



MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2025

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. ("Lucara" or 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 consolidated financial statements of the Company for the year ended December 31, 2025 (the "Annual Financial Statements"), which are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"). All amounts are expressed in U.S. dollars, unless otherwise indicated. References to "C\$" are to Canadian dollars.

The technical information related to mineral resources in the MD&A was prepared under the supervision of Dr. Lauren Freeman (Ph.D., Pr. Sci Nat), Lucara's Vice-President, Mineral Resources, 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 and, in the Company's, Annual Information Form ("AIF"). The AIF along with additional information about the Company and its business activities are available on SEDAR+ at www.sedarplus.ca.

The effective date of this MD&A is March 3, 2026.

ABOUT LUCARA

Lucara is a leading independent producer of large exceptional quality Type Ila diamonds from its 100% owned Karowe Diamond Mine in north-central Botswana ("Karowe"). Karowe is the only diamond mine in the world to have recovered nine diamonds in excess of 1,000 carats in weight. Karowe has been in production since 2012 and is the focus of the Company's operations and development activities. Karowe is transitioning from open pit to underground mining with the development of the Karowe Underground Project (the "UGP"). The UGP is designed to access the highest value portion of the Karowe orebody. Underground development ore from the UGP is scheduled to begin offsetting stockpiles in 2027, with full-scale underground production planned for the first half of 2028.

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 Jewellery 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 sector. The development of the 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 First North Growth Market, and the Botswana Stock Exchange under the symbol "LUC".

HIGHLIGHTS – FISCAL 2025

- A total of 353,302 carats were sold (2024: 399,215 carats), generating \$159.7 million in revenue (2024: \$203.9 million). Revenue for the year includes the sale of the Seriti, a 1,094 carat diamond sold to HB Trading BV ("HB") for an initial polished value of \$12.0 million. A further \$7.9 million in top-up revenue was earned during 2025 following the sale of polished outcomes from the Seriti. Revenue for the comparative year includes the sale of the Sethunya, a 549 carat Type IIA white gem quality diamond and the Eva Star, a 1,080 carat Type IIA diamond. The Company sold the Sethunya and Eva Star for a combined sum of \$54.0 million and in Q4 2024 recognized \$44.0 million in revenue net of fees, excluding royalties.

- The production and ventilation shafts both reached final depth in 2025 marking a key milestone toward completion of the UGP. Significant process was made in lateral development connecting the two shafts across multiple levels. The UGP achieved over 2,000 days without a lost-time injury.
- On December 1, 2025, the Company awarded a lateral development contract to Group R Mining and Exploration Botswana (Pty) Ltd. for the execution of all underground lateral development from the production and ventilation shafts to the ore body, including construction of the extraction level, underground crushing chamber, fine ore bins, and pump stations with associated infrastructure required to advance to the kimberlite.
- The recovery of 772 Specials¹ (2024: 807 Specials) equated to 7.1% (2024: 7.6%) by weight of the total carats recovered from direct ore feed in 2025. During 2025, the Company recovered 31 stones over 100 carats, including three stones that exceeded 1,000 carats. Significant recoveries in 2025 included a 1,476 carat non-gem diamond, a 2,036 carat near-gem diamond, a 1,015² carat non-gem diamond and a 37.42 carat pink Type IIa diamond.
- A total of 89,596 carats were recovered in Q4 2025; 86,110 carats were from direct open pit ore feed and stockpiles, at a recovered grade of 12.2 carats per hundred tonnes ("cpht"), and an additional 3,486 carats were recovered from processing historical recovery tailings.
- All key operational and financial metrics set out in the Company's 2025 Revised Guidance were achieved.
- A total of 1.9 million tonnes ("Mt") (2024: 3.0 Mt) of ore was mined with 2.8 Mt of ore processed (2024: 2.9 Mt).
- Financial highlights for 2025 included:
 - Operating margins of 52% were achieved compared to 61% in 2024. The 9% decrease reflects a 22% decrease in revenue partially offset by a 3% decrease in operating expenses.
 - Operating cost per tonne processed was \$27.15 per tonne, a decrease of 3% compared to the 2024 operating cost of \$27.89 per tonne. The continued impact of inflationary pressures, particularly labour, has been well managed by the operation. Operating cost per tonne processed is a non-IFRS measure.
- Cash position and liquidity as at December 31, 2025:
 - Cash balance of \$31.9 million.
 - \$190.0 million has been fully drawn from the project finance facility ("Project Facility") for the UGP, along with \$30.0 million fully drawn from the working capital facility ("WCF" and together with the Project Facility, the "Facilities").
 - Working capital (current assets less current liabilities) of \$33.6 million.
- The Company drew \$28.0 million from the Cost Overrun Reserve Account ("CORA") in exchange for its largest shareholder, Nemesia S.à.r.l. ("Nemesia"), agreeing to amend the terms of its limited shareholder standby undertaking through to UGP completion.
- The Company drew \$28.0 million from the \$63.0 million funding support provided by Nemesia and issued an unsecured debenture (the "Debenture") in connection with the drawdown. The Debenture matures on June 30, 2031.

¹ Specials are defined as stones above 10.8 carats.

² The carats reflect the final cleaned weight of the rough stone. The stone was previously reported at 1,019.85 carats.

HIGHLIGHTS – SUBSEQUENT TO FISCAL 2025

- On January 29, 2026, the Company closed a non-brokered private placement for total gross proceeds of C\$165.0 million (the “January 2026 equity financing”). The Company issued an aggregate of 1,031,250,000 common shares at a price of C\$0.16 per common share.
- On January 30, 2026, the Company filed an updated Feasibility Study (the “Updated Feasibility Study”) prepared in accordance with National Instrument 43-101 – *Standards of disclosure for Mineral Properties* which provided an update on the progress and estimate for the total costs of the UGP. The revised forecasted costs at completion are \$779.2 million, an increase of 14% from the prior estimate in July 2023, of which \$469.4 million had been incurred as at December 31, 2025.
- On March 3, 2026, the Company and the Lenders (as defined below) entered into a waiver agreement (the “Subsequent Waiver Agreement”). The Subsequent Waiver Agreement approved a reduction of the required CORA balance from \$33.7 million to \$21.2 million.

GOING CONCERN

As of the date of this MD&A, the Company’s Facilities to fund the UGP are fully drawn. The Company did not comply with the covenants under the Facilities requiring a technically signed off financial model by June 30, 2025 (“Financial Model Covenant”), the execution of a lateral development contract by July 31, 2025 (“Lateral Development Contract Covenant”), the requirement to provide a cost to complete certificate by August 31, 2025 (“Cost to Complete Covenant”), and the requirement to fully pay down the WCF for five successive business days at least once every 12 months (the “Clean Down” and collectively, the “Covenants”). On December 30, 2025, the Company and the lenders, a syndicate of six mandated lead arrangers (the “Lenders”) entered into an agreement to waive all Covenant breaches and events of default (the “Waiver Agreement”). The Waiver Agreement provided extensions to the following covenants: the Financial Model Covenant and the Lateral Development Contract Covenant to February 28, 2026, the Cost to Complete Covenant to March 31, 2026, and the Clean Down to June 30, 2026. As of the date of this MD&A, the Company is in full compliance with its Facilities, including the Financial Model Covenant and the Lateral Development Contract Covenant, with no outstanding Covenant breaches.

