LUCARA
DIAMOND

Management's Discussion and Analysis

and

Consolidated Financial Statements

Quarter Ended June 30, 2023

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

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. (the "Company") and its subsidiaries performance and such factors that may affect its future performance. To better understand the MD&A, it should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the period ended June 30, 2023, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as applicable to interim financial reporting. All amounts are expressed in U.S. dollars unless otherwise indicated.

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

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

The effective date of this MD&A is August 9, 2023

ABOUT LUCARA

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

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

HIGHLIGHTS – Q2 2023

- Total revenue of $41.1 million, including $5.5 million in sales through Clara, reflected an expected change in product mix for the first half of 2023 consistent with the mine plan. The second half of 2023 is expected to be stronger as a greater proportion of carats recovered from the South Lobe are sold. A softer diamond market in the first half of 2023 resulted in lower achieved prices, when compared to Q2 2022, when prices reached a multi-year high.
- During Q2 2023, a total of 72,717 carats (Q2 2022: 66,167) from Karowe were sold through the Company's three sales channels, generating revenue of $33.5 million before top-up payments of $5.1 million (Q2 2022: $36.9 million before top-up payments of $13.1 million).
- Operating cost per tonne processed(1) was $27.97, a decrease of 3% over the Q2 2022 cost per tonne processed of $28.78. Despite continued inflationary pressures, particularly for labour, a strong US dollar offset an increase in costs over the comparable period.
- Operational highlights from the Karowe Mine for Q2 2023 included:

- Ore and waste mined of 0.7 million tonnes (Q2 2022: 1.1) and 0.9 million tonnes (Q2 2022: 0.4), respectively.
- 0.7 million tonnes (Q2 2022: 0.7) of ore processed.
- A total of 90,497 carats recovered, excluding 2,733 carats from the processing of historic final recovery tailings, (Q2 2022: 86,317) at a recovered grade of 12.6 carats per hundred tonnes of direct milled ore (Q2 2022: 12.0).
  - A total of 162 Specials were recovered, with thirteen diamonds greater than 100 carats.
  - Recovered Specials equated to 6.6% of the weight percentage of total recovered carats from ore processed during Q2 2023 (Q2 2022 – 6.1%).
- The Karowe Mine has operated continuously for over two and a half years without a lost time injury.

- Financial highlights for Q2 2023 included:
  - Revenues of $41.1 million (Q2 2022: $52.3 million) reflected a continuation of weaker diamond prices and a planned change in product mix in the first half of 2023. During Q2 2023, 12% of the carats processed were recovered from the Centre Lobe and 88% were recovered from South Lobe material (Q2 2022: 100% South Lobe ore). Most of the carats recovered in the latter part of the second quarter will be sold in the third quarter of 2023.
  - Operating margins of 59% were achieved (Q2 2022: 67%). A strong operating margin continues to be achieved despite price softness in the rough diamond market.
  - Karowe's +10.8 production, sold through HB, accounted for 63% (Q2 2022: 65%) of total revenues recognized in Q2 2023.
  - Adjusted EBITDA(1) was $15.7 million (Q2 2022: $24.4 million), with the change directly attributed to a decrease in revenues.
  - Net income was $5.0 million (Q2 2022: $12.5 million), or $0.01 earnings per share (Q2 2022: $0.03).
  - Cash flow of $9.2 million (Q2 2022: $26.3 million) from operating activities.
- In July 2023, the Company provided an update to the schedule and budget for the Karowe UGP.
  - The duration of the construction period increased, extending the anticipated commencement of production from the underground from H2 2026 to H1 2028.
  - The revised forecast of costs at completion is $683 million.
  - The Company has notified its Lenders of the expected increases to both the schedule duration and the projected cost to complete the Karowe UGP. The Company's debt package consists of two facilities (the "Facilities"), a project finance facility of $170 million to fund the development of an underground expansion at the Karowe Mine (the "Project Loan"), and a $50 million senior secured working capital facility (the "WCF").
  - 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.
- During Q2 2023, the Company invested $22.5 million into the Karowe UGP:
  - Grouting programs were the focus in both the ventilation and production shafts in Q2 2023. A grout cover was completed in the ventilation shaft along with remedial grouting behind the concrete liner in previously dry portions of the shaft. In the production shaft, a grout cover was initiated 10 metres earlier than planned due to increased water inflows related to a water-making subvertical joint feature. Additional grouting was required to seal off areas within an earlier grout cover.
  - Shaft sinking in the ventilation shaft was comprised of 30 metres of vertical advance in April followed by grouting. Sinking resumed in July 2023, 8 days ahead of re-base schedule.

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

- In the production shaft, a total of 27 metres of vertical advance was achieved during Q2, with the remainder of time dedicated to grouting.
    - All components of the bulk power supply upgrade, including the Letlhakane and Karowe Substations and 132 kV power line, were handed over to Botswana Power Corporation.
    - Mobilisation for civil works related to construction of the bulk air cooler contractor commenced in late June.
    - Contract for fabrication of the permanent men and materials winder was signed during the quarter, representing the last major component for the permanent winders.
- Cash position and liquidity as at June 30, 2023:
    - Cash and cash equivalents of $26.7 million.
    - $90.0 million drawn on the $170.0 million Project Loan for the Karowe UGP, with no draws on the facility during the second quarter.
    - The outstanding balance on the WCF increased from $23.0 million to $35.0 million through Q2 2023, resulting in available liquidity of $15.0 million.
    - The Company has near-term commitments under the Facilities, including the maturity date of the WCF and the requirement to fund a cost overrun facility. Due to these near-term commitments, there is doubt regarding the Company's ability to meet its commitments and discharge its obligations in the normal course of business. While Management believes the Company will be able to resolve the noted items through its ongoing engagement with its Lenders, there can be no assurance that those efforts will be successful. See further details in the section "*Liquidity and Capital Resources.*" and refer to Note 1 of the condensed interim consolidated financial statements for the three and six months ended June 30, 2023.

DIAMOND MARKET

The longer-term outlook for natural diamond prices remains positive, anchored on improving fundamentals around supply and demand as many of the world's largest mines reach their natural end of life over the next decade. Following on the record high diamond prices achieved in early 2022, a softer diamond market emerged in the latter half of 2022 which has persisted into the second quarter of 2023, the result of global economic concerns combined with geopolitical uncertainty, including the ongoing conflict in Ukraine. Prices continued to show signs of stabilization, however, as China continues to open-up post-Covid. Sales of lab-grown diamonds increased during the period. Intense competition combined with improvements in technology continue to drive prices of lab grown diamonds down. This further differentiates this market segment from the natural diamond market and highlights the unique nature and inherent rarity of natural diamonds. The longer-term market fundamentals remain unchanged and positive, pointing to strong price growth over the next few years as demand is expected to outstrip future supply, which is now declining globally.

SALES CHANNELS

Karowe diamonds are sold through three separate and distinct sales channels: through the HB sales agreement, on the Clara digital sales platform and through quarterly tenders.

HB Sales Agreement for +10.8 carat Diamond Production

Karowe's large, high value diamonds have historically accounted for approximately 60% to 70% of Lucara's annual revenues. In 2020, Lucara announced a partnership agreement with HB, entering into a definitive sales agreement for diamonds recovered that exceed +10.8 carats from the Company's 100% owned Karowe Diamond mine in Botswana. This agreement was extended with certain amendments during 2021 and in November 2022, the agreement was extended again for a further ten-year period through December 31, 2032. The mechanisms of the agreement result in complete transparency within the value chain and create important alignment between the producer and the manufacturer for the first time.

Under the sales agreement, +10.8 carat gem and near gem diamonds from the Karowe Mine of qualities that can directly enter the manufacturing stream are being sold to HB at prices based on the estimated polished outcome of each diamond. 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 are being sold as rough through a quarterly tender.

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

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

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

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

Sethunya Diamond

Amidst strengthening prices for large, high value diamonds, a strategic decision was taken late in 2021 to defer the sale of the Sethunya (549 carats), one of the finest, gem quality, exceptional diamonds produced from the Karowe Mine to date. As at June 30, 2023, the Company had received prepayments of $20.0 million from HB for the Sethunya. These prepayments have been recorded as deferred revenue on the Statement of Financial Position.

Clara Sales Platform

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

Clara is a completely scalable business solution for the diamond industry. Besides the direct benefit of selling Karowe diamonds at a premium, the business rationale for Clara is compounded by increasing the volume of third-party diamonds transacted in any given period. Clara has been adding third party supply steadily since 2021, including diamonds supplied from other producers, secondary sources and diamonds purchased by the Company and re-sold through the platform. Total volume transacted on the platform was $5.7 million in Q2 2023, with non-Karowe goods representing 48% of the total sales volume transacted. The Company continues to be focused on growing third party volumes through the platform in 2023, both from primary diamond producers and secondary market sources. The number of buyers on the platform reached 100 as of June 30, 2023.

