

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

	September 30, 2022	December 31, 2021
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 34,840	\$ 27,011
Receivables and other (Note 3)	33,217	38,779
Derivative financial instrument (Note 8)	1,371	–
Inventories (Note 4)	37,522	36,522
	106,950	102,312
Investments	1,173	2,256
Inventories (Note 4)	27,071	29,852
Plant and equipment (Note 5)	76,028	87,321
Mineral properties and related construction assets (Note 6)	213,089	157,578
Intangible assets (Note 7)	18,283	20,724
Deferred financing fees (Note 8)	5,410	7,471
Derivative financial instrument (Note 8)	8,672	–
Other non-current assets	3,870	4,441
<b>TOTAL ASSETS</b>	<b>\$ 460,546</b>	<b>\$ 411,955</b>
<b>LIABILITIES</b>		
Current liabilities		
Trade payables and accrued liabilities	\$ 32,983	\$ 26,285
Deferred revenue (Note 4)	6,000	–
Credit facilities (Note 8)	–	23,000
Tax and royalties payable	3,378	347
Lease liabilities	587	2,173
	42,948	51,805
Credit facilities (Note 8)	62,012	23,730
Derivative financial instrument (Note 8)	–	842
Restoration provisions	14,275	15,346
Deferred income taxes	87,531	70,285
Other non-current liabilities	1,012	975
<b>TOTAL LIABILITIES</b>	<b>207,778</b>	<b>162,983</b>
<b>EQUITY</b>		
Share capital, unlimited common shares, no par value (Note 9)	348,083	347,442
Contributed surplus	9,714	9,180
Deficit	(614)	(33,945)
Accumulated other comprehensive loss	(104,415)	(73,705)
<b>TOTAL EQUITY</b>	<b>252,768</b>	<b>248,972</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 460,546</b>	<b>\$ 411,955</b>

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

Commitments – Note 15

Approved on Behalf of the Board of Directors:

*“Marie Inkster”*  
Director

*“Catherine McLeod-Seltzer”*  
Director

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

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	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<b>Revenues</b>	\$ 49,926	\$ 72,716	\$ 170,469	\$ 172,147
<b>Cost of goods sold</b>				
Operating expenses	25,841	23,213	60,783	58,028
Royalty expenses (Note 6)	5,549	7,763	19,635	18,283
Depletion and amortization	7,546	13,571	18,223	36,584
	38,936	44,547	98,641	112,895
<b>Income from mining operations</b>	10,990	28,169	71,828	59,252
<b>Other expenses</b>				
Administration (Note 11)	4,220	4,256	13,981	12,310
Sales and marketing	618	565	1,911	2,102
Finance expenses	763	1,315	2,472	3,381
Gain on derivative instrument	(3,676)	–	(10,885)	–
Foreign exchange loss	2,018	274	2,982	1,462
	3,943	6,410	10,461	19,255
<b>Net income before tax</b>	7,047	21,759	61,367	39,997
<b>Income tax expense</b>				
Current income tax	–	494	7	2,042
Deferred income tax	5,216	8,505	28,029	15,790
	5,216	8,999	28,036	17,832
<b>Net income for the period</b>	\$ 1,831	\$ 12,760	\$ 33,331	\$ 22,165
<b>Earnings per common share</b>				
Basic	\$ 0.00	\$ 0.03	\$ 0.07	\$ 0.05
Diluted	\$ 0.00	\$ 0.03	\$ 0.07	\$ 0.05
<b>Weighted average common shares outstanding</b>				
Basic	453,566,923	443,290,345	453,450,013	412,788,084
Diluted	462,525,510	449,601,731	461,791,006	418,553,371

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<b>Net income for the period</b>	\$ 1,831	\$ 12,760	\$ 33,331	\$ 22,165
<b>Other comprehensive (loss) income</b>				
<i>Items that will not be reclassified to net income</i>				
Change in fair value of marketable securities	166	(359)	(1,083)	1,096
<i>Items that may be subsequently reclassified to net income</i>				
Currency translation adjustment	(18,187)	(8,385)	(29,627)	(9,061)
	(18,021)	(8,744)	(30,710)	(7,965)
<b>Comprehensive (loss) income for the period</b>	\$ (16,190)	\$ 4,016	\$ 2,621	\$ 14,200