On March 3, 2026, the Company and the Lenders entered into a waiver agreement (the “Subsequent Waiver Agreement”). The Subsequent Waiver Agreement extends the Financial Model Covenant and Cost to Complete Covenant to July 15, 2026.

Management has assessed the Company’s ability to continue as a going concern for at least twelve months from December 31, 2025. Based on this assessment, the Company estimates that its working capital as at December 31, 2025, cash flow from operations, the January 2026 equity financing, and other committed sources of liquidity will not be sufficient to meet the revised forecasted costs at completion for the UGP of \$779.2 million of which \$469.4 million of costs have been incurred. Given that committed sources of liquidity are not sufficient to meet the revised forecast and remaining cost to complete, the Company is not expected to comply with the Cost to Complete Covenant by July 15, 2026, unless additional financing is obtained or the Lenders grant a waiver or extension for the Cost to Complete Covenant. The Company is continuing to evaluate additional financing options to support completion of the UGP. While the Company has previously been successful in raising financing, future fundraising efforts may not succeed or may fall short of the required amounts. These conditions cast significant doubt on the Company’s ability to continue as a going concern.

The Annual Financial Statements have been prepared on a going concern basis which assumes the Company will continue operations, realize assets, and settle its liabilities as they become due. The Company’s Annual Financial Statements do not include adjustments that may be necessary if the Company is unable to continue normal operations; such adjustments could be material and affect asset recoverability, liability classification, expenses, and comprehensive income.

KAROWE UNDERGROUND PROJECT UPDATE

The UGP is designed to access the highest value portion of the Karowe orebody, with initial underground carat production predominantly from the EM/PK(S)³ unit. The UGP is expected to extend the mine life to 2038.

On January 30, 2026, the Company announced an update to the UGP schedule and budget ([link to news release](#)). Production from the UGP is anticipated in H1 2028 with a revised total cost at completion of \$779.2 million (including contingency). As at December 31, 2025, capital expenditures of \$469.4 million had been incurred. Committed, not yet incurred, UGP costs are \$82.3 million as at December 31, 2025. The Updated Feasibility Study incorporates construction progress, revisions to exchange rates, inclusion of Legacy stone⁴ values, and costs incurred to date, and updates to hydrogeological and geomechanical models, mine design, method and scheduling. From H1 2026 to H1 2028, the Company will process a combination of ore from open pit operations and stockpiled materials.

The UGP has progressed well, highlighted by reaching the bottom of the 776 metres (“m”) production shaft and the 729 m ventilation shaft in 2025. The UGP has achieved 2,159 lost-time injury free days. During Q4 2025, the UGP achieved a twelve-month rolling Total Recordable Injury Frequency Rate (“TRIFR”) of 0.67. The UGP to date TRIFR up to December 31, 2025 was 0.56.

A total of \$75.8 million⁵ was spent on the UGP in 2025 with \$20.3 million⁵ in Q4 2025. Expenditures were primarily directed toward advancing shaft sinking, developing the 245-level⁶, 285-level, 310-level and 335-level to connect the shafts and initiating lateral development.

In Q4 2025, the Company executed a lateral development contract covering all underground lateral development from the production and ventilation shafts to the ore body. The scope includes construction of the extraction level, underground crushing chamber, fine ore bins, pump stations with associated vertical dams, drilling horizons, workshop facilities, and all connecting infrastructure required to advance towards the kimberlite.

Ventilation shaft Q4 2025 developments:

- Continued with 285-level station works, cat-walk and installation of a 110kw ventilation fan.
- Commissioned the 285-level temporary pump station.
- Developed 59.95 m on the 310-level and 24.5 m top cut on the 582-level.
- Completed sinking to shaft bottom.

Production shaft Q4 2025 developments:

- Continued with pre-assembly and modifications of shaft station steel for construction at the 285-level and 310-level.
- Installation of shaft bottom spillage and deflection wall.
- Continued with equipping the production shaft to the 310-level and 285-level loading pocket.

Related infrastructure Q4 2025 developments:

- Completed the Banksman cabin and continued with procurement of main surface ventilation fans.
- Advanced mining engineering, focusing on underground infrastructure and finalizing drilling level plans.

Activities planned for the UGP in Q1 2026 include the following:

- Finalize production shaft equipping and headframe modifications.
- Advance lateral development towards the ore extraction and undercut levels on the 285-level and 310-level.
- Equip shaft from 310-level station to surface, removal of stage and ropes and commence head frame change over.
- Continue with operational readiness including advancing staffing plans and efforts to prepare for operation and maintenance of permanent infrastructure and establish operating procedures.

³ EM/PK(S): Eastern magmatic/pyroclastic kimberlite (south)

⁴ Legacy stone refers to rough stones sold for a value greater than \$5.0 million.

⁵ Excludes qualifying borrowing cost capitalized.

⁶ Each level is equivalent to a metre above sea level.

DIAMOND MARKET

The long-term outlook for natural diamond prices remains cautious amid ongoing structural changes in the market. Lab-grown diamond prices have continued to decline through 2025 with production outweighing demand. Global natural diamond production is forecasted to decrease, following significant production guidance cuts by the major diamond producers.

In the near term, premium-grade large natural diamonds are showing signs of potential price stability with De Beers recently announcing a positive price increase in rough diamonds above 5 carats in size, supported by limited global supply growth and a paucity of rough diamonds in these and larger sizes. However, mid-range and lower-grade stones remain under pricing pressure due to high inventories, cautious consumer sentiment, and the rise in the purchasing of lab-grown diamonds.

DIAMOND SALES

Diamonds from Karowe are sold through three sales channels: through a diamond sales agreement with HB , through quarterly tenders, and on the Clara Diamond Solutions ("Clara") sales platform.

HB

Karowe's large, high value diamonds have historically accounted for approximately 65% to 75% of Lucara's annual revenues. All +10.8 carat gem and near gem diamonds from Karowe are sold to HB. The initial purchase price paid for the rough diamonds is based on an estimated initial polished value with a "top-up" paid to the Company if the actual achieved polished sales price exceeds the initial price paid, or a repayment if the actual achieved polished sales price is below the initial price paid. The timing of payments varies based on the category of stones being delivered, as determined by the diamond's estimated initial polished value.

