivered to HB earlier in 2021 for which the value of top-ups was, as expected, higher. Top-up values will typically increase as the more valuable stones move through production and become available for sale. A lower number of carats was delivered to HB in Q4 2021 (1,895 carats) compared to Q4 2022 (2,812 carats), however, the initial value of the shipments was comparable owing to the value of stones delivered in Q4 2021.

At December 31, 2022 a number of higher value and more technically complex stones that take longer to manufacture had not fully completed the manufacturing and sales process. These stones were delivered to HB in 2021 and 2022. As these stones finish the manufacturing process, the Company may record additional revenue in the form of "top-up" payments when these diamonds are sold.

Despite the overall decrease in revenue recognized in Q4 2022, diamond market fundamentals continued to support healthy prices as steady demand and some inventory shortages were reported. 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. During Q4 2022, 8.2% weight percentage of Specials of total carats recovered was consistent with the Karowe resource model. As more North and Centre lobe material is expected to be processed in 2023, while higher grade, the weight percentage of Specials is expected to decrease.

Clara

During Q4 2022, the sales volume transacted was $6.6 million (Q4 2021: $7.7 million), as fewer sales were held within the period.

Quarterly Tender

The Q4 2022 tender reflected a good performance in rough diamond pricing across all tendered size classes, although lower than what was achieved in the first two quarterly tenders of 2022 and higher than the price achieved in September as concerns of a global economic slowdown became more prominent against a backdrop of high inflation, interest rate increases and uncertainty in supply chains. A total of 76,264 carats were sold in the December 2022 tender, generating revenues of $12.2 million (Q4 2022 tender: $19.0 million for 97,211 carats).

ANNUAL SALES RESULTS

Table 3

2022 - Sales Channel	**Rough Carats Sold**		**Revenue US$ M**		**Average Price/Carat**
HB Agreements	11,037	$	90.3	$	8,185
Clara(1)	10,677		21.8		2,039
Tender(2)	305,314		53.3		175
Subtotal – Karowe diamonds sold	**327,028**	**$**	**165.4**	**$**	**506**
HB top-up payments			38.4		
Total Revenue – Karowe Diamonds		**$**	**203.8**		
3rd party goods (Clara)(1)			9.1		
Total Revenue – 2022		**$**	**212.9**		

2021 - Sales Channel	**Rough Carats Sold**		**Revenue US$ M**		**Average Price/Carat**
HB Agreements	23,382	$	126.2	$	5,396
Clara(1)	16,198		26.6		1,642
Tender(2)	340,913		51.0		149
Subtotal – Karowe diamonds sold	**380,493**	**$**	**203.8**	**$**	**536**
HB top-up payments			24.2		
Total Revenue – Karowe Diamonds		**$**	**227.9**		
3rd party goods (Clara)(1)			2.1		
Total Revenue –2021		**$**	**230.1**		

(1) Fifteen sales were completed on Clara in 2022 (2021: twenty-three), with the sale of third-party goods continuing to supplement the total volume transacted.

(2) Non-gem +10.8 carat diamonds (since Q3 2021) 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

At December 31, 2022, the cumulative diamond sales to HB that was considered variable was $36.9 million (December 31, 2021: $33.7 million) and included deliveries made in 2022 and 2021. Variable consideration is a component of the transaction price and represents an area of significant management estimate and judgment. The variable consideration will be confirmed as the rough diamonds to which it relates are manufactured, polished, and sold.

Clara

In 2022, 15 sales (2021: 21 sales) took place with a total sales volume transacted of $35.7 million, a 24% increase from the $28.7 million transacted in 2021. During 2022, the frequency of sales was adjusted to ensure optimal client participation.

RESULTS OF OPERATIONS – KAROWE MINE

Table 4:

	UNIT	Q4-22	Q3-22	Q2-22	Q1-22	Q4-21
Sales						
Revenues from the sale of Karowe diamonds	US$M	40.1	46.5	50.0	67.2	56.5
Karowe carats sold	Carats	81,264	99,301	66,167	80,295	102,791
Average price per carat - excluding top-ups(1)	US$	450	377	557	690	436
Production						
Tonnes mined (ore)	Tonnes	484,705	920,410	1,091,192	811,947	610,072
Tonnes mined (waste)	Tonnes	199,385	453,860	357,764	482,104	276,263
Tonnes processed	Tonnes	690,946	693,398	719,207	666,488	705,877
Average grade processed(2)	cpht (*)	12.5	11.4	12.0	12.6	12.8
Carats recovered	Carats	86,655	78,879	86,317	83,917	90,634
Costs						
Operating expense per Karowe carat sold(3)	US$	193	227	221	212	200
Margin (mining operations) per Karowe carat sold	US$	257	150	336	478	236
Operating cost per tonne of ore processed(4)	US$	26.20	29.33	28.78	27.80	29.74
Capital Expenditures						
Sustaining capital expenditures	US$M	9.9	4.0	4.1	0.8	9.1
Underground expansion project(5)	US$M	22.3	23.9	29.1	31.1	21.8

(*) carats per hundred tonnes

(1) Previously presented as $418 (Q4 2021) per carat, respectively due to a reallocation between the top-up and the minimum polished values.

(2) Average grade processed is from direct milling carats and excludes carats recovered from re-processing historic recovery tailings from previous milling.

(3) Previously presented as $224 (Q1 2022) and $217 (Q4 2021) per carat, respectively to exclude the operating cost contribution from the corporate and other segment which was marginal in previous periods.

(4) Operating cost per tonne of ore processed is a non-IFRS measure. See Table 8.

(5) Excludes qualifying borrowing cost capitalized.

FOURTH QUARTER OVERVIEW – OPERATIONS - KAROWE DIAMOND MINE

Safety: Karowe registered no lost time injuries during the three months ended December 31, 2022. As of December 31, 2022, the mine has operated for 773 days without a lost time injury.

Environment and Social:

- There were no reportable environmental matters during the fourth quarter of 2022 and none for the year ended December 31, 2022.
- In Q4 2022, an ISO 45001 surveillance audit was conducted, with high levels of compliance observed.
- Work continues to address the gaps identified through external verification 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).
- A feasibility study to examine renewable energy options commenced in Q4 2022.
- Good progress was also made during 2022 related to the development and implementation of an updated tailings framework aligned to the Global International Standard for Tailings Management ("GISTM").
    - During Q4 2022, connections to the new tailings dam paddock, constructed according to GISTM guidelines, were completed and the paddock was put into use in January 2023.
    - A study commenced related to the closure requirements for the existing tailings dam facilities.
- In anticipation of underground operations commencing in 2026, a training plan for that workforce was developed and underground mine rescue training was initiated.

Production: Ore and waste mined during the fourth quarter of 2022 totaled 0.5 million tonnes and 0.2 million tonnes respectively. During Q4 2022, tonnage processed was on target at 0.7 million tonnes at an average grade of 12.5 carats per hundred tonnes ("cpht"), with a total of 86,655 carats recovered from direct milling. Ore processed was substantially from the South Lobe (98%).

Diamond Recoveries: A total of 233 Specials were recovered, with thirteen diamonds greater than 100 carats including two diamonds greater than 200 carats and two diamonds greater than 300 carats in weight. Recovered Specials equated to 8.6% of the weight percentage of total recovered carats from ore processed during Q4 2022 (Q4 2021 – 5.7%). During Q4 2022, ore processed was substantially from the EM/PK(S) and M/PK(S) units of the South Lobe and recoveries during the quarter were within the expected range of the South Lobe resource model.

Karowe's operating cash cost: Karowe's operating cash cost for Q4 2022 (see "*Use of Non-IFRS Financial Performance Measures*") was $26.20 per tonne of ore processed (Q4 2021: $29.74 per tonne of ore processed) and for 2022 was $27.94 per tonne of ore processed, below the full year forecast of $29.50-$33.50 per tonne processed. Cost per tonne of ore processed reflects cost inflation, a lower amount of ore mined and the denominator impact of a decrease in tonnes processed of 6% in Q4 2022 from the comparative period, offset by the benefit of a comparatively stronger U.S. Dollar (10%).