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<b>Cash flows from (used in):</b>				
<b>Operating activities</b>				
Net income for the period	\$ 1,831	\$ 12,760	\$ 33,331	\$ 22,165
Items not affecting cash:				
Depletion and amortization	7,730	13,857	18,808	37,524
Unrealized foreign exchange loss	2,947	282	3,269	857
Share-based compensation	316	420	1,516	1,545
Unrealized gain on derivative instruments	(3,676)	–	(10,885)	–
Deferred income taxes	5,216	8,505	28,029	15,790
Finance costs	603	841	1,882	1,599
	14,967	36,665	75,950	79,480
Net changes in working capital:				
Receivables and other	(6,136)	(22,483)	(743)	(33,917)
Inventories	2,839	(139)	(6,626)	(7,226)
Trade payables, deferred revenue and other current liabilities	9,296	(1,415)	7,263	(4,777)
Tax and royalties payable	1,188	4,394	3,382	5,936
	22,154	17,022	79,226	39,496
<b>Financing activities</b>				
Equity financing, net	–	31,308	–	31,308
Repayment on revolving credit facility	–	(50,000)	–	(30,500)
Drawdown (repayment) on working capital facility, net	–	27,718	(23,000)	27,718
Drawdown on project finance facility, net	–	17,242	40,000	17,242
Share units vested	(96)	–	(144)	(107)
Lease payments	(556)	(140)	(1,657)	(451)
	(652)	26,128	15,199	45,210
<b>Investing activities</b>				
Acquisition of plant and equipment	(5,856)	(2,865)	(9,126)	(5,617)
Mineral property expenditure	(20,951)	(27,100)	(76,446)	(57,058)
Development of intangible assets	(26)	(16)	(87)	(34)
	(26,833)	(29,981)	(85,659)	(62,709)
Effect of exchange rate change on cash and cash equivalents	(655)	(312)	(937)	(335)
(Decrease) increase in cash and cash equivalents	(5,986)	12,857	7,829	21,662
Cash and cash equivalents, beginning of the Period	40,826	13,721	27,011	4,916
<b>Cash and cash equivalents, end of the     Period</b> <sup>(1)</sup>	\$ 34,840	\$ 26,578	\$ 34,840	\$ 26,578
<b>Supplemental information – investing     activities</b>				
Interest paid	\$ (1,861)	(326)	(4,540)	(326)

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

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 \$17.0 million at September 30, 2022 (\$5.4 million at December 31, 2021).

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
<b>Balance, January 1, 2022</b>	453,034,981	\$ 347,442	\$ 9,180	\$ (33,945)	\$ (73,705)	\$ 248,972
Net income for the period	–	–	–	33,331	–	33,331
Other comprehensive loss	–	–	–	–	(30,710)	(30,710)
Total comprehensive income	–	–	–	33,331	(30,710)	2,621
Share-based compensation	–	–	1,319	–	–	1,319
Shares issued from share units vested	531,942	641	(641)	–	–	–
Cash-settled share units	–	–	(144)	–	–	(144)
<b>Balance, September 30, 2022</b>	<b>453,566,923</b>	<b>\$ 348,083</b>	<b>\$ 9,714</b>	<b>\$ (614)</b>	<b>\$ (104,415)</b>	<b>\$ 252,768</b>
<b>Balance, January 1, 2021</b>	396,896,733	\$ 314,924	\$ 8,646	\$ (57,772)	\$ (57,605)	\$ 208,193
Net income for the period	–	–	–	22,165	–	22,165
Other comprehensive income	–	–	–	–	(7,965)	(7,965)
Total comprehensive income	–	–	–	22,165	(7,965)	14,200
Shares issued from equity financing, net	55,157,733	31,308	–	–	–	31,308
Shares issued for project funding standby undertaking	600,000	365	–	–	–	365
Share-based compensation	–	–	1,108	–	–	1,108
Shares issued from share units vested	380,515	845	(845)	–	–	–
Withholding tax for share units vested	–	–	(107)	–	–	(107)
<b>Balance, September 30, 2021</b>	<b>453,034,981</b>	<b>\$ 347,442</b>	<b>\$ 8,802</b>	<b>\$ (35,607)</b>	<b>\$ (65,570)</b>	<b>\$ 255,067</b>