The arrangement contains elements of variable consideration as the Company's final consideration is contingent on the price obtained in the future sale of the polished stones by HB. Variable consideration is recognized to the extent that it is highly probable that its inclusion will not result in a significant revenue reversal at the time the uncertainty has subsequently been resolved. Final revenue is determined when the polished diamonds are sold by HB to the end buyer.

Quarterly Tenders

All +10.8 carat non-gem quality diamonds and all diamonds less than 10.8 carats not sold on the Clara sales platform are sold through quarterly tenders.

Clara

Clara is a third party owned digital rough diamond sales platform that the Company uses to sell individual diamonds between 1 and 10 carats, in higher colours and qualities.

FINANCING

Project Facility and Working Capital Facility

On January 9, 2024, the Company's wholly owned subsidiary, Lucara Botswana, with Lucara as the sponsor and the guarantor, amended its debt package that was originally entered into in 2021 ("Rebase Amendments"). The senior secured project financing debt package of \$220.0 million consists of a Project Facility of \$190.0 million (\$170.0 million prior to amendment) to fund the development, construction costs and construction phase operating costs of the UGP as well as financing costs on the Facilities, and a \$30.0 million (\$50.0 million prior to amendment) senior secured WCF which is used for working capital and other corporate purposes. The repayment profile was extended in line with the rebase schedule released on July 16, 2023, and the Facilities maturity was extended to June 30, 2031. The Project Facility has quarterly repayments commencing on September 30, 2028. As of December 31, 2025, the Facilities were fully drawn.

The Facilities include the Financial Model Covenant, Lateral Development Covenant, Cost to Complete Covenant and Clean Down. On December 30, 2025, the Company and the Lenders entered into an agreement to waive all Covenant breaches and events of default. The Waiver Agreement provided extensions to the following covenants: the Financial Model Covenant and the Lateral Development Contract Covenant to February 28, 2026, the Cost to Complete Covenant to March 31, 2026, and the Clean Down to June 30, 2026. As of the date of this MD&A, the Company is in compliance with its Facilities and no covenant breaches exist. The Company has a 30-day cure period following the breach of a covenant before it is considered an event of default.

Interest rates

Both the Project Facility and the WCF bear interest at a rate of a USD Term Secured Overnight Financing Rate ("SOFR") plus a margin of 6.5% annually until the project completion date. From the project completion date to September 30, 2029, the margin is 6.0% annually for the Project Facility and 6.25% annually for the WCF, thereafter, the margin increases to 7.0% annually for the Project Facility and 7.25% annually for the WCF. Commitment fees for any undrawn portion of the Project Facility and WCF are 35% of the margin per annum.

Cost Overrun Reserve Account

The Company was required to and successfully deposited \$61.7 million in the CORA prior to June 30, 2025 as a condition of the Facilities. The Lenders approved the Company to draw up to \$28.0 million from the CORA to fund UGP construction in exchange for Nemesia amending the terms of its limited shareholder standby undertaking which previously supported the requirement to fill the CORA to \$61.7 million by June 30, 2025. The amendment includes extending the undertaking until project completion. Following the approved withdrawal of \$28.0 million, the new required CORA balance is \$33.7 million. The Rebase Amendments include specific provisions for how and when these funds may be released from the CORA. The CORA balance was \$33.7 million as at December 31, 2025.

Nemesia

Under the Rebase Amendments, Nemesia provided funding support of up to \$63.0 million consisting of two components:

- i. \$28.0 million component as the amended limited standby undertaking to support liquidity shortfalls until UGP completion; and
- ii. \$35.0 million component as a liquidity guarantee to cover cost overruns.

In connection with the Rebase Amendments, Nemesia also provided a liquidity support guarantee of up to \$15.0 million. In November 2023, the Company drew \$15.0 million from Nemesia's liquidity support guarantee and issued a corresponding unsecured debenture (the "First Debenture"). For each \$500,000 drawn down under the First Debenture, the Company is required to issue 7,500 common shares per month to Nemesia until the amounts borrowed are repaid. In June 2024, the Company and Nemesia entered into a supplemental agreement to amend the frequency of common share issuances to Nemesia from a monthly to a quarterly basis. The First Debenture matures on August 29, 2029.

The Company drew \$28.0 million under the amended limited standby undertaking provided by Nemesia in 2025 and issued a corresponding unsecured debenture (the "Second Debenture" and together with the First Debenture, the "Debentures"). For each \$500,000 drawn under the Second Debenture, the Company will issue 7,500 common shares per month, settled quarterly, to Nemesia until the amounts borrowed are repaid. The Second Debenture matures on June 30, 2031.

As of the date of this MD&A, Nemesia holds 30.8% of Lucara's total issued and outstanding shares.

INTEREST RATE SWAP

In February and September 2024, the Company amended a series of interest rate swaps to the expected Project Facility drawdown schedule under the Rebase Amendments. The total interest rate swaps were amended to amounts up to \$142.5 million and the maturity was amended to September 26, 2030. The Company receives interest at the rate equivalent to the three-month USD Term SOFR plus a credit adjustment spread and pays interest at a fixed rate of between 2.447% and 2.577% on a quarterly basis. The final interest rate swap matures on September 30, 2031.

As at December 31, 2025, the interest rate swaps had a total unrealized fair value of \$3.7 million (December 31, 2024: \$8.4 million), of which \$1.1 million has been classified as a current asset in the consolidated statements of financial position. During 2025, the Company recorded a loss of \$4.7 million (2024: gain of \$0.3 million) on this derivative financial instrument. Movements in the unrealized fair value are recorded through the consolidated statements of operations. The fair value of the interest rate swap is based on the difference between the three-month USD SOFR forward curve and the fixed rate, with the net interest due in the next twelve months classified as current.

TABLE 1: FINANCIAL HIGHLIGHTS

<i>In millions of U.S. dollars, except carats sold</i>	Three months ended December 31,		Year ended December 31,	
	2025	2024	2025	2024
Revenues	\$ 34.5	\$ 78.8	\$ 159.7	\$ 203.9
Operating expenses	(25.9)	(24.4)	(77.2)	(79.6)
Net income from continuing operations	6.4	38.5	26.1	43.6
Net loss from discontinued operations	-	(1.5)	-	(3.7)
Earnings per share from continuing operations (basic)	0.01	0.09	0.06	0.10
Earnings per share from continuing operations (diluted)	0.01	0.08	0.06	0.09
Cash			31.9	22.8
CORA			33.7	49.1
Amounts drawn on WCF			30.0	25.0
Amounts drawn on Project Facility			\$ 190.0	\$ 180.0
Carats sold	101,842	112,615	353,302	399,215

The Company reported total 2025 revenue of \$159.7 million from the sale of 353,302 carats. In comparison, total 2024 revenues were \$203.9 million from the sale of 399,215 carats. Revenue was higher in the comparative period as the Company sold the Sethunya and the Eva Star for a combined sum of \$54.0 million and recognized \$44.0 million in revenue net of fees, excluding royalties. In 2025, the Company sold the Seriti for an initial polished value of \$12.0 million. Additional top up revenue of \$7.9 million was earned during 2025 relating to the sale of polished outcomes from the Seriti.