Karowe's operating margin per carat sold: the operating margin per carat sold (see Table 4: "*Results of Operations – Karowe Mine*" and "*Use of Non-IFRS Financial Performance Measures*") increased from $236/carat, or 54% in Q4 2021 to $257/carat, or 57% in Q4 2022, a higher total margin per carat with an increase in percent margin due to a combination of lower revenues and lower sales volumes.

Overall performance: Performance during the fourth quarter remained consistent with the strong operational results achieved over the past several years. Mining and processing results were on plan during Q4 2022 and the Company achieved the guidance set for 2022.

SELECT ANNUAL FINANCIAL INFORMATION

Table 5:

In millions of U.S. dollars unless otherwise noted	**2022**	2021	2020
Revenues	$ 212.9	230.1	125.3
Operating expenses	(79.3)	(80.3)	(72.6)
Adjusted operating earnings(1)	133.6	149.8	52.7
Royalty expenses	(24.1)	(24.9)	(13.5)
Exploration expenses	(0.8)	–	–
Administration	(19.1)	(19.5)	(18.3)
Sales and marketing	(2.9)	(2.9)	(2.5)
Adjusted EBITDA(2)	86.7	102.5	18.4
Depletion and amortization	(25.0)	(49.7)	(46.8)
Finance expenses	(3.7)	(3.7)	(2.5)
Foreign exchange loss (gain)	(3.9)	(2.8)	2.2
Gain (loss) on derivative financial instrument	10.7	(0.9)	–
Loss on disposal of plant and equipment	–	–	(2.6)
Current income tax expense	(0.3)	(1.5)	0.6
Deferred income tax expense (recovery)	(24.1)	(20.1)	5.7
Net income (loss) for the year	40.4	23.8	(26.3)
Earnings (loss) per share (basic)	0.09	0.06	(0.07)
Operating cash flow per share(3)	0.19	0.24	0.04

(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 7 below for more details.

(4) Numbers may not foot due to rounding.

Revenues and royalties

Total revenue decreased 7%, from $230.1 million in 2021 to $212.9 million in 2022, in line with a 14% decrease in carats sold from the Karowe mine in 2022. During the year ended December 31, 2022, Lucara recognized revenue of $165.4 million from the sale of 327,028 carats from Karowe at an average price of $506 per carat as well as $38.4 million in top-up payments (2021: $203.8 million from the sale of 380,493 carats from Karowe at an average price of $536 per carat and $24.2 million in top-up payments). Sales of third-party goods through Clara generated revenues of $9.1 million (2021 - $2.1 million).

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 year ended December 31, 2022 were $133.6 million (2021: $149.8 million) after operating expenses of $79.3 million (2021: $80.3 million). The 1% decrease in operating expenses is attributed to several variables: a 13% decrease in carats sold, a 10% depreciation of the Botswana Pula against the U.S. dollar offset by the impact of higher labour, power and fuel costs.

The process plant milled 2,770,039 ore tonnes during 2022, 3% lower than the 2,844,888 tonnes processed in 2021 (2021 was the best yearly performance since the mine commenced operations in 2012). The recovery of 335,769 carats in 2022 was 9% lower than 2021 (369,390 carats recovered), but near the top end of expected recoveries (300,000 to 340,000 carats) for 2022. The decrease results from fewer ore tonnes processed and an average grade of 12.12 cpht from direct milling during 2022 compared to an average grade of 12.98 cpht in 2021.

Adjusted Operating Earnings is a non-IFRS measure and is reconciled in Table 5: *"Select Annual Financial Information"*.

Depletion and amortization

In 2022, the Company recorded depletion and amortization expense of $25.0 million (2021: $49.7 million). This non-cash expense decreased 50% from the comparative year. 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. 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 for the current year.

Derivative financial instrument

A $10.7 million gain on a derivative financial instrument (2021: loss of $0.9) relates to changes in the fair value of the interest rate swap in response to changing market interest rates (*see Note 10 of the consolidated financial statements for the year ended December 31, 2022*). As at December 31, 2022, the interest rate swaps were recorded at a fair value of $9.8 million on the Statements of Financial Position, with $2.5 million classified as a current asset based on the timing of expected settlement.

Net income

Net income for the year ended December 31, 2022 was $40.4 million (2021: $23.8 million), with net income for the year ended December 31, 2022 reflective of a decrease in revenue, lower depreciation charges, a gain on the derivative financial instrument and higher deferred income tax expense when compared to the 2021 fiscal year. The increase in deferred income tax expense primarily relates to the significant capital expenditures incurred for the Karowe UGP development in 2022 ($106.4 million). These expenditures are tax deductible in the year that the costs are incurred, which reduces the current tax liability of the Company. A deferred tax expense is recorded, and a deferred tax liability is created to account for the tax that will be owed in future years.

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

Adjusted EBITDA for the year ended December 31, 2022 was $86.7 million compared to $102.5 million in 2021. The change is directly attributable to the decrease in revenue.

Adjusted EBITDA is a non-IFRS measure and is reconciled in *Table 5: "Select Annual Financial Information"*.

Operating Cash Flow per Share

For the year ended December 31, 2022, operating cash flow per share was $0.19 (2021: $0.24). The decrease 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 7 below to the most directly comparable measure calculated in accordance with IFRS, which is cash flow from operating activities.

SELECT QUARTERLY FINANCIAL INFORMATION

Table 6: The following table sets out selected consolidated financial information for each of the eight most recent completed quarters:

Three months ended	Dec-22	Sept-22	Jun-22	Mar-22	Dec-21	Sep-21	Jun-21	Mar-21
A. Revenues	42,465	49,926	52,348	68,195	57,931	72,716	46,334	53,097
B. Administration expenses	(5,138)	(4,220)	(4,005)	(5,756)	(7,149)	(4,256)	(3,659)	(4,395)
C. Net income (loss)	7,103	1,831	12,532	18,968	1,662	12,760	5,998	3,407
D. Earnings (loss) per share (basic)	0.02	0.00	0.03	0.04	0.00	0.03	0.02	0.01

Revenue is 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 2021 and remained strong through most of 2022 in response to supply constraints in certain size classes and strong demand, despite ongoing economic and other uncertainties.

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 (from Q4 2021 onwards), 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, operating margin per carat sold and operating cost per tonne of ore processed, which are not measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. These measures may differ from those made by other corporations and accordingly may not be comparable to such measures as reported by other corporations. These measures have been derived from the Company's financial statements, and applied on a consistent basis, because the Company believes they are of assistance in the understanding of the results of operations and financial position.

Adjusted EBITDA (see Table 5: "*Select Annual Financial Information*") is the term the Company uses as an approximate measure of the Company's pre-tax operating cash flow and is generally used to measure performance and evaluate trends of individual assets. Adjusted EBITDA comprises earnings before depletion and amortization, finance expenses, foreign exchange, financial instrument fair value adjustments, disposal of assets and taxation.

Adjusted operating earnings (see Table 5: "*Select Annual Financial Information*") is the term the Company uses as an approximate measure of the earnings from the operations under an accrual basis of accounting and is defined as revenues less operating expenses, before royalty expenses and depletion and amortization.

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

The most directly comparable measure calculated in accordance with IFRS is cash flows from operating activities. A reconciliation of the two measures is presented in Table 7: "*Operating cash flow per share reconciliation*".

Table 7: 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 December 31,			Year ended December 31,	
		2022	2021	**2022**	2021	2020
Cash flows from operating activities	$	17,007	43,894	$ 96,233	83,390	(1,526)
Add: Changes in non-cash working capital		(5,022)	(22,698)	(8,298)	17,286	18,793
Total cash flow from operating activities before changes in non-cash working capital		**11,985**	21,196	**87,935**	100,676	17,267
Weighted average common shares outstanding		453,566,923	448,060,783	453,479,480	422,894,218	369,889,357
Operating cash flow per share[1]	$	**0.03**	$ 0.05	$ **0.19**	$ 0.24	$ 0.04

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

Operating margin per carat sold (see Table 4: "*Results of Operations – Karowe Mine*") is the term the Company uses to describe the contribution to adjusted operating earnings, excluding top-up payments pursuant to the HB agreement and third-party goods, for each single diamond carat sold. This is calculated as Adjusted operating earnings (before top-up payments related to the HB agreement and revenue from third party goods) per carat of diamonds sold.

Operating cost per tonne of ore processed is the term the Company uses to describe operating expenses per tonne processed on a cash basis. This is calculated as 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. A table reconciling the two measures is presented below.

