LUCARA
DIAMOND

Management's Discussion and Analysis

and

Consolidated Financial Statements

Year Ended December 31, 2023

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2023

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. (the "Company") and its subsidiaries performance and such factors that may affect its future performance. To better understand the MD&A, it should be read in conjunction with the audited consolidated financial statements of the Company for the period ended December 31, 2023, 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.sedarplus.ca.

The effective date of this MD&A is February 20, 2024.

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 which ensures 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 2023

- The recovery of a 1,080 carat Type IIA white gem quality diamond in August, followed by a recovery of a 692 carat Type IIA diamond later in the month. The fourth +1000 carat stone recovered from the Karowe Mine.
- The Karowe Mine recorded record plant throughput of 2.8 million tonnes milled for the year.
- In January 2024, the successful execution of an amended project financing debt package of US$220 million to amend the repayment profile in line with the rebase schedule released in July 2023 for the Karowe UGP.
- On February 18, 2024, the Company announced the signing of a new definitive sales agreement ("NDSA") with HB Trading BV ("HB") in respect of all qualifying diamonds produced in excess of 10.8 carats in size from the Karowe Mine.
- All key operational and financial metrics from the Company's 2023 Revised Guidance were achieved.
- Total revenue of $177.4 million, in line with revised guidance, was achieved in 2023 and is reflective of a combination of natural variability in the quality of large goods recovered, and a delay in sales of large goods to HB.

- During Fiscal 2023, a total of 379,287 carats of rough diamonds (2022: 327,028) from Karowe were sold through the Company's three sales channels, generating revenue of $153.0 million before top-up payments of $19.4 million (2022: $165.4 million before top-up payments of $38.4 million).
- Operating cost per tonne processed[(1)] was $28.75, an increase of 3% over the 2022 cost per tonne processed of $27.94. Despite increased mining and continued inflationary pressures, particularly for labour, a strong US dollar partially offset an increase in costs over the comparable period.
- Operational highlights from the Karowe Mine for 2023 included:
    - Ore and waste mined of 2.7 million tonnes ("Mt") (2022: 3.3Mt) and 3.1 million tonnes (2022: 1.5Mt), respectively.
    - 2.8 million tonnes (2022: 2.8Mt) of ore processed.
    - A total of 395,134 carats recovered, including 18,509 carats from the processing of historic recovery tailings, (2022: 335,769 carats) at a recovered grade of 13.2 carats per hundred tonnes ("cpht") of direct milled ore (2022: 12.1 cpht).
        - A total of 602 Specials (stones larger than 10.8 carats in size) were recovered, with 22 diamonds greater than 100 carats including five diamonds greater than 300 carats.
        - Recovered Specials equated to 5.3% of the total recovered carats from ore processed during 2023 (2022 – 7.2%).
    - The Karowe Mine has operated continuously for over three years without a lost time injury.
    - The twelve-month Total Recordable Injury Frequency Rate of 0.19 (2022: 0.40) at the end of Q4 2023 reflects a continued focus on leading indicators and safe performance.
- Financial highlights for 2023 included:
    - Revenues of $177.4 million (2022: $212.9 million) were achieved despite a weaker rough diamond market. Fourth quarter pricing stabilized in smaller goods and increases of 5% were observed compared to the third quarter of 2023, albeit approximately 19% below prices observed in the fourth quarter of 2022. Revenue reflects the weighting of Lucara's revenue towards larger goods where pricing was observed to be more stable. The performance reflects the increased volume of material processed from the North and Centre lobes in the first half of the year. During 2023, 26% of the carats processed were recovered from the Centre Lobe, 3% from the North Lobe and 71% were recovered from South Lobe ore (2022: 100% South Lobe ore). In comparison to the revenue earned in 2022, current year revenue reflected a more diverse product mix with a return to Centre and North Lobe processing during the year.
    - Operating margins of 56% were achieved (2022: 63%). A strong operating margin continues to be achieved through cost reduction initiatives assisted by a strong U.S. dollar.
    - Adjusted EBITDA[(1)] was $54.4 million (2022: $86.7 million), with the decrease attributable to the change in revenue.
    - Net loss was $20.2 million (2022: net income of $40.4 million), resulting in a loss per share of $0.04 (2022: earnings of $0.09). The change to a net loss is due to the decrease in revenue, an impairment of intangible assets, and a significant non-cash deferred tax expense as the investment in the underground expansion project continues.
    - The Company identified an impairment indicator for the Company's Clara sales platform and completed an impairment test based on the fair value less cost of disposal expected to be derived from the platform. An impairment was recognized on the intangible asset by $11.2 million in Q4 2023.
    - Cash flow from operating activities was $63.4 million (2022: $96.2 million).

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

- During 2023, the Company invested $101.3 million into the Karowe UGP, including capitalized borrowing costs:
  - Shaft sinking, lateral development and grouting programs were the focus in both the ventilation and production shafts in Q4 2023. At the end of 2023, the production and ventilation shafts were both at 348 metres below collar or 666 metres above sea level (“masl”) and the process of establishing the first shaft stations and lateral connection between the two shafts (670 level) had commenced.
  - During Q4 2023, the ventilation shaft sank 76 metres, the 718 slinging cubby was completed, the 670-level station was established, and the lateral station development commenced. Total lateral development in Q4 2023 was 97 metres. During the quarter, development equipment, including a Kubota, a Sandvik DD321 boom jumbo drill and a Caterpillar R1300G 7-tonne load, haul, dump (“LHD”) unit were mobilized at the 670-level for lateral development mining. Sinking and lateral development was in the Thlabala mudstones in dry conditions.
  - Production shaft activities included sinking a total of 114 metres and establishing the 670-level station, catwalk and initiating lateral development. A total of 30 metres of lateral development was completed. Sinking and lateral development in Q4 2023 was in the Thlabala mudstones in dry conditions.
  - Commissioning of the temporary bulk air coolers at each shaft was completed and construction of the permanent bulk air coolers at the production shaft continued.
  - Detailed engineering and fabrication of the permanent men and materials winder commenced during the quarter, representing the last major component for the permanent winders.
- Cash position and liquidity as at December 31, 2023:
  - Cash and cash equivalents of $13.3 million.
  - Working capital deficit (current assets less current liabilities) of $16.6 million.
  - Cost overrun facility (“COF”) of $18.6 million.
  - $90.0 million drawn on the $170.0 million Project Loan (“Project Loan”) for the Karowe UGP.
  - $35.0 million drawn on the $50.0 million working capital facility (“WCF”).
- On January 9, 2024, the Company announced that it had signed amended documentation in relation to the senior secured project financing debt package of US$220 million (the "Facilities") executed in July 2021 (the “Rebase Amendments”). The project facility portion had been increased from $170.0 million to $190 million, while the working capital facility had decreased from $50.0 million to $30.0 million. While the total quantum of the Facilities has not changed, the repayment profile has been extended in line with the rebase schedule released on July 17, 2023, and the maturity of the WCF has been extended to June 30, 2031.
- During 2023, the Company announced the appointment of William Lamb as Chief Executive Officer in August, and Glenn Kondo as Chief Financial Officer, effective January 1, 2024. Eira Thomas and Zara Boldt departed during 2023.

DIAMOND MARKET

The long-term outlook for natural diamond prices remains positive, anchored on improving fundamentals around supply and demand as many of the world’s largest mines reach their end of life. Currently, slower than anticipated economic growth in China and a voluntary import ban on rough diamonds into India in Q4 2023, dampened the recovery of rough diamond prices towards the end of 2023. Changes in global economic conditions, consumer demand, geopolitical events, and industry-specific dynamics resulted in a challenging market in 2023 with reduced demand and downward pressure on both polished and rough diamond pricing, especially in the smaller size classes. Restricted supply by the largest producers towards the end of 2023, together with the Group of Seven discussions surrounding sanctions on rough diamonds from Russia, resulted in small levels of price recovery at the end of 2023.

Sales of lab-grown diamonds increased steadily through 2023 with many smaller retail outlets increasingly adopting these diamonds as a product. Lab-grown stones have established themselves in the marketplace and over time will continue to take up increasing market share in the smaller to medium sized goods. The longer-term market fundamentals for natural diamonds remain positive, pointing to continued price growth as demand is expected to outstrip future supply, which is now declining globally.

SALES CHANNELS

Karowe diamonds are sold through three separate and distinct sales channels: through the HB sales agreement arrangements (terminated as of September 28, 2023; reinstated in February 2024), on the Clara digital sales platform and through quarterly tenders.

HB Sales

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

Under the sales arrangements with HB, +10.8 carat gem and near gem diamonds from the Karowe Mine of qualities that could directly enter the manufacturing stream are sold to HB at prices based on the estimated polished outcome of each diamond. The estimated polished value is determined through state-of-the-art scanning and planning technology, with an adjusted amount payable on actual achieved polished sales, less a fee and the cost of manufacturing. All +10.8 carat non-gem quality diamonds and all diamonds less than 10.8 carats in weight which did not meet the criteria for sale on Clara will continue to be sold as rough through a quarterly tender.

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

Top-up payments, net of manufacturing costs, are payable when polished diamonds are sold to an end buyer and the sales prices achieved exceeds 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 HB and polished sales by HB have had the most significant impact on the timing of revenue recognition.

Sethunya Diamond

In 2021, amidst strengthening prices for large, high value diamonds, a strategic decision was taken to defer the sale of the Sethunya (549 carats), one of the finest, gem quality diamonds produced from the Karowe Mine to date. In mid-2022, Lucara and HB agreed to a series of prepayments. As at December 31, 2023, the Company had received prepayments of $20.0 million from HB for the Sethunya. These prepayments have been recorded as deferred revenue on the Statement of Financial Position.

Clara Sales Platform

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

Total volume transacted on the platform was $18.5 million in 2023, with non-Karowe goods representing 32% of the total sales volume transacted. The number of buyers on the platform reached 104 as of December 31, 2023.

Quarterly Tenders

All +10.8 carat non-gem quality diamonds and all diamonds less than 10.8 carats in weight which did not meet the criteria for sale on Clara are being sold as rough through quarterly tenders. Viewings take place in both Gaborone, Botswana and Antwerp, Belgium.

KAROWE UNDERGROUND PROJECT UPDATE

The Karowe UGP is designed to access the highest value portion of the Karowe orebody, with initial underground carat production predominantly from the highest value eastern magmatic/pyroclastic kimberlite (south) ("EM/PK(S)") unit. The Karowe UGP is expected to extend mine life to at least 2040.

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

The updated schedule incorporates a 28% increase in the duration of construction, extending the anticipated commencement of production from the underground from H2 2026 to H1 2028. The revised forecast of costs at completion is $683.0 million (including contingency), a 25% increase to the May 2022 estimated capital cost of $547 million. The increase of $136.0 million in estimated capital to reach project completion is predominantly related to increased schedule duration and related labour costs (approximately 56% of the total increase), grouting costs (approximately 20% of the total increase), with the balance of the increase attributable to owner's costs, procurement, and indirect project costs. As at December 31, 2023, capital expenditures of $310.5 million had been incurred and capital commitments of $77.2 million had been made.

The Karowe UGP remains technically and economically feasible, however, the impact of actual and modelled delays changes the revenue profile due to the use of stockpiled ore for mill feed between 2025 and 2027 rather than high-grade ore from the underground as previously planned. Open pit mining will continue until mid-2025 and provide mill feed during this time. Stockpiled material (North, Centre, South Lobe) from working stocks and life of mine stockpiles will provide uninterrupted mill feed until late 2026 when Karowe UGP development ore will begin to offset stockpiles with underground production feed planned for H1 2028. The long-term outlook for diamond prices, combined with the potential for exceptional stone recoveries and the continued strong performance of the open pit could mitigate the modelled impact on project cash flows due to the schedule slippage. The Company continues to explore opportunities to further mitigate the modelled impact.

With the update announced July 16, 2023, the Karowe Mine production and cash flow models were updated for the revised project schedule and cost estimate.

During the year ended December 31, 2023, a total of $101.3 million was spent on the Karowe UGP development, capitalized borrowing costs, surface infrastructure, grouting programs, and ongoing shaft sinking activities. The following activities were completed during Q4 2023, including:

- Main sinking in the production and ventilation shafts:
  - The ventilation shaft reached 348 metres below collar, with a planned final depth of 731 metres. The shaft is currently 61 metres or approximately 26 days ahead of the July 2023 schedule update (combined vertical and lateral metres).
  - The production shaft reached 348 metres below collar, with a planned final depth of 765 metres. The production shaft is 11 metres or approximately 24 days behind the July 2023 schedule update (combined vertical and lateral) mainly due to an unscheduled grouting event in Q3 2024, which is not a critical path schedule item.