Net income from continuing operations for 2025 was \$26.1 million, compared to \$43.6 million in 2024. The higher net income from continuing operations for 2024 primarily reflects increased revenues from the sale of the Sethunya and the Eva Star, partially offset by higher other expenses due to the loss on extinguishment of debt facilities. Deferred tax expense also increased by \$7.8 million in 2025 driven by higher deferred tax liabilities on mineral properties and plant and equipment. Net loss from discontinued operations relates to the Company's interest in Clara Diamond Solutions Limited Partnership, Clara Diamond Solutions B.V., and Clara Diamond Solutions GP (together referred to as the "Clara Entities"). The Company sold its interest in the Clara Entities on October 4, 2024.

Total operating expenses were lower in 2025 (\$77.2 million) compared to 2024 (\$79.6 million) predominantly due to a slightly lower amount of tonnes processed offset with an increase in processing costs.

Please see Table 4: "Select Financial Information" below for details on the expense line items which had the most significant impact on net income from continuing operations.

TABLE 2: QUARTERLY SALES RESULTS

<i>In millions of U.S. dollars</i>	Three months ended December 31,		Year ended December 31,	
	2025	2024	2025	2024
Sales Channel				
HB	\$ 19.9	\$ 62.1	\$ 111.2	\$ 142.8
Tender	11.1	13.2	39.4	50.0
Clara	3.5	3.5	9.1	11.1
Total Revenue	\$ 34.5	\$ 78.8	\$ 159.7	\$ 203.9

Diamond Sales

For the three months ended December 31, 2025, the Company reported revenue of \$19.9 million from HB, compared to \$62.1 million for the same period in 2024. Revenue from HB accounted for 58% of total revenue recognized in Q4 2025, down from 79% in Q4 2024. Excluding the Sethunya and Eva Star, revenue from HB for Q4 2024 would have totaled \$18.1 million. On a comparable basis, excluding Legacy stone sales in Q4 2024, revenue increased by 10% driven by a higher volume of carats sold to HB.

Revenue from HB includes “top-up” and “top-down” payments, which are made to or from the Company when the final polished diamond sales price differs from the estimated initial polished value. Revenue from HB fluctuates with the sale of Specials and Legacy Stones. As of December 31, 2025, the Company had \$9.5 million in current trade receivables from HB (December 31, 2024: \$18.4 million).

For the three months ended December 31, 2025, tender sales totaled \$11.1 million, compared to \$13.2 million in Q4 2024, while Clara sales totaled \$3.5 million consistent with Q4 2024. Compared to Q4 2024, a higher number of carats were sold through the Clara platform while fewer were sold via tender. Average prices per carat declined for both channels, falling 7% for tender and 11% for Clara.

TABLE 3: RESULTS OF OPERATIONS – KAROWE MINE

		Q4-25	Q3-25	Q2-25	Q1-25	Q4-24
Sales						
Revenues	\$M	34.5	51.2	43.7	30.3	78.8
Carats sold	Carats	101,842	101,422	77,167	72,871	112,615
Production						
Tonnes mined (ore)	Tonnes	312,148	517,155	721,111	390,539	646,288
Tonnes mined (waste)	Tonnes	-	5,682	55,221	35,288	119,919
Tonnes processed	Tonnes	705,513	744,753	661,352	676,626	716,936
Average grade processed ⁽¹⁾	cpht ⁽¹⁾	12.2	12.8	12.5	13.4	12.7
Carats recovered ⁽¹⁾	Carats	86,110	95,302	82,555	90,500	91,046
Costs						
Operating cost per tonne of ore processed ⁽²⁾	\$	32.88	25.65	26.76	23.41	31.52
Capital Expenditures						
Sustaining	\$M	4.8	3.0	2.0	0.5	5.5
UGP ⁽³⁾	\$M	20.3	22.7	13.6	19.2	17.8

(*) Carats per hundred tonnes

(1) Average grade processed and carats recovered are from direct processing and excludes carats recovered from re-processing historical recovery tailings.

(2) Operating cost per tonne of ore processed is a non-IFRS measure. See Table 6.

(3) Excludes qualifying borrowing cost capitalized.

FOURTH QUARTER OVERVIEW – OPERATIONS – KAROWE DIAMOND MINE

Safety: Karowe registered no lost time injuries during Q4 2025. The rolling twelve-month Total Recordable Injury Frequency Rate for the Karowe Mine was 0.58 (2024: 0.26).

Environment: The Company has developed a Tailings Management System in line with the requirements of the Global Industry Standard on Tailings Management. The Tailings Management System has been implemented.

Production: Ore mined during in Q4 2025 totaled 0.3 Mt. Tonnes processed were on target at 0.7 Mt at an average grade of 12.2 cpht, yielding 86,110 carats. Ore processed was primarily sourced from M/PK(S)⁷. In December 2025 open pit mining was temporarily suspended due to heavy rainfall and elevated water levels in the pit. Operations are planned to resume once conditions allow.

Diamond Recoveries: A total of 167 Specials were recovered from direct ore feed during the quarter with two diamonds greater than 100 carats. In the comparable 2024 quarter, a total of 195 Specials were recovered, with 9 diamonds greater than 100 carats. Recovered Specials equated to 5.0% (2024: 6.3%) of the weight percentage of total recovered carats from ore processed during Q4 2025.

All recovered stones, including the 2,488 carat Motswedi that remained unsold at the end of the reporting period, are accounted for at cost in inventory. Selling and monetizing the value contained in the Company's 1,000+ carat diamond inventory may require considerable time given the complexities associated with the marketing, analysis, cutting and polishing and ultimate sales processes.

Karowe's operating cost per tonne: Karowe's operating cost per tonne processed for Q4 2025 (see "Non-IFRS Financial Measures") was \$32.88 per tonne of ore processed (Q4 2024: \$31.52 per tonne of ore processed), slightly higher than the 2025 annual forecast of \$28.50 to \$31.00 per tonne processed. Higher processing costs resulted from increased processing plant maintenance and plant shutdowns, as well as an increase in electricity costs.