Quarterly Tenders

All +10.8 carat non-gem quality diamonds and all diamonds less than 10.8 carats in weight which did not meet the criteria for sale on Clara are being sold as rough through quarterly tenders. In mid-2020, in response to global travel restrictions put in place to manage the pandemic, the Government of Botswana gave the Company permission to relocate these tender sales to Antwerp, Belgium. Viewings continue to take place in both Gaborone, Botswana and Antwerp, Belgium.

KAROWE UNDERGROUND UPDATE

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

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

The updated schedule incorporates a 28% increase in the duration of construction, extending the anticipated commencement of production from the underground from H2 2026 to H1 2028. The revised forecast of costs at completion is $683 million (including contingency), a 25% increase to the May 2022 estimated capital cost of $547 million. The increase of $136.0 million in estimated capital to reach project completion is predominantly related to increased schedule duration and related labour costs (about 56% of the total), grouting costs (approximately 20% of the total capital increase), with the balance of the increase attributable to Owner’s costs, procurement, and indirect project costs. As at June 30, 2023, capital expenditures of $264.5 million had been incurred and total capital commitments of $369.7 million had been made, inclusive of incurred. The Company has notified its Lenders of the expected increases to both the schedule duration and the projected cost to complete the Karowe UGP. The Company’s debt package consists of a $170 million Project Loan and a $50 million WCF.

The Karowe UGP remains technically and economically feasible, however, the impact of actual and modelled delays changes the revenue profile due to the use of lower-grade, stockpiled ore for mill feed between 2025 and 2027 rather than high-grade ore from the underground as previously planned. Sufficient surface stockpiles of South, Centre and North Lobe kimberlite ore are available to maintain current, un-interrupted mill feed to the plant for the duration of the anticipated delay. The long-term outlook for diamond prices, combined with the potential for exceptional stone recoveries and the continued strong performance of the open pit could mitigate the modelled impact on project cash flows due to the schedule slippage.

The Karowe UGP update includes revisions to the 2019 feasibility study diamond price assumptions for each of the major ore sources. Diamond prices have been adjusted to reflect observed changes to the diamond price for the -10.8 carat goods based on Tender and Clara sales data, revisions to the Size Frequency Distribution for the M/PK(S) unit to better reflect actual +10.8 diamond recoveries and minor improvements to the assumptions around the +10.8 carat diamond price point. No diamond price escalation is applied to future production and the contribution from Exceptional diamonds (defined by the Company as an individual diamond which sells for >$10 million) is excluded from the price models, consistent with assumptions used in the 2019 feasibility study.

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

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

During the three months ended June 30, 2023, a total of $22.5 million was spent on the Karowe UGP development, primarily in relation to ongoing construction activities, including:

- Main sinking in the production and ventilation shafts:
    - In response to water inflows from the sandstones, cover grouting was the primary activity in both shafts.

- While the existence of water-bearing sandstones layers was anticipated, grouting within the regional Ntane and Mosolotane sandstone aquifers has required significant volumes of chemical grout. In addition, some remedial grouting in previously dry portions of the sandstone horizons has been required in the ventilation shaft. These factors account for most of the incurred delays to June 30, 2023.
- The ventilation shaft reached 213 metres below collar, with a planned final depth of 731 metres. The production shaft reached 185 metres below collar, with a planned final depth of 765 metres.
- Mobilisation for civil works related to construction of the bulk air cooler contractor started in late June and detailed engineering was completed for the bulk air cooler.

- Contract for fabrication of the permanent men and materials winder was signed during the quarter, representing the last major component for the permanent winders.
- All components of the bulk power supply upgrade, including the Letlhakane and Karowe Substations and 132 kV power line, were handed over to Botswana Power Corporation.
- The impact of implementing a behavioural-based safety training program in Q4 2022 has been evident in 2023. Year-to-date, the UGP achieved a six-month period with no reportable incidents delivering a six-month rolling Total Recordable Injury Frequency Rate of zero.

The capital cost estimate for the underground expansion in 2023 is $105 million – see “2023 Outlook” below. Activities for the Karowe UGP in Q3 2023 are expected to include the following:

- Sinking and grouting within the ventilation and production shafts is expected to continue.
- Planned grouting events to the base of the Mosolotane sandstone/mudstone transition are expected to be completed early in Q4 2023.
  - After completion of the current sandstone layer being grouted, one further grouting event is planned in the ventilation shaft (213 metres below collar as of June 30, 2023).
  - Two additional grouting events are planned within the production shaft (185 metres below collar as of June 30, 2023).
  - Thereafter, further grouting is not anticipated to be required until sinking reaches the granite basement lithologies in late 2024. Grouting in the granite lithologies is expected to be localized, rather than formational in nature.
- Procurement of underground equipment, including dewatering pumps, underground crush and convey systems and the permanent stage winder.
- Construction of the bulk air cooler system.
- Preparation of tender documents for a request for proposal 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 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”). As a result of an impairment indicator being identified, the recoverable amount of the Karowe CGU was estimated and compared against its carrying value. No impairment was identified *(see Note 15 of the interim consolidated financial statements for the three and six months ended June 30, 2023).*

SOURCES OF FINANCING

On July 12, 2021, the Company’s wholly-owned subsidiary, Lucara Botswana, with Lucara Diamond Corp. as the sponsor and the guarantor, entered into the $170 million Project Loan to fund the development of an underground expansion at the Karowe Mine, and a $50 million senior secured WCF to support on-going operations. Effective June 30, 2023, the Facilities were amended to replace the interest rate of LIBOR with Term Secured Overnight

Financing Rate ("SOFR") plus a credit adjustment spread. There were no changes to the margins as outlined below.

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

As at June 30, 2023, $90.0 million was drawn from the Project Loan. The Project Loan has a margin of 5.5% annually until the project completion date, and 5.0% annually thereafter. Commitment fees for the undrawn portion of the Project Loan are 2.0%.

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

Prior to September 5, 2023, the Company will be required to place $52.9 million in a cost overrun facility (the "COF") under the existing terms of its Facilities. The Facilities Agreement includes specific provisions for how and when these funds may be released from the COF. The COF balance was $18.0 million as at June 30, 2023. Concurrently to the requested extension of the WCF, the Company has asked for a deferral of the September 5th deadline for the COF funding requirement. The Company's largest shareholder, Nemesia S.a.r.l., has agreed to provide a liquidity backstop guarantee of $10.0 million while discussions with the Lenders are ongoing.

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

INTEREST RATE SWAP

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

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

As at June 30, 2023, the interest rate swaps had a total unrealized fair value of $10.3 million (December 31, 2022: $9.8 million), of which $3.3 million has been classified as a current asset in the Statement of Financial Position. For the six months ended June 30, 2023, the Company recorded a $0.5 million gain (Q2 2022: gain of $7.2 million) on this derivative financial instrument. Movements in the unrealized fair value are recorded through the Statements of Operations.

CLARA REVOLVING CREDIT FACILITY

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

The Clara Facility is used for inventory and working capital purposes. The facility matures on September 28, 2023. As at June 30, 2023, $1.6 million (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 June 30, 2023**	**2022**		**Six months ended June 30, 2023**	**2022**
Revenues	$	41.1	52.3	$	83.9	120.5
Operating expenses		(16.7)	(17.0)		(34.9)	(34.9)
Net income for the period		5.0	12.5		6.0	31.5
Earnings per share (basic and diluted)		0.01	0.03		0.01	0.07
Operating cash flow per share(1)		0.04	0.05		0.07	0.13
Cash on hand		26.7	40.8		26.7	40.8
Amounts drawn on WCF(2)		35.0	-		35.0	-
Amounts drawn on Project Loan		90.0	65.0		90.0	65.0
Revenue from the sale of Karowe diamonds		38.6	50.0		79.9	117.2
Carats sold from Karowe		72,717	66,167		156,091	146,462

(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.

Q2 2023 Analysis

The Company recognized total revenues of $41.1 million in Q2 2023. This included $38.6 million from the sale of 72,717 carats from Karowe (including top-up payments of $5.1 million) as well as $2.5 million from the sale of third-party goods on the Clara platform. In comparison, the Company achieved total revenues of $52.3 million in Q2 2022 which included $50.0 million from the sale of 66,167 carats from Karowe, top-up payments of $13.1 million, and $2.3 million in revenue from third party goods sold through the Clara platform. The change in quarterly revenue was driven by predominately by three factors i) a softening of the market in H1 2023 compared to multi-year highs experienced in H1 2022, ii) the planned shift in product mix, with 64% of the carats produced in Q1 2023 recovered from the Centre and North Lobes (vs. 100% of carats recovered from the South Lobe in Q1 2022) which impacts revenue and top-up payments in the subsequent periods, and iii) a lower mine call factor in the second quarter which impacted carat recoveries.