- At the end of 2023, both shaft bottoms were at 348 metres below collar (666 masl) having completed the first shaft stations at the 670-level and engaged in the start of 670-level lateral development.
- During Q4 2023, the ventilation shaft sank 76 metres, completed the 718 slinging cubby and established the 670-level station, catwalk and was engaged in level development. Total lateral developed in Q4 2023 was 97 metres. During the quarter, a Kubota, Sandvik DD321 two boom jumbo drill and a Caterpillar RG1300G 7-tonne LHD were slung down in the ventilation shaft to the 670-level for development mining.
- Production shaft activities included sinking a total of 114 metres and establishing the 670-level station, catwalk and initiating lateral development. A total of 30 metres of lateral development was completed.
- Commissioning of the temporary bulk air coolers at each shaft was completed and construction of the permanent bulk air coolers at the production shaft continued.
- Detailed engineering and fabrication of the permanent men and materials winder commenced during the quarter, representing the last major component for the permanent winders.
- Both shafts have completed sinking through the water-bearing Ntane and Mosolotane sandstones. Sinking and lateral development during the fourth quarter took place in the Thalbala mudstone in dry conditions, no water was reported during probe drilling events.

- Contract for fabrication of the permanent men and materials winder was signed during the quarter, representing the last major component for the permanent winders.
- Mining engineering advanced with a focus on supporting shaft sinking, underground infrastructure engineering and finalizing level plans.
- The impact of implementing a behavioural-based safety training program, Safe Start®, in Q4 2022 has been evident in 2023. During 2023, the UGP achieved a twelve-month rolling Total Recordable Injury Frequency Rate of 0.19. Project to date Total Recordable Injury Frequency Rate at December 31, 2023 was 0.55.

The capital cost expenditure for the underground expansion in 2024 is up to $100 million – see “2024 Outlook” below.

Activities for the Karowe UGP in Q1 2024 include the following:

- Resumption of sinking within the ventilation and production shafts.
- Completion of mining and construction activities on the 670 level station, including connection of the two shafts and establishment of electrical substation, sump and de-watering pumps and ventilation doors.
- Planned grouting events at the base of the Tlapana carbonaceous shale and top of Mea formation is expected during the period in the production shaft.
- Procurement of underground equipment, including dewatering pumps, underground crush and convey systems and the permanent stage winder.
- Commissioning of the permanent bulk air cooler system.
- Preparation of tender documents for the underground lateral development work; and,
- Continuation of detailed design and engineering of the underground mine infrastructure and layout.

The update to the UGP schedule that extended the anticipated duration of construction and increased the estimated capital cost was considered to be an indicator of impairment at June 30, 2023 for the Karowe Cash Generating Unit (“CGU”). No further indicators were identified at December 31, 2023. As a result of an impairment indicator being identified, the recoverable amount of the Karowe CGU was estimated and compared against its carrying value. No impairment was identified *(see Note 24 of the consolidated financial statements for year ended December 31, 2023).*

SOURCES OF FINANCING

On January 9, 2024, the Company's wholly-owned subsidiary, Lucara Botswana, with Lucara Diamond Corp. as the sponsor and the guarantor, amended its debt package that was originally entered into in 2021. The Facilities consist of a project finance facility of $190.0 million (previously $170.0 million) to fund the development of an UGP at the Karowe Mine, and a $30.0 million (previously $50.0 million) senior secured working capital facility (the "WCF") which is used to support ongoing operations.

The Project Loan may be used to fund the development, construction costs and construction phase operating costs of the Karowe UGP as well as financing costs on the Facilities. The Project Loan now matures on June 30, 2031, with quarterly repayments commencing on September 30, 2028.

As at December 31, 2023, $90.0 million was drawn from the Project Loan and $35.0 million was drawn from the WCF. Following the Rebase Amendments, the Company has drawn $125.0 million from the Project Loan and $15.0 million from the WCF. The Company has drawn an additional $15.0 million from the Project Loan and $10.0 million from the WCF in Q1 2024.

Effective June 30, 2023, the Facilities were amended to replace the interest rate of LIBOR with Term Secured Overnight Financing Rate ("SOFR") plus a credit adjustment spread. The Facilities accrue interest at Term SOFR plus a margin as outlined below.

The Project Loan has a margin of 6.5% annually until the project completion date, 6.0% annually from the project completion date to June 30, 2029, and 7.0% annually thereafter. Commitment fees for the undrawn portion of the Project Loan are 35% of the margin per annum.

The WCF may be used for working capital and other corporate purposes. This facility has a margin of 6.5% annually until the project completion date, 6.25% annually from the project completion date to June 30, 2029, and 7.25% annually thereafter. Commitment fees for the undrawn portion of the WCF are 35% of the margin per annum. The WCF now matures on June 30, 2031.

Following the Rebase Amendments, the Company is required to place $61.7 million in the COF as a condition of the Facilities prior to June 30, 2025. The Facilities Agreement includes specific provisions for how and when these funds may be released from the COF. The COF balance was $18.6 million as at December 31, 2023, and now stands at $36.9 million. The Company is required to fund the remaining balance with the proceeds from the sale of exceptional stones and excess cashflow from operations.

Under the terms of the Rebase Amendments to the Project Loan, the Company's largest shareholder, Nemesia S.a.r.l. ("Nemesia") provided a limited standby undertaking of up to $63.0 million. The standby undertaking consists of two components: i) an undertaking to support the requirement to fill the COF to $61.7 million ($28.1 million at the effectiveness of the Rebase Amendments) by June 30, 2025 and ii) in the event of a funding shortfall, support up to $35.0 million occurring up to project completion.

In connection with the Rebase Amendments, Nemesia also provided a liquidity support guarantee of up to $15.0 million in aggregate in the event the Company's cash balance decreased below $10.0 million while discussions with the Lenders were ongoing in 2023. During Q4 2023, the full liquidity guarantee of $15.0 million was drawn, and Nemesia was issued 450,000 common shares as consideration for providing this funding. For each $500,000 drawn down under the Liquidity Guarantee, the Company is required to issue, subject to the receipt of all required regulatory approvals, 7,500 common shares per month to Nemesia until the amounts borrowed are repaid. As at December 31, 2023, 127,500 common shares have been issued under the amounts drawn on the debenture. Following year-end, with the effectiveness of the Rebase Amendments, $15.0 million was drawn from the Project Loan and contributed to the COF.

As part of the Rebase Amendments, the Lenders had granted certain waivers and extensions to the Company as at December 31, 2023. As at December 31, 2023, the Company was in compliance with all covenants under the Facilities.

INTEREST RATE SWAP

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

As at December 31, 2023, the interest rate swaps had a total unrealized fair value of $8.1 million (December 31, 2022: $9.8 million), of which $3.0 million has been classified as a current asset in the Statement of Financial Position. For the year ended December 31, 2023, the Company recorded a $1.7 million loss (2022: gain of $10.7 million) on this derivative financial instrument. Movements in the unrealized fair value are recorded through the Statements of Operations.

In February 2024, the interest rate swaps were aligned to the expected Project Loan drawdown schedule under the Rebase Amendments with the interest rate swaps amended to amounts up to $142.5 million and maturity extended to June 30, 2031. The Company receives interest at the rate equivalent to the three-month USD Term SOFR plus a credit adjustment spread and pays interest at a fixed rate of between 2.421 and 2.447% on a quarterly basis.

CLARA REVOLVING CREDIT FACILITY

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

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

FINANCIAL HIGHLIGHTS

Table 1

In millions of U.S. dollars, except carats or otherwise noted		**Three months ended December 31, 2023**	**2022**		**Year ended December 30, 2023**	**2022**
Revenues	$	36.5	42.5	$	177.4	212.9
Operating expenses		(22.3)	(18.5)		(78.6)	(79.3)
Net (loss) income for the period		(36.7)	7.1		(20.2)	40.4
(Loss) earnings per share (basic and diluted)		(0.07)	0.02		(0.04)	0.09
Operating cash flow per share[(1)]		0.00	0.03		0.11	0.19
Cash on hand		13.3	26.4		13.3	26.4
Cost overrun facility (restricted cash)		18.6	-		18.6	-
Amounts drawn on WCF[(2)]		35.0	15.0		35.0	15.0
Amounts drawn on Project Loan		90.0	65.0		90.0	65.0
Revenue from the sale of Karowe diamonds		36.3	40.1		172.4	203.8
Carats sold from Karowe		111,523	81,264		379,287	327,028

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

(2) Excludes amounts drawn from the Clara Facility.

Q4 2023 Analysis

The Company recognized total revenues of $36.5 million in Q4 2023. This included $36.3 million from the sale of 111,523 carats from Karowe (including top-up payments of $6.8 million) as well as $0.2 million from the sale of third-party goods on the Clara platform. In comparison, the Company achieved total revenues of $42.5 million in Q4 2022 which included $40.1 million from the sale of 81,264 carats from Karowe and top-up payments of $3.6 million, and $2.4 million in revenue from third party goods sold through the Clara platform. The 14% decrease in quarterly revenue was driven by i) a decrease in the recovery of carats greater than 10.8 carats in size in the fourth quarter due to the natural variability of the resource, ii) a softening of prices for smaller goods, and iii) an inventory build following the termination of the Diamond Sales Agreement with HB at the end of the third quarter.

While a softer diamond market in 2023 resulted in lower achieved prices for the goods less than 10.8 carats in size, when compared to 2022, increasing prices were observed in the fourth quarter. On a like-for-like comparison, prices increased 5% from realized prices in the third quarter of 2023. The average price for goods less than 10.8 carats in

Q4 2023 was $165 per carat, a decrease of 19% from the average price per carat of $203 per carat in Q4 2022. The Company's product mix (which is weighted to larger, high value goods of sizes greater than 10.8 carats) is impacted less by price movements in the smaller goods. Under the sales agreement with HB, Karowe's +10.8 production accounted for 60% (2022: 60%) of total revenues recognized in 2023.

Total operating expenses were higher in Q4 2023 ($22.3 million) compared to Q4 2022 ($18.5 million) predominantly due to inventory movements with a large volume of carats sold in the fourth quarter of 2023 (+37%) and higher total mining costs due to increased production volumes versus the comparable quarter. Operating expenses are recorded on a per carat basis and recognized as the carat is sold. The timing of the sale of carats can affect when amounts are recognised between inventory and operating expenses.

Total operating expenses are comparable for the year (2023 - $78.6 million; 2022 - $79.3 million) predominantly due to the benefit from the stronger U.S. Dollar (+8%) offsetting inflationary pressures. On a total operating cost per tonne processed basis, costs are mostly comparable when quoted in US dollars (increase of 3%). On a total operating cost per tonne processed basis, in Botswana Pula terms, costs were up 11% from Q4 2022 to Q4 2023, inclusive of a 20% increase in the volume of tonnes mined and inflation. There have been minimal power cost increases in Botswana in the past year and fuel costs have been variable throughout 2023 with both increasing and decreasing prices. Fuel costs increased at the end of the third quarter of 2023. Please see Table 5: *"Select Financial Information"* below for details on the expense line items which had the most significant impact on net loss of $20.2 million (2022: net income $40.4 million) in the year.

QUARTERLY SALES RESULTS

Table 2

Q4 2023 - Sales Channel	**Rough Carats Sold**		**Revenue US$ M**
HB Arrangements	1,629	$	10.6
Clara(1)	1,757		2.0
Tender(2)	108,137		16.9
Subtotal – Karowe diamonds sold	**111,523**	**$**	**29.5**
HB top-up payments			6.8
Total Revenue – Karowe Diamonds		**$**	**36.3**
3rd party goods (Clara)(1)			0.2
Total Revenue – Q4 2023		**$**	**36.5**

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

(1) Four sales were completed on Clara in Q4 2023 (Q4 2022: three), with the sale of third-party goods continuing to supplement the total volume transacted.

(2) Non-gem +10.8 carat diamonds and diamonds less than 10.8 carats in size which did not meet characteristics for sale on Clara were sold through tender.

HB Arrangements – Q4 2023

For the three months ended December 31, 2023, the Company recorded revenue of $17.4 million from the HB arrangements (inclusive of top-up payments of $6.8 million), as compared to revenue of $24.1 million (inclusive of top-up payments of $3.6 million) for the three months ended December 31, 2022. The fourth quarter saw a reduction in the goods delivered to HB as a result of the termination of the diamond sales agreement at the end of the third quarter. The company continued to sell diamonds to HB under similar terms while discussions were ongoing regarding the new sales agreement. Revenue was affected by a 92% recovery factor achieved in 2023, 8% below plan. Revenue in the fourth quarter was also affected by the natural variability in the value of large stones recovered in any given period. As a result of these factors, revenue to HB decreased to 48% of total revenue recognized in the fourth quarter of 2023 (60% - Q4 2022). The product mix in Q4 2023 was predominantly from the South Lobe ore body, with some contribution from the Centre Lobe (Q4 2022 – 100% South Lobe ore).