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

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# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

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

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### 1. NATURE OF OPERATIONS

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

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

#### *COVID-19 Global pandemic and Geopolitical risks*

Measures and guidelines implemented by the Government of Botswana in late March 2020 which allowed the Karowe Mine to remain fully operational throughout the pandemic have gradually been rolled back as vaccination levels within Botswana have increased. Most of the Company’s workforce (+98%) have been vaccinated. Although many countries around the world have removed public health measures implemented to reduce the spread of COVID-19, the Company continues to operate under its approved crisis management plan, designed to protect the health and well-being of our employees in Botswana and Canada as well as the financial well-being of the business.

It remains possible for Lucara’s operations to be impacted in a number of ways including, but not limited to, a suspension of operations at the Karowe Mine, disruptions to supply chains, worker absenteeism due to illness, disruption to the progress of the Karowe Mine underground expansion project and an inability to ship or sell rough and/or polished diamonds.

While the impact of COVID-19 is expected to be temporary, circumstances remain dynamic and the impacts on our financial position or operations cannot be reasonably estimated at this time.

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

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

Uncertainty about judgments, estimates and assumptions made by management during the preparation of the Company’s condensed interim consolidated financial statements related to potential impacts of the COVID-19 pandemic and the Ukraine-Russia conflict on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

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# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

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

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### 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, 2021.

These financial statements were approved by the Board of Directors for issue on November 2, 2022.

(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, 2021. New or amended standards and interpretations effective as of January 1, 2022 do not have an impact on these condensed interim consolidated financial statements.

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

### 3. RECEIVABLES AND OTHER

	September 30, 2022	December 31, 2021
Trade	\$ 17,357	\$ 17,467
Value-added taxes	6,712	11,196
Deferred financing fees (Note 8)	1,232	2,143
Prepayments	6,048	5,502
Other	1,868	2,471
	<b>\$ 33,217</b>	<b>\$ 38,779</b>

Trade receivables at September 30, 2022 were \$17.4 million (December 31, 2021 – \$17.5 million) due from HB Trading BV (“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

	September 30, 2022	December 31, 2021
Rough diamonds	\$ 17,547	\$ 18,337
Ore stockpile	6,767	3,361
Parts and supplies	13,208	14,824
<b>Total current inventories</b>	<b>\$ 37,522</b>	<b>\$ 36,522</b>
<b>Non-current inventories – ore stockpile</b>	<b>\$ 27,071</b>	<b>\$ 29,852</b>

# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

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

### 4. INVENTORIES (continued)

Inventory expensed during the nine months ended September 30, 2022 totaled \$60.8 million (nine months ended September 30, 2021 – \$58.0 million). There were no inventory write-downs during the nine months ended September 30, 2022 and 2021.

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

At September 30, 2022, an advance of \$6.0 million (December 31, 2021 - \$nil) was received from HB as a prepayment on the 549-carat Sethunya diamond. Revenue will be recognized when the manufactured diamonds are sold and will be based on the actual sales price less a fee and the cost of manufacturing.