Diamonds produced from the Centre and North Lobes have a different profile than the South Lobe which was the predominant source of ore in fiscal 2021 and 2022. While higher grade, the Centre and North Lobes have a finer size distribution than South Lobe ore and produce fewer +10.8ct and Type IIA diamonds which command higher prices on a per carat basis than non-Type IIA diamonds. On a like-for-like basis, price feedback has been mixed by size category between Q1 2023 and Q2 2023 for goods less than 10.8 carats, but overall, prices remained soft. The average price for goods less than 10.8 carats in Q2 2023 was $180 per carat, a decrease of 35% from the average price per carat of $277 per carat in Q2 2022. Under the sales agreement with HB, Karowe's +10.8 production accounted for 67% (Q2 2022: 65%) of total revenues recognized in Q2 2023.

Operating expenses are directly comparable from Q2 2023 ($16.7 million) to Q2 2022 ($17.0 million) with the increase in carats sold (+10%) and inflationary impacts (+8%) offset by a benefit from the stronger U.S. Dollar (+11%). Increases to input costs, particularly those for labour, fuel, and explosives, have largely been offset by continued strength in the U.S. Dollar. There have been minimal power cost increases in Botswana in the past year and fuel costs began to decrease in the second quarter of 2023. Please see Table 4: *"Select Financial Information"* below for details on the expense line items which had the most significant impact on net income of $5.0 million (Q2 2022: $12.5 million) in the quarter.

QUARTERLY SALES RESULTS

Table 2

Q2 2023 - Sales Channel	**Rough Carats Sold**		**Revenue US$ M**
HB Agreements	2,818	$	20.7
Clara(1)	2,226		3.0
Tender(2)	67,673		9.8
Subtotal – Karowe diamonds sold	**72,717**	**$**	**33.5**
HB top-up payments			5.1
Total Revenue – Karowe Diamonds		**$**	**38.6**
3rd party goods (Clara)(1)			2.5
Total Revenue – Q2 2023		**$**	**41.1**

Q2 2022 - Sales Channel	**Rough Carats Sold**		**Revenue US$ M**
HB Agreements	2,942	$	19.3
Clara(1)	3,299		7.1
Tender(2)	59,926		10.5
Subtotal – Karowe diamonds sold	**66,167**	**$**	**36.9**
HB top-up payments			13.1
Total Revenue – Karowe Diamonds		**$**	**50.0**
3rd party goods (Clara)(1)			2.3
Total Revenue – Q2 2022		**$**	**52.3**

(1) Five sales were completed on Clara in Q2 2023 (Q2 2022: five), with the sale of third-party goods continuing to supplement the total volume transacted.

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

HB Sales Agreement – Q2 2023

For the three months ended June 30, 2023, the Company recorded revenue of $25.8 million from the HB agreement (inclusive of top-up payments of $5.1 million), as compared to revenue of $32.4 million (inclusive of top-up payments of $13.1 million). Lower revenue in Q2 2023 is reflective of an ore mix which included Centre Lobe material.

The decrease in revenue in Q2 2023 versus the comparative quarter can be attributed primarily to the number of high value diamonds delivered to HB in preceding quarters which were sold during the comparative period. Top-up values will typically increase as the more valuable stones move through production and are sold. The lower top-ups recognized in Q2 2023 reflect the value of the stones delivered, consistent with the change in product mix during H1 2023.

Recovered Specials equated to 6.6% of the weight percentage of total recovered carats from ore processed during Q2 2023, with 88% of carats recovered coming from the South Lobe and 12% recovered from the Centre Lobe (Q2 2022: 100% South Lobe ore). Natural variability in the quality profile of the +10.8ct production in any production period or fiscal quarter results in fluctuations in recorded revenue and associated top-ups. This result is consistent with the resource model and expected.

Despite the overall decrease in revenue recognized in Q2 2023, diamond market fundamentals continued to support healthy prices from the multi-year highs observed at the peak in Q1 2022.

Clara

During Q2 2023, the sales volume transacted was $5.7 million (Q2 2022: $12.1 million), as lower volumes and lower valued goods were placed for sale (due to the shift in product mix from the Karowe Mine) contributing $5.5 million to revenue (Q2 2022: $9.4 million) as some sales are recognized on a net revenue basis. A soft market was observed; however, prices have remained fairly flat between Q1 2023 and Q2 2023 with price strength observed in the stones between 5 to 10.8 carats in size.

Quarterly Tender

A total of 67,673 carats were sold in the May 2023 tender, generating revenues of $9.8 million (Q2 2022 tender: $10.5 million from the sale of 59,926 carats). Rough diamond prices remained near a multi-year high point at the time of the Q2 2022 tender. The Q2 2023 tender reflected a 17% decrease in the market from the comparative quarter's tender.

RESULTS OF OPERATIONS – KAROWE MINE

Table 3:

	UNIT	Q2-23	Q1-23	Q4-22	Q3-22	Q2-22
Sales						
Revenues from the sale of Karowe diamonds	US$M	38.6	41.3	40.1	46.5	50.0
Karowe carats sold	Carats	72,717	83,374	81,264	99,301	66,167
Production						
Tonnes mined (ore)	Tonnes	682,636	541,400	484,705	920,410	1,091,192
Tonnes mined (waste)	Tonnes	907,051	761,295	199,385	453,860	357,764
Tonnes processed	Tonnes	720,345	700,678	690,946	693,398	719,207
Average grade processed(1)	cpht (*)	12.6	12.8	12.5	11.4	12.0
Carats recovered(1)	Carats	90,497	89,640	86,655	78,879	86,317
Costs						
Operating cost per tonne of ore processed(2)	US$	27.97	26.65	26.20	29.33	28.78
Capital Expenditures						
Sustaining capital expenditures	US$M	2.4	0.8	9.9	4.0	4.1
Underground expansion project(3)	US$M	22.5	30.5	22.3	23.9	29.1

(*) carats per hundred tonnes

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

(2) Operating cost per tonne of ore processed is a non-IFRS measure. See Table 7.

(3) Excludes qualifying borrowing cost capitalized.

SECOND QUARTER OVERVIEW – OPERATIONS - KAROWE DIAMOND MINE

Safety: Karowe registered no lost time injuries during the three months ended June 30, 2023. As of June 30, 2023, the mine has operated for 955 days without a lost time injury. The twelve-month Total Recordable Injury Frequency Rate was 0.48 (Q2 2022: 0.11).

Environment and Social:

- There were no reportable environmental matters during the second 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).
- Phase 2 of a feasibility study to examine renewable energy options was completed, with the final phase expected to be completed prior to year-end.
- The development and implementation of an updated tailings framework aligned to the Global International Standard for Tailings Management ("GISTM") is in progress. A feasibility study commenced for the Underground Life of Mine tailings facility, with expected completion in Q4 2023.

Production: Ore and waste mined during the second quarter of 2023 totaled 0.7 million tonnes and 0.9 million tonnes respectively. During Q2 2023, tonnage processed was on target at 0.7 million tonnes at an average grade of 12.6 carats per hundred tonnes ("cpht"), with a total of 90,497 carats recovered from direct milling. Ore processed was 88% from the South Lobe, with the remainder from the Centre Lobe. Predominantly, the feed has been from the South Lobe for the past two years of production.

Diamond Recoveries: A total of 162 Specials were recovered, with thirteen diamonds greater than 100 carats in weight. Recovered Specials equated to 6.6% of the weight percentage of total recovered carats from ore processed during Q2 2023 (Q2 2022 – 6.1%). Recoveries during the quarter were within the expected range of the resource model for the plant feed mix.

Karowe's operating cash cost: Karowe's operating cash cost for Q2 2023 (see "*Use of Non-IFRS Financial Performance Measures*") was $27.97 per tonne of ore processed (Q2 2022: $28.78 per tonne of ore processed), below the 2023 annual forecast of $32.50-$35.50 per tonne processed. The 3% improvement in cost per tonne of ore processed reflects the benefit of a comparatively stronger U.S. Dollar (+11%) offset by cost inflation (-8%). A cost optimization process commenced in Q2 2023.

Overall performance: Mine performance during the second quarter remained consistent with the strong operational results achieved over the past several years. Mining and processing results were on plan during Q2 2023.