Karowe's +10.8 carat production, sold through HB, accounted for 60% (2022: 60%) of total revenue recognized in 2023.

An increase in top-up payments in Q4 2023 versus the comparative quarter can be attributed primarily to the number of high value diamonds delivered to HB in the third quarter which were sold during the comparative period. Top-up values will typically increase as the more valuable stones move through production and are sold. The higher top-ups recognized in Q4 2023 reflect the value of the stones delivered earlier in the year, with a very strong performance in June 2023 from the product mix in Q2 2023.

Recovered Specials for the year equated to 3.8% of the weight percentage of total recovered carats from ore processed during Q4 2023, with 71% of carats recovered coming from the South Lobe, 26% recovered from the Centre Lobe, and 3% recovered from the North Lobe (Q4 2022: 8.2%; 98% South Lobe ore; 2% Centre and North Lobes). Natural variability in the quality profile of the +10.8ct production in any production period or fiscal quarter results in fluctuations in recorded revenue and associated top-ups. This result is consistent with the resource model and expected.

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

Clara

During Q4 2023, the sales volume transacted was $2.3 million (Q4 2022: $6.6 million), as lower volumes and lower value goods were sold (due to the shift in product mix from the Karowe Mine). Some sales are recognized on a net revenue basis. A softer market was observed with the voluntary import ban on rough diamonds in India during the fourth quarter. Prices increased 5% overall in December with a resumption of purchasing across most size categories; however, prices remained lower than Q4 2022. Price stability continues to be observed in the stones between 5 to 10.8 carats in size.

Quarterly Tender

A total of 108,137 carats were sold in the December 2023 tender, generating revenues of $16.9 million or $156 per carat (Q4 2022 tender: $12.2 million from the sale of 76,264 carats or $133 per carat). Rough diamond prices saw a strong rebound in the fourth quarter of 2023 following the significant decrease observed earlier in 2023 as market fundamentals strengthened. A 19% increase from the third quarter tender was observed owing to price increases and product mix offered in the fourth quarter tender.

ANNUAL SALES RESULTS

Table 3

2023 - Sales Channel	Rough Carats Sold		Revenue US$ M
HB Agreements	10,456	$	86.8
Clara(1)	9,123		12.5
Tender(2)	359,708		53.7
Subtotal – Karowe diamonds sold	**379,287**	**$**	**153.0**
HB top-up payments			19.4
Total Revenue – Karowe Diamonds		**$**	**172.4**
3rd party goods (Clara)(1)			5.0
Total Revenue – 2023		**$**	**177.4**

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

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

(2) Non-gem +10.8 carat diamonds and diamonds less than 10.8 carats in size which did not meet characteristics for sale on Clara were sold through tender.

HB Sales Arrangements

At December 31, 2023, the amount of diamond sales to HB that was considered variable was $20.9 million (December 31, 2022: $36.9 million) and predominantly consisted of deliveries made in 2023. 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 2023, 17 sales (2022: 15 sales) took place with a total sales volume transacted of $18.5 million, a 48% decrease from the $35.7 million transacted in 2022. A large trial with a third-party producer accounted for the change in volume and value transacted, along with a shift in product mix at Karowe which had less goods eligible for sale on Clara. Goods which do not qualify for sale on Clara are sold through the tender process.

RESULTS OF OPERATIONS – KAROWE MINE

Table 4:

	UNIT	Q4-23	Q3-23	Q2-23	Q1-23	Q4-22
Sales						
Revenues from the sale of Karowe diamonds	US$M	36.3	56.2	38.6	41.3	40.1
Karowe carats sold	Carats	111,523	111,673	72,717	83,374	81,264
Production						
Tonnes mined (ore)	Tonnes	607,101	869,188	682,636	541,400	484,705
Tonnes mined (waste)	Tonnes	456,880	954,226	907,051	761,295	199,385
Tonnes processed	Tonnes	703,472	724,640	720,345	700,678	690,946
Average grade processed(1)	cpht (*)	14.0	13.6	12.6	12.8	12.5
Carats recovered(1)	Carats	98,177	98,311	90,497	89,640	86,655
Costs						
Operating cost per tonne of ore processed(2)	US$	31.96	28.62	27.97	26.65	26.20
Capital Expenditures						
Sustaining capital expenditures	US$M	8.0	3.2	2.4	0.8	9.9
Underground expansion project(3)	US$M	28.0	20.3	22.5	30.5	22.3

(*) carats per hundred tonnes

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

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

(3) Includes 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, 2023. As of December 31, 2023, the mine had operated for over three years without a lost time injury. The twelve-month Total Recordable Injury Frequency Rate was 0.19 (Q4 2022: 0.40).

Environment and Social:

- There were no reportable environmental matters during the fourth quarter of 2023.
- Work continues as part of Lucara Botswana's adoption of the "Towards Sustainable Mining" initiative (an initiative developed by the Mining Association of Canada and adopted by the Botswana Chamber of Mines).
- In Q4 2023, an ISO 45001 surveillance audit was completed, with high levels of compliance observed.
- The development and implementation of an updated tailings framework aligned to the Global International Standard for Tailings Management ("GISTM") continued. In accordance with GISTM, a site visit was conducted by a three-person Independent Technical Review Board, and work continues toward full implementation. A feasibility study commenced for the Underground Life of Mine tailing facility, with expected completion in 2024.

Production: Ore and waste mined during the fourth quarter of 2023 totaled 0.6 million tonnes and 0.5 million tonnes respectively. During Q4 2023, tonnes processed was on target at 0.7 million tonnes at an average grade of 14.0 cpht, with a total of 98,177 carats recovered from direct milling. Carats recovered from direct milling ore was 97% of plan. With the achievement on plan in the fourth quarter, the plant hit a record year of tonnes milled. Ore processed was 73% from the South Lobe, 22% from the Centre Lobe, and 5% from the North Lobe. Predominantly the feed has been from the South Lobe since the 2021 production year.

Diamond Recoveries: A total of 153 Specials were recovered, with one diamond greater than 100 carats in weight. Recovered Specials equated to 3.8% of the weight percentage of total recovered carats from ore processed during Q4 2023 (Q4 2022 – 8.6%).

Karowe's operating cash cost: Karowe's operating cash cost for Q4 2023 (see "*Use of Non-IFRS Financial Performance Measures*") was \$31.96 per tonne of ore processed (Q4 2022: \$26.20 per tonne of ore processed), below the 2023 annual forecast of \$32.50-\$35.50 per tonne processed. The increase in cost per tonne of ore compared to the prior year processed reflects the greater total amount of mining completed in the fourth quarter (+56%) and higher costs incurred in the fourth quarter. The benefit of a comparatively stronger U.S. Dollar (+8%) was offset by cost inflation (-11%). A cost optimization process commenced in Q2 2023.

Overall performance: Mine 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 for 2023.

SELECT FINANCIAL INFORMATION

Table 5:

In millions of U.S. dollars unless otherwise noted		**2023**	2022	2021
Revenues	$	177.4	212.9	230.1
Operating expenses		(78.6)	(79.3)	(80.3)
Adjusted operating earnings(1)		98.8	133.6	149.8
Royalty expenses		(20.1)	(24.1)	(24.9)
Administration		(19.6)	(19.1)	(19.5)
Exploration		(1.2)	(0.8)	-
Sales and marketing		(3.5)	(2.9)	(2.9)
Adjusted EBITDA(2)		54.4	86.7	102.5
Depletion and amortization		(18.3)	(25.0)	(49.7)
Finance expenses		(4.5)	(3.7)	(3.7)
Foreign exchange loss		(5.2)	(3.9)	(2.8)
(Loss) gain on derivative financial instrument		(1.7)	10.7	(0.9)
Impairment of intangible asset		(11.2)	-	-
Loss on disposal of assets		(0.9)	-	-
Current income tax expense		(3.5)	(0.3)	(1.5)
Deferred income tax expense		(29.3)	(24.1)	(20.1)
Net (loss) income for the period		(20.2)	40.4	23.8
(Loss) earnings per share (basic)		(0.04)	0.09	0.06
Operating cash flow per share(3)		0.11	0.19	0.24

(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 Non-IFRS Measures.
(4) Numbers may not foot due to rounding.

Revenues and royalties

Total revenue decreased 17%, from $212.9 million in 2022 to $177.4 million in 2023. During the year ended December 31, 2023, Lucara recognized revenue of $172.4 million from the sale of 379,287 carats from Karowe (including top-up payments of $19.4 million) and generated $5.0 million from the sale of third-party goods on the Clara platform. In comparison, the Company achieved total revenues of $212.9 million in 2022 which included $165.4 million from the sale of 327,028 carats from Karowe, top-up payments of $38.4 million, and generated $9.1 million in revenue from third party goods sold through the Clara platform.

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

Adjusted Operating Earnings and Expenses

Adjusted operating earnings for the year ended December 31, 2023 were $98.8 million (2022: $133.6 million) after operating expenses of $78.6 million (2022: $79.3 million). The decrease in operating expenses is attributed to several variables: an 8% depreciation of the Botswana Pula against the U.S. dollar, decreased fuel costs beginning in Q2 2023 followed by high increases in Q3 2023, partially offset by the impact of higher labour and fuel costs. Carats sold increased by 15%. The proportion of total tonnes mined was higher in 2023 compared to 2022 (+20%) with a lower proportion of ore mined in 2023 compared to 2022 (-18%). Power cost increases that were anticipated did not materialize in 2023.

Ore tonnes processed totalled 2,849,135 during 2023 was 3% higher than the 2,770,039 tonnes processed in 2022, and achieved a life of plant record for tonnes milled. The recovery of 376,625 carats from direct milled ore in 2023 was 12% higher than the 335,769 carats recovered in 2022. This increase is attributed to a higher average grade in 2023 of 13.2 cpht (2022: 12.1 cpht). The mine call factor achieved in 2023 was 8% below plan.

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

Depletion and amortization

In 2023, the Company recorded depletion and amortization expense of $18.3 million (2022: $25.0 million). This non-cash expense decreased 27% from the comparative period. In Q4 2022, as part of a regular review of assumptions, the Company completed a reassessment of the useful life of all the plant and equipment assets. The depletion and amortization expense on assets which are primarily amortized on a unit of production basis will be affected by both the volume of carats recovered in any given period and the reserves that are expected to be recovered. Depletion and amortization expense on assets put into use on the Karowe UGP is capitalized to the project. The foreign exchange rate movement from the strengthening of the USD (+8%) also decreased the expense in 2023.

Derivative financial instrument

A $1.7 million loss on a derivative financial instrument (2022: gain of $10.7 million) 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, 2023*). The Company holds its interest rate swaps at fair value and as such, the movement in the fair value within any given period creates an adjustment to the Statement of Operations. As at December 31, 2023, the interest rate swaps were in an asset position, with a fair value of $8.1 million (December 31, 2022: $9.8 million) on the Statements of Financial Position, with $3.0 million classified as a current asset based on the timing of expected settlement.

Net loss

Net loss for the year ended December 31, 2023 was $20.2 million (2022: net income of $40.4 million) with the change from the comparable period predominantly related to the decrease in net revenue, after royalties, of $31.5 million, a change in tax position, an impairment of its intangible asset and a change in the fair value of the derivative financial instrument.

As noted above, the derivative financial instrument generated a loss to the Company of $1.7 million, with a $12.4 million change in the amount from a gain of $10.7 million in 2022 to a $1.7 million loss in 2023, contributed to the change in net income. The derivative remains in a positive position for the Company; however, the Statement of Income absorbs the volatility in the movement of the forward curve associated with the interest rate swap at any given point in time.

During 2023, management identified impairment indicators with its mineral properties, plant and equipment, and its intangible assets. Management's impairment evaluation resulted in the Company recognizing an impairment of intangible assets of $11.2 million in relation to the cash-generating unit of the Clara sales platform.

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

Adjusted EBITDA for the year ended December 31, 2023 was $54.4 million compared to $86.7 million in 2022. The change in earnings is directly attributable to the change in revenue, after royalties, of $31.5 million.

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

Operating Cash Flow per Share

For the year ended December 31, 2023, operating cash flow per share was $0.11 (2022: $0.19). The decrease in operating cash flow per share is primarily related to the decrease in revenue. The Company continues to generate a strong operating cash flow per share and generated an operating margin of 56% in 2023 (2022: 63%).

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-23	Sep-23	Jun-23	Mar-23	Dec-22	Sep-22	Jun-22	Mar-22
A. Revenues	36,542	56,944	41,125	42,760	42,465	49,926	52,348	68,195
B. Administration expenses	(6,670)	(6,768)	(4,012)	(3,417)	(5,138)	(4,220)	(4,005)	(5,756)
C. Net income	(36,685)	10,544	4,996	954	7,103	1,831	12,532	18,968
D. (Loss) earnings per share (basic)	(0.07)	0.02	0.01	0.00	0.02	0.00	0.03	0.04

Quarterly revenue in the table above was recognized from three separate sales channels: through committed sales of +10.8 carat diamonds to HB, sales on Clara, the Company's secure web based digital sales platform, and, through regular tenders of our smaller stones. Sales of Specials, but more particularly the unique and high value Specials are the primary factor causing variation to the quarterly metrics.