### 5. PLANT AND EQUIPMENT

Cost	Construction in progress	Mine and plant facilities	Furniture and office equipment	Vehicles	Right of use assets	Total
<b>Balance, January 1, 2021</b>	\$ 10,018	\$ 219,962	\$ 12,839	\$ 2,867	\$ 2,362	\$ 248,048
Additions	16,011	382	3	–	2,143	18,539
Reclassification	(11,297)	6,687	2,878	1,732	–	–
Disposals and other	–	(731)	(288)	(43)	–	(1,062)
Translation differences	(1,087)	(18,021)	(1,170)	(329)	(300)	(20,907)
<b>Balance, December 31, 2021</b>	\$ 13,645	\$ 208,279	\$ 14,262	\$ 4,227	\$ 4,205	\$ 244,618
Additions	8,941	–	–	–	–	8,941
Reclassification	(1,746)	998	620	128	–	–
Translation differences	(2,256)	(24,347)	(1,720)	(507)	(486)	(29,316)
<b>Balance, September 30, 2022</b>	\$ 18,584	\$ 184,930	\$ 13,162	\$ 3,848	\$ 3,719	\$ 224,243
<b>Accumulated amortization</b>						
<b>Balance, January 1, 2021</b>	\$ –	\$ 130,377	\$ 7,310	\$ 2,077	\$ 1,060	\$ 140,824
Depletion and amortization	–	26,588	2,603	439	869	30,499
Disposals and other	–	(731)	(288)	(43)	–	(1,062)
Translation differences	–	(11,928)	(712)	(191)	(133)	(12,964)
<b>Balance, December 31, 2021</b>	\$ –	\$ 144,306	\$ 8,913	\$ 2,282	\$ 1,796	\$ 157,297
Depletion and amortization	–	6,360	1,838	477	1,505	10,180
Translation differences	–	(17,399)	(1,208)	(311)	(344)	(19,262)
<b>Balance, September 30, 2022</b>	\$ –	\$ 133,267	\$ 9,543	\$ 2,448	\$ 2,957	\$ 148,215
<b>Net book value</b>						
<b>As at December 31, 2021</b>	\$ 13,645	\$ 63,973	\$ 5,349	\$ 1,945	\$ 2,409	\$ 87,321
<b>As at September 30, 2022</b>	\$ 18,584	\$ 51,663	\$ 3,619	\$ 1,400	\$ 762	\$ 76,028

**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)****6. MINERAL PROPERTIES AND RELATED CONSTRUCTION ASSETS**

<b>Cost</b>	<b>Capitalized production stripping asset</b>	<b>Karowe Mine</b>	<b>Karowe Underground Construction</b>	<b>Total</b>
<b>Balance, January 1, 2021</b>	<b>\$ 71,945</b>	<b>\$ 55,174</b>	<b>\$ 44,705</b>	<b>\$ 171,824</b>
Additions	–	–	84,778	84,778
Borrowing cost capitalized	–	–	1,561	1,561
Adjustment to restoration asset	–	(5,474)	–	(5,474)
Translation differences	(5,872)	(7,843)	(4,927)	(18,642)
<b>Balance, December 31, 2021</b>	<b>\$ 66,073</b>	<b>\$ 41,857</b>	<b>\$ 126,117</b>	<b>\$ 234,047</b>
Additions	–	–	84,098	84,098
Borrowing cost capitalized	–	–	4,819	4,819
Translation differences	(7,739)	(4,897)	(22,900)	(35,536)
<b>Balance, September 30, 2022</b>	<b>\$ 58,334</b>	<b>\$ 36,960</b>	<b>\$ 192,134</b>	<b>\$ 287,428</b>
<b>Accumulated depletion</b>				
<b>Balance, January 1, 2021</b>	<b>\$ 34,911</b>	<b>\$ 32,911</b>	<b>–</b>	<b>\$ 67,822</b>
Depletion	12,006	3,037	–	15,043
Translation differences	(3,536)	(2,860)	–	(6,396)
<b>Balance, December 31, 2021</b>	<b>\$ 43,381</b>	<b>\$ 33,088</b>	<b>–</b>	<b>\$ 76,469</b>
Depletion	6,352	1,162	–	7,514
Translation differences	(5,662)	(3,982)	–	(9,644)
<b>Balance, September 30, 2022</b>	<b>\$ 44,071</b>	<b>\$ 30,268</b>	<b>–</b>	<b>\$ 74,339</b>
<b>Net book value</b>				
<b>As at December 31, 2021</b>	<b>\$ 22,692</b>	<b>\$ 8,769</b>	<b>\$ 126,117</b>	<b>\$ 157,578</b>
<b>As at September 30, 2022</b>	<b>\$ 14,263</b>	<b>\$ 6,692</b>	<b>\$ 192,134</b>	<b>\$ 213,089</b>