SELECT FINANCIAL INFORMATION

Table 4:

	Three months ended June 30,		Six months ended June 30,	
In millions of U.S. dollars unless otherwise noted	**2023**	2022	**2023**	2022
Revenues	$ 41.1	52.3	83.9	120.5
Operating expenses	(16.7)	(17.0)	(34.9)	(34.9)
Adjusted operating earnings(1)	24.4	35.3	49.0	85.6
Royalty expenses	(4.1)	(6.1)	(9.3)	(14.1)
Administration	(4.0)	(4.0)	(7.4)	(9.8)
Sales and marketing	(0.6)	(0.8)	(1.2)	(1.3)
Adjusted EBITDA(2)	15.7	24.4	31.1	60.4
Depletion and amortization	(3.2)	(4.7)	(8.0)	(10.7)
Finance expenses	(1.0)	(0.8)	(2.2)	(1.7)
Foreign exchange (loss) gain	(3.2)	1.5	(5.9)	(1.0)
Gain on derivative financial instrument	1.9	2.7	0.5	7.2
Current income tax expense	-	0.4	-	-
Deferred income tax expense	(5.2)	(11.1)	(9.4)	(22.8)
Net income for the period	5.0	12.5	6.0	31.5
Earnings per share (basic)	0.01	0.03	0.01	0.07
Operating cash flow per share(3)	0.04	0.05	0.07	0.13

(1) Adjusted operating earnings is a non-IFRS measure defined as revenues less operating expenses and excludes royalty expenses and depletion and amortization.
(2) Adjusted EBITDA is a non-IFRS measure defined as earnings before depletion and amortization, finance expenses, foreign exchange, financial instrument fair value adjustments, disposal of assets and taxation.
(3) Operating cash flow per share is a non-IFRS measure. See Table 6 below for more details.
(4) Numbers may not foot due to rounding.

Revenues and royalties

Total revenue decreased 21%, from $52.3 million in Q2 2022 to $41.1 million in Q2 2023. Diamond prices reached a multi-year high in early 2022. During the three months ended June 30, 2023, Lucara recognized revenue of $38.6 million from the sale of 72,717 carats from Karowe (including top-up payments of $5.1 million) and generated $2.5 million from the sale of third-party goods on the Clara platform. In comparison, the Company achieved total revenues of $52.3 million in Q2 2022 which included $50.0 million from the sale of 66,167 carats from Karowe, top-up payments of $13.1 million, and generated $2.3 million in revenue from third party goods sold through the Clara platform.

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

Adjusted Operating Earnings and Expenses

Adjusted operating earnings for the three months ended June 30, 2023 were $24.4 million (Q2 2022: $35.3 million) after operating expenses of $16.7 million (Q2 2022: $17.0 million). The 2% decrease in operating expenses is attributed to several variables: an 11% depreciation of the Botswana Pula against the U.S. dollar, offset the impact of higher labour and fuel costs and a 10% increase in carats sold. The proportion of ore mined was lower in Q2 2023 compared to Q2 2022. Power cost increases that were anticipated did not materialize in the first half of 2023.

Ore tonnes processed totalled 720,345 during Q2 2023 consistent with the 719,207 tonnes processed in Q2 2022. The recovery of 90,497 carats from direct milled ore in Q2 2023 was 5% higher than the 86,317 carats recovered in Q2 2022. This increase is attributed to a higher average grade in Q2 2023 of 12.6 carats per hundred tonnes ("cpht") (Q2 2022: 12.0 cpht). The mine call factor achieved in Q2 2023 was 7% below plan.

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

Depletion and amortization

In Q2 2023, the Company recorded depletion and amortization expense of $3.2 million (Q2 2022: $4.7 million). This non-cash expense decreased 32% from the comparative period. In Q4 2022, as part of a regular review of assumptions, the Company completed a reassessment of the useful life of all the plant and equipment assets. The depletion and amortization expense on assets which are primarily amortized on a unit of production basis will be affected by both the volume of carats recovered in any given period and the reserves that are expected to be recovered. Depletion and amortization expense on assets put into use on the Karowe UGP is capitalized to the project. Formal approval of the Karowe UGP in Q3 2021 increased the reserve base used for this calculation, resulting in the lower depletion and amortization expense historically. The foreign exchange rate movement from the strengthening of the USD also decreased the expense in Q2 2023.

Derivative financial instrument

A $1.9 million gain on a derivative financial instrument (Q2 2022: gain of $2.7 million) relates to changes in the fair value of the interest rate swap in response to changing market interest rates (*see Note 8 of the interim consolidated financial statements for the three and six months ended June 30, 2023*). The Company holds its interest rate swaps at fair value and as such, the movement in the fair value within any given period creates an adjustment to the Statement of Operations. As at June 30, 2023, the interest rate swaps were recorded at a fair value asset of $10.3 million (December 31, 2022: $9.8 million) on the Statements of Financial Position, with $3.3 million classified as a current asset based on the timing of expected settlement.

Net income

Net income for the three months ended June 30, 2023 was $5.0 million (Q2 2022: $12.5 million) with the change from the comparable period predominantly related to the decrease in net revenue of $9.2 million and lower deferred income tax expense as a result of the change in revenue. The deferred income tax expense primarily relates to the significant capital expenditures incurred for the Karowe UGP development (Q2 2023: $22.5 million; Q2 2022: $29.1 million) and is representative of the tax rate expected during the life of the mine. These expenditures are tax deductible in the year that the costs are incurred, which reduces the current tax liability of the Company. A deferred tax expense is recorded, and a deferred tax liability is created to account for the tax that will be owed in future years.

The difference between the foreign exchange loss of $3.2 million in Q2 2023 and a foreign exchange gain of $1.5 million in Q2 2022 results in a decrease of $4.7 million in net income when comparing the three months ended June 30, 2023 and 2022.

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

Adjusted EBITDA for the three months ended June 30, 2023 was $15.7 million compared to $24.4 million in Q2 2022. The change is directly attributable to the decrease in net revenue.

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

Operating Cash Flow per Share

For the three months ended June 30, 2023, operating cash flow per share was $0.04 (Q2 2022: $0.05). The decrease in operating cash flow per share is primarily related to the change in revenue.

Operating cash flow per share is a non-IFRS measure and is reconciled in Table 6 below to the most directly comparable measure calculated in accordance with IFRS, which is cash flow from operating activities.

SELECT QUARTERLY FINANCIAL INFORMATION

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

Three months ended	Jun-23	Mar-23	Dec-22	Sept-22	June-22	Mar-22	Dec-21	Sept-21
A. Revenues	41,125	42,760	42,465	49,926	52,348	68,195	57,931	72,716
B. Administration expenses	(4,012)	(3,417)	(5,138)	(4,220)	(4,005)	(5,756)	(7,149)	(4,256)
C. Net income	4,996	954	7,103	1,831	12,532	18,968	1,662	12,760
D. Earnings per share (basic)	0.01	0.00	0.02	0.00	0.03	0.04	0.00	0.03

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

Diamond prices improved significantly through 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.

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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

Table 6: Operating cash flow per share reconciliation:

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

		Three months ended June 30,			Six months ended June 30,		
		2023		2022		**2023**	2022
Cash flows from operating activities	$	9,245		26,278		29,669	57,072
Add: Changes in non-cash working capital		7,091		(891)		711	3,911
Total cash flow from operating activities before changes in non-cash working capital		16,336		25,387		30,380	60,983
Weighted average common shares outstanding		454,578,873		453,566,923		454,239,703	453,390,589
Operating cash flow per share[(1)]	$	0.04	$	0.05	$	0.07	$ 0.13

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

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

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

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

		Three months ended June 30,				Six months ended June 30,		
		2023		2022		**2023**		2022
Operating expenses	$	16.7	$	17.0	$	34.9	$	34.9
Corporate and other segment operating expenses[(1)]		(2.7)		(2.4)		(4.1)		(3.4)
Net change rough diamond inventory, excluding depletion and amortization		3.5		4.1		3.3		4.5
Net change ore stockpile inventory, excluding depletion and amortization		2.7		2.0		4.6		3.1
Total operating costs for ore processed	$	20.2		20.7		38.7		39.1
Tonnes processed		720,345		719,207		1,421,023		1,385,695
Operating cost per tonne of ore processed[(2)]	$	27.97	$	28.78	$	27.23	$	28.22

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

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

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2023, the Company had cash and cash equivalents of $26.7 million and cash flow from operating activities for the six months ended June 30, 2023 totaled $29.7 million.

Working capital (current assets minus current liabilities) as at June 30, 2023 was $15.3 million as compared to $40.5 million as at December 31, 2022, a decrease reflective of the increase in current liabilities and reclassification from cash to long-term other assets of $18.0 million funded to the COF. Trade and other receivables (June 30, 2023: $31.7 million; December 31, 2022: $33.1 million) reduced with the change in timing of the sales of large stones to HB. The receivable balance at June 30, 2023 includes $19.2 million (December 31, 2022: $18.8 million) due from HB and represents rough diamond sales in Q2 2023, as well as the value of diamond sales for which the transaction price was finalized and adjusted in June 2023.