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

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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

Table 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,	
		2023	2022	**2023**	2022
Cash flows from operating activities	$	17,774	17,007	63,357	96,233
Add: Changes in non-cash working capital		(19,152)	(5,022)	(14,141)	(8,298)
Total cash flow from operating activities before changes in non-cash working capital		(1,378)	11,985	49,216	87,935
Weighted average common shares outstanding		455,863,045	453,566,923	454,781,585	453,479,480
Operating cash flow per share[(1)]	$	0.00	$ 0.03	$ 0.11	$ 0.19

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

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

Table 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,	
		2023	2022	**2023**	2022
Operating expenses	$	22.3	$ 18.5	$ 78.6	$ 79.3
Corporate and other segment operating expenses[(1)]		(0.4)	(2.8)	(5.4)	(9.5)
Net change rough diamond inventory, excluding depletion and amortization		0.2	2.8	1.1	3.1
Net change ore stockpile inventory, excluding depletion and amortization		0.4	(0.4)	7.6	4.5
Total operating costs for ore processed	$	22.5	18.1	81.9	77.4
Tonnes processed		703,472	690,946	2,849,135	2,770,039
Operating cost per tonne of ore processed[(2)]	$	31.96	$ 26.20	$ 28.75	$ 27.94

(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, 2023.

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

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2023, the Company had cash and cash equivalents of $13.3 million. Cash flow from operating activities for the year ended December 31, 2023 totalled $63.4 million.

Working capital (current assets minus current liabilities) as at December 31, 2023 was a deficit of $16.6 million as compared to $40.5 million as at December 31, 2022, a decrease reflective of the increase in current liabilities and reclassification from cash to long-term other assets of $18.0 million funded to the COF.

Trade and other receivables (December 31, 2023: $35.0 million; December 31, 2022: $33.1 million) increased due to timing of payments received from the sales of large stones to HB and an increase in the amount of value-added and income taxes receivable due from Botswana Unified Revenue Service. The receivable balance at December 31, 2023 includes $13.0 million (December 31, 2022: $18.8 million) due from HB and represents rough diamond sales in 2023, as well as the value of diamond sales for which the transaction price was finalized and adjusted in December 2023 or top-ups. All amounts receivable from HB are current and received as due following year-end.

Current liabilities increased to $102.5 million as of December 31, 2023 from $59.9 million at December 31, 2022. The Company had $35.0 million drawn on its short-term financing facilities, an increase of $19.7 million from the $15.3 million drawn at December 31, 2022. During the year ended December 31, 2023. The Company received prepayments of $8.0 million towards the future sale of Sethunya from HB. These amounts, combined with prepayments of $12.0 million received in H2 2022 are classified as deferred revenue. Increases in trade payables and accrued liabilities and the timing of royalty payments contributed to the increase in current liabilities as of December 31, 2023.

At December 31, 2023, the Company had a $50.0 million WCF, of which $35.0 million was outstanding. Following the Rebase Amendments, the Company reduced the size of the WCF to $30.0 million and had drawn $15.0 million from the WCF, with $20.0 million transferred to the Project Loan.

The Company is required to place $61.7 million in the COF as a condition of the Facilities prior to June 30, 2025. The Facilities Agreement includes specific provisions for how and when these funds may be released from the COF. The COF balance was $18.6 million as at December 31, 2023, and the current balance of the COF stands at $36.9 million. The Company plans to fill the required balance with the proceeds from the sale of exceptional stones and excess cashflow from operations. This amount is classified within other non-current assets on the Statement of Financial Position.

Under the terms of the Rebase Amendments to the Project Loan, the Company's largest shareholder, Nemesia, provided a limited standby undertaking of up to $63.0 million. The standby undertaking consists of two components: i) an undertaking to support the requirement to fill the COF to $61.7 million ($28.1 million at the effectiveness of the Rebase Amendments) by June 30, 2025 and ii) in the event of a funding shortfall, support up to $35.0 million occurring up to project completion.

In connection with the Rebase Amendments, Nemesia also provided a liquidity support guarantee of up to $15.0 million in aggregate in the event the Company's cash balance decreases below $10.0 million while discussions with the Lenders were ongoing. During Q4 2023, the full liquidity guarantee of $15.0 million was drawn, and Nemesia was issued 450,000 common shares as consideration for this funding. Future share issuances are required for interest payments. 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.

During the year ended December 31, 2023, a total of 1,027,500 common shares were issued to Nemesia for providing the liquidity guarantee and as interest payments under the debenture.

See Note 1 to the consolidated financial statements for the year ended December 31, 2023 for further details of the Company's liquidity position.

Long-term liabilities consist of the Project Loan of $86.5 million (December 31, 2022: $62.2 million), restoration provisions of $13.7 million (December 31, 2022: $13.6 million), deferred income taxes of $112.8 million (December 31, 2022: $87.8 million), due to related parties (liquidity guarantee) of $15.0 million (December 31, 2022: $nil), and other non-current liabilities of $3.2 million (December 31, 2022: $2.3 million) which consist of leases classified under IFRS 16: *Leases* and a liability for deferred share unit grants.

Financing activities during the year ended December 31, 2023 consisted of draws from the project financing facility of $25.0 million, draws from the working capital facilities of $19.7 million, draw from the liquidity guarantee of $15.0 million, and principal payments on leases and withholding taxes on share units totaling $2.0 million.

Total shareholders' equity decreased to $242.1 million from $270.1 million at December 31, 2022. The decrease resulted from a net loss during the year ended December 31, 2023 and a decrease in the currency translation adjustment. Other changes to share capital and contributed surplus were related to the issuance of shares to Nemesia for providing the liquidity support guarantee, share units vesting and share-based compensation recorded during the period.

RELATED PARTY TRANSACTIONS

A description of key management compensation can be found in Note 19 of the consolidated financial statements for the year ended December 31, 2023.

In relation to the acquisition of Clara in February 2018, certain related parties may receive additional shares of Lucara if Clara, now a wholly-owned subsidiary of Lucara, achieves certain levels of revenue generated by sales on the platform (the "Performance Milestones"). The Performance Milestones are detailed in Notes 9 and 19 of the consolidated financial statements for the year ended December 31, 2022. As of December 31, 2023, none of the Performance Milestones had been achieved.

A profit-sharing mechanism also exists, whereby a total of 3.45% of the EBITDA generated by the platform has been assigned to a former director and officer of Lucara and a director of Lucara, both founders of Clara. A further 3.22% of the EBITDA generated by the platform may be distributed to a member and former member of management, at the discretion of Lucara's Compensation Committee, based on the achievement of key performance targets. As at December 31, 2023, no amounts have been paid under this profit sharing mechanism to date

COMMITMENTS

As at December 31, 2023, purchase orders and contracts that give rise to commitments for future minimum payments for services to be provided related to the Karowe UGP amounted to $77.2 million (December 31, 2022 - $111.5 million).

Table 9: Approximate undiscounted timing of Karowe UGP commitments at December 31, 2023:

		2024	**2025**	**2026**	**2027 and 2028**	**Total**
Underground expansion project	*$ million*	36.3	24.2	12.7	4.0	**77.2**

2024 OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2024. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements. Diamond revenue guidance does not include revenue related to the sale of exceptional stones (an individual rough diamond which sells for more than $10.0 million), or the Sethunya. No changes have been made to the guidance released in November 2023.

Karowe Mine, Botswana
Table 10: 2024 Diamond Sales, Production and Outlook

Karowe Diamond Mine *In millions of U.S. dollars unless otherwise noted*	**2024** Full Year
Diamond revenue (millions)	$220 to $250
Diamond sales (thousands of carats)	345 to 375
Diamonds recovered (thousands of carats)	345 to 375
Ore tonnes mined (millions)	2.8 to 3.2
Waste tonnes mined (millions)	0.8 to 1.4
Ore tonnes processed (millions)	2.6 to 2.9
Total operating cash costs(1) including waste mined (per tonne processed)	$28.50 to $33.50
Underground Project	Up to $100 million
Sustaining capital	Up to $10 million
Average exchange rate – Botswana Pula per United States Dollar	12.5

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

In 2024, the Company's revenue forecast assumes that 87% 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 carats recovered will come from the Centre Lobe in accordance with the mine plan, generating revenue between $220 and $250 million. South Lobe material, while lower grade than the Centre and North Lobes, has a higher weight percentage of stones greater than 10.8 carats in size.

The Company plans to use its sales channels to maximize revenue and generate consistent cash flow to support the Company's operations and its investment in the underground expansion project. The Company expects to seek opportunities to sell its higher value Specials through agreements whereby the rough stones are manufactured, giving the Company exposure to polished prices and regular cash flow from the highest value portion of the Karowe production. Quarterly tenders and regular sales through Clara, primarily for stones smaller than 10.8 carats in size will continue.

In 2024, the Company expects to mine between 3.6 and 4.6 million tonnes, of which ore tonnes mined represent approximately three quarters of total tonnes mined. The assumptions for carats recovered and sold as well as the number of ore tonnes processed are consistent with achieved plant performance in recent years. A portion of the tonnes mined in 2024 will be stockpiled, prior to the end of open pit mining in mid-2025. Stockpiled material is planned to be processed between 2025 to 2027 before the mine transitions to underground operations. Ore from the underground development is expected to supplement lower grade stockpile material, primarily from the upper benches of the South lobe, during the transition to underground, beginning in 2027.

In 2024, capital costs for the UGP are expected to be up to $100 million and will focus predominantly on shaft sinking activities and station development. Surface works will focus on completing the construction of the bulk air cooler and installation of the cage winder. Tendering the underground development contract along with underground equipment purchases are also included in the 2024 project plan.

Sustaining capital and project expenditures are expected to be up to $10 million with a focus on replacement and refurbishment of key asset components in addition to dewatering activities, and an expansion of the tailings storage facility in accordance with Global Industry Standard on Tailings Management.

COVID-19 GLOBAL PANDEMIC, ECONOMIC AND GEOPOLITICAL RISKS

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

FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

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

Currency risk

The Company is exposed to the financial risk related to fluctuating foreign exchange rates. All sales revenues are denominated in U.S. dollars, while directly related costs are denominated in Botswana Pula. At December 31, 2023, the Company was exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately $3.2 million in net income for the period.

Liquidity risk

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

Subsequent to December 31, 2023, as part of the Rebase Amendments, the Company received an extension on its WCF to June 30, 2031 and the amount of the WCF was amended to $30.0 million. Historically, the Company has used the WCF to manage its short-term working capital requirements.

As a condition of the Facilities Agreement, the Company is required to place $61.7 million in the COF by June 30, 2025. The Facilities Agreement includes specific provisions for how and when these funds may be released. As at December 31, 2023, the COF balance was $18.6 million. This amount is classified within other non-current assets.

Further details regarding the Company's liquidity risk are disclosed under the heading "Liquidity and Capital Resources" and in Note 1 of the consolidated financial statements for the year ended December 31, 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 with such customers, the Company believes that credit risk is limited as goods are not released until full payment is received when goods are sold through tender or on Clara.

On September 28, 2023, the Company terminated the sales agreement with HB. The termination increased the credit risk on amounts due from HB. Under the terms of this sales agreement, a larger proportion of the Company's goods, by value, were sold through HB to buyers of polished diamonds. The credit risk associated with these sales was concentrated with HB, a single customer, and payment terms were longer (60 to 120 days) than the Company's traditional tender sales and sales held through Clara (5 days). The Company maintained legal title over goods sold to HB until the initial determined estimated polished price was paid and monitored outstanding amounts for collectability. All amounts are current at December 31, 2023. As goods continue through the manufacturing process with HB, further receivable may result as the Company has a contractual right to future top-up payments for stones delivered prior to termination of the agreement. The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Company's maximum exposure to credit risk.

Interest rate risk

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

The Company mitigates interest rate risk on its Project Loan through interest rate swaps that exchange the variable rate inherent in the term debt for a fixed rate (see Note 10 of the consolidated financial statements for the year ended December 31, 2023). Therefore, fluctuations in market interest rates should not materially impact future cash flows related to the credit facilities. Changes in the fair value of the derivative financial instrument will however fluctuate in response to changing market interest rates that will result in a corresponding credit or charge to profit.