⁷ M/PK(S): Magmatic/Pyroclastic Kimberlite (South)

TABLE 4: SELECT FINANCIAL INFORMATION

<i>In millions of U.S. dollars</i>	Three months ended		Year ended	
	December 31, 2025	December 31, 2024	December 31, 2025	December 31, 2024
Revenues	34.5	78.8	159.7	203.9
Operating expenses	(25.9)	(24.4)	(77.2)	(79.6)
Adjusted operating earnings⁽¹⁾	8.6	54.4	82.5	124.3
Royalty expenses	(4.1)	(9.4)	(17.7)	(23.2)
Administration	(5.7)	(5.2)	(14.4)	(14.8)
Sales and marketing	(1.3)	(1.0)	(3.7)	(3.1)
Depletion and amortization	(3.3)	(3.9)	(13.6)	(16.6)
Finance expenses	(1.2)	(0.8)	(3.5)	(2.9)
Foreign exchange gain (loss)	4.2	(10.8)	9.5	(6.9)
(Loss) gain on derivative financial instrument	(0.1)	4.0	(4.7)	0.3
Loss on disposal of assets	(0.1)	(0.2)	(0.1)	(0.2)
Loss on extinguishment of debt	-	-	-	(10.5)
Current and deferred income tax recovery (expense)	9.4	11.4	(8.2)	(2.8)
Net income from continuing operations for the period	6.4	38.5	26.1	43.6
Continuing operations earnings per share (basic)	0.01	0.09	0.06	0.10
Continuing operations earnings per share (diluted)	0.01	0.08	0.06	0.09
Net loss from discontinued operations for the period	-	(1.5)	-	(3.7)
Discontinued operations loss per share (basic and diluted)	N/A	0.00	N/A	(0.1)

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

Revenues and royalties

Revenue decreased by 56% from \$78.8 million in Q4 2024 to \$34.5 million in Q4 2025. The higher revenue in Q4 2024 reflects the sale of the Sethunya and the Eva Star which together sold for \$54.0 million with \$44.0 million recognized in revenue net of fees, excluding royalties. Revenue for the year ended December 31, 2025 totalled \$159.7 million from the sale of 353,302 carats, compared to \$203.9 million from the sale of 399,215 carats in the comparable year.

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 Karowe diamonds, rough or polished. The royalty expenses represent approximately 11% of total revenues, as revenues are presented net of fees paid to HB.

Adjusted operating earnings

Adjusted operating earnings for Q4 2025, totaled \$8.6 million, compared to \$54.4 million in Q4 2024. The decrease was driven by a 56% decrease in revenue. Operating expenses for the quarter increased by 6% to \$25.9 million (Q4 2024: \$24.4 million) primarily due to higher processing costs and inventory movements.

Adjusted operating earnings is a non-IFRS measure and is reconciled in Table 4: “Select Financial Information”.

Foreign Exchange

The \$4.2 million foreign exchange gain (Q4 2024: loss of \$10.8 million) in Q4 2025 primarily relates to fluctuations in the Botswana Pula against the US dollar.

Derivative financial instrument

A \$0.1 million loss on a derivative financial instrument (Q4 2024: gain of \$4.0 million) relates to changes in the fair value of the interest rate swap in response to changing market interest rates (see Note 9 of the Annual Financial Statements). The Company records its interest rate swaps at fair value and as such, the movement in the fair value within any given period results in a gain or loss.

Loss on extinguishment of debt

On January 9, 2024, as part of the Rebase Amendments, Lucara amended its Facilities, consisting of the Project Facility of \$190.0 million (\$170.0 million prior to amendment) to fund the development of the UGP at the Karowe Mine and a \$30.0 million (\$50.0 million prior to amendment) WCF. The amendments resulted in the remaining balance of deferred financing and unamortized initial Facilities arrangement costs to be recognized as a loss on extinguishment in the amount of \$10.5 million.

Net income from continuing operations

During the three months ended December 31, 2025, net income from continuing operations was \$6.4 million, compared to \$38.5 million in Q4 2024. The quarter-over-quarter change was primarily driven by lower income from mining operations due to a decrease in revenue.

Net loss from discontinued operations

The net loss from discontinued operations for the three months ended December 31, 2024 was \$1.5 million. This loss is attributed to the Clara Entities, which were disposed of on October 4, 2024, and were classified as discontinued operations for the prior period. As the Clara Entities were disposed of in Q4 2024 there is no net loss from discontinued operations for Q4 2025.

TABLE 5: SELECT QUARTERLY FINANCIAL INFORMATION

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

Three months ended	Dec-25	Sep-25	Jun-25	Mar-25	Dec-24	Sep-24	Jun-24	Mar-24
A. Revenues	34,454	51,231	43,666	30,312	78,765	44,300	41,292	39,519
B. Administration expenses	(5,718)	(2,898)	(2,691)	(3,139)	(5,155)	(3,590)	(3,366)	(2,703)
C. Net (loss) income from continuing operations	6,351	7,358	12,545	(139)	38,502	155	11,905	(6,950)
D. Earnings (loss) per share from continuing operations (basic)	0.01	0.02	0.03	(0.00)	0.09	0.00	0.03	(0.02)

Quarterly revenue in the table above was recognized from three separate sales channels: through sales of +10.8 carat diamonds to HB, sales on the Clara platform, and sales of all non-gem +10.8 carat diamonds and diamonds less than 10.8 carats which do not meet criteria for sale on Clara, through quarterly tenders. Variation in the quarterly metrics is primarily driven by the sale of Specials, which are rough diamonds larger than 10.8 carats and more particularly, from the sale of high value Specials. While the expected number of Specials may be estimated based on the resource model attributes, the quality of the Specials recovered may vary significantly.

Net income (loss) from continuing operations achieved in each quarter is predominately impacted by the revenue earned during that quarter, while the impact of changes in operating expenses, depletion and amortization, fluctuating inventory levels, foreign exchange, gain/losses on derivative financial instruments, and income tax expenses introduce volatility to net income.

Lucara's quarterly financial performances are influenced by a variety of factors, including the sale of the Seriti in Q2 2025, the sale of the Sethunya and the Eva Star in Q4 2024, fluctuations in operating expenses, lower income from mining operations in Q3 2024, increased carat sales in Q2 2024, a loss on debt extinguishment in Q1 2024 due to the Rebase Amendments.

Quarter over quarter variances are also influenced by fluctuations in revenue, expenses, royalties, and gains/losses on derivatives, foreign exchange, and deferred taxes throughout the quarters.

NON-IFRS FINANCIAL MEASURES

This MD&A refers to certain financial measures, such as adjusted operating earnings, and operating cost per tonne of ore processed, which are not measures recognized under IFRS Accounting Standards and do not have a standardized meaning prescribed by these standards. 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 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 and is defined as revenues less operating expenses, before royalty expenses and depletion and amortization.

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 divided by tonnes of ore processed for the period. This ratio provides 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 Accounting Standards is operating expenses.