The WCF matures on September 1, 2023. The Company has requested an extension to the maturity date of this facility in accordance with the terms of the Facilities. However, there is no guarantee that this facility will be renewed on the same terms as the maturing facility. Historically, the Company has used the WCF to manage its short-term working capital requirements. If the Company is not able to extend, amend or replace that facility, it will be required to repay all amounts drawn as at the maturity date.

Prior to September 5, 2023, the Company will be required to place $52.9 million in the COF under the existing terms of its Facilities. The Facilities Agreement includes specific provisions for how and when these funds may be released from the COF. The COF balance was $18.0 million as at June 30, 2023. The COF is classified within other non-current assets on the Statement of Financial Position. Concurrently to the requested extension of the WCF, the Company has also asked for a deferral of the September 5th deadline for the COF funding requirement. The Company's largest shareholder, Nemesia S.a.r.l., has agreed to provide a liquidity backstop guarantee of $10.0 million while discussions with the Lenders are ongoing.

Current liabilities increased to $86.7 million as of June 30, 2023 from $59.9 million at December 31, 2022. The Company had $36.6 million drawn on its short-term financing facilities, an increase of $21.3 million from the $15.3 million drawn at December 31, 2022. During the six months ended June 30, 2023. the Company received prepayments of $8.0 million towards the future sale of Sethunya from HB. These amounts, combined with prepayments of $12.0 million received in H2 2022 are classified as deferred revenue. Minor decreases in trade payables and accrued liabilities and the timing of royalty payments offset the increase in current liabilities as of June 30, 2023.

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

Long-term liabilities consist of the Project Loan of $86.2 million (December 31, 2022: $62.2 million), restoration provisions of $13.5 million (December 31, 2022: $13.6 million), deferred income taxes of $92.6 million (December 31, 2022: $87.8 million), and other non-current liabilities of $3.7 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 first half of 2023 consisted of draws from the project financing facility of $25.0 million, draws from the working capital facilities of $21.2 million, and principal payments on leases and withholding taxes on share units totaling $1.1 million.

Total shareholders' equity decreased to $266.8 million from $270.1 million at December 31, 2022 as earnings generated during six months ended June 30, 2023 were offset by the increase in the currency translation adjustment. Other changes to share capital and contributed surplus were related to share units vesting and the recording of share-based compensation during the period.

RELATED PARTY TRANSACTIONS

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

In relation to the acquisition of Clara in February 2018, certain related parties may receive additional shares of Lucara if Clara, now a wholly-owned subsidiary of Lucara, achieves certain levels of revenue generated by sales on the platform (the "Performance Milestones"). The Performance Milestones are detailed in Notes 9 and 19 of the consolidated financial statements for the year ended December 31, 2022. As of June 30, 2023, none of the Performance Milestones had been achieved.

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

COMMITMENTS

As at June 30, 2023, purchase orders and contracts that give rise to commitments for future minimum payments for services to be provided related to the Karowe UGP amounted to $105.2 million (December 31, 2022 - $111.5 million).

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

		2023	2024	2025	2026 and 2027	Total
Underground expansion project	*$ million*	35.2	29.5	29.4	11.1	105.2

2023 OUTLOOK

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

As at the date of this MD&A, no changes were made to the Company's 2023 Guidance which was released in December 2022.

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

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

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

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

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

Beginning in Q2 2023, the planned production profile will shift from a greater percentage of carats recovered from the Centre/North Lobe to the higher value M/PK(S) and EM/PK(S) units within the South Lobe. Centre Lobe material, while higher grade, has a lower weight percentage of stones greater than 10.8 carats in size when compared to South Lobe material.

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

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

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

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

COVID-19 GLOBAL PANDEMIC, ECONOMIC AND GEOPOLITICAL RISKS

While the potential risks associated with COVID-19 are less impactful than in recent years, the ongoing Russian military invasion of Ukraine 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 conflict in Ukraine, 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 June 30, 2023, the Company was exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately $4.3 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 WCF.

The current WCF matures on September 1, 2023. The Company has requested an extension of this facility from its existing Lenders in accordance with the terms of the Facilities. However, there is no guarantee that this facility will be renewed on the same terms as the maturing facility. Historically, the Company has used this facility to manage its short-term working capital requirements.

Prior to September 5, 2023, the Company will be required to place $52.9 million in the COF, pursuant to the terms of the Facilities which include specific provisions for how and when these funds may be released. As at June 30, 2023, the COF balance was $18.0 million. This amount is classified within other non-current assets. Concurrently to the requested extension of the WCF, the Company has also asked for a deferral of the September 5th deadline for the COF funding requirement. The Company's largest shareholder, Nemesia S.a.r.l., has agreed to provide a liquidity backstop guarantee of $10.0 million while discussions with the Lenders are ongoing.

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

Credit risk

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

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

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

Interest rate risk

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

The Company mitigates interest rate risk on its Project Loan through interest rate swaps that exchange the variable rate inherent in the term debt for a fixed rate (see Note 8 of the condensed interim consolidated financial statements for the three and six months ended June 30, 2023). Therefore, fluctuations in market interest rates should not materially impact future cash flows related to the credit facilities. Changes in the fair value of the derivative financial instrument will however fluctuate in response to changing market interest rates that will result in a corresponding credit or charge to profit.

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

Price risk

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

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 454,578,873 common shares outstanding, 8,002,000 share units, 2,752,690 deferred share units, and 7,378,333 stock options outstanding under its share-based incentive plans.

RISKS AND UNCERTAINTIES

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

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

CHANGES IN ACCOUNTING POLICIES

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

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

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

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

Internal controls over financial reporting

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

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

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

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

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

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

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

		June 30, 2023		December 31, 2022
ASSETS				
Current assets				
Cash and cash equivalents	$	26,662	$	26,418
Receivables and other (Note 3)		31,654		33,102
Derivative financial instrument (Note 8)		3,259		2,447
Inventories (Note 4)		40,360		38,372
		101,935		100,339
Investments		676		661
Inventories (Note 4)		33,391		27,867
Plant and equipment (Note 5)		112,215		88,239
Mineral properties and related construction assets (Note 6)		250,512		244,130
Intangible assets (Note 7)		17,991		18,224
Deferred financing fees (Note 8)		4,122		5,410
Derivative financial instrument (Note 8)		7,063		7,373
Other non-current assets (Note 14c)		21,540		3,596
TOTAL ASSETS	$	549,445	$	495,839
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities	$	27,391	$	29,689
Deferred revenue		20,000		12,000
Credit facilities (Note 8)		36,573		15,338
Tax and royalties payable		1,257		1,719
Lease liabilities		1,445		1,111
		86,666		59,857
Credit facilities (Note 8)		86,200		62,151
Restoration provisions		13,507		13,649
Deferred income taxes		92,558		87,808
Other non-current liabilities		3,746		2,313
TOTAL LIABILITIES		282,677		225,778
EQUITY				
Share capital, unlimited common shares, no par value (Note 9)		348,811		348,083
Contributed surplus		9,926		10,129
Retained earnings		12,439		6,489
Accumulated other comprehensive loss		(104,408)		(94,640)
TOTAL EQUITY		266,768		270,061
TOTAL LIABILITIES AND EQUITY	$	549,445	$	495,839

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

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

Approved on Behalf of the Board of Directors:

“Marie Inkster”
Director

“Catherine McLeod-Seltzer”
Director

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

	Three months ended	June 30,	Six months ended	June 30,
	2023	**2022**	**2023**	**2022**
Revenues	$ 41,125	$ 52,348	$ 83,885	$ 120,543
Cost of goods sold				
Operating expenses	16,657	16,959	34,942	34,942
Royalty expenses (Note 6)	4,075	6,146	9,262	14,086
Depletion and amortization	3,215	4,658	7,973	10,677
	23,947	27,763	52,177	59,705
Income from mining operations	17,178	24,585	31,708	60,838
Other expenses				
Administration (Note 11)	4,012	4,005	7,429	9,761
Sales and marketing	621	781	1,239	1,293
Finance expenses	1,025	792	2,227	1,709
Gain on derivative instrument (Note 8)	(1,928)	(2,700)	(502)	(7,209)
Foreign exchange loss (gain)	3,241	(1,493)	5,949	964
	6,971	1,385	16,342	6,518
Net income before tax	10,207	23,200	15,366	54,320
Income tax expense (recovery)				
Current income tax	10	(396)	10	7
Deferred income tax	5,201	11,064	9,406	22,813
	5,211	10,668	9,416	22,820
Net income for the period	$ 4,996	$ 12,532	$ 5,950	$ 31,500
Earnings per common share				
Basic	$ 0.01	$ 0.03	$ 0.01	$ 0.07
Diluted	$ 0.01	$ 0.03	$ 0.01	$ 0.07
Weighted average common shares outstanding				
Basic	454,578,873	453,566,923	454,239,703	453,390,589
Diluted	465,833,022	462,388,976	464,782,192	461,419,391

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

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

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Net income for the period	$ 4,996	$ 12,532	$ 5,950	$ 31,500
Other comprehensive (loss) income				
Items that will not be reclassified to net income				
Change in fair value of marketable securities	(118)	(1,427)	15	(1,249)
Items that may be subsequently reclassified to net income				
Currency translation adjustment	(4,894)	(18,315)	(9,783)	(11,440)
	(5,012)	(19,742)	(9,768)	(12,689)
Comprehensive (loss) income for the period	$ (16)	$ (7,210)	$ (3,818)	$ 18,811

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

LUCARA DIAMOND CORP.