*Karowe Mine*

A royalty of 10% of the gross sales value of diamonds produced from Karowe is payable to the government of Botswana, regardless of whether the diamond is sold as rough or polished. During the nine months ended September 30, 2022, the Company incurred a royalty expense of \$19.6 million (nine months ended September 30, 2021: \$18.3 million).

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

Total borrowing costs of \$5.7 million (December 31, 2021 – \$1.5 million) relating to the Karowe Underground Construction asset have been capitalized during the period of construction. Capitalized borrowing costs include interest and other costs related to the project finance facility (Note 8).

# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

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

### 7. INTANGIBLE ASSETS

#### Cost

Balance, January 1, 2021	\$	23,798
Development expenditures		38
Translation differences		80
<b>Balance, December 31, 2021</b>	<b>\$</b>	<b>23,916</b>

Development expenditures		87
Translation differences		(1,814)
<b>Balance, September 30, 2022</b>	<b>\$</b>	<b>22,189</b>

#### Accumulated amortization

Balance, January 1, 2021	\$	1,812
Amortization		1,392
Translation differences		(12)
<b>Balance, December 31, 2021</b>	<b>\$</b>	<b>3,192</b>

Amortization		1,025
Translation differences		(311)
<b>Balance, September 30, 2022</b>	<b>\$</b>	<b>3,906</b>

#### Net book value

As at December 31, 2021	\$	20,724
<b>As at September 30, 2022</b>	<b>\$</b>	<b>18,283</b>

In 2018, the Company acquired the Clara platform, a secure, digital sales platform for rough diamonds. The consideration paid was allocated to intangible assets which will continue to be amortized over the remaining estimated useful economic life of 14.50 years as at September 30, 2022.

As part of the purchase, contingent consideration was agreed to and will be recognized as additional purchase consideration for the intangible asset, if the obliging events occur. The contingent consideration consists of a profit-sharing allocation: cash payments based on 3.45% of the annual EBITDA generated by the sales platform and a pre-existing 13.3% annual Earnings Before Interest, Tax, Depletion and Amortization ("EBITDA") performance based contingent payments payable to the founders of the technology, to a maximum of \$20.9 million per year for 10 years and additional Lucara share payments to a combined maximum of 13.4 million shares if certain revenue triggers are reached beginning at \$200 million of cumulative revenue to \$1.6 billion of cumulative revenue. As of September 30, 2022, no contingent consideration has been recorded.

### 8. CREDIT FACILITIES

	September 30, 2022		December 31, 2021	
<i>Current</i>				
Working capital facility	\$	–	\$	23,000
Deferred financing fees (Note 3)	\$	(1,232)	\$	(2,143)
<i>Non-current</i>				
Project finance facility, net of fees	\$	62,012	\$	23,730
Deferred financing fees	\$	(5,410)	\$	(7,471)

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# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

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

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### 8. CREDIT FACILITIES (continued)

#### *Senior secured project facility*

On July 12, 2021, the Company's wholly-owned subsidiary, Lucara Botswana, with Lucara Diamond Corp. as the 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 debt package consists of two facilities (the "Facilities"), a project finance facility of \$170 million to fund the development of an underground expansion at the Karowe Mine (the "Project Finance Facility"), and a \$50 million senior secured working capital facility (the "Working Capital Facility"), utilized to repay the Company's previous \$50 million revolving credit facility.

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

The Working Capital Facility may be used for working capital and other corporate purposes. As at September 30, 2022, the full \$50.0 million facility was undrawn. The facility, when utilized, bears interest at a rate of LIBOR (or replacement benchmark) plus margin of 3.5% annually with commitment fees for the undrawn portion of 1.6%. The facility matures on September 2, 2023.