Table 8: 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 December 31			Year ended December 31
		2022	2021	**2022**	2021
Operating expenses	$	18.5	22.3	$ 79.3	80.3
Corporate and other segment operating expenses[1]		(2.8)	(1.7)	(9.5)	(3.1)
Net change rough diamond inventory, excluding depletion and amortization		2.8	0.5	3.1	(1.3)
Net change ore stockpile inventory, excluding depletion and amortization		(0.4)	(0.1)	4.5	6.4
Total operating costs for ore processed	$	**18.1**	**21.0**	**77.4**	**82.3**
Tonnes processed		690,946	705,877	2,770,039	2,844,888
Operating cost per tonne of ore processed[2]	$	**26.20**	29.74	$ **27.94**	28.93

[1] Calculated as the difference between Revenue and Loss from Operations of the Corporate and other segment, excluding depletion and amortization. See Note 20 – Segment Information in the consolidated financial statements for the year ended December 31, 2022.

[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 December 31, 2022, the Company had cash and cash equivalents of $26.4 million and cash flow from operating activities for the year ended December 31, 2022 totaled $96.2 million.

The Company had $15.0 million outstanding on its $50 million working capital facility at December 31, 2022. The facility matures on September 2, 2023.

Prior to the second anniversary of Financial Close on September 2, 2023, the Company must place $52.9 million into the COF. The Facilities Agreement includes specific provisions for how and when these funds may be released.

Working capital as at December 31, 2022 was $40.5 million as compared to $50.5 million as at December 31, 2021, a decrease of 20% predominantly owing to higher activity levels on the Karowe UGP resulting in higher trade accounts payable and accruals of $29.7 million at December 31, 2022 (December 31, 2021: $26.3 million). Trade and other receivables (December 31, 2022: $33.1 million) reduced and current inventories (December 31, 2022: $38.4 million) increased from the balances at December 31, 2021 (receivables: $38.8 million; inventories: $36.5 million). The receivable balance at December 31, 2022 includes $18.8 million (December 31, 2021: $17.5 million) due from HB and represents rough diamond sales in Q4 2022, as well as the value of diamond sales for which the transaction price was finalized and adjusted in December 2022.

Current liabilities increased to $59.9 million as of December 31, 2022 from $51.8 million at December 31, 2021. The Company had $15.3 million drawn on its short-term financing facilities, a decrease of $7.7 million from the $23.0 million drawn at December 31, 2021. Increases in trade payables and accrued liabilities, the timing of royalty payments and a $12.0 million advance received from HB as a prepayment on the 549-carat Sethunya diamond (recorded as deferred revenue) all contributed to the increase in current liabilities as of December 31, 2022.

Long-term liabilities consist of the project financing facility of $62.2 million (December 31, 2021: $23.7 million), restoration provisions of $13.6 million (December 31, 2021: $15.3 million), deferred income taxes of $87.8 million (December 31, 2021: $70.3 million), and other non-current liabilities of $2.3 million (December 31, 2021: $1.0 million) which consist of leases classified under IFRS 16: *Leases* and a liability for issued deferred share units.

Financing activities during the year consisted of draws from the project financing facility of $40.0 million, net repayments to the working capital and revolving credit facilities of $7.7 million, and principal payments on leases of $3.1 million.

Total shareholders' equity increased to $270.1 million from $249.0 million at December 31, 2021 as earnings generated during the year reduced the accumulated deficit and generated retained earnings. Other changes to share capital and contributed surplus were related to share units vesting and the recording of share-based compensation during the period, and the cumulative impact of the currency translation adjustment.

RELATED PARTY TRANSACTIONS

A description of key management compensation can be found in Note 19 of the consolidated financial statements for the year ended December 31, 2022.

In relation to the acquisition of Clara in February 2018, certain related parties may receive additional shares of Lucara if Clara, now a wholly-owned subsidiary of Lucara, achieves certain levels of revenue generated by sales on the platform (the "Performance Milestones"). The Performance Milestones are detailed in Note 9 and 19 of the consolidated financial statements for the year ended December 31, 2022. As of December 31, 2022, 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 (Lucara's CEO and a director) and Ms. McLeod-Seltzer (who was appointed to the Lucara Board of Directors following the Clara acquisition) as founders of the platform, with the remaining 3.22% of the EBITDA generated by the platform to be distributed to management, including Dr. Armstrong (Vice-President, Technical Services) and Ms. Boldt (who was appointed as Lucara's CFO & Corporate Secretary after the Clara acquisition) (collectively, "Clara Management"), at the discretion of Lucara's Compensation Committee based on key performance targets. As of December 31, 2022, no amounts have been paid pursuant to this profit-sharing mechanism and no contingent consideration has been recorded.

COMMITMENTS

As at December 31, 2022, 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 $111.5 million (December 31, 2021 - $86.7 million).

Table 9: Approximate undiscounted timing of Karowe UGP commitments at December 31, 2022:

		2022	2023	2024	2025 and 2026	Total
Underground expansion project	*$ million*	37.2	31.8	31.8	10.7	**111.5**

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. No changes were made to the Company's 2023 Guidance released in December 2022. 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.

Karowe Mine, Botswana

Table 10: 2023 Diamond Sales, Production and Outlook

Karowe Diamond Mine *In millions of U.S. dollars unless otherwise noted*	**Full Year – 2023**
Diamond revenue (millions)	$200 to $230
Diamond sales (thousands of carats)	385 to 415
Diamonds recovered (thousands of carats)	395 to 425
Ore tonnes mined (millions)	1.9 to 2.3
Waste tonnes mined (millions)	2.2 to 2.8
Ore tonnes processed (millions)	2.6 to 2.9
Total operating cash costs(1) including waste mined(2) (per tonne processed)	$32.50 to $35.50
Botswana general & administrative expenses including marketing costs (per tonne processed)	$3.50 to $4.50
Tax rate(3)	0%
Average exchange rate – USD/Pula	12.0

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

(2) Includes ore and waste mined cash costs of $7.00 to $8.00 (per tonne mined) and processing cash costs of $12.00 to $13.00 (per tonne processed).

(3) The Company is subject to a variable tax rate in Botswana based on a profit and revenue ratio which increases as profit as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55% (only if taxable income were equal to revenue). Capital expenditures are deductible when incurred. With planned capital expenditures of up to $105 million for the Karowe UGP, a tax rate of 0% is forecast for 2023. Should capital expenditures vary from plan, the Company could be subject to current tax.

In 2023, the Company's revenue forecast assumes that 52% of the carats recovered will come from the higher value M/PK(S) and EM/PK(S) units within the South Lobe and the remaining 48% of the carats recovered will come from the Centre Lobe in accordance with the mine plan, generating revenue between $200 and $230 million in 2023. Centre Lobe material, while higher grade, has a lower weight percentage of stones greater than 10.8 carats in size when compared to South Lobe material.

The assumptions for carats recovered and sold are consistent with achieved performance in recent years. The number of tonnes processed is also consistent with recent achievements. The estimated processing cost per tonne processed is higher than previous years, reflecting expected inflationary pressure on labour and commodity costs.

In 2023, capital costs for the underground expansion are expected to be up to $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.

Sustaining capital and project expenditures related to the open pit mining operations are expected to be 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 Global Industry Standard on Tailings Management and completion of a community sports facility.

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 December 31, 2022, the Company was exposed to currency risk relating to U.S. dollar, South African Rand and British Pound cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately $2.3 million in net income for the period. Other currencies held are not material.

During 2022, the strength of the U.S. dollar against the Botswana Pula largely mitigated the cost increases experienced at the Company's operations in Botswana, where annual inflation exceeded 12% for most of the year.

Liquidity risk

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

The current working capital facility matures on September 2, 2023. It is the Company's intention to seek a renewal of this facility from its existing Lenders prior to expiry. However, there is no guarantee that this facility will be renewed on the same terms as the maturing facility. Historically, the Company has used this facility to manage it short-term working capital requirements.

Prior to September 2023, the Company will be required to place $52.9 million in a COF, pursuant to the terms of the Facilities Agreement. The Company expects to meet this funding requirement by making regular monthly contributions to the COF during 2023.