TABLE 6: OPERATING COST PER TONNE OF ORE PROCESSED RECONCILIATION

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

	Three months ended December 31,		Year ended December 31,	
	2025	2024	2025	2024
Operating expenses	\$ 25.9	\$ 24.3	\$ 77.2	\$ 79.6
Net change in rough diamond inventory, excluding depletion and amortization	(0.9)	(1.7)	2.9	(2.2)
Net change in ore stockpile inventory, excluding depletion and amortization	(1.8)	-	(4.4)	2.1
Total operating costs for ore processed	\$ 23.2	\$ 22.6	\$ 75.7	\$ 79.5
Tonnes processed	705,513	716,936	2,788,244	2,850,631
Operating cost per tonne of ore processed⁽¹⁾	\$ 32.88	\$ 31.52	\$ 27.15	\$ 27.89

⁽¹⁾ Operating cost per tonne processed for the period is a non-IFRS measure defined as the sum of operating expenses, capitalized production stripping costs, and the net changes in rough diamond inventories and ore stockpiles divided by the tonnes of ore processed for the period.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2025, the Company had cash of \$31.9 million. Cash generated from continuing operating activities for the year ended December 31, 2025 was \$54.0 million.

Working capital (current assets minus current liabilities) was \$33.6 million as at December 31, 2025, compared to \$27.1 million as of December 31, 2024. The increase was primarily due to higher cash from draws on the limited shareholder standby undertaking and CORA. Current inventories also increased due to the classification of ore stockpiles as the Company transitions to processing majority ore from stockpiles in 2026. Included in the Company's inventory is the 2,488 carat Motswedi which remains unsold at the end of the reporting period.

Receivables and other on December 31, 2025 was \$22.0 million (December 31, 2024: \$33.0 million). The receivable balance on December 31, 2025 includes \$9.5 million (December 31, 2024: \$18.4 million) due from HB and represents rough diamond sales in Q4 2025, as well as the value of diamond sales for which the transaction price was finalized and adjusted during the period. All amounts receivable from HB are current and expected to be received within twelve months following the period end.

Current liabilities increased to \$71.0 million as at December 31, 2025, from \$62.1 million at December 31, 2024. The increase is a result of the \$5.0 million draw on the WCF and an increase in accrued liabilities. These increases were partially offset by a reduction in taxes and royalties payable, which declined from \$7.2 million to \$1.9 million following royalty payments related to the Eva Star and Sethunya made in Q1 2025.

Long-term liabilities consist of the Project Facility of \$190.0 million (December 31, 2024: \$180.0 million), restoration provisions of \$21.6 million (December 31, 2024: \$17.6 million), deferred income taxes of \$127.8 million (December 31, 2024: \$110.5 million), due to related party debenture of \$43.0 million (December 31, 2024: \$15.0 million), and other non-current liabilities of \$2.9 million (December 31, 2024: \$3.9 million) which consist of lease liabilities, a liability for deferred share units outstanding and non-current retentions payable.

Financing activities during the year consisted of contributions and withdraws from the CORA, drawdowns on the Facilities and the amended limited shareholder standby undertaking and principal payments on leases.

Further details regarding the Company's liquidity risks are disclosed under the heading "*Nature of Operations and Going Concern*" in Note 1 of the Annual Financial Statements.

RELATED PARTY TRANSACTIONS

The Company enters into related party transactions that are in the normal course of business and does so on an arm's length basis.

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:

TABLE 7: RELATED PARTY TRANSACTIONS

In thousands of U.S. dollars

	2025	2024
Salaries and wages	\$ 2,589	\$ 2,492
Short term benefits	17	32
Share based compensation	822	594
	\$ 3,428	\$ 3,118

Other related party transactions

During the year ended December 31, 2025, the Company drew \$28.0 million under the amended limited shareholder standby undertaking provided by Nemesia and issued an unsecured debenture. For each \$500,000 drawn, the Company will issue 7,500 common shares per month, settled quarterly, to Nemesia until the amounts borrowed are repaid. A total of 3,660,387 common shares (2024: 2,925,000 common shares) with a fair value of \$0.6 million (2024: \$0.8 million) were issued to Nemesia as consideration for payment of interest on the Debentures.

During the year ended December 31, 2025, the Company incurred \$0.3 million (2024: \$0.8 million) primarily relating to office rental and related services provided by companies associated with the Company's significant shareholder and director. At December 31, 2025, included in trade payables and accrued liabilities is \$0.5 million (December 31, 2024: \$0.4 million) for related services.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

A description of commitments can be found in Note 19 of the Annual Financial Statements.

The Company has the following contractual obligations and capital commitments as at December 31, 2025:

TABLE 8: CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

<i>In millions of U.S. dollars</i>	Payments due by period ⁽¹⁾			Total
	< 1 year	1 – 5 years	Thereafter	
Credit facilities ⁽²⁾	\$ 30.0	\$ 190.0	\$ -	\$ 220.0
Due to related party	-	15.0	28.0	43.0
Restoration provisions	-	-	43.1	43.1
Lease liabilities	1.2	1.3	-	2.5
Capital commitments	37.9	44.4	-	82.3
	\$ 69.1	\$ 250.7	\$ 71.1	\$ 390.9

⁽¹⁾ Reported on an undiscounted basis, before inflation.

⁽²⁾ The WCF is classified as a current liability as the next Clean Down is required to occur on or before June 30, 2026.

2026 OUTLOOK

This section of the MD&A provides management's production and cost estimates for 2026. These are forward-looking statements and subject to the cautionary note regarding the risks associated with such statements.

Karowe Mine, Botswana

TABLE 9: 2026 DIAMOND SALES, PRODUCTION AND OUTLOOK

Karowe Diamond Mine	2026
<i>In millions of U.S. dollars unless otherwise noted</i>	Full Year
Diamond revenue (millions)	\$100 to \$130
Diamond sales (thousands of carats)	340 to 360
Diamonds recovered (thousands of carats)	340 to 360
Ore tonnes mined (millions)	Up to 0.6
Waste tonnes mined (millions)	Up to 0.2
Ore tonnes processed (millions)	2.6 to 2.9
Total operating cash costs ⁽¹⁾ (per tonne processed)	\$27.50 to \$31.00
UGP capital expenditure	Up to \$110 million
Sustaining capital expenditure	Up to \$11.5 million
Average exchange rate – Botswana Pula per United States Dollar	14.0

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

The table above reflects the natural variability in the resource, including both recovered grade and diamond quality, which may influence the revenue guidance for 2026. In 2026, the Company expects to process 2.6 to 3.0 million tonnes of ore including waste, primarily from stockpiled materials. The assumptions for carats recovered and sold as well as tonnes of ore processed are consistent with achieved plant performance in recent years. Stockpiled material (North, Centre, South Lobe) from working stockpiles and life-of-mine stockpiles will provide mill feed until 2027 when UGP development ore is scheduled to start offsetting stockpiles with high-grade ore from the UGP. Full scale underground production is planned for H1 2028.

In 2026, capital costs for the UGP are expected to be up to \$110 million. Expenditures in 2026 will focus predominantly on shaft equipping, and advancing lateral development. Surface works will focus on the removal of stage and ropes, and headgear change over.

Sustaining capital is expected to be up to \$11.5 million with a focus on the replacement and refurbishment of key asset components and tailings advancement.

FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

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

Currency risk

The Company is exposed to the financial risk related to fluctuating foreign exchange rates. All sales revenues are denominated in U.S. dollars, while directly related costs are denominated in Botswana Pula. At December 31, 2025, the Company was exposed to currency risk relating to U.S. dollar and Botswana Pula 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 \$6.4 million in net income for the period. A 10% change in the Botswana Pula would give rise to an increase/decrease of approximately \$0.6 million in net income for the period.

Liquidity risk

Liquidity risk is the risk of the Company's potential inability to meet financial obligations as they mature. The Company manages this risk through regular cash flow forecasting at the operational level, aggregated at the corporate level to determine capital needs. Rolling liquidity forecasts are prepared and monitored to ensure sufficient cash is available for short- and long-term operational requirements. Such forecasting takes into consideration the Company's ability to generate cash from the sale of diamonds and additional liquidity support such as financings, accessing the CORA and funding support provided by Nemesia.

Trade payable and accrued liabilities are predominately due within 30 to 60 days. Tax and royalties payable are predominately due within 15 days. As at December 31, 2025, \$1.0 million of the Company's contractual maturities related to amounts due to related parties and lease liabilities are due within twelve months, and \$45.9 million is due beyond twelve months. The WCF is classified as current due to the Clean Down. The maturity date for the WCF is September 30, 2031. Further details regarding the Company's liquidity risk are disclosed under the heading "*Nature of Operations and Going Concern*" and "*Credit Facilities*" in Notes 1 and 9 to the Annual Financial Statements.

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 by holding its deposits with international financial institutions. Considering the nature of the Company's ultimate customers and the relevant terms and conditions entered 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 tenders or on the Clara platform.

A large 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 tender sales and sales through the Clara platform (five days). The Company maintains legal title over goods shipped to HB until the estimated initial polished value is paid and continues to monitor outstanding amounts for collectability. The carrying amount of financial assets recorded in the Annual 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 Facility through interest rate swaps that exchange a portion of the variable rate inherent in the term debt for a fixed rate as described above in the section "*Interest Rate Swap Agreements*" (see Note 9 of the Annual Financial Statements). 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 interest rate swap derivative will however fluctuate in response to changing market interest rates that will result in a corresponding increase or decrease to profit or loss.

In September 2024, the Company amended interest rate swap contracts to exchange variable interest rate (three-month USD Term SOFR) for a fixed interest rate ranging from 2.447% to 2.577% on 75% of its expected borrowings from the Project Facility (approximately \$142.5 million). The Company is exposed to cash flow interest rate increases on 25% of its expected borrowings from the Project Facility, and amounts drawn from its WCF which remain subject to market interest rates (Term SOFR or a replacement benchmark).

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 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 the traditional tender process for rough diamonds.

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 1,488,549,184 common shares outstanding, 12,429,985 share units, 5,104,832 deferred share units, and 8,544,547 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, development and operation of diamond properties and the construction of the UGP. 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 AIF and in the table "*Feasibility Study Risks Register: Main Project Risks*" in the 2025 Feasibility Study Technical Report which are available on SEDAR+ at www.sedarplus.ca. Any one or more of these risks and uncertainties could have a material adverse effect on the Company.

OFF-BALANCE SHEET ARRANGEMENTS

The Company is not party to any off-balance sheet arrangements.

SUBSEQUENT EVENTS

On January 29, 2026, the Company closed a non-brokered private placement for aggregate gross proceeds of C\$165.0 million. Pursuant to the January 2026 equity financing, a total of 1,031,250,000 common shares of the Company were sold at a price of C\$0.16 per common share, which included participation by Nemesia. All common shares issued pursuant to the January 2026 equity financing are subject to a four-month statutory hold period under applicable Canadian securities laws. The Company is continuing to evaluate additional financing options to support completion of the UGP.

On March 3, 2026, the Company and the Lenders entered into the Subsequent Waiver Agreement. The Subsequent Waiver Agreement approved a reduction of the required CORA balance from \$33.7 million to \$21.2 million.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting estimates and judgements are described Note 3 of the Annual Financial Statements for the year ended December 31, 2025.

Management has identified uncertain tax positions as an area of judgement and estimation uncertainty. Lucara Botswana received an assessment from the Botswana Unified Revenue Service (“BURS”) for the fiscal years 2016 to 2020 related to the tax deductibility of certain expenditures associated with the Company’s operations in Botswana.

On February 24, 2026, the Company received a response to its objections from BURS in relation to the above tax assessments which allowed the tax deductibility of certain of the previously challenged expenditures. As a result, the Company reversed its previously recorded provision which included \$2.6 million against VAT receivables and a valuation allowance against certain losses of \$1.3 million. BURS maintained its position on two remaining matters, along with a related penalty. The Company intends to lodge appeals for the remaining disallowed expenditures and believes that its tax positions are valid. The ultimate outcome of an appeal of the remaining positions is uncertain and may have implications for the tax treatment of similar transactions in periods subsequent to those currently under assessment. Further details are provided in Note 15 of the Annual Financial Statements.

CHANGES IN ACCOUNTING POLICIES

During the year ended December 31, 2025, there were no changes to the accounting policies described in Note 4 of the Annual Financial Statements.

In May 2024, the IASB issued targeted amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments Disclosures* that clarify the timing of recognition and derecognition of certain financial assets and liabilities settled electronically, introduce new disclosures for instruments with contractual terms that can change cash flows, and update disclosures for equity instruments designated at fair value through other comprehensive income. The amendments are effective for annual periods beginning on or after January 1, 2026 and are not expected to have a material impact on the financial statements.

In April 2024, the IASB issued IFRS 18, *Presentation and Disclosure of Financial Statements* which replaces IAS 1, *Presentation of Financial Statements*. The standard is effective for reporting periods beginning on or after January 1, 2027, including for interim financial statements. The Company is currently assessing the effect of this new standard on its financial statements.

MANAGEMENT’S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of this document along with the Annual 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 Annual Financial Statements to ensure the reliability and timeliness of the Company’s disclosure while providing another level of review for accuracy and oversight. The Board of Directors, based on recommendations from Lucara’s Audit Committee, reviews and approves the financial information contained in the Annual Financial Statements and this MD&A.

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure Controls and Procedures

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

Management, including the CEO and CFO, has evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures. As of December 31, 2025, the CEO and CFO have each concluded that the Company’s disclosure controls and procedures, as defined in NI 52-109 – *Certification of Disclosure in Issuer’s Annual and Interim Filings*, are effective to achieve the purpose for which they have been designed.

There have been no changes in the Company's disclosure controls and procedures during the year ended December 31, 2025 that have materially affected, or are reasonably likely to materially affect, the Company's financial reporting.

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 Accounting Standards. Management is also responsible for the design of the Company's internal controls 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 Accounting Standards. However, due to inherent limitations, internal controls over financial reporting may not prevent or detect all misstatements and fraud.