The Company incurred \$11.3 million of debt advisory, legal and due diligence fees in conjunction with arranging the Facilities. Costs of \$8.7 million were allocated to the Project Finance Facility and initially recorded as deferred financing fees that are subsequently transferred as transaction costs proportional to the amount drawn under the Project Finance Facility. Costs of \$2.3 million were allocated to the Working Capital Facility as deferred financing fees. Transaction costs under the Project Financing Facility and deferred financing fees related to the Working Capital Facility are amortized over the remaining facility terms.

As at September 30, 2022, the Company was in compliance with all covenants under the Facilities. Certain conditions subsequent which required completion by October 2022, and that the Company expects to resolve in November 2022, remained outstanding at the date of these financial statements.

#### *Interest rate swap agreements*

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

As at September 30, 2022 the interest rate swaps had a total unrealized fair value of \$10.0 million (December 31, 2021: \$0.8 million negative unrealized fair value).

#### *Clara revolving credit facility*

On September 28, 2022, the Company's wholly-owned subsidiary, Clara, with Lucara Diamond Corp. as guarantor, entered into a revolving credit facility agreement of \$4 million with FirstRand Bank Limited, acting through its Rand Merchant Bank Division (the "Clara Facility").

The Clara Facility will be used for working capital purposes and the facility matures on September 28, 2023. As at September 30, 2022, the facility was undrawn. The facility, when utilized, bears interest at the Secured Overnight Financing Rate plus a margin of 6.0%.

# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

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

### 9. SHARE CAPITAL

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

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

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

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

	Number of shares issuable pursuant to stock options	Weighted average exercise price per share (CA\$)
<b>Balance at January 1, 2021</b>	<b>4,423,000</b>	1.62
Granted	2,357,000	0.78
Expired	(375,000)	2.76
Forfeited	(156,000)	0.78
<b>Balance at December 31, 2021</b>	<b>6,249,000</b>	<b>\$ 1.26</b>
Granted	2,332,000	0.66
Expired	(990,000)	2.36
Forfeited	(1,015,000)	1.09
<b>Balance at September 30, 2022</b>	<b>6,576,000</b>	<b>\$ 0.90</b>

Options granted to acquire common shares are outstanding at September 30, 2022 as follows:

Range of exercise prices CA\$	Number of options outstanding	Outstanding Options		Exercisable Options		
		Weighted average remaining contractual life (years)	Weighted average exercise price (CA\$)	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price (CA\$)
\$0.50 - \$1.00	5,367,000	2.61	0.73	1,417,000	1.84	0.78
\$1.50 - \$2.00	1,134,000	0.41	1.64	1,134,000	0.41	1.64
\$2.01 - \$2.50	75,000	0.00	2.20	75,000	0.00	2.20
	<b>6,576,000</b>	<b>2.20</b>	<b>\$ 0.90</b>	<b>2,626,000</b>	<b>1.17</b>	<b>\$ 1.19</b>

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
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**10. SHARE BASED COMPENSATION (continued)**

During the nine months ended September 30, 2022, an amount of \$0.3 million (2021 – \$0.3 million) was charged to operations in recognition of share-based compensation expense, based on the vesting schedule for the options granted.

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

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

**b. Restricted and performance share units**

The Company has a share unit ("SU") plan that provides for the issuance of SUs as a long-term incentive for certain members of the management team. Amendments to the SU plan, including an increase in the common shares reserved for issuance upon the vesting of SUs from 10,000,000 to a maximum of 10% of the outstanding common shares (minus shares reserved for issuance under the Option Plan and deferred share unit plan) were approved by Shareholders at the May 6, 2022 annual meeting.

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

For the nine months ended September 30, 2022, the Company recognized a share-based payment charge of \$1.0 million (2021 – \$0.6 million) for the SUs granted.