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

Price risk

The Company derives its income from the sale of rough diamonds mined in Botswana and margin earned on the sale of rough diamonds sold through Clara. The price and marketability of these diamonds can be significantly impacted by international economic trends, global or regional consumption, demand and supply patterns and the availability of capital for diamond manufacturers, all factors that are not within the Company’s control. Under the sales arrangements with the HB, the ultimate achieved sales prices of stones larger than 10.8 carats in size was based on a polished diamond pricing mechanism. This pricing mechanism resulted in the Company’s revenue being exposed to a greater extent to the price movements in the polished diamond market than through its traditional tender process for rough diamonds. The pricing of both polished and rough diamonds softened in the first half of 2023 following significant price improvements between late 2021 and mid-2022.

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

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 458,077,393 common shares outstanding, 3,614,000 share units, 3,172,156 deferred share units, and 6,544,000 stock options outstanding under its share-based incentive plans.

SUBSEQUENT EVENT

On February 18, 2024, the Company announced the signing of a New Diamond Sales Agreement (“NDSA”) with HB in respect of all qualifying diamonds produced in excess of 10.8 carats in size from the Karowe Mine. The NDSA is subject to the approval of the Company's project lenders and the Government of the Republic of Botswana. Upon such approval the agreement terms will be effective retroactively from December 1, 2023. Since that time, Lucara has continued to supply qualifying rough diamonds to HB in order to fund its operations and the Karowe UGP.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business which includes the acquisition, financing, exploration, development and operation of diamond properties, the construction of an underground mine at Karowe and the growth of Clara. The material risk factors and uncertainties, which should be considered in assessing the Company’s activities, are described under the heading “Risks and Uncertainties” in the Company’s most recent Annual Information Form which is available at http://www.sedar.com (the “AIF”) with the addition of the following risks. Any one or more of these risks and uncertainties could have a material adverse effect on the Company.

Access to Capital and Financing Requirements, Liquidity Risk
The Underground Project has an updated capital cost of $683 million. The Company expects to use a combination of cash flow from operations and external financing for this expansion project and as such a substantial portion of the Company's revenues and cash flows are committed to the Underground Project at the Karowe Mine.

On January 9, 2024, the Company announced that it has signed the Rebase Amendments in relation to the Facilities. While the total quantum of the Facilities has not changed, the repayment profile has been extended in line with the rebase schedule released July 17, 2023, and the maturity of the WCF has been extended to June 30, 2031.

To the extent that Lucara does not generate sufficient revenues and operating cash flow to satisfy its obligations in connection with the UGP and its debt obligations, including the fulfillment of the COF, it will require additional capital. The shareholder limited standby undertaking of up to $63.0 million may be called upon. If the amounts under the shareholder limited standby undertaking were not sufficient, it will require additional capital. If the Company raises additional capital by issuing equity, such financing may dilute the interests of shareholders and reduce the value of their investment. Moreover, Lucara may not be successful in locating suitable additional or alternate financing when required or at all or, if available, may incur substantial fees and costs and the terms of such financing might not be favourable to the Company. A failure to raise capital when needed could have a material adverse effect on Lucara's business, financial condition, and results of operations. Failure to obtain any financing necessary for our capital expenditure plans may result in a delay or indefinite postponement of exploration, development activities related to the Karowe UGP, or production from the Karowe Mine.

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

OFF-BALANCE SHEET ARRANGEMENTS

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

ANNUAL MEETING INFORMATION

The Company's annual general meeting of shareholders will be held on May 10, 2024 in Vancouver, Canada.

CHANGES IN ACCOUNTING POLICIES

During the year ended December 31, 2023, there were no changes to the accounting policies described in Note 4 of the audited consolidated financial statements.

Certain pronouncements have been issued by the IASB that are mandatory for accounting periods starting January 1, 2024. 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, 2023, 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 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, due to inherent limitations, internal controls over financial reporting may not prevent or detect all misstatements and fraud.

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, 2023, 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 Company's ability to continue as a going concern, the project schedule and capital costs for the Karowe UGP, the diamond sales, projection and outlook disclosure under "2024 Outlook", the Company's ability to meet its obligations under the Rebase Amendments with its Lenders, the Company's ability to fill the COF, the impact of supply and demand of rough or polished diamonds, expectations regarding top-up values, estimated capital costs, the timing, scope and cost of additional grouting events at the Karowe UGP, the Company's ability to comply with the terms of the Facilities which are required to construct the Karowe UGP, including future funding requirements to the COF, that expected cash flow from operations, combined with external financing will be sufficient to complete construction of the Karowe UGP, that the estimated timelines to achieve mine ramp up and full production from the Karowe UGP can be achieved, that sufficient stockpiled ore will be available to generate revenue prior to the achievement of commercial production of the Karowe underground mine, the economic potential of a mineralized area, the size and tonnage of a mineralized area, anticipated sample grades or bulk sample diamond content, expectations that the Karowe UGP will extend mine life, forecasts of additional revenues, future production activity, that depletion and amortization expense on assets will be affected by both the volume of carats recovered in any given period and the reserves that are expected to be recovered, the future price and demand for, and supply of, diamonds, expectations regarding the scheduling of activities for the Karowe UGP in 2024, future forecasts of revenue and variable consideration in determining revenue, the impact of the termination of the HB sales agreement on the Company's projected revenue and sales channels, the outcome of tax assessments and the likelihood of recoverability of tax payments made, 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, the profitability of Clara and the Clara Platform, and the scaling of the digital platform for the sale of rough diamonds owned by Clara, expectations regarding the Clara platform's growth, the expected use of the Clara Facility, that the Company intends to continue to seek additional supply, both from third-party producers and the secondary market for Clara, and the potential impacts of COVID-19, economic and geopolitical risks, including potential impacts from the Russian military invasion of Ukraine and the escalating conflict between Israel and Hamas.

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

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

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

LUCARA

DIAMOND

Consolidated Financial Statements
For the year ended December 31, 2023

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, 2023 and 2022, 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, 2023 and 2022;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive (loss) 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, comprising material accounting policy information 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.

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, 2023. 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
Impairment test of mineral properties and related construction assets and plant and equipment for the Karowe Mine cash generating unit (Karowe CGU) *Refer to note 3 – Significant accounting judgments, estimates and assumptions, note 4 – Summary of material accounting policies and Note 24 - Impairment test - Karowe mine to the consolidated financial statements.* As at December 31, 2023, the total net book value of mineral properties and related construction assets and plant and equipment amounted to $286.3 million and $125.9 million, respectively, which relates to the Karowe CGU. When impairment indicators exist, an impairment assessment is conducted at the level of the CGU (a group of assets that generate independent cash inflows). An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds its recoverable amount. During the year, management identified impairment indicators due to the update to the Underground Expansion project (UGP) schedule that extended the anticipated duration of construction and increased the estimated capital cost. As a result, management performed an impairment test of the Karowe CGU as of June 30, 2023. The recoverable amount of the Karowe CGU is based on the discounted projected after-tax cash flows expected	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the recoverable amount of the Karowe CGU, which included the following: – Tested the appropriateness of the discounted cash flow model. – Tested underlying data used in the discounted cash flow model. – Evaluated the reasonableness of significant assumptions by (i) comparing the production costs and future sustaining capital expenditures to recent actual production and sustaining capital expenditures incurred; (ii) comparing exchange rates with external market and industry data; and (iii) assessing whether these assumptions were consistent with evidence obtained in other areas of the audit. – The work of management's experts was used in performing the procedures to evaluate the reasonableness of the significant assumptions which included economically recoverable reserves, diamond prices and the capital expenditure to complete development of the UGP. As a basis for using this work, the competence, capabilities and

to be derived from the mining properties and represents the CGU fair value less cost of disposal.

The determination of the recoverable amount calculated using a discounted cash flow model included the following significant assumptions: economically recoverable reserves, diamond prices, the capital expenditure to complete development of the UGP, future sustaining capital expenditures, production costs, exchange rates and discount rate.

Management's estimates of the economically recoverable reserves, diamond prices and the capital expenditure to complete development of the UGP are based on information compiled by qualified persons (management's experts).

As of June 30, 2023, no impairment charge was required for the Karowe CGU because its recoverable amount exceeded the carrying amount.

We considered this a key audit matter due to the significant judgment by management in estimating the recoverable amount of the Karowe CGU, and a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating management's assumptions. The audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.

objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings.

- – Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the reasonableness of the discount rate.

- Tested the disclosures, including the sensitivity analysis, made in the consolidated financial statements with regard to the impairment test for the Karowe CGU.

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 20, 2024

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

		December 31, 2023		December 31, 2022
ASSETS				
Current assets				
Cash and cash equivalents	$	13,337	$	26,418
Receivables and other (Note 5)		35,050		33,102
Derivative financial instrument (Note 10)		3,010		2,447
Inventories (Note 6)		34,534		38,372
		85,931		100,339
Investments		811		661
Inventories (Note 6)		38,719		27,867
Plant and equipment (Note 7)		124,983		88,239
Mineral properties and related construction assets (Note 8)		287,245		244,130
Intangible assets (Note 9)		6,211		18,224
Deferred financing fees (Note 10)		4,122		5,410
Derivative financial instrument (Note 10)		5,097		7,373
Cost overrun facility (Note 10)		18,574		–
Other non-current assets		4,110		3,596
TOTAL ASSETS	$	575,803	$	495,839
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities	$	42,580	$	29,689
Deferred revenue (Note 15)		20,000		12,000
Credit facilities (Note 10)		35,000		15,338
Tax and royalties payable		3,444		1,719
Lease liabilities		1,472		1,111
		102,496		59,857
Credit facilities (Note 10)		86,515		62,151
Debenture (Note 10)		15,000		–
Restoration provisions (Note 11)		13,738		13,649
Deferred income taxes (Note 17)		112,763		87,808
Other non-current liabilities		3,160		2,313
TOTAL LIABILITIES		333,672		225,778
EQUITY				
Share capital, unlimited common shares, no par value (Note 12)		349,718		348,083
Contributed surplus		9,371		10,129
Retained (deficit) earnings		(13,702)		6,489
Accumulated other comprehensive loss		(103,256)		(94,640)
TOTAL EQUITY		242,131		270,061
TOTAL LIABILITIES AND EQUITY	$	575,803	$	495,839

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

Commitments – Note 22
Subsequent events – Note 1, 10, 25

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, 2023 AND 2022
(In thousands of U.S. Dollars, except for share and per share amounts)

		2023		2022
Revenues (Note 15)	$	177,371	$	212,934
Cost of goods sold				
Operating expenses		78,610		79,266
Royalty expenses (Note 8)		20,056		24,101
Depletion and amortization		18,289		24,965
		116,955		128,332
Income from mining operations		60,416		84,602
Other expenses				
Administration (Note 16)		19,615		19,119
Impairment of intangible asset (Note 9)		11,200		–
Sales and marketing		3,462		2,876
Finance expenses		4,506		3,690
Exploration		1,244		835
Loss (gain) on derivative financial instrument (Note 10)		1,712		(10,662)
Foreign exchange loss		5,174		3,932
Loss on disposal of assets (Note 7)		943		–
		47,856		19,790
Net income before tax		12,560		64,812
Income tax expense (Note 17)				
Current income tax		3,483		307
Deferred income tax		29,268		24,071
		32,751		24,378
Net (loss) income for the year	$	(20,191)	$	40,434
(Loss) earnings per common share (Note 18)				
Basic	$	(0.04)	$	0.09
Diluted	$	(0.04)	$	0.09
Weighted average common shares outstanding (Note 18)				
Basic		454,781,585		453,479,480
Diluted		454,781,585		461,953,253

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

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(In thousands of U.S. Dollars)

		2023		2022
Net (loss) income for the year	$	(20,191)	$	40,434
Other comprehensive (loss) income				
Items that will not be reclassified to net income				
Change in fair value of marketable securities		150		(1,595)
Items that may be subsequently reclassified to net income				
Currency translation adjustment		(8,766)		(19,340)
		(8,616)		(20,935)
Comprehensive (loss) income for the year	$	(28,807)	$	19,499

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, 2023 AND 2022
(In thousands of U.S. Dollars)

		2023		2022
Cash flows from (used in):				
Operating activities				
Net (loss) income for the year	$	(20,191)	$	40,434
Items not affecting cash:				
Depletion and amortization		18,713		25,411
Unrealized foreign exchange loss		4,348		3,512
Share-based compensation		1,440		1,977
Impairment of intangible asset		11,200		–
Unrealized loss (gain) on derivative financial instruments		1,712		(10,662)
Deferred income taxes		29,268		24,071
Finance costs		1,783		3,192
Loss on disposal of assets		943		–
		49,216		87,935
Net changes in working capital:				
Receivables and other		(5,286)		151
Inventories		(9,146)		(7,603)
Trade payables, deferred revenue and other current liabilities		26,758		14,300
Tax and royalties payable		1,815		1,450
		63,357		96,233
Financing activities				
Drawdown (repayment) on working capital facility, net		19,662		(7,662)
Drawdown on project finance facility		25,000		40,000
Drawdown on liquidity guarantee		15,000		–
Share units vested		(461)		(144)
Lease payments		(1,540)		(3,055)
Contributions to cost overrun facility		(18,000)		-
		39,661		29,139
Investing activities				
Investment in plant and equipment		(14,364)		(18,992)
Mineral property expenditure		(101,318)		(106,339)
Development of intangible assets		(112)		(90)
		(115,794)		(125,421)
Effect of exchange rate change on cash and cash equivalents		(305)		(544)
Decrease in cash and cash equivalents		(13,081)		(593)
Cash and cash equivalents, beginning of the year		26,418		27,011
Cash and cash equivalents, end of the year (1)	$	13,337	$	26,418
Supplemental information				
Interest paid	$	(14,607)	$	(8,539)
Taxes paid		(8,494)		(248)
Changes in trade payables and accrued liabilities related to plant and equipment and mineral properties (2)		(3,079)		6,151

(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 $8.2 million at December 31, 2023 ($11.3 million at December 31, 2022).