Credit risk

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

Under the sales agreement with HB, a larger proportion of the Company's goods, by value, are sold through HB to buyers of polished diamonds. The credit risk associated with these sales is concentrated with HB, a single customer, and payment terms are longer (60 to 120 days) than the Company's traditional tender sales and sales held through

Clara (5 days). The Company maintains legal title over goods sold to HB until the initial determined estimated polished price is paid and monitors outstanding amounts to ensure they remain current.

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

Interest rate risk

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

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

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) for a fixed interest rate of 1.682% on 75% of its expected borrowings from the Project Finance Facility (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 Finance Facility , any amounts drawn from its $50 million working capital facility and from its $4 million Clara Facility, each of which remain subject to market interest rates (LIBOR or a replacement benchmark). 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 supply agreement with the HB, the ultimate achieved sales prices of stones larger than 10.8 carats in size is based on a polished diamond pricing mechanism. This pricing mechanism results in the Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than through its traditional tender process for rough diamonds. The pricing of both polished and rough diamonds continued to increase during the first six months of 2022 following significant price improvements in late 2021 and the beginning of 2022 because of positive market supply and demand dynamics. Pricing softened in the second half of 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.

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 453,566,923 common shares outstanding, 7,056,000 share units, 2,116,103 deferred share units, and 6,414,000 stock options outstanding under its share-based incentive plans.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business which includes the acquisition, financing, exploration, development and operation of diamond properties, the 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"). Any one or more of these risks and uncertainties could have a material adverse effect on the Company.

OFF-BALANCE SHEET ARRANGEMENTS

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

ANNUAL MEETING INFORMATION

The Company's annual general meeting of shareholders will be held on May 12, 2023 in Toronto, Canada.

CHANGES IN ACCOUNTING POLICIES

There were no changes to the accounting policies described in Note 4 of the 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 audited consolidated financial statements. Management is responsible for the integrity and objectivity of this document, ensuring the fair presentation of its financial results. The Audit Committee is responsible for reviewing the contents of this document along with the audited consolidated financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. The Board of Directors, based on recommendations from Lucara's Audit Committee, reviews and approves the financial information contained in the audited consolidated financial statements and the MD&A.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that 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.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2022, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting

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

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of December 31, 2022, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

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

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

In particular, forward-looking information and forward-looking statements may include, but are not limited to, information or statements with respect to the potential impacts of COVID-19, economic and geopolitical risks, including potential impacts from the Russian military invasion of Ukraine, expectations regarding longer-term market fundamentals and price growth, the disclosure under "2023 Outlook", the Company's intention to seek a renewal of the current working capital facility from its existing Lenders prior to expiry and the related terms, the impact of supply and demand of rough or polished diamonds, the equity and project debt financings completed in 2021, the intended use of proceeds, estimated capital costs, the expected use of the Clara Facility, expectations regarding top-up values and processing, 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, 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, that the Company intends to continue to seek additional supply, both from third-party producers and the secondary market, expectations regarding the activities for the Karowe UGP in Q1 2023, future forecasts of revenue and variable consideration in determining revenue, estimation of mineral resources, exploration and development plans, cost and timing of the development of deposits and estimated future production, interest rates, including expectations regarding the impact of market interest rates on future cash flows and the fair value of derivative financial instructions, 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, negotiations and agreements among the Company and the Botswana Mine Workers Union, the completion of transactions and timing and possible outcome of pending litigation, the profitability of Clara and the Clara Platform, and the scaling of the digital platform for the sale of rough diamonds owned by Clara, expectations regarding the Clara platform's growth, the benefits to the Company of diamond supply agreements with HB and the ability to generate better prices from the sale of the Company's +10.8 carat production as a polished stone.

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

Consolidated Financial Statements
For the year ended December 31, 2022

Independent auditor's report

To the Shareholders of Lucara Diamond Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Lucara Diamond Corp. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

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

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Assessment of impairment indicators of plant and equipment and mineral properties *Refer to note 3 – Significant accounting judgments, estimates and assumptions, note 4 – Summary of significant accounting policies, note 7 – Plant and equipment and note 8 – Mineral properties and related construction assets to the consolidated financial statements.* The Company's total plant and equipment and mineral properties as at December 31, 2022 amounted to $332 million. Management assesses at each reporting period-end whether there is an indication that an asset or group of assets may be impaired. Management applies significant judgment in assessing whether indicators of impairment exist that would necessitate impairment testing. Internal and external factors, such as (i) a significant decline in the market value of the Company's share price; (ii) changes in quantity of the recoverable resources and reserves; (iii) changes in diamond prices, capital and operating costs and recoveries; and (iv) changes in inflation, interest and exchange rates are evaluated by management in determining whether there are any indicators of impairment. We considered this a key audit matter due to (i) the significance of the plant and equipment and mineral properties balances and (ii) the significant judgment made by management in assessing whether there are any indicators of impairment, which led to significant audit effort and subjectivity in performing procedures to test management's assessment.	Our approach to addressing the matter included the following procedures, among others: • Evaluated management's assessment of impairment indicators, which included the following: – Assessed the completeness of internal or external factors that could be considered as indicators of impairment of the Company's plant and equipment and mineral properties, including consideration of evidence obtained in other areas of the audit. – Assessed whether there have been significant declines in the market value of the Company's share price, which may indicate a decline in value of the Company's plant and equipment and mineral properties. – Assessed the changes in diamond prices, the quantity of recoverable resources and reserves, capital and operating costs and recoveries, and inflation, interest and exchange rates by considering external market data, current and past performance of the Company and evidence obtained in other areas of the audit, as applicable.

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor’s report is Dean Larocque.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
February 21, 2023

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

		December 31, 2022		December 31, 2021
ASSETS				
Current assets				
Cash and cash equivalents	$	26,418	$	27,011
Receivables and other (Note 5)		33,102		38,779
Derivative financial instrument (Note 10)		2,447		–
Inventories (Note 6)		38,372		36,522
		100,339		102,312
Investments		661		2,256
Inventories (Note 6)		27,867		29,852
Plant and equipment (Note 7)		88,239		87,321
Mineral properties and related construction assets (Note 8)		244,130		157,578
Intangible assets (Note 9)		18,224		20,724
Deferred financing fees (Note 10)		5,410		7,471
Derivative financial instrument (Note 10)		7,373		–
Other non-current assets		3,596		4,441
TOTAL ASSETS	$	495,839	$	411,955
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities	$	29,689	$	26,285
Deferred revenue (Note 15)		12,000		–
Credit facilities (Note 10)		15,338		23,000
Tax and royalties payable		1,719		347
Lease liabilities		1,111		2,173
		59,857		51,805
Credit facilities (Note 10)		62,151		23,730
Derivative financial instrument (Note 10)		–		842
Restoration provisions (Note 11)		13,649		15,346
Deferred income taxes (Note 17)		87,808		70,285
Other non-current liabilities		2,313		975
TOTAL LIABILITIES		225,778		162,983
EQUITY				
Share capital, unlimited common shares, no par value (Note 12)		348,083		347,442
Contributed surplus		10,129		9,180
Retained earnings (deficit)		6,489		(33,945)
Accumulated other comprehensive loss		(94,640)		(73,705)
TOTAL EQUITY		270,061		248,972
TOTAL LIABILITIES AND EQUITY	$	495,839	$	411,955

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

Commitments – Note 22

Approved on Behalf of the Board of Directors:

“Marie Inkster”
Director

“Catherine McLeod-Seltzer”
Director

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In thousands of U.S. Dollars, except for share and per share amounts)

		2022		2021
Revenues (Note 15)	$	212,934	$	230,078
Cost of goods sold				
Operating expenses		79,266		80,348
Royalty expenses (Note 8)		24,101		24,871
Depletion and amortization		24,965		49,724
		128,332		154,943
Income from mining operations		84,602		75,135
Other expenses				
Administration (Note 16)		19,119		19,459
Sales and marketing		2,876		2,920
Finance expenses		3,690		3,704
Exploration		835		–
(Gain) loss on derivative financial instrument (Note 10)		(10,662)		893
Foreign exchange loss		3,932		2,766
		19,790		29,742
Net income before tax		64,812		45,393
Income tax expense (Note 17)				
Current income tax		307		1,518
Deferred income tax		24,071		20,048
		24,378		21,566
Net income for the year	$	40,434	$	23,827
Earnings per common share (Note 18)				
Basic	$	0.09	$	0.06
Diluted	$	0.09	$	0.06
Weighted average common shares outstanding (Note 18)				
Basic		453,479,480		422,894,218
Diluted		461,953,253		428,811,506