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

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Cash flows from (used in):				
Operating activities				
Net income for the period	$ 4,996	$ 12,532	$ 5,950	$ 31,500
Items not affecting cash:				
Depletion and amortization	3,246	4,831	7,759	11,078
Unrealized foreign exchange loss (gain)	3,571	(1,453)	5,260	322
Share-based compensation	420	482	1,038	1,200
Unrealized gain on derivative instruments	(1,928)	(2,700)	(502)	(7,209)
Deferred income taxes	5,201	11,064	9,406	22,813
Finance costs	830	631	1,469	1,279
	16,336	25,387	30,380	60,983
Net changes in working capital:				
Receivables and other	(8,969)	13,086	(1,370)	5,393
Inventories	(5,681)	(5,014)	(9,187)	(9,465)
Trade payables, deferred revenue, and other current liabilities	9,244	(4,331)	10,226	(2,033)
Tax and royalties payable	(1,685)	(2,850)	(380)	2,194
	9,245	26,278	29,669	57,072
Financing activities				
Drawdown (repayment) on working capital facilities, net	11,721	(12,000)	21,235	(23,000)
Drawdown on project finance facility, net	–	20,000	25,000	40,000
Share units vested	–	–	(268)	(48)
Lease payments	(400)	(558)	(782)	(1,101)
	11,321	7,442	45,185	15,851
Investing activities				
Acquisition of plant and equipment	(2,407)	(2,512)	(3,448)	(3,270)
Mineral property expenditure	(22,503)	(28,701)	(52,814)	(55,495)
Development of intangible assets	(11)	(35)	(24)	(61)
Funds allocated to cost overrun facility (Note 14)	–	–	(18,000)	–
	(24,921)	(31,248)	(74,286)	(58,826)
Effect of exchange rate change on cash and cash equivalents	(176)	(790)	(324)	(282)
Increase (decrease) in cash and cash equivalents	(4,531)	1,682	244	13,815
Cash and cash equivalents, beginning of the period	31,193	39,144	26,418	27,011
Cash and cash equivalents, end of the period (1)	$ 26,662	$ 40,826	$ 26,662	$ 40,826
Supplemental information – investing activities				
Interest paid	(3,386)	(2	(6,434)	(102)
Taxes paid	(23)	(391)	(34)	53
Changes in trade payables and accrued liabilities related to plant and equipment and mineral properties (2)	3,727	2,822	(1,835)	8,922

(1) Cash and cash equivalents are composed of 100% cash deposits held with accredited financial institutions.
(2) Included within accounts payable and accrued liabilities at each period end are additions to property, plant and equipment and mineral properties, acquired on normal course payment terms, of $9.4 million at June 30, 2023 ($11.3 million at December 31, 2022).

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

LUCARA DIAMOND CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited – in thousands of U.S. Dollars, unless otherwise indicated)

	Number of shares issued and outstanding		Share capital		Contributed surplus		Retained earnings (deficit)		Accumulated other comprehensive loss		Total
Balance, January 1, 2023	453,566,923	$	348,083	$	10,129	$	6,489	$	(94,640)	$	270,061
Net income for the period	–		–		–		5,950		–		5,950
Other comprehensive loss	–		–		–		–		(9,768)		(9,768)
Total comprehensive income (loss)	–		–		–		5,950		(9,768)		(3,818)
Share-based compensation	–		–		793		–		–		793
Shares issued from share units vested	1,011,950		728		(728)		–		–		–
Withholding tax for share units vested	–		–		(268)		–		–		(268)
Balance, June 30, 2023	**454,578,873**	**$**	**348,811**	**$**	**9,926**	**$**	**12,439**	**$**	**(104,408)**	**$**	**266,768**
Balance, January 1, 2022	453,034,981	$	347,442	$	9,180	$	(33,945)	$	(73,705)	$	248,972
Net income for the period	–		–		–		31,500		–		31,500
Other comprehensive loss	–		–		–		–		(12,689)		(12,689)
Total comprehensive income (loss)	–		–		–		31,500		(12,689)		18,811
Share-based compensation	–		–		870		–		–		870
Shares issued from share units vested	531,942		641		(641)		–		–		–
Withholding tax for share units vested	–		–		(48)		–		–		(48)
Balance, June 30, 2022	**453,566,923**	**$**	**348,083**	**$**	**9,361**	**$**	**(2,445)**	**$**	**(86,394)**	**$**	**268,605**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for a period of at least twelve months from June 30, 2023. During the six months ended June 30, 2023, the Company earned net income of $6.0 and generated cash of $29.7 in operating activities. As at June 30, 2023, the Company had cash and cash equivalents of $26.7 million, working capital (current assets less current liabilities) of $15.3 million and had drawn $35.0 million from its $50 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 duration of the construction period increased, extending the anticipated commencement of production from the underground from H2 2026 to H1 2028. The revised forecast of costs at completion is $683 million, an increase of 28% from the prior estimate in May 2022. Committed, not yet incurred, costs under the UGP are $105.2 million at June 30, 2023 (Note 16). The Company has notified its lenders of the expected increases to both the schedule duration and the projected cost to complete the UGP. The Company’s debt package consists of two facilities (the “Facilities”), a project finance facility of $170 million to fund the development of an underground expansion at the Karowe Mine (the “Project Loan”), of which $90.0 million has been drawn at June 30, 2023, and a $50 million senior secured working capital facility (the “WCF”).

Under the terms of the Project Loan, the Company’s largest shareholder, Nemesia S.a.r.l. (“Nemesia”) provided a limited standby undertaking of up to $25.0 million in the event of a funding shortfall occurring up to September 2, 2024 (Note 9).

The WCF matures on September 1, 2023. The Company has requested an extension to the maturity date of this facility in accordance with the terms of the Facilities. However, there is no guarantee that this facility will be renewed on the same terms as the maturing facility. Historically, the Company has used the WCF to manage its short-term working capital requirements. If the Company is not able to extend, amend or replace that facility, it will be required to repay all amounts drawn as at the maturity date.

Prior to September 5, 2023, the Company will be required to place $52.9 million in a cost overrun facility (the “COF") under the existing terms of its Facilities. The Facilities Agreement includes specific provisions for how and when these funds may be released from the COF. The COF balance was $18.0 million as at June 30, 2023.

1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

Concurrently to the requested extension of the WCF, the Company has also asked for a deferral of the September 5, 2023, deadline for the COF funding requirement. The Company's largest shareholder, Nemesia, has agreed to provide a liquidity backstop guarantee of $10.0 million while discussions with the Lenders are ongoing.

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

2. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES

(i) Basis of presentation

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

These financial statements were approved by the Board of Directors for issue on August 9, 2023.

(ii) Adoption of new accounting standards and accounting developments

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

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

The Company adopted the IASB published amendments to IAS 12 - Income Taxes at January 1, 2023. The amendments require companies to recognize deferred tax on particular transactions

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

2. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES (continued)

that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The proposed amendments typically apply to transactions such as leases for the lessee and decommissioning and restoration obligations related to assets in operation. The Company has concluded that the adoption of the amendments had no significant impact on its interim condensed consolidated financial statements.

3. RECEIVABLES AND OTHER

		June 30, 2023		December 31, 2022
Trade	$	19,163	$	18,769
Value-added taxes		5,001		5,301
Deferred financing fees (Note 8)		334		975
Prepayments		6,376		7,078
Other		780		979
	$	**31,654**	$	**33,102**

Trade receivables at June 30, 2023 were $19.2 million (December 31, 2022 – $18.8 million) due from HB Antwerp (“HB”) under the Company’s sales agreement. All amounts receivable from HB are current. The amounts receivable relate to the timing difference between revenue recognized under the sales agreement and the receipt of payment.