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, 2023 AND 2022
(in thousands of U.S. Dollars, unless otherwise indicated)

	Number of shares issued and outstanding	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive loss	Total
Balance, January 1, 2023	**453,566,923**	**$ 348,083**	**$ 10,129**	**$ 6,489**	**$ (94,640)**	**$ 270,061**
Net loss for the year	–	–	–	(20,191)	–	(20,191)
Other comprehensive loss	–	–	–	–	(8,616)	(8,616)
Total comprehensive loss	–	–	–	(20,191)	(8,616)	(28,807)
Share-based compensation	–	–	1,074	–	–	1,074
Shares issued for liquidity guarantee	1,027,500	264	–	–	–	264
Shares issued from share units vested	1,582,970	1,371	(1,371)	–	–	–
Withholding tax for share units vested	–	–	(461)	–	–	(461)
Balance, December 31, 2023	**456,177,393**	**$ 349,718**	**$ 9,371**	**$ (13,702)**	**$ (103,256)**	**$ 242,131**
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)	–	–	–
Withholding tax for share units vested	–	–	(144)	–	–	(144)
Balance, December 31, 2022	**453,566,923**	**$ 348,083**	**$ 10,129**	**$ 6,489**	**$ (94,640)**	**$ 270,061**

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

During fiscal 2023, the Company incurred a net loss of $20.2 million and generated cash of $63.4 million from operating activities. As at December 31, 2023, the Company had cash and cash equivalents of $13.3 million, a working capital deficit (current assets less current liabilities) of $16.6 million and had drawn $35.0 million from its $50.0 million working capital facility.

In July 2023, the Company provided an update to the schedule and budget for the Karowe Underground Expansion project (the "UGP"). The estimated duration of the construction period increased, extending the anticipated commencement of production from the underground from the second half of 2026 to the first half of 2028. The revised forecast of costs at completion is $683.0 million, an increase of 25% from the prior estimate in May 2022. Committed, not yet incurred, costs under the UGP are $77.2 million at December 31, 2023 (Note 22).

The Company’s debt package consisted of two facilities (the “Facilities”), a project finance facility of $170.0 million to fund the development of an underground expansion at the Karowe Mine (the “Project Loan”), of which $90.0 million has been drawn at December 31, 2023, and a $50.0 million senior secured working capital facility (the “WCF”). Subsequent to year-end, the Company completed an agreement with its lenders to modify the repayment schedule, adjust the Facilities to include a project finance facility of $190.0 million and $30.0 million working capital facility, extend the maturity date of its WCF to June 30, 2031, and certain other terms (the “Rebase Amendments”) (Note 10).

Prior to June 30, 2025, the Company is required to place $61.7 million in a cost overrun facility (the “COF") as a condition of the Facilities. The Facilities Agreement includes specific provisions for how and when these funds may be released from the COF. The COF balance was $18.6 million as at December 31, 2023. The Company is required to fund the remaining balance with the proceeds from the sale of exceptional stones and cashflow from operations.

Under the terms of the Project Loan, the Company’s largest shareholder, Nemesia S.a.r.l. (“Nemesia”) provided a limited standby undertaking of up to $63.0 million. The standby undertaking consists of two components: i) an undertaking to support the requirement to fund the COF to $61.7 million by June 30, 2025 and ii) in the event of a funding shortfall, support up to $35.0 million occurring up to project completion.

Following the completion of the Rebase Amendments, the Company expects to be able to meet its obligations as they become due in the normal course of business for at least the next twelve months from December 31, 2023.

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 20, 2024.

(ii) New IFRS Pronouncements

Amendments to IAS 1 – Presentation of Financial Statements – *Classification of liabilities as current or non-current and non-current liabilities with covenants*

Amendments were issued to *IAS 1 - Presentation of Financial Statements* which removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. A company classifies a liability as non-current if it has a right to defer settlement for at least 12-months after the reporting period. The amendments clarify how a company classifies a liability that includes a counterparty conversion option, which could be recognized as either equity or a liability separately from the liability component under IAS 32 - Financial Instruments Presentation. Further modification was issued in October 2022 amendments in *Non-current liabilities with covenants*. Only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. The amendments were effective on January 1, 2023 and had no significant impact on the consolidated financial statements.

Amendments to IAS 12 – Income Taxes – *Deferred taxes on initial recognition*

The amendments require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments typically apply to transactions such as leases for the lessee and decommissioning and restoration obligations related to assets in operation. The Company adopted these amendments to IAS 12 - Income Taxes effective January 1, 2023. These amendments did not affect the Company's financial statements.

Several other amendments and interpretations were applied for the first time in 2023 but did not have an impact on the consolidated financial statements of the Company. The Company is currently assessing the impact of the standards and amendments to standards and interpretations which have been issued but are not yet effective including IFRS S1 – *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 – *Climate-related Disclosures*.

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

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 have been made in the preparation of the consolidated financial statements:

Areas of judgment

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

The Company has determined that, under the terms of the Company's sales arrangements 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 and intangible assets 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) *Impairment*

The Company reviews the carrying amounts of non-current assets whenever events or changes in circumstances indicate that the carrying amounts may exceed the estimated recoverable amounts. Recoverable amounts are determined by reference to relevant market data, discounted future cash flows, and fair value less costs to sell. An impairment loss is recognized when the carrying amount of those assets is no longer considered recoverable. Non-current assets that were previously impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed.

Calculating the estimated recoverable amount of the cash-generating unit ("CGU") for non-current asset impairment tests requires management to make estimates and assumptions with respect to estimated recoverable mineral reserves and resources, recovery estimates, estimated future diamond prices, future production volume, expected future operating, capital and reclamation costs, future operating volumes for Clara, discount rates and exchange rates. Management relies on production history and geological experts to develop estimates of recoverable mineral reserves and resources, diamond prices, as well as expected future operating, capital and reclamation costs. These estimates are subject to various risks and uncertainties which may ultimately influence the estimated recoverability of the carrying amounts of non-current assets.

Changes in these assumptions could significantly impact the valuation of the Company's assets in the future. During 2023, management identified impairment indicators with its mineral properties, plant and equipment, and its intangible assets. Management's impairment evaluation resulted in the Company recognizing an impairment of intangible assets of $11.2 million in relation to the CGUs of the Clara sales platform (Note 9).

(d) 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.

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

(e) *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, amount, and timing of capital costs on the UGP, production levels and related costs, foreign exchange rates and other factors all impact the Company's liquidity position.

Sources of estimation uncertainty

(a) *Estimated recoverable reserves and resources*

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

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

(b) *Uncertain Tax Positions*

The Company recognizes that its tax obligations are subject to interpretation and judgment. Uncertain tax positions arise when there is uncertainty regarding the application of tax laws and regulations to the Company's transactions or positions. Estimates of uncertain tax positions are measured using the most likely amount or expected value approach, considering all available information, including tax rulings, case law, and professional opinions from the Company's tax experts and legal counsel.

Management evaluates uncertain tax positions based on the technical merits of the position and the probability of settlement. This assessment involves significant judgment and may evolve over time as new information becomes available.

(c) *Estimated variable consideration in determining revenue*

Revenues include an estimate of variable consideration receivable under the terms of the Company's sales arrangements with HB. Variable consideration is a component of the transaction price and represents an area of significant management estimate and judgment. Under the sales arrangements, at the time of sale of a rough diamond, the Company receives an initial payment based on an estimated polished outcome price.

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

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.

(d) *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.

(e) *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 MATERIAL 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 MATERIAL 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 MATERIAL 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 and equipment	5 to 15 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 MATERIAL 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. When impairment indicators exist, an impairment assessment is conducted at the level of the CGU (a group of assets that generate independent cash inflows). 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 MATERIAL 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 MATERIAL 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.

Since 2020, the Company has sold its large stone production (diamonds greater than 10.8 carats) under arrangements with HB Antwerp. For diamonds sold under these arrangements, control is transferred when the stones are delivered and the analysis of the rough diamond are agreed according to the contract terms to which the stones relate. 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 a margin, including the cost of manufacturing) exceeds the initial price paid, or a repayment if the actual achieved polished sales price (less the margin, including the cost of manufacturing) is below the initial price paid, after fees. Thus, the arrangement contains elements of variable consideration as the Company’s final consideration is contingent on price obtained in the future sale by the polished manufacturer. 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 MATERIAL 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. In periods of loss basic and diluted earnings per share are the same as dilutive instruments have an anti-dilutive effect.

(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

		2023		**2022**
Trade	$	12,981	$	18,769
Value-added and income taxes		13,927		5,301
Deferred financing fees (Note 10)		–		975
Prepayments		8,012		7,078
Other		130		979
	$	**35,050**	**$**	**33,102**

Trade receivables at December 31, 2023 were $13.0 million (December 31, 2022 – $18.8 million) due from HB. All amounts receivable from HB are current.

Revenue from diamond sales during the year ended December 31, 2023 includes $106.2 million (December 31, 2022: $128.7 million) sold to HB.

Value-added and income taxes receivable include $5.0 million at December 31, 2023 which has been remitted to tax authorities, through the withholding of value-added tax refunds, to dispute an income tax assessment in Botswana (Note 17).

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

6. INVENTORIES

		2023		2022
Rough diamonds	$	19,217	$	17,988
Ore stockpile		2,038		6,967
Parts and supplies		13,279		13,417
Total current inventories	**$**	**34,534**	**$**	**38,372**
Non-current inventories – ore stockpile	**$**	**38,719**	**$**	**27,867**

Inventory expensed during the year ended December 31, 2023 totaled $78.6 million (December 31, 2022 – $79.3 million). There were no inventory write-downs during the years ended December 31, 2023 and 2022.

The portion of the ore stockpile that is expected to be processed more than 12 months from year end 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, 2022	**$ 13,645**	**$ 208,279**	**$ 14,262**	**$ 4,227**	**$ 4,205**	**$ 244,618**
Additions	18,785	–	–	–	3,145	21,930
Reclassification	(11,937)	9,692	1,955	335	–	45
Translation differences	(1,353)	(17,205)	(1,225)	(355)	(451)	(20,589)
Balance, December 31, 2022	**$ 19,140**	**$ 200,766**	**$ 14,992**	**$ 4,207**	**$ 6,899**	**$ 246,004**
Additions	12,993	–	–	–	1,292	14,285
Reclassification (Note 8)	(12,073)	30,151	1,740	863	23,752	44,433
Disposals and other	(943)	(109)	(9)	(89)	(184)	(1,334)
Translation differences	(903)	(9,352)	(700)	(201)	(443)	(11,599)
Balance, December 31, 2023	**$ 18,214**	**$ 221,456**	**$ 16,023**	**$ 4,780**	**$ 31,316**	**$ 291,789**
Accumulated amortization						
Balance, January 1, 2022	**$ –**	**$ 144,306**	**$ 8,913**	**$ 2,282**	**$ 1,796**	**$ 157,297**
Depletion and amortization	–	7,843	2,469	618	2,854	13,784
Translation differences	–	(12,052)	(809)	(208)	(247)	(13,316)
Balance, December 31, 2022	**$ –**	**$ 140,097**	**$ 10,573**	**$ 2,692**	**$ 4,403**	**$ 157,765**
Depletion and amortization	–	7,166	2,465	235	1,205	11,071
Reclassification (Note 8)	–	4,056	148	412	985	5,601
Disposals and other	–	(39)	(6)	(88)	(184)	(317)
Translation differences	–	(6,474)	(499)	(129)	(212)	(7,314)
Balance, December 31, 2023	**$ –**	**$ 144,806**	**$ 12,681**	**$ 3,122**	**$ 6,197**	**$ 166,806**
Net book value						
As at December 31, 2022	**$ 19,140**	**$ 60,669**	**$ 4,419**	**$ 1,515**	**$ 2,496**	**$ 88,239**
As at December 31, 2023	**$ 18,214**	**$ 76,650**	**$ 3,342**	**$ 1,658**	**$ 25,119**	**$ 124,983**

(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, 2022	**$ 66,073**	**$ 41,857**	**$ 126,117**	**$ 234,047**
Additions	–	–	106,389	106,389
Borrowing cost capitalized	–	–	6,676	6,676
Adjustment to restoration asset	–	(1,669)	–	(1,669)
Reclassification	–	–	(45)	(45)
Translation differences	(5,368)	(3,336)	(14,277)	(22,981)
Balance, December 31, 2022	**$ 60,705**	**$ 36,852**	**$ 224,860**	**$ 322,417**
Additions	–	–	92,128	92,128
Borrowing cost capitalized	–	–	9,285	9,285
Adjustment to restoration asset	–	(472)	–	(472)
Assets put into use (Note 7)	–	–	(38,832)	(38,832)
Translation differences	(2,847)	(1,726)	(10,864)	(15,437)
Balance, December 31, 2023	**$ 57,858**	**$ 34,654**	**$ 276,577**	**$ 369,089**
Accumulated depletion				
Balance, January 1, 2022	**$ 43,381**	**$ 33,088**	**–**	**$ 76,469**
Depletion	7,042	1,286	–	8,328
Translation differences	(3,776)	(2,734)	–	(6,510)
Balance, December 31, 2022	**$ 46,647**	**$ 31,640**	**–**	**$ 78,287**
Depletion	5,851	1,415	–	7,266
Translation differences	(2,218)	(1,491)	–	(3,709)
Balance, December 31, 2023	**$ 50,280**	**$ 31,564**	**–**	**$ 81,844**
Net book value				
As at December 31, 2022	**$ 14,058**	**$ 5,212**	**$ 224,860**	**$ 244,130**
As at December 31, 2023	**$ 7,578**	**$ 3,090**	**$ 276,577**	**$ 287,245**

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, 2023, the Company incurred a royalty expense of $20.1 million (December 31, 2022: $24.1 million).