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

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In thousands of U.S. Dollars)

		2022		2021
Net income for the year	$	40,434	$	23,827
Other comprehensive (loss) income				
Items that will not be reclassified to net income				
Change in fair value of marketable securities		(1,595)		605
Items that may be subsequently reclassified to net income				
Currency translation adjustment		(19,340)		(16,705)
		(20,935)		(16,100)
Comprehensive income for the year	$	19,499	$	7,727

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

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In thousands of U.S. Dollars)

		2022		2021
Cash flows from (used in):				
Operating activities				
Net income for the year	$	40,434	$	23,827
Items not affecting cash:				
Depletion and amortization		25,411		51,192
Unrealized foreign exchange gain		3,512		1,044
Share-based compensation		1,977		1,852
Unrealized (gain) loss on derivative financial instruments		(10,662)		893
Deferred income taxes		24,071		20,048
Finance costs		3,192		1,820
		87,935		100,676
Net changes in working capital:				
Receivables and other		151		(18,452)
Inventories		(7,603)		(5,730)
Trade payables, deferred revenue and other current liabilities		14,300		7,941
Tax and royalties payable		1,450		(1,045)
		96,233		83,390
Financing activities				
Equity financing, net		–		31,308
Repayment on revolving credit facility		–		(30,500)
(Repayment) drawdown on working capital facility, net		(7,662)		20,507
Drawdown on project finance facility, net		40,000		16,523
Share units vested		(144)		(107)
Lease payments		(3,055)		(936)
		29,139		36,795
Investing activities				
Acquisition of plant and equipment		(18,992)		(15,252)
Mineral property expenditure		(106,339)		(82,251)
Development of intangible assets		(90)		(38)
		(125,421)		(97,541)
Effect of exchange rate change on cash and cash equivalents		(544)		(549)
(Decrease) increase in cash and cash equivalents		(593)		22,095
Cash and cash equivalents, beginning of the year		27,011		4,916
Cash and cash equivalents, end of the year (1)	$	26,418	$	27,011
Supplemental information				
Interest paid	$	(8,539)	$	(326)
Taxes paid		(248)		(974)
Changes in trade payables and accrued liabilities related to plant and equipment and mineral properties (2)		6,151		5,266

(1) Cash and cash equivalents consist 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 $11.3 million at December 31, 2022 ($5.4 million at December 31, 2021).

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

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(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, 2022	453,034,981	$ 347,442	$ 9,180	$ (33,945)	$ (73,705)	$ 248,972
Net income for the year	–	–	–	40,434	–	40,434
Other comprehensive loss	–	–	–	–	(20,935)	(20,935)
Total comprehensive income (loss)	–	–	–	40,434	(20,935)	19,499
Share-based compensation	–	–	1,734	–	–	1,734
Shares issued from share units vested	531,942	641	(641)	–	–	–
Cash-settled share units	–	–	(144)	–	–	(144)
Balance, December 31, 2022	**453,566,923**	**$ 348,083**	**$ 10,129**	**$ 6,489**	**$ (94,640)**	**$ 270,061**
Balance, January 1, 2021	396,896,733	$ 314,924	$ 8,646	$ (57,772)	$ (57,605)	$ 208,193
Net income for the year	–	–	–	23,827	–	23,827
Other comprehensive loss	–	–	–	–	(16,100)	(16,100)
Total comprehensive income (loss)	–	–	–	23,827	(16,100)	7,727
Shares issued from equity financing, net	55,157,733	31,308	–	–	–	31,308
Shares issued for project funding standby undertaking	600,000	365	–	–	–	365
Share-based compensation	–	–	1,486	–	–	1,486
Shares issued from share units vested	380,515	845	(845)	–	–	–
Withholding tax for share units vested	–	–	(107)	–	–	(107)
Balance, December 31, 2021	**453,034,981**	**$ 347,442**	**$ 9,180**	**$ (33,945)**	**$ (73,705)**	**$ 248,972**

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

1. NATURE OF OPERATIONS AND LIQUIDITY

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

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

COVID-19 Global Pandemic, Economic and Geopolitical Risks

While COVID-19 is less impactful than in recent years, 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, 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.

In response to the ongoing Russian military invasion of Ukraine, strict economic sanctions were imposed against Russia and its interests. While the Company does not have any operations in Ukraine or Russia, its business may be impacted as the conflict and economic sanctions has given rise to indirect economic impacts, including but not limited to, increased prices for fuel and other commodities, increased volatility in the prices achieved in the rough and polished diamond markets, supply chain challenges and disruptions, logistics and transport disruptions and heightened cybersecurity disruptions and threats. Increased prices for fuel and other commodities may have adverse impacts on the Company’s cost of doing business.

The continuation or further escalation of this military conflict could aggravate ongoing global economic challenges and a possible resultant economic downturn could adversely affect the Company’s business. These conditions may also result in increased volatility in the market for the Company’s securities and could have other effects which are currently unknown. The Company cannot accurately predict the impact that ongoing conflict in Ukraine, or the prevailing global economic uncertainty, will have on its financial position or operations.

Uncertainty about judgments, estimates and assumptions made by management on revenue, expenses, assets, liabilities, and note disclosures during the preparation of the Company’s consolidated financial statements related to potential impacts of the COVID-19 pandemic and other economic and geopolitical risks, including the Ukraine-Russia conflict.

As at December 31, 2022, the Company had cash and cash equivalents of $26.4 million and had drawn $15.0 million from its $50 million working capital facility. After adjustments for working capital items, cash flow generated from operations totaled $96.2 million for the year ended December 31, 2022 and the Company had working capital as at December 31, 2022 of $40.5 million.

Prior to September 2023, the Company will be required to place $52.9 million in a cost overrun facility (the “COF"), pursuant to the terms of a debt package which consists of two facilities (the “Facilities”), a project finance facility of $170 million to fund the development of an underground expansion at the Karowe Mine (the “Project Finance Facility”), and a $50 million senior secured

1. NATURE OF OPERATIONS AND LIQUIDITY (CONTINUED)

working capital facility (the "Working Capital Facility"). The Facilities Agreement includes specific provisions for how and when these funds may be released. The Company expects to meet this funding requirement by making regular monthly contributions to the COF during 2023.

The working capital facility matures on September 2, 2023. It is the Company's intention to seek a renewal of this facility from its existing Lenders prior to expiry. However, there is no guarantee that this facility will be renewed on the same terms as the maturing facility. Historically, the Company has used this facility to manage it short-term working capital requirements. The Company plans to request to extend the maturity date of the working capital facility in accordance with the terms of the Facilities. 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.

2. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES

(i) Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Other than changes due to new and amended standards and interpretations the accounting policies adopted are consistently applied in all periods presented.

These financial statements were approved by the Board of Directors for issue on February 21, 2023.

(ii) New IFRS Pronouncements

Amendments to IAS 16 – Property, Plant and Equipment – *Proceeds before Intended Use*

Amendments were issued to IAS 16 to (i) prohibit an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use, (ii) clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset; and (iii) require certain related disclosures. The amendments were effective January 1, 2022.

These amendments did not affect the Company's financial statements. The Company will apply the new guidance during the construction phase of the Karowe Mine underground expansion project.

Several other amendments and interpretations were applied for the first time in 2022 but did not have an impact on the consolidated financial statements of the Company, while the standards and amendments to standards and interpretations which have been issued but are not yet effective are not expected to have a significant effect on the Company's consolidated financial statements.

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

Areas of judgment

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

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

(b) *Assessment of impairment indicators*

The Company carries its mineral properties and plant and equipment at depleted cost less any provision for impairment. The Company assesses at each reporting period whether there is an indication of impairment. Significant judgment is applied in assessing whether indicators of impairment exist that would necessitate impairment testing. Internal and external factors, such as i) a significant decline in the market value of the Company's share price; ii) changes in the quantity of the recoverable resources and reserves; and iii) changes in diamond prices, capital and operating costs and recoveries; and iv) changes in inflation, interest and exchange rates, are evaluated in determining whether there are any indicators of impairment.