4. INVENTORIES

		June 30, 2023		December 31, 2022
Rough diamonds	$	22,870	$	17,988
Ore stockpile		4,127		6,967
Parts and supplies		13,363		13,417
Total current inventories	**$**	**40,360**	$	**38,372**
Non-current inventories – ore stockpile	**$**	**33,391**	$	**27,867**

Inventory expensed during the six months ended June 30, 2023 totaled $34.9 million (2022: $34.9 million). There were no inventory write-downs during the six months ended June 30, 2023 and 2022.

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

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

5. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Furniture and office equipment	Vehicles	Right of use assets	Total
Balance, January 1, 2022	**$ 13,645**	**$ 208,279**	**$ 14,262**	**$ 4,227**	**$ 4,205**	**$ 244,618**
Additions	18,785	–	–	–	3,145	21,930
Reclassification	(11,937)	9,692	1,955	335	–	45
Translation differences	(1,353)	(17,205)	(1,225)	(355)	(451)	(20,589)
Balance, December 31, 2022	**$ 19,140**	**$ 200,766**	**$ 14,992**	**$ 4,207**	**$ 6,899**	**$ 246,004**
Additions	3,502	–	–	–	2,015	5,517
Reclassification (Note 6)	(504)	6,574	547	147	23,345	30,109
Disposals and other	–	(28)	(5)	–	(184)	(217)
Translation differences	(1,036)	(10,102)	(759)	(217)	(885)	(12,999)
Balance, June 30, 2023	**$ 21,102**	**$ 197,210**	**$ 14,775**	**$ 4,137**	**$ 31,190**	**$ 268,414**
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	–	4,071	1,287	269	971	6,598
Disposals and other	–	(4)	(3)	–	(184)	(191)
Translation differences	–	(7,041)	(551)	(143)	(238)	(7,973)
Balance, June 30, 2023	**$ –**	**$ 137,123**	**$ 11,306**	**$ 2,818**	**$ 4,952**	**$ 156,199**
Net book value						
As at December 31, 2022	**$ 19,140**	**$ 60,669**	**$ 4,419**	**$ 1,515**	**$ 2,496**	**$ 88,239**
As at June 30, 2023	**$ 21,102**	**$ 60,087**	**$ 3,469**	**$ 1,319**	**$ 26,238**	**$ 112,215**

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

6. MINERAL PROPERTIES AND RELATED CONSTRUCTION ASSETS

Cost	Capitalized production stripping asset	Karowe Mine	Karowe Underground Construction	Total
Balance, January 1, 2022	**$ 66,073**	**$ 41,857**	**$ 126,117**	**$ 234,047**
Additions	–	–	106,389	106,389
Borrowing cost capitalized	–	–	6,676	6,676
Adjustment to restoration asset	–	(1,669)	–	(1,669)
Reclassification	–	–	(45)	(45)
Translation differences	(5,368)	(3,336)	(14,277)	(22,981)
Balance, December 31, 2022	**$ 60,705**	**$ 36,852**	**$ 224,860**	**$ 322,417**
Additions	–	–	47,007	47,007
Borrowing cost capitalized	–	–	4,667	4,667
Reclassification	–	–	(30,109)	(30,109)
Depreciation capitalized	–	–	749	749
Translation differences	(3,082)	(1,873)	(11,898)	(16,853)
Balance, June 30, 2023	**$ 57,623**	**$ 34,979**	**$ 235,276**	**$ 327,878**
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	2,372	750	–	3,122
Translation differences	(2,420)	(1,623)	–	(4,043)
Balance, June 30, 2023	**$ 46,599**	**$ 30,767**	**–**	**$ 77,366**
Net book value				
As at December 31, 2022	**$ 14,058**	**$ 5,212**	**$ 224,860**	**$ 244,130**
As at June 30, 2023	**$ 11,024**	**$ 4,212**	**$ 235,276**	**$ 250,512**

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 six months ended June 30, 2023, the Company incurred a royalty expense of $9.3 million (2022: $14.1 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 from Karowe Underground Construction to Plant and Equipment as a right of use asset.

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

6. MINERAL PROPERTIES AND RELATED CONSTRUCTION ASSETS (continued)

Total borrowing costs of $12.0 million (December 31, 2022 – $7.8 million) during the period of construction relating to the Karowe Underground Construction asset have been capitalized to date. Capitalized borrowing costs include interest and amortized initial arrangement costs related to the Project Loan (Note 8).

7. INTANGIBLE ASSETS

Cost		
Balance, January 1, 2022	$	23,916
Development expenditures		90
Translation differences		(1,495)
Balance, December 31, 2022	$	22,511
Development expenditures		24
Translation differences		502
Balance, June 30, 2023	**$**	**23,037**
Accumulated amortization		
Balance, January 1, 2022	$	3,192
Amortization		1,348
Translation differences		(253)
Balance, December 31, 2022	$	4,287
Amortization		653
Translation differences		106
Balance, June 30, 2023	**$**	**5,046**
Net book value		
As at December 31, 2022	**$**	**18,224**
As at June 30, 2023	**$**	**17,991**

In 2018, the Company acquired the Clara platform, a secure, digital sales platform for rough diamonds. The consideration paid was allocated to intangible assets which will continue to be amortized over the remaining estimated useful economic life of approximately 14 years as at June 30, 2023.

As part of the purchase, contingent consideration was agreed to and will be recognized as additional purchase consideration for the intangible asset, if the obliging events occur. The contingent consideration consists of a profit-sharing allocation: cash payments based on 3.45% of the annual Earnings Before Interest, Tax, Depletion and Amortization ("EBITDA") generated by the sales platform and a pre-existing 13.3% annual EBITDA performance based contingent payments payable to the founders of the technology, to a maximum of $20.9 million per year for 10 years and additional Lucara share payments to a combined maximum of 13.4 million shares if certain revenue triggers are reached beginning at $200 million of cumulative revenue to $1.6 billion of cumulative revenue. As of June 30, 2023, no contingent consideration has been recorded.

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

8. CREDIT FACILITIES

		June 30, 2023		December 31, 2022
Current				
Working capital facility	$	35,000	$	15,000
Revolving credit facility		1,573		338
Deferred financing fees	$	(334)	$	(975)
Non-current				
Project Loan, net of fees	$	86,200	$	62,151
Deferred financing fees	$	(4,122)	$	(5,410)

Senior secured project facility

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

The Facilities are made up of the Project Loan of $170 million to fund the development of an underground expansion at the Karowe Mine, and a $50 million senior secured WCF. Effective June 30, 2023, the Facilities were amended to replace the interest rate of LIBOR with Term Secured Overnight Financing Rate ("SOFR") plus a credit adjustment spread. There were no changes to the margins as outlined below.

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

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

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

As at June 30, 2023, the Company was in compliance with all covenants under the Facilities. The Company has a number of commitments in the near term under the Facilities that are outlined in Note 1.

8. CREDIT FACILITIES (continued)

Interest rate swap agreements

On December 14, 2021, under the terms of the Project Loan, the Company became party to a series of interest rate swap agreements on 75% of the principal amount available, up to $127.5 million. Structured around the expected Project Loan drawdown schedule, the Company receives interest at the rate equivalent to the three-month USD LIBOR and pays interest at a fixed rate of 1.682% on a quarterly basis. The final interest rate swap matures 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 June 30, 2023, the interest rate swaps had a total unrealized fair value of $10.3 million (December 31, 2022: $9.8 million), of which $3.3 million has been classified as a current asset. The fair value of the interest rate swap is based on the difference between the three-month USD LIBOR forward curve and the fixed rate of 1.682%, with the net interest due in the next twelve months classified as current.

Clara revolving credit facility

On September 28, 2022, the Company's wholly-owned subsidiary, Clara, with Lucara Diamond Corp. as guarantor, entered into a revolving credit facility agreement of $4.0 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 matures on September 28, 2023. As at June 30, 2023, $1.6 million (December 31, 2022: $0.3 million) of the facility was drawn. The facility bears interest at SOFR plus a margin of 6.0%.

9. SHARE CAPITAL

Under the Project Loan (Note 8), the Company's largest shareholder, Nemesia provided a limited standby undertaking of up to $25.0 million in the event of a funding shortfall occurring up to September 2, 2024. As consideration pursuant to the undertaking provided, the Company issued 600,000 common shares to Nemesia on July 15, 2021. A further 600,000 common shares will be issuable should the undertaking be called upon. For each $500,000 drawn down under the standby undertaking, the Company will be required to issue 5,000 common shares per month to Nemesia until the amounts borrowed are repaid.