	<b>Number of share units</b>	<b>Estimated fair value at date of grant (CA\$)</b>
<b>Balance at January 1, 2021</b>	<b>2,946,527</b>	<b>\$ 1.17</b>
Granted	2,854,000	0.75
Redeemed	(565,679)	2.16
<b>Balance at December 31, 2021</b>	<b>5,234,848</b>	<b>\$ 0.83</b>
Granted	2,860,000	0.64
Redeemed	(1,038,848)	1.14
<b>Balance at September 30, 2022</b>	<b>7,056,000</b>	<b>\$ 0.71</b>

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
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**10. SHARE BASED COMPENSATION (continued)**

## c. Deferred share units ('DSUs')

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

For the nine months ended September 30, 2022, the Company recognized a share-based payment charge of \$0.3 million (2021 – \$0.4 million) related to the DSUs granted.

	Number of share units	Estimated fair value (CA\$)
<b>Balance at January 1, 2021</b>	<b>613,547</b>	<b>\$ 0.52</b>
Granted	620,963	0.71
<b>Balance at December 31, 2021</b>	<b>1,234,510</b>	<b>\$ 0.59</b>
Granted	692,843	0.60
<b>Balance at September 30, 2022</b>	<b>1,927,353</b>	<b>\$ 0.55</b>

**11. ADMINISTRATION**

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Salaries and benefits	\$ 1,795	\$ 1,554	\$ 5,521	\$ 5,273
Professional fees	874	1,090	2,067	1,756
Insurance, office and general	368	518	1,579	1,628
Promotion	365	209	1,413	621
Stock exchange, transfer agent, shareholder communication	65	88	282	273
Travel	228	42	640	113
Share-based compensation (Note 10)	316	420	1,516	1,545
Depreciation	209	313	656	947
Sustainability and donations	–	22	307	154
	<b>\$ 4,220</b>	<b>\$ 4,256</b>	<b>\$ 13,981</b>	<b>\$ 12,310</b>

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
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**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:

	<b>Nine months ended September 30,</b>			
	<b>2022</b>		<b>2021</b>	
Salaries and wages	\$	1,432	\$	1,317
Short term benefits		26		26
Share based compensation		929		1,146
	\$	<b>2,387</b>	\$	<b>2,489</b>

*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 September 30, 2022, no amounts have been paid under this profit sharing mechanism to date.

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**LUCARA DIAMOND CORP.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
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**13. SEGMENT INFORMATION**

The Company's primary business activity is the development and operation of diamond properties in Africa. The Company has two operating segments: Karowe Mine and Corporate and other.

**Three months ended September 30, 2022**

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

**Three months ended September 30, 2021**

	<b>Karowe Mine</b>	<b>Corporate and other</b>	<b>Total</b>
Revenues	\$ 72,486	\$ 230	\$ 72,716
Income (loss) from operations <sup>(1)</sup>	28,852	(683)	28,169
Finance expenses	(1,315)	–	(1,315)
Foreign exchange (loss) gain	(398)	124	(274)
Administrative and other	(1,840)	(2,981)	(4,821)
Taxes	(8,999)	–	(8,999)
<b>Net income (loss) for the period</b>	<b>\$ 16,300</b>	<b>\$ (3,540)</b>	<b>\$ 12,760</b>
<b>Capital expenditures</b>	<b>\$ 29,965</b>	<b>\$ 16</b>	<b>\$ 29,981</b>

(1) Depletion and amortization expense for Karowe Mine and Corporate and other during the three months ended September 30, 2022 totaled \$7.1 million and \$0.4 million, respectively (three months ended September 30, 2021 – \$13.2 million and \$0.4 million).

# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

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

### 13. SEGMENT INFORMATION (continued)

Nine months ended September 30, 2022			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 163,679	\$ 6,790	\$ 170,469
Income (loss) from operations <sup>(1)</sup>	73,060	(1,232)	71,828
Finance expenses	(2,279)	(193)	(2,472)
Gain on derivative financial instrument	10,885	–	10,885
Foreign exchange (loss) gain	(3,047)	65	(2,982)
Administrative and other	(7,023)	(8,869)	(15,892)
Taxes	(28,029)	(7)	(28,036)
<b>Net income (loss) for the period</b>	<b>\$ 43,567</b>	<b>\$ (10,236)</b>	<b>\$ 33,331</b>
<b>Capital expenditures</b>	<b>\$ 87,844</b>	<b>\$ 87</b>	<b>\$ 87,931</b>
<b>Total assets</b>	<b>\$ 434,319</b>	<b>\$ 26,227</b>	<b>\$ 460,546</b>
Nine months ended September 30, 2021			
	Karowe Mine	Corporate and other	Total
Revenues	\$ 171,431	\$ 716	\$ 172,147
Income (loss) from operations <sup>(1)</sup>	61,087	(1,835)	59,252
Finance expenses	(2,642)	(739)	(3,381)
Foreign exchange (loss) gain	(1,692)	230	(1,462)
Administrative and other	(5,893)	(8,519)	(14,412)
Taxes	(17,832)	–	(17,832)
<b>Net income (loss) for the period</b>	<b>\$ 33,028</b>	<b>\$ (10,863)</b>	<b>\$ 22,165</b>
<b>Capital expenditures</b>	<b>\$ 62,675</b>	<b>\$ 34</b>	<b>\$ 62,709</b>
<b>Total assets</b>	<b>\$ 394,623</b>	<b>\$ 32,590</b>	<b>\$ 427,213</b>

(1) Depletion and amortization expense for Karowe Mine and Corporate and other during the nine months ended September 30, 2022 totaled \$16.9 million and \$1.3 million, respectively (nine months ended September 30, 2021 – \$35.4 million and \$1.2 million).

### 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.

#### b) *Fair value hierarchy*

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

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**14. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)**

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

	September 30, 2022	December 31, 2021
Level 1: Fair value through other comprehensive income		
– Investments	\$ 1,173	\$ 2,256
Level 2: Derivative financial instruments	\$ 10,042	(842)
Level 3: N/A		

**c) Financial risk management**

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

**Currency risk**

The Company is exposed to the financial risk related to fluctuating foreign exchange rates. All sales revenues are denominated in U.S. dollars, while directly related costs are denominated in Botswana Pula. At September 30, 2022, the Company was exposed to currency risk relating to U.S. dollar cash held within its subsidiaries with Canadian or Pula functional currency. Based on this exposure, a 10% change in the U.S. dollar exchange rate would give rise to an increase/decrease of approximately \$3.1 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.

**Credit risk**

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

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

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# LUCARA DIAMOND CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

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

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### 14. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

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

#### *Interest rate risk*

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

The Company mitigates interest rate risk on its Project Finance Facility through interest rate swaps that exchange the variable rate inherent in the term debt for a fixed rate (see Note 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.

#### *Price risk*

The Company derives its income from the sale of rough diamonds mined in Botswana. The price and marketability of these diamonds can be significantly impacted by international economic trends, global or regional consumption, demand and supply patterns and the availability of capital for diamond manufacturers, all factors that are not within the Company's control. Under the supply agreement with the HB, the ultimate achieved sales prices of stones larger than 10.8 carats in size is based on a polished diamond pricing mechanism. This pricing mechanism results in the Company's revenue being exposed to a greater extent to the price movements in the polished diamond market than it is currently through its traditional tender process for rough diamonds. The pricing of both polished and rough diamonds continued to increase during the first six months of 2022 but has softened in Q3 2022 following significant price improvements in late 2021 and the beginning of 2022 because of positive market supply and demand dynamics. The global demand for luxury commodities, including jewelry containing diamonds, was negatively impacted in 2020 by the COVID-19 pandemic.

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. COMMITMENTS

As at September 30, 2022, purchase orders and contracts that give rise to commitments for future minimum payments for services to be provided related to the underground expansion project amounted to \$126.1 million (December 31, 2021 - \$86.7 million). The following table summarizes the approximate timing of the commitments (undiscounted) at September 30, 2022:

		2022	2023	2024	2025 and 2026	Total
Underground expansion project	\$ million	27.6	43.8	39.7	15.0	126.1

The total of all commitments can be cancelled at an estimated cost of \$5.4 million as of September 30, 2022.