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

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

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

8. MINERAL PROPERTIES AND RELATED CONSTRUCTION ASSETS (continued)

from Karowe Underground Construction to Plant and Equipment as a right of use asset. The remaining assets reclassified relate to other Plant and Equipment put into use during the year.

Total borrowing costs of $16.7 million (December 31, 2022 – $7.8 million) during the period of construction relating to the Karowe Underground Construction asset have been capitalized to date. Capitalized borrowing costs include interest and other costs related to the project finance facility (Note 10).

9. INTANGIBLE ASSETS

Cost		
Balance, January 1, 2022	$	23,916
Development expenditures		90
Translation differences		(1,495)
Balance, December 31, 2022	$	22,511
Impairment of intangible asset		(11,200)
Development expenditures		112
Translation differences		499
Balance, December 31, 2023	**$**	**11,922**
Accumulated amortization		
Balance, January 1, 2022	$	3,192
Amortization		1,348
Translation differences		(253)
Balance, December 31, 2022	$	4,287
Amortization		1,306
Translation differences		118
Balance, December 31, 2023	**$**	**5,711**
Net book value		
As at December 31, 2022	**$**	**18,224**
As at December 31, 2023	**$**	**6,211**

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 13 years as at December 31, 2023.

Impairment
At December 31, 2023, the Company identified an impairment indicator due to a change in the way the Company values the Clara platform and performed an impairment test. As a result of an impairment indicator being identified, the recoverable amount of the Clara platform was estimated and compared against its carrying value. An impairment of $11.2 million was recorded.

The recoverable amount of the Clara CGU is based on the fair value less cost of disposal ("FVLCD") expected to be derived from the platform. The determination of FVLCD requires use of Level 1 valuation inputs.

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

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

9. INTANGIBLE ASSETS (continued)

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, 2023, no contingent consideration has been recorded as no payment triggers are projected to occur.

10. CREDIT FACILITIES

		2023		2022
Current				
Working capital facility	$	35,000	$	15,000
Revolving credit facility		-		338
Deferred financing fees (Note 5)	$	-	$	(975)
Non-current				
Project finance facility, net of fees	$	86,515	$	62,151
Due to related parties		15,000		-
Deferred financing fees	$	(4,122)	$	(5,410)

Senior secured project facility

On July 12, 2022, 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 were made up of the Project Finance Facility of $170.0 million to fund the development of an underground expansion at the Karowe Mine, and a $50.0 million senior secured Working Capital Facility, utilized to repay the Company's previous $50.0 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. As at December 31, 2023, $90.0 million of the $170.0 million facility was drawn.

Subsequent to year-end, the Company completed the Rebase Amendments with its lenders to modify the repayment schedule, adjust the Facilities to include a project finance facility of $190.0 million and $30.0 million working capital facility, extend the maturity date of its WCF to June 30, 2031 and certain other terms.

Under the Rebase Amendments, the Project Finance Facility matures on June 30, 2031, with quarterly repayments commencing on September 30, 2028. The Project Loan bears interest at Term SOFR plus a margin of 6.5% annually until the project completion date, 6.0% annually from project completion to June 30, 2029, and 7.0% annually thereafter. Commitment fees for the undrawn portion of the Project Loan are 35% of the margin.

The WCF may be used for working capital and other corporate purposes. As at December 31, 2023, $35.0 million of the $50.0 million facility was drawn. Following the Rebase Amendments, this facility bears interest at Term SOFR plus a margin of 6.5% annually for the period commencing from the date of the amendment to projection completion, 6.25% from project completion to June 30, 2029, and 7.25% annually thereafter with commitment fees for the undrawn portion at 35% of the margin.

Prior to June 30, 2025, extended in connection with the Rebase Amendments, the Company is required to place $61.7 million in a COF as a condition of the Facilities. The Facilities Agreement includes specific provisions for how and when these funds may be released from the COF. The COF balance was $18.6 million as at December 31, 2023. The Company is required to fund the remaining balance with the proceeds from the sale of exceptional stones and cashflow from operations.

10. CREDIT FACILITIES (continued)

The Company incurred $11.3 million of debt advisory, legal and due diligence fees in conjunction with arranging the initial 2021 Facilities. Costs of $8.7 million were allocated to the Project Loan and initially recorded as deferred financing fees that are subsequently transferred as transaction costs proportional to the amount drawn under the Project Loan. Costs of $2.6 million were allocated to the WCF as deferred financing fees, fully amortized. Transaction costs under the Project Loan are amortized over the remaining facility terms.

As at December 31, 2023, the Company was in compliance with all covenants under the Facilities but until the Rebase Amendments became effective, the Company was not permitted further draws from the Facilities.

Interest rate swap agreements

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

As at December 31, 2023 the interest rate swaps had a total unrealized fair value of $8.1 million (December 31, 2022: $9.8 million), of which $3.0 million has been classified as a current asset. A loss of $1.7 million was recognized in 2023 for the movement in the unrealized fair value (December 31, 2022: gain of $10.7 million). The fair value of the interest rate swap is based on the difference between the three-month USD Term SOFR forward curve and the fixed rate of 1.682%, with the net interest due in the next twelve months classified as current.

Debenture

In connection with the Rebase Amendments (Note 1), in August 2023 the Company's largest shareholder, Nemesia provided a liquidity support guarantee of up to $15.0 million in aggregate (the "Liquidity Guarantee"). As consideration for providing the Liquidity Guarantee, Lucara issued 450,000 common shares to Nemesia. In November 2023, the Company provided noticed under the Liquidity Guarantee and issued the $15.0 million debenture (the "Debenture") to Nemesia and issued 450,000 common shares to Nemesia as a fee upon execution of the Debenture. For each $500,000 outstanding under the Debenture, the Company is required to issue, subject to the receipt of all required regulatory approvals, 7,500 common shares per month to Nemesia until the amounts borrowed are repaid. The Debenture matures August 29, 2029. As of December 31, 2023 a total of 127,500 shares were issued in consideration for amounts borrowed.

Clara revolving credit facility

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

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

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 8.7% at December 31, 2023 (2022 – 8.5%) and an annual inflation rate of 4.5% at December 31, 2023 (2022 – 4.6%). 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 $34.2 million (2022 - $33.0 million).

		2023		2022
Balance, beginning of year	$	13,649	$	15,346
Changes in rates and estimates		(472)		(1,669)
Accretion of liability component of obligation		1,205		1,202
Foreign currency translation adjustment		(644)		(1,230)
Restoration provisions	**$**	**13,738**	$	**13,649**

12. SHARE CAPITAL

During the year ended December 31, 2023, 1,027,500 common shares ($0.3 million), were issued to Nemesia consisting of 900,000 common shares for providing access to a liquidity guarantee and 127,500 common shares for payment of interest on its Debenture (Note 10).

Under the Project Loan (Note 10), the Company's largest shareholder, Nemesia provided a limited standby undertaking to the Company of up to $25.0 million in the event of a funding shortfall occurring up to September 2, 2024. Subsequent to year-end, Nemesia amended the limited standby undertaking to an amount of up to $63.0 million. The standby undertaking consists of two components: i) an undertaking to support the requirement to fill the COF to $61.7 million by June 30, 2025 and ii) in the event of a funding shortfall, support up to $35.0 million occurring prior to project completion. A further 1,900,000 common shares were paid as consideration in January 2024.

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 and has since been amended, with Shareholder approval, several times. Amendments to the Option Plan were most recently approved by Shareholders on May 12, 2023. Under the terms of the amended Option Plan, a maximum of 10,000,000 shares are reserved for issuance upon the exercise of stock options. The Option Plan provides the Board of Directors with discretion to determine the vesting period for each stock option grant. Options historically vest in thirds over a three-year period beginning on the first anniversary of the date of grant and expire four years from the date of grant. Options granted in 2023 cliff vest following a three-year period and expire five years from the date of grant.

(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$)
Balance at January 1, 2022	**6,249,000**	**$ 1.26**
Granted	2,332,000	0.66
Expired	(1,065,000)	2.35
Forfeited	(1,102,000)	1.06
Balance at December 31, 2022	**6,414,000**	**$ 0.89**
Granted	2,412,000	0.57
Expired	(1,134,000)	1.64
Forfeited	(1,148,000)	0.65
Balance at December 31, 2023	**6,544,000**	**$ 0.68**

Options granted to acquire common shares are outstanding at December 31, 2023 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 - $0.74	3,765,000	3.21	0.61	1,284,999	2.78	0.63
$0.75 - $0.79	2,779,000	0.73	0.78	2,404,000	0.67	0.78
	6,544,000	**2.16**	**$ 0.68**	**3,688,999**	**1.40**	**$ 0.73**

During the year ended December 31, 2023, an amount of $0.3 million (2022 – $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:

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

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

13. SHARE BASED COMPENSATION (continued)

b. Restricted and performance share units

The Company has a share unit ("SU") plan that provides for the issuance of SUs as a long-term incentive for certain members of the management team. Amendments to the SU plan, including a decrease in the common shares reserved for issuance upon the vesting of SUs to 17,000,000 were approved by Shareholders at the May 12, 2023 annual meeting.

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

For the year ended December 31, 2023, the Company recognized a share-based payment charge of $0.8 million (2022 – $1.3 million) for the SUs granted.

	Number of share units	Estimated fair value at date of grant (CA$)
Balance at January 1, 2022	**5,234,848**	**$ 0.83**
Granted	2,860,000	0.64
Redeemed	(1,038,848)	1.14
Balance at December 31, 2022	**7,056,000**	**$ 0.71**
Granted	3,337,000	0.57
Redeemed	(2,876,001)	0.74
Cancelled	(3,902,999)	0.62
Balance at December 31, 2023	**3,614,000**	**$ 0.65**

c. Deferred share units ("DSUs")

The Company's deferred share unit plan was approved by the Company's Shareholders initially on May 8, 2020. Amendments providing for the issuance of up to 4,500,000 DSUs to eligible directors were most recently approved on May 12, 2023. Directors can elect to receive up to 100% of their fees earned in DSUs, awarded quarterly. DSUs vest immediately and are paid out upon retirement from the Board of Directors of the Company. Each DSU entitles the holder to receive one common share and the cumulative dividend equivalent DSU earned prior to the payout date. The value of each DSU at the grant date is equal to the closing value of one Lucara common share. The DSU Plan is a cash-settled share-based compensation plan and is recorded as a liability. Upon payout, the director can elect to receive the value in cash or common shares of the Company.

For the year ended December 31, 2023, the Company recognized a share-based payment charge of $0.4 million (2022 – $0.3 million) related to the DSUs granted.

	Number of DSUs	Estimated fair value (CA$)	
Balance at January 1, 2022	**1,234,510**	**$**	**0.59**
Granted	881,593	$	0.58
Balance at December 31, 2022	**2,116,103**	**$**	**0.50**
Granted	1,056,053	$	0.47
Balance at December 31, 2023	**3,172,156**	**$**	**0.49**

(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, 2023 and 2022:

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)
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

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

	2023	2022
Revenue from diamond sales	$ 177,371	$ 212,934

Revenue from diamond sales includes $20.2 million (2022: $36.9 million) in diamond sales to HB that is considered variable.