(c) *Deferred Taxes*

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

(d) *Going concern and liquidity risk*

Management is required to exercise judgment with respect to evaluating the Company's ability to continue as a going concern and to ensure that disclosures relating to liquidity are appropriate. To this end, the Company manages liquidity risk by maintaining an adequate level of cash and cash equivalents to meet its short-term ongoing obligations, ensuring access to credit facilities, and reviews its actual expenditures and forecast cash flows on a regular basis. Changes in demand for rough and/or polished diamonds and diamond prices, production levels and related costs, foreign exchange rates and other factors all impact the Company's liquidity position.

Sources of estimation uncertainty

(a) *Estimated recoverable reserves and resources*

Mineral reserve and resource estimates are based on various assumptions relating to operating matters. These include production costs, mining and processing recoveries, cut-off grades, long term diamond prices and, in some cases, exchange rates, inflation rates and capital costs. Cost estimates are based on feasibility study estimates or operating history. Estimates are prepared by appropriately qualified persons, but will be affected by forecast commodity prices, diamond prices, inflation rates, exchange rates, capital and production costs and recoveries amongst other factors. Proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves geological and geophysical studies and economic data and the reliance on a number of assumptions. The estimates of the reserves may change based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production.

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

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

(b) *Estimated variable consideration in determining revenue*

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

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

(c) *Decommissioning and site restoration*

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

(d) *Deferred Taxes*

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of measurement

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

(b) Consolidation

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

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

(c) Segment reporting

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

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

(d) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Group companies

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

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

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

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

(e) Cash and cash equivalents

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

(f) Financial instruments

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Inventories

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

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

(h) Plant and equipment

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

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

Machinery	5 to 12 years
Plant facilities	based on recoverable reserves on a unit of production basis
Furniture and office equipment	2 to 3 years

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

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

(i) Exploration and evaluation expenditures

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Mineral properties

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

(k) Capitalized production stripping costs

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

(l) Intangible assets

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

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

(m) Contingent consideration

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

(n) Impairment of non-financial assets

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Provisions

Asset retirement obligations

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

Other provisions

Provisions are recognized when:

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

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

(p) Income taxes

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(q) Share capital

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

(r) Revenue recognition

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

In 2020, the Company entered into a sales agreement, amended and extended in 2021 and 2022, to sell its large stone production (diamonds greater than 10.8 carats) to HB. For diamonds sold to HB, control is transferred when the stones are delivered and the analysis of the rough diamond are agreed according to the contract terms. The initial purchase price paid for the rough diamonds is based on an initial estimated polished outcome with a true up paid to the Company if the actual achieved polished sales price (less HB's cost of manufacturing and profit margin) exceeds the initial price paid, or a repayment to HB if the actual achieved polished sales price (less HB's cost of manufacturing and profit margin) is below the initial price paid, after HB's fees and the cost of manufacturing. Thus, the arrangement contains elements of variable consideration as the Company's final consideration is contingent on price obtained in the future sale by HB. Variable consideration is recognized to the extent that it is highly probable that its inclusion will not result in a significant revenue reversal when the uncertainty has been subsequently resolved when the manufactured diamond is sold to an end buyer.

(s) Share-based compensation

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Earnings (loss) per share

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

(u) Leases

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

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

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

(v) Borrowing costs

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

5. RECEIVABLES AND OTHER

		2022		2021
Trade	$	18,769	$	17,467
Value-added taxes		5,301		11,196
Deferred financing fees (Note 10)		975		2,143
Prepayments		7,078		5,502
Other		979		2,471
	$	**33,102**	**$**	**38,779**

Trade receivables at December 31, 2022 were $18.8 million (December 31, 2021 – $17.5 million) due from HB under the Company’s sales agreement. All amounts receivable from HB are current. The amounts receivable relate to the timing difference between revenue recognized under the sales agreement and the receipt of payment.

6. INVENTORIES

		2022		2021
Rough diamonds	$	17,988	$	18,337
Ore stockpile		6,967		3,361
Parts and supplies		13,417		14,824
Total current inventories	**$**	**38,372**	**$**	**36,522**
Non-current inventories – ore stockpile	**$**	**27,867**	**$**	**29,852**

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

6. INVENTORIES (continued)

Inventory expensed during the year ended December 31, 2022 totaled $79.3 million (December 31, 2021 – $80.3 million). There were no inventory write-downs during the years ended December 31, 2022 and 2021.

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.

7. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Furniture and office equipment	Vehicles	Right of use assets	Total
Balance, January 1, 2021	**$ 10,018**	**$ 219,962**	**$ 12,839**	**$ 2,867**	**$ 2,362**	**$ 248,048**
Additions	16,011	382	3	–	2,143	18,539
Reclassification	(11,297)	6,687	2,878	1,732	–	–
Disposals and other	–	(731)	(288)	(43)	–	(1,062)
Translation differences	(1,087)	(18,021)	(1,170)	(329)	(300)	(20,907)
Balance, December 31, 2021	**$ 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**
Accumulated amortization						
Balance, January 1, 2021	$ –	**$ 130,377**	**$ 7,310**	**$ 2,077**	**$ 1,060**	**$ 140,824**
Depletion and amortization	–	26,588	2,603	439	869	30,499
Disposals and other	–	(731)	(288)	(43)	–	(1,062)
Translation differences	–	(11,928)	(712)	(191)	(133)	(12,964)
Balance, December 31, 2021	**$ –**	**$ 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**
Net book value						
As at December 31, 2021	**$ 13,645**	**$ 63,973**	**$ 5,349**	**$ 1,945**	**$ 2,409**	**$ 87,321**
As at December 31, 2022	**$ 19,140**	**$ 60,669**	**$ 4,419**	**$ 1,515**	**$ 2,496**	**$ 88,239**

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

8. MINERAL PROPERTIES AND RELATED CONSTRUCTION ASSETS

Cost	Capitalized production stripping asset	Karowe Mine	Karowe Underground Construction	Total
Balance, January 1, 2021	**$ 71,945**	**$ 55,174**	**$ 44,705**	**$ 171,824**
Additions	–	–	84,778	84,778
Borrowing cost capitalized	–	–	1,561	1,561
Adjustment to restoration asset	–	(5,474)	–	(5,474)
Translation differences	(5,872)	(7,843)	(4,927)	(18,642)
Balance, December 31, 2021	**$ 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**
Accumulated depletion				
Balance, January 1, 2021	**$ 34,911**	**$ 32,911**	–	**$ 67,822**
Depletion	12,006	3,037	–	15,043
Translation differences	(3,536)	(2,860)	–	(6,396)
Balance, December 31, 2021	**$ 43,381**	**$ 33,088**	**–**	**$ 76,469**
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**
Net book value				
As at December 31, 2021	**$ 22,692**	**$ 8,769**	**$ 126,117**	**$ 157,578**
As at December 31, 2022	**$ 14,058**	**$ 5,212**	**$ 224,860**	**$ 244,130**

Karowe Mine

A royalty of 10% of the gross sales value of diamonds produced from Karowe is payable to the government of Botswana, regardless of whether the diamond is sold as rough or polished. During the year ended December 31, 2022, the Company incurred a royalty expense of $24.1 million (December 30, 2021: $24.9 million).

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

Total borrowing costs of $7.8 million (December 31, 2021 – $1.5 million) during the period of construction relating to the Karowe Underground Construction asset have been capitalized to date. Capitalized borrowing costs include interest and other costs related to the project finance facility (Note 10).

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

9. INTANGIBLE ASSETS

Cost		
Balance, January 1, 2021	$	23,798
Development expenditures		38
Translation differences		80
Balance, December 31, 2021	$	23,916
Development expenditures		90
Translation differences		(1,495)
Balance, December 31, 2022	**$**	**22,511**
Accumulated amortization		
Balance, January 1, 2021	$	1,812
Amortization		1,392
Translation differences		(12)
Balance, December 31, 2021	$	3,192
Amortization		1,348
Translation differences		(253)
Balance, December 31, 2022	**$**	**4,287**
Net book value		
As at December 31, 2021	**$**	**20,724**
As at December 31, 2022	**$**	**18,224**

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 14 years as at December 31, 2022.

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 December 31, 2022, no contingent consideration has been recorded.