10. SHARE BASED COMPENSATION

a. Stock options

The Company's stock option plan (the 'Option Plan') was approved by the Company's Shareholders initially on May 13, 2015, with amendments most recently approved 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.)

10. 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	(313,667)	0.66
Balance at June 30, 2023	**7,378,333**	**$ 0.68**

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

	Outstanding Options			Exercisable Options		
Range of exercise prices CA$	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CA$)	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price (CA$)
$0.50 - $0.74	4,442,333	3.68	0.61	741,998	2.65	0.66
$0.75 - $1.00	2,936,000	1.26	0.78	2,378,000	1.16	0.78
	7,378,333	**2.72**	**$ 0.68**	**3,119,998**	**1.52**	**$ 0.75**

During the six months ended June 30, 2023, an amount of $0.2 million (2022 – $0.2 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

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.

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

10. SHARE BASED COMPENSATION (continued)

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

For the six months ended June 30, 2023, the Company recognized a share-based payment charge of $0.6 million (2022 – $0.6 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	(1,648,000)	0.77
Cancelled	(743,000)	0.62
Balance at June 30, 2023	**8,002,000**	**$ 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 six months ended June 30, 2023, the Company recognized a share-based payment charge of $0.2 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	636,587	$	0.53
Balance at June 30, 2023	**2,752,690**	**$**	**0.51**

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

11. ADMINISTRATION

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Salaries and benefits	$ 1,454	$ 1,409	$ 2,121	$ 3,726
Professional fees	874	619	1,625	1,193
Insurance, office, exploration and general	302	507	790	1,211
Promotion	226	373	638	1,048
Stock exchange, transfer agent, shareholder communication	82	67	222	217
Travel	163	255	365	412
Share-based compensation (Note 10)	420	482	1,038	1,200
Depreciation	22	222	74	447
Sustainability and donations	469	71	556	307
	$ 4,012	$ 4,005	$ 7,429	$ 9,761

12. RELATED PARTY TRANSACTIONS

a) Key management compensation

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

	Six months ended June 30, 2023	2022
Salaries and wages	$ 639	$ 1,091
Short term benefits	21	24
Share based compensation	762	806
	$ **1,422**	$ 1,921

b) Clara acquisition

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

Pursuant to the profit sharing described in Note 7, a total of 3.45% of the EBITDA generated by the platform has been assigned to two directors of Lucara, each of whom was a founder of Clara. A further 3.22% of the EBITDA generated by the platform may be distributed to members of management, at the discretion of Lucara's Compensation Committee, based on the achievement of key performance targets. As at June 30, 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.)

13. SEGMENT INFORMATION

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

Three months ended June 30, 2023

	Karowe Mine	Corporate and other	Total
Revenues	$ 38,563	$ 2,562	$ 41,125
Income (loss) from operations	17,735	(557)	17,178
Finance expenses	(1,212)	187	(1,025)
Gain on derivative financial instrument	1,928	–	1,928
Foreign exchange loss	(2,968)	(273)	(3,241)
Administrative and other	(1,928)	(2,705)	(4,633)
Taxes	(5,211)	-	(5,211)
Net income (loss) for the period	**$ 8,344**	**$ (3,348)**	**$ 4,996**
Capital expenditures	**$ 24,910**	**$ 11**	**$ 24,921**

Three months ended June 30, 2022

	Karowe Mine	Corporate and other	Total
Revenues	$ 50,015	$ 2,333	$ 52,348
Income (loss) from operations	25,019	(434)	24,585
Finance expenses	(738)	(54)	(792)
Gain on derivative financial instrument	2,700	–	2,700
Foreign exchange loss	1,534	(41)	1,493
Administrative and other	(2,313)	(2,473)	(4,786)
Taxes	(10,668)	–	(10,668)
Net income (loss) for the period	**$ 15,534**	**$ (3,002)**	**$ 12,532**
Capital expenditures	**$ 31,213**	**$ 35**	**$ 31,248**

Depletion and amortization expense for Karowe Mine and Corporate and other during the three months ended June 30, 2023 totaled $2.9 million and $0.4 million, respectively (2022 – $4.6 million and $0.4million).

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

13. SEGMENT INFORMATION (continued)

Six months ended June 30, 2023

	Karowe Mine	Corporate and other	Total
Revenues	$ 79,854	$ 4,031	$ 83,885
Income (loss) from operations	32,614	(906)	31,708
Finance expenses	(2,356)	129	(2,227)
Gain on derivative financial instrument	502	–	502
Foreign exchange loss	(5,597)	(352)	(5,949)
Administrative and other	(3,781)	(4,887)	(8,668)
Taxes	(9,416)	-	(9,416)
Net income (loss) for the period	**$ 11,966**	**$ (6,016)**	**$ 5,950**
Capital expenditures	**$ 56,262**	**$ 24**	**$ 56,286**
Total assets	**$ 524,271**	**$ 25,174**	**$ 549,445**

Six months ended June 30, 2022

	Karowe Mine	Corporate and other	Total
Revenues	$ 117,190	$ 3,353	$ 120,543
Income (loss) from operations	61,731	(893)	60,838
Finance expenses	(1,567)	(142)	(1,709)
Gain on derivative financial instrument	7,209	–	7,209
Foreign exchange loss	(919)	(45)	(964)
Administrative and other	(4,807)	(6,247)	(11,054)
Taxes	(22,813)	(7)	(22,820)
Net income (loss) for the period	**$ 38,834**	**$ (7,334)**	**$ 31,500**
Capital expenditures	**$ 58,765**	**$ 61**	**$ 58,826**
Total assets	**$ 441,758**	**$ 27,213**	**$ 468,971**

Depletion and amortization expense for Karowe Mine and Corporate and other during the six months ended June 30, 2023 totaled $7.3 million and $0.8 million, respectively (2022 – $10.7 million and $0.9 million).

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

14. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

a) *Measurement categories and fair values*

Financial assets and liabilities have been classified into categories that determine their basis of measurement. Those categories are fair value through profit and loss; fair value through other comprehensive income and amortized cost.

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

Fair value hierarchy

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

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

		June 30, 2023		December 31, 2022
Level 1: Fair value through other comprehensive income – Investments	$	676	$	661
Level 2: Derivative financial instruments	$	10,322		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 June 30, 2023, the Company was exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately $4.3 million in net income for the period.

Liquidity risk

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

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

14. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

The WCF matures on September 1, 2023. The Company has requested an extension of this facility from its existing Lenders prior to expiry. However, there is no guarantee that this facility will be renewed on the same terms as the maturing facility. Historically, the Company has used this facility to manage its short-term working capital requirements.

Prior to September 5, 2023, the Company will be required to place $52.9 million in the COF, pursuant to the terms of the Facilities which includes specific provisions for how and when these funds may be released. As at June 30, 2023, the COF balance was $18.0 million. This amount is classified within other non-current assets.

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

Credit risk

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

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

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

Interest rate risk

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

The Company mitigates interest rate risk on its Project Loan through interest rate swaps that exchange the variable rate inherent in the term debt for a fixed rate (see Note 8). Therefore, fluctuations in market interest rates should not materially impact future cash flows related to the credit facilities. Changes in the fair value of the derivative financial instrument will however fluctuate in response to changing market interest rates that will result in a corresponding credit or charge to profit.

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

14. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

Price risk

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

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

15. IMPAIRMENT TEST – KAROWE MINE

The Company completed an assessment of impairment indicators for the Karowe Cash Generating Unit ("CGU"). 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.

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

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

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

15. IMPAIRMENT TEST – KAROWE MINE (continued)

Key assumptions as at 30 June 2023

Discount rate	A discount rate of 11.0%, calculated based on a real weighted cost of capital including the effect of factors such as market, project, and country risk.
Economically recoverable reserves and resources, including production timing and volume	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 prices range is between $392 and $828 per carat, depending on the source of the ore, and 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 US$10.0 million, is determined with reference to historical trends and management's expectations based on the source of future production.
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 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 has conducted an analysis of the sensitivity of the impairment test to reasonably possible changes in the key assumptions used to determine the recoverable amount for the Karowe CGU. At June 30, 2023, the impact on the Karowe CGU's recoverable amount from the following changes were considered and would not individually result in an impairment of the CGU:

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

15. IMPAIRMENT TEST – KAROWE MINE (continued)

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

16. COMMITMENTS

As at June 30, 2023, purchase orders and contracts that give rise to commitments for future minimum payments for services to be provided related to the underground expansion project amounted to $105.2 million (December 31, 2022 - $111.5 million). The following table summarizes the approximate timing of the commitments (undiscounted) at June 30, 2023:

		2023	**2024**	**2025**	**2026 and 2027**	**Total**
Underground expansion project	$ million	35.2	29.5	29.4	11.1	**105.2**