The Company's right to consideration is contingent upon 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, 2023, an advance of $20.0 million (December 31, 2022 - $12.0 million) 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

		2023		2022
Salaries and benefits	$	7,797	$	7,849
Professional fees		4,870		3,070
Insurance, office, and general		1,698		2,038
Promotion		1,054		1,136
Stock exchange, transfer agent, shareholder communication		334		306
Travel		727		1,086
Share-based compensation (Note 13)		1,440		1,977
Depreciation		815		446
Sustainability and donations[1]		880		1,211
	$	**19,615**	$	**19,119**

17. INCOME TAXES

		2023		2022
Current	$	3,483	$	307
Deferred		29,268		24,071
Income tax expense	**$**	**32,751**	**$**	**24,378**

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:

		2023		2022
Statutory tax rate		27.00%		27.00%
Net (loss) income before tax		12,560		64,811
Computed income tax expense		3,391		17,499
Differences between Canadian and foreign tax rates		(1,880)		(3,729)
Differences in Botswana variable tax rates		19,352		7,702
Non-deductible expenses and other permanent differences		2,542		1,179
Change in deferred tax assets not recognized		4,613		1,912
Other		3,793		–
Withholding taxes		940		(185)
	$	**32,751**	**$**	**24,378**

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 37.8% in 2023 (2022: 33.0%) for deferred income taxes based on current financial performance and the life of mine plan which includes the Karowe underground expansion.

The Company has not recognized deferred tax liabilities in respect of historical unremitted earnings from foreign subsidiaries for which the Company is able to control the timing of the remittance and which are considered by the Company to be reinvested for the foreseeable future. At December 31, 2023, these earnings amount to $192.7 million (2022: $198.3 million). All of these earnings would be subject to withholding taxes if they were remitted by the foreign subsidiaries.

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

17. INCOME TAXES (continued)

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

		2023		2022
Balance, beginning of year	$	87,808	$	70,285
Deferred income tax expense		29,268		24,071
Foreign currency translation adjustment		(4,313)		(6,548)
Balance, end of year	**$**	**112,763**	**$**	**87,808**

Deferred income tax assets and liabilities recognized		**2023**		**2022**
Deferred income tax assets				
Non-capital losses	$	16,325	$	11,723
Accounts payable and other		2,059		–
Unrealized foreign exchange loss		978		1,144
Restoration provisions		3,022		3,003
Total deferred income tax assets		22,384		15,870
Deferred income tax liabilities				
Mineral properties, plant and equipment		135,147		101,268
Other		-		2,410
Deferred income tax liabilities		135,147		103,678
Deferred income tax liabilities, net	**$**	**112,763**	**$**	**87,808**

Deferred income tax assets not recognized		**2023**		**2022**
Tax losses	$	35,346	$	29,728
Mineral properties, plant and equipment		379		59
Other deductible temporary differences		262		445
	$	**35,987**	**$**	**30,232**

As at December 31, 2023, the Company has non-capital losses for income tax purposes which expire as follows:

		2024		2025		2026		Subsequent to 2026		No expiry date		Total
Botswana	$	–	$	–	$	–	$	–	$	55,418	**$**	**55,418**
Canada		–		–		–		121,547		–		**121,547**
United Kingdom		–		–		–		–		5,619		**5,619**
	$	–	$	–	$	–	$	121,547	$	61,037	**$**	**182,584**

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

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

17. INCOME TAXES (continued)

Various tax matters are outstanding from time to time. Judgements and assumptions regarding these matters are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations. If management's estimate of the future resolution of these matters changes, the Company will recognize the effects of these changes in the consolidated financial statements on the date such changes occur. Lucara Botswana received an additional assessment from the Botswana Unified Revenue Service for the fiscal years 2016 - 2020 related to the tax deductibility of certain expenditures associated with the Company's operations in Botswana. The additional taxes, interest and penalties assessed for the fiscal years 2016-2020 were approximately $7.0 million. The Company has paid the additional assessment and filed a notice of objection. The Company believes that its tax positions are valid and intends to vigorously defend its tax filing positions.

18. EARNINGS (LOSS) PER COMMON SHARE

a) Basic

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

b) Diluted

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

		2023		2022
Net (loss) income for the year	$	(20,191)	$	40,434
Weighted average number of common shares outstanding		454,781,585		453,479,480
Adjustment for share units		-		8,473,773
Weighted average number of common shares for diluted earnings per share		454,781,585		461,953,253
Basic and diluted earnings per share	**$**	**(0.04)**	$	**0.09**

(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:

		2023		**2022**
Salaries and wages	$	3,637	$	2,256
Short term benefits		34		27
Share based compensation		991		1,226
	$	**4,662**	**$**	**3,509**

b) Clara acquisition

At the time of Lucara's acquisition of Clara, a former officer of the Company was also a shareholder of Clara. If all the Clara performance milestones are reached, this individual will receive an additional 74,999 common shares of Lucara. Following the acquisition of Clara, Lucara appointed a new director and a new officer, each of whom had been a shareholder of Clara at the time of its acquisition by the Company. If all the Clara performance milestones are reached, these individuals will be entitled to receive an additional 600,000 common shares and 74,999 common shares of Lucara.

Pursuant to the profit sharing described in Note 9, a total of 3.45% of the EBITDA generated by the platform has been assigned to a former director and officer of Lucara, both founders of Clara. A further 3.22% of the EBITDA generated by the platform may be distributed to a member and former member of management, at the discretion of Lucara's Compensation Committee, based on the achievement of key performance targets. As at December 31, 2023, 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.

2023

	Karowe Mine	Corporate and other	Total
Revenues[1]	$ 172,400	$ 4,971	$ 177,371
Income (loss) from operations	62,536	(2,120)	60,416
Finance expenses	(6,093)	1,587	(4,506)
Loss on derivative financial instrument	(1,712)	–	(1,712)
Exploration	(1,244)	–	(1,244)
Foreign exchange loss	(4,823)	(351)	(5,174)
Loss on disposal of assets	(943)	–	(943)
Administrative and other	(11,517)	(22,760)	(34,277)
Taxes	(32,489)	(262)	(32,751)
Net income (loss) for the year	**$ 3,715**	**$ (23,906)**	**$ (20,191)**
Capital expenditures	**$ 115,683**	**$ 112**	**$ 115,795**
Total assets	**$ 566,382**	**$ 9,421**	**$ 575,803**

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**

(1) During the year ended December 31, 2023, one customer generated 60% (2022 – 60%) of the Company's revenue.

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

	Plant and equipment 2023	Plant and equipment 2022	Mineral properties 2023	Mineral properties 2022	Other 2023	Other 2022
Canada	$ 130	$ 225	$ –	$ –	$ 7,022	$ 18,886
Belgium	8	40	–	–	–	–
Botswana	124,845	87,974	287,245	244,130	70,622	44,245
	$ 124,983	$ 88,239	$ 287,245	$ 244,130	$ 77,644	$ 63,131

Depletion and amortization expense for Karowe Mine and Corporate and other during the year ended December 31, 2023 totaled $16.6 million and $1.7 million, respectively (2022 – $23.8 million and $1.6 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).

		2023		2022
Level 1: Fair value through other comprehensive income – Investments	$	811	$	661
Level 2: Derivative financial instruments	$	8,107	$	9,820
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, 2023, the Company was exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately $3.2 million in net income for the period.

Liquidity risk

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

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

21. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

Subsequent to December 31, 2023, as part of the Rebase Amendments, the Company received an extension on its WCF to June 30, 2031 and the amount of the WCF was amended to $30.0 million. Historically, the Company has used the WCF to manage its short-term working capital requirements.

As a condition of the Facilities Agreement, the Company is required to place $61.7 million in the COF by June 30, 2025. The Facilities Agreement includes specific provisions for how and when these funds may be released. As at December 31, 2023, the COF balance was $18.6 million. This amount is classified within other non-current assets.

Further details regarding the Company's liquidity risk are disclosed in Note 1 and 10.

Credit risk

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

On September 28, 2023, the Company terminated the sales agreement with HB. The termination increased the credit risk on amounts due from HB. Under the terms of this sales agreement, a larger proportion of the Company's goods, by value, were sold through HB to buyers of polished diamonds. The credit risk associated with these sales was concentrated with HB, a single customer, and payment terms were longer (60 to 120 days) than the Company's traditional tender sales and sales held through Clara (5 days). The Company maintained legal title over goods sold to HB until the initial determined estimated polished price was paid and monitored outstanding amounts for collectability. All amounts are current at December 31, 2023.

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; amended to Term SOFR) for a fixed interest rate of 1.682% on 75% of its expected borrowings from the Project Loan (approximately $127.5 million). Interest rates increased rapidly through 2022. The Company is exposed to these interest rate increases through 25% of its expected borrowings from the Project Loan, amounts drawn from its WCF and from its revolving facility.

(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, margin earned on the sale of rough diamonds sold through Clara and polished diamond sales through HB. The price and marketability of these diamonds can be significantly impacted by international economic trends, global or regional consumption, demand and supply patterns and the availability of capital for diamond manufacturers, all factors that are not within the Company's control. Under the sales arrangements with HB, the ultimate achieved sales prices of stones larger than 10.8 carats in size was based on a polished diamond pricing mechanism. This pricing mechanism resulted in the Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than through its traditional tender process for rough diamonds. The pricing of both polished and rough diamonds softened in the first half of 2023 following significant price improvements between late 2021 and mid-2022.

To the extent that the supply of rough or polished diamonds exceeds demand, this is likely to result in price deterioration and negatively impact the Company's revenue and ability to generate positive cash flow from operations.

22. COMMITMENTS

As at December 31, 2023, purchase orders and contracts that give rise to commitments for future minimum payments for services to be provided related to the underground expansion project amounted to $77.2 million (December 31, 2022 - $111.5 million). The following table summarizes the approximate timing of the commitments (undiscounted) at December 31, 2023:

		2024	**2025**	**2026**	**2027 and 2028**	**Total**
Underground expansion project	$ million	36.3	24.2	12.7	4.0	**77.2**

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.

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

24. IMPAIRMENT TEST – KAROWE MINE

The Company completed an assessment of impairment indicators for the Karowe Cash Generating Unit ("CGU"), comprised of mineral properties, plant and equipment. On July 16, 2023, the Company announced an update to the UGP schedule that extended the anticipated duration of construction and increased the estimated capital cost. This update was considered to be an indicator of impairment at June 30, 2023. No additional indicators of impairment have been noted as at December 31, 2023.

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

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

Significant assumptions as at June 30, 2023

Discount rate	A discount rate of 11.0%, calculated based on a real weighted cost of capital including the effect of factors such as market, project, and country risk.
Economically recoverable reserves, including production timing and volume	The current Karowe mine plan anticipates planned commencement of production from the underground by mid-2028. Production volumes and life of mine plans include economically recoverable reserves from the most recent reserve and resource estimate based on technical studies undertaken in-house and by third party specialists that consider internal management forecasts and long-term development plans and expectations for the Karowe mine. The current mine plan does not assume the conversion of additional resources which are not currently categorized as reserves.
Diamond prices	The diamond price range is between \$392 and \$828 per carat, depending on the source of the ore, and these prices have been set with reference to recently achieved pricing and market trends, supported by industry views of long-term diamond market fundamentals. Diamond prices are not escalated and remain unchanged over the life of mine. The estimated contribution of exceptional diamonds, defined as an individual diamond sold for more than \$10.0 million, is determined with reference to historical trends and management's expectations based on the source of future production.

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

24. IMPAIRMENT TEST – KAROWE MINE (continued)

Capital expenditure to complete development of the UGP, production costs and future sustaining capital expenditures	Capital to complete development of the UGP is based on the revised project schedule and an estimated cost to complete of $419 million at June 30, 2023.
Exchange rates	Exchange rates are estimated based on an assessment of current market fundamentals and long-term expectations. With operations in Botswana, a large proportion of operating costs and sustaining capital expenditure is denominated in Botswana pula. The exchange rate range used for the Karowe CGU is between 12.50 and 13.00 Botswana pula to the U.S. dollar.

Sensitivity analysis Q2 2023

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

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

25. SUBSEQUENT EVENTS

On February 18, 2024, the Company announced the signing of a New Diamond Sales Agreement (“NDSA”) with HB in respect of all qualifying diamonds produced in excess of 10.8 carats in size from the Karowe Mine. The NDSA is subject to the approval of the Company's project lenders and the Government of the Republic of Botswana. Upon such approval, the agreement terms will be effective retroactively from December 1, 2023. Since that time, Lucara has continued to supply qualifying rough diamonds to HB in order to fund its operations and the Karowe UGP.

Additional subsequent events are disclosed in Note 1 and 10.