10. CREDIT FACILITIES

		2022		**2021**
Current				
Working capital facility	$	15,000	$	23,000
Revolving credit facility		338		–
Deferred financing fees	$	(975)	$	(2,143)
Non-current				
Project finance facility, net of fees	$	62,151	$	23,730
Deferred financing fees	$	(5,410)	$	(7,471)

10. CREDIT FACILITIES (continued)

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 Finance Facility of $170 million to fund the development of an underground expansion at the Karowe Mine, and a $50 million senior secured Working Capital Facility, utilized to repay the Company's previous $50 million revolving credit facility.

The Project Finance Facility may be used to fund the development, construction costs and construction phase operating costs of the underground expansion project as well as financing costs on the Facilities. The Project Finance Facility matures on September 2, 2029, with quarterly repayments commencing on June 30, 2026. As at December 31, 2022, $65.0 million of the $170.0 million facility was drawn. The Project Finance Facility bears interest at a rate of LIBOR (or replacement benchmark) plus margin of 5.5% annually until the project completion date, and 5.0% annually thereafter with commitment fees for the undrawn portion of the facility of 2.0%.

The Working Capital Facility may be used for working capital and other corporate purposes. As at December 31, 2022, $15.0 million of the $50.0 million facility was drawn. The facility bears interest at a rate of LIBOR (or replacement benchmark) plus margin of 3.5% annually with commitment fees for the undrawn portion of 1.6%. The facility matures on September 2, 2023.

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 Finance Facility and initially recorded as deferred financing fees that are subsequently transferred as transaction costs proportional to the amount drawn under the Project Finance Facility. Costs of $2.6 million were allocated to the Working Capital Facility as deferred financing fees. Transaction costs under the Project Financing Facility and deferred financing fees related to the Working Capital Facility are amortized over the remaining facility terms.

As at December 31, 2022, the Company was in compliance with all covenants under the Facilities.

Interest rate swap agreements

On December 14, 2021, under the terms of the Project Finance Facility, 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 Finance Facility 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 final interest rate swap matures on March 31, 2028.

As at December 31, 2022 the interest rate swaps had a total unrealized fair value of $9.8 million (December 31, 2021: $0.8 million negative unrealized fair value), of which $2.4 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 LIBOR 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 million with FirstRand Bank Limited, acting through its Rand Merchant Bank Division (the "Clara Facility").

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

10. CREDIT FACILITIES (continued)

The Clara Facility will be used for inventory and working capital purposes. The facility matures on September 28, 2023. As at December 31, 2022, $0.3 million of the facility was drawn. The facility bears interest at the secured overnight financing rate plus a margin of 6.0%.

11. RESTORATION PROVISIONS

The Company's restoration provisions relate to the rehabilitation of the Karowe Mine in Botswana. The provisions have been calculated based on total estimated rehabilitation costs and discounted back to their present values. The pre-tax discount rates and inflation rates are adjusted
annually and reflect current market assessments. The Company has applied a pre-tax discount rate of 8.5% at December 31, 2022 (2021 – 7.1%) and an annual inflation rate of 4.6% at December 31, 2022 (2021 – 4.4%). Rehabilitation costs at the Karowe Mine are expected to commence during 2046 (the end of the current mining license). The estimated liability for reclamation and remediation costs on an undiscounted basis is approximately $33.0 million (2021 - $29.7 million).

		2022		2021
Balance, beginning of year	$	15,346	$	21,229
Changes in rates and estimates		(1,669)		(5,474)
Accretion of liability component of obligation		1,202		1,163
Foreign currency translation adjustment		(1,230)		(1,572)
Restoration provisions	**$**	**13,649**	$	**15,346**

12. SHARE CAPITAL

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

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

13. SHARE BASED COMPENSATION

a. Stock options

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

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

13. SHARE BASED COMPENSATION (continued)

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$)
Balance at January 1, 2021	**4,423,000**	1.62
Granted	2,357,000	0.78
Expired	(375,000)	2.76
Forfeited	(156,000)	0.78
Balance at December 31, 2021	**6,249,000**	**$ 1.26**
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**

Options granted to acquire common shares are outstanding at December 31, 2022 as follows:

	Outstanding Options			Exercisable Options		
Range of exercise prices CA$	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CA$)	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price (CA$)
$0.50 - $1.00	5,280,000	2.35	0.73	1,447,667	1.62	0.78
$1.50 - $2.00	1,134,000	0.15	1.64	1,134,000	0.15	1.64
	6,414,000	**1.96**	**$ 0.89**	**2,581,667**	**0.97**	**$ 1.16**

During the year ended December 31, 2022, an amount of $0.4 million (2021 – $0.4 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:

	2022	2021
Assumptions:		
Risk-free interest rate *(%)*	1.59	0.38
Expected life *(years)*	3.63	3.63
Expected volatility *(%)*	51.56	50.74
Expected dividend	Nil	Nil
Results:		
Weighted average fair value of options granted *(per option)*	CA$0.25	CA$0.27

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 an increase in the common shares reserved for issuance upon the vesting of SUs from 10,000,000 to a maximum of 10% of the outstanding common shares (minus shares reserved for issuance under the Option Plan and deferred share unit plan) were approved by Shareholders at the May 6, 2022 annual meeting.

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

13. SHARE BASED COMPENSATION (continued)

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

For the year ended December 31, 2022, the Company recognized a share-based payment charge of $1.3 million (2021 – $1.1 million) for the SUs granted.

	Number of share units	Estimated fair value at date of grant (CA$)
Balance at January 1, 2021	**2,946,527**	$ 1.17
Granted	2,854,000	0.75
Redeemed	(565,679)	2.16
Balance at December 31, 2021	**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**

c. Deferred share units ('DSUs')

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

For the year ended December 31, 2022, the Company recognized a share-based payment charge of $0.3 million (2021 – $0.4 million) related to the DSUs granted.

	Number of DSUs	Estimated fair value (CA$)	
Balance at January 1, 2021	**613,547**	**$**	**0.52**
Granted	620,963		0.71
Balance at December 31, 2021	**1,234,510**	**$**	**0.59**
Granted	881,593	$	0.58
Balance at December 31, 2022	**2,116,103**	**$**	**0.50**

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

14. PRINCIPAL SUBSIDIARIES

The Company had the following direct and indirect wholly owned subsidiaries at December 31, 2022 and 2021:

Name	Country of incorporation and place of business	Nature of business
African Diamonds Limited.	UK	(1)
Clara Diamond Solutions BV(2)	Belgium	(1)
Clara Diamond Solutions Limited Partnership	Canada	Diamond sales platform
Clara Diamond Solutions GP Inc.	Canada	(1)
Lucara Management Services Limited	UK	(1)
Lucara Diamond Holdings Inc.	Mauritius	(1)
Mothae Diamond Holdings Inc.(3)	Mauritius	(1)
Boteti Diamond Holdings Inc.	Mauritius	(1)
Wati Ventures Proprietary Limited	Botswana	(1)
Debwat Exploration Proprietary Limited	Botswana	(1)
Lucara Botswana Proprietary Limited	Botswana	Diamond mining

(1) Intermediate holding company
(2) Incorporated March 14, 2022
(3) Dissolved September 5, 2022

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

15. REVENUE

	2022	2021
Revenue from diamond sales	$ 212,934	$ 230,078

Revenue from diamond sales includes $36.9 million (2021: $56.4 million) in diamond sales to HB that is considered variable.

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

At December 31, 2022, an advance of $12.0 million (December 31, 2021 - $nil) was received from HB as a prepayment on the 549-carat Sethunya diamond. Revenue will be recognized when the manufactured diamonds are sold and will be based on the actual sales price less a fee and the cost of manufacturing.

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

16. ADMINISTRATION

		2022		2021
Salaries and benefits	$	7,849	$	7,696
Professional fees		3,070		3,818
Insurance, office and general		2,038		2,608
Promotion		1,136		823
Stock exchange, transfer agent, shareholder communication		306		305
Travel		1,086		273
Share-based compensation (Note 13)		1,977		1,852
Depreciation		446		1,441
Sustainability and donations(1)		1,211		643
	$	**19,119**	$	19,459

(1) Included are amounts incurred for the Company's COVID-19 response totaling $0.4 million for the year ended December 31, 2022 (2021 – $1.0 million).

17. INCOME TAXES

		2022		2021
Current	$	307	$	1,518
Deferred		24,071		20,048
Income tax expense	**$**	**24,378**	$	21,566

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

		2022		2021
Statutory tax rate		27.00%		27.00%
Net income before tax		64,811		45,393
Computed income tax expense		17,499		12,256
Differences between Canadian and foreign tax rates		3,973		3,726
Non-deductible expenses and other permanent differences		1,179		2,066
Change in deferred tax assets not recognized		1,912		2,798
Exchange rate differences		–		(6)
Withholding taxes		(185)		726
	$	**24,378**	$	21,566

The Company is subject to a variable tax rate in Botswana based on a profit and revenue ratio which increases as profit as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55% (only if taxable income were equal to revenue). The Company has estimated the variable tax rate to be 33.0% for deferred income taxes based on current financial performance and the life of mine plan which includes the Karowe underground expansion.

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

17. INCOME TAXES (continued)

The Company has not recognized deferred tax liabilities in respect of historical unremitted earnings from foreign subsidiaries for which the Company is able to control the timing of the remittance and which are considered by the Company to be reinvested for the foreseeable future. At December 31, 2022, these earnings amount to $198.3 million (2021: $147.6 million). All of these earnings would be subject to withholding taxes if they were remitted by the foreign subsidiaries.

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

		2022		2021
Balance, beginning of year	$	70,285	$	55,905
Deferred income tax expense		24,071		20,048
Foreign currency translation adjustment		(6,548)		(5,668)
Balance, end of year	**$**	**87,808**	$	70,285

Deferred income tax assets and liabilities recognized		**2022**		**2021**
Deferred income tax assets				
Non-capital losses	$	11,723	$	2,342
Accounts payable and other		–		730
Unrealized foreign exchange loss		1,144		234
Restoration provisions		3,003		3,376
Total deferred income tax assets		15,870		6,682
Deferred income tax liabilities				
Mineral properties, plant and equipment		101,268		76,524
Future withholding taxes		–		443
Other		2,410		–
Deferred income tax liabilities		103,678		76,967
Deferred income tax liabilities, net	**$**	**87,808**	$	70,285

Deferred income tax assets not recognized		**2022**		**2021**
Tax losses	$	29,728	$	29,863
Mineral properties, plant and equipment		59		43
Other deductible temporary differences		445		758
	$	**30,232**	$	30,664

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

17. INCOME TAXES (continued)

As at December 31, 2022, the Company has non-capital losses for income tax purposes which expire as follows:

	2023	2024	2025	Subsequent to 2025	No expiry date	Total
Botswana	$ –	$ –	$ –	$ –	$ 44,536	**$ 44,536**
Canada	–	–	–	107,270	–	**107,270**
United Kingdom	–	–	–	–	5,355	**5,355**
	$ –	$ –	$ –	$ 107,270	$ 49,891	**$ 157,161**

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

18. EARNINGS PER COMMON SHARE

a) *Basic*

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

b) *Diluted*

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

	2022	2021
Income for the year	$ 40,434	$ 23,827
Weighted average number of common shares outstanding	453,479,480	422,894,218
Adjustment for share units	8,473,773	5,917,289
Weighted average number of common shares for diluted earnings per share	461,953,253	428,811,506
Basic and diluted earnings per share	**$ 0.09**	$ **0.06**

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

19. 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:

		2022		2021
Salaries and wages	$	2,256	$	2,642
Short term benefits		27		34
Share based compensation		1,226		1,274
	$	**3,509**	$	3,950

b) Clara acquisition

At the time of Lucara's acquisition of Clara, a current director and a current officer of the Company were also shareholders of Clara. If all the Clara performance milestones are reached, these individuals will receive an additional 1,788,001 common shares and 74,999 common shares, respectively, of Lucara. Following the acquisition of Clara, Lucara appointed a new director and a new officer, each of whom had been a shareholder of Clara at the time of its acquisition by the Company. If all 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 9, a total of 3.45% of the EBITDA generated by the platform has been assigned to two directors of Lucara, each of whom was a founder of Clara. A further 3.22% of the EBITDA generated by the platform may be distributed to members of management, at the discretion of Lucara's Compensation Committee, based on the achievement of key performance targets. As at December 31, 2022, no amounts have been paid under this profit sharing mechanism to date.

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

20. 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.

2022

	Karowe Mine	Corporate and other	Total
Revenues(1)	$ 203,803	$ 9,131	$ 212,934
Income (loss) from operations	86,722	(2,120)	84,602
Finance expenses	(3,420)	(270)	(3,690)
Gain on derivative financial instrument	10,662	–	10,662
Exploration	(835)	–	(835)
Foreign exchange loss	(3,912)	(20)	(3,932)
Administrative and other	(10,255)	(11,740)	(21,995)
Taxes	(24,089)	(289)	(24,378)
Net income (loss) for the year	**$ 54,873**	**$ (14,439)**	**$ 40,434**
Capital expenditures	**$ 125,331**	**$ 90**	**$ 125,421**
Total assets	**$ 470,814**	**$ 25,025**	**$ 495,839**

2021

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

(1) During the year ended December 31, 2022, one customer generated 60% (2021 – 65%) of the Company's revenue.

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

	Plant and equipment 2022	Plant and equipment 2021	Mineral properties 2022	Mineral properties 2021	Other 2022	Other 2021
Canada	$ 225	$ 117	$ –	$ –	$ 18,886	$ 22,980
Belgium	40	78	–	–	–	–
Botswana	87,974	87,126	244,130	157,578	44,245	41,764
	$ 88,239	$ 87,321	$ 244,130	$ 157,578	$ 63,131	$ 64,744

Depletion and amortization expense for Karowe Mine and Corporate and other during the year ended December 31, 2022 totaled $23.8 million and $1.6 million, respectively (2021 – $49.8 million and $1.4 million).

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

21. 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.

b) *Fair value hierarchy*

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

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

		2022		2021
Level 1: Fair value through other comprehensive income – Investments	$	661	$	2,256
Level 2: Derivative financial instruments	$	9,820	$	(842)
Level 3: N/A				

c) *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 December 31, 2022, the Company was exposed to currency risk relating to U.S. dollar, South African Rand and British Pound cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately $2.3 million in net income for the period. Other currencies held are not material.

Liquidity risk

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

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

21. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

The current working capital facility matures on September 2, 2023. It is the Company's intention to seek a renewal of this facility from its existing Lenders prior to expiry. However, there is no guarantee that this facility will be renewed on the same terms as the maturing facility. Historically, the Company has used this facility to manage its short-term working capital requirements.

Prior to September 2023, the Company will be required to place $52.9 million in a cost overrun facility (the "COF"), pursuant to the terms of the Facilities Agreement. The Facilities Agreement includes specific provisions for how and when these funds may be released. The Company expects to meet this funding requirement by making regular monthly contributions to the COF during 2023.

Credit risk

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

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

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

Interest rate risk

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

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

In December 2021, the Company entered into contracts to exchange the variable interest rate (three-month USD LIBOR) for a fixed interest rate of 1.682% on 75% of its expected borrowings from the Project Finance Facility (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 Finance Facility, any amounts drawn from its $50 million working capital facility and from its $4 million Clara Facility, each of which remain subject to market interest rates (LIBOR or a replacement benchmark). Higher interest rates decrease the amount of cash flow available for other uses.

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

21. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

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 supply agreement with HB, the ultimate achieved sales prices of stones larger than 10.8 carats in size is based on a polished diamond pricing mechanism. This pricing mechanism results in the Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than through its traditional tender process for rough diamonds. The pricing of both polished and rough diamonds continued to increase during the first six months of 2022 following significant price improvements in late 2021 and the beginning of 2022 because of positive market supply and demand dynamics. Pricing softened in the second half of 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.

22. COMMITMENTS

As at December 31, 2022, 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 $111.5 million (December 31, 2021 - $86.7 million). The following table summarizes the approximate timing of the commitments (undiscounted) at December 31, 2022:

		2023	2024	2025	2026 and 2027	Total
Underground expansion project	$ million	37.2	31.8	31.8	10.7	**111.5**

The total of all commitments can be cancelled at an estimated cost of $6.2 million as of December 31, 2022.

23. CAPITAL MANAGEMENT

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

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

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

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