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

Management, including the CEO and CFO, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of December 31, 2025, the CEO and CFO have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings*, are effective to achieve the purpose for which they have been designed.

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

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements made in this MD&A contain "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.

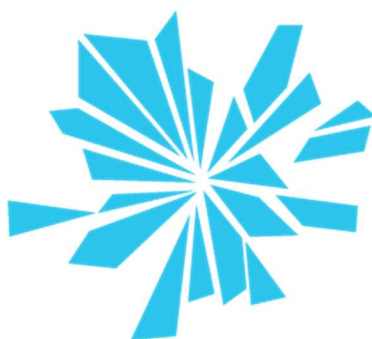
Forward-looking information and forward-looking statements may include, but are not limited to, information or statements with respect to the Company's ability to continue as a going concern, the Company's ability to continue operations, realize assets, and settle its liabilities as they become due, the project schedule and capital costs for the UGP, diamond sales projections and outlook disclosure under "2026 Outlook", the Company's ability to meet its obligations under the Facilities with its Lenders, future price stability, supply and demand of rough or polished diamonds, estimated capital costs, the focus of future expenditures, future forecasts of revenue and variable consideration in determining revenue, the outcome of tax assessments and the likelihood of recoverability of tax payments made, activities planned for the UGP in Q1, including to finalize production shaft equipping and headframe modifications, advance lateral development, equip shaft from 310-level station to surface, and continue operational readiness, estimation of mineral resources including the determination of the boundary between South Lobe M/PK(S) and EM/PK(S) domains due to the significant grade difference between these two domains, cost and timing of the development of deposits and estimated future production, currency exchange rates, rates of inflation, requirements

for and availability of additional capital, capital expenditures, operating costs, production and cost estimates, tax rates, timing of drill programs, government regulation of operations, environmental risks and compliance obligations, limitations on insurance coverage, and geopolitical and economic risks affecting the Company's operational viability including sanctions, trade restrictions and tariffs.

While these factors and assumptions are considered reasonable by the Company as at the date of this MD&A in light of management's experience and perception of current conditions and expected developments, these statements are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking information and undue reliance should not be placed on such information. Such factors include, but are not limited to: the timing, scope and cost of additional grouting events at the UGP, the Company's ability to comply with the terms of the Facilities which are required to construct the UGP, the impact of the Covenant breaches, and any associated consequences, on the Company's business, whether the Lenders will demand payment of the Facilities because of the Covenant breaches, that expected cash flow from operations, combined with external financing will be sufficient to complete construction of the UGP, credit risk, price risk, that the estimated timelines to achieve mine ramp up and full production from the UGP can be achieved, that sufficient stockpiled ore of sufficient grade and value will be available to generate revenue prior to the achievement of commercial production from the UGP, 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 UGP and the pit steepening project 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 UGP.

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 due to a variety of risks, uncertainties, and other factors, including, without limitation, those referred to in this MD&A. The foregoing is not exhaustive of the factors that may affect any of our 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 AIF available at SEDAR+ at www.sedarplus.ca.

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. Accordingly, readers and investors should not place undue reliance on forward-looking statements. Forward-looking information and statements contained in this MD&A are made as of the date of this MD&A and accordingly are subject to change after such date. Except as required by law, the Company disclaims any obligation to revise any forward-looking information and statements to reflect events or circumstances after the date of such information and statements. All forward-looking information and statements contained or incorporated by reference in this MD&A are qualified by the foregoing cautionary statements.



LUCARA

DIAMOND

Consolidated Financial Statements
Year Ended December 31, 2025



Independent auditor's report

To the Shareholders of Lucara Diamond Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Lucara Diamond Corp. and its subsidiaries (together, the Company) as at December 31, 2025 and 2024, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2025 and 2024;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

PricewaterhouseCoopers LLP
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Basis for opinion

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

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

Independence

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

Material uncertainty related to going concern

We draw attention to note 1 to the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2025. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment test of the mineral properties, plant and equipment for the Karowe Mine cash generating unit (Karowe CGU) Refer to note 3 - Significant accounting judgments, estimates and assumptions, note 4 - Summary of material accounting policies and Note 7 - Mineral properties, plant and equipment to the consolidated financial statements. As at December 31, 2025, the total net book value of mineral properties, plant and equipment amounted to \$597.2 million, which relates to the Karowe CGU. When impairment indicators exist, an impairment test is conducted at the level of the CGU (a group of assets that generate independent cash inflows). An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds its recoverable amount. The Company has an ongoing impairment indicator for its mineral properties, plant and equipment. As at December 31, 2025, the Company's market capitalization was lower than the carrying value of its net assets. As a result, management performed an impairment test of the Karowe CGU at December 31, 2025. 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 fair value less cost of disposal. As of December 31, 2025, no impairment was noted as the recoverable amount was higher than the carrying amount of the Karowe CGU. The determination of the recoverable amount calculated using a discounted cash flow model included the following significant assumptions: estimated long-term diamond prices including exceptional stones, production volumes including the recoveries of exceptional stones, operating and capital cost estimates and real discount rate.	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the recoverable amount of the Karowe CGU, which included the following: – Tested the appropriateness and mathematical accuracy of the discounted cash flow model. – Tested the underlying data used in the discounted cash flow model. – Evaluated the reasonableness of significant assumptions by (i) comparing the operating estimates to recent actual operating costs incurred; (ii) comparing the capital cost estimated to capital expenditures incurred and contracts where applicable; (iii) comparing estimated diamond prices to recent actual sales data, external market and industry data; and (iv) assessing whether these assumptions were consistent with evidence obtained in other areas of the audit. – The work of management's experts was used in performing the procedures to evaluate the reasonableness of the significant assumptions which included production volumes including exceptional stones, operating costs, and capital cost estimates to complete development of the UGP. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings.

Key audit matter	How our audit addressed the key audit matter
Management's estimates of the estimated long-term diamond prices including exceptional stones, production volumes including recoveries of exceptional stones, operating costs and capital cost estimates to complete development of the Karowe Underground Expansion Project ("UGP") are based on information compiled by qualified persons (management's experts).	– Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the reasonableness of the real discount rate. – Tested the disclosures made in the consolidated financial statements with regard to the impairment test for the Karowe CGU.
We considered this a key audit matter due to the significant judgment by management in determining the recoverable amount of the Karowe CGU, and a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating management's assumptions. The audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.	

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit

evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Company as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mark Patterson.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia

March 3, 2026

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

	December 31, 2025	December 31, 2024
ASSETS		
Current assets		
Cash	\$ 31,920	\$ 22,788
Receivables and other (Note 5)	22,009	33,039
Derivative financial instrument (Note 9)	1,142	2,089
Inventories (Note 6)	49,510	31,301
	104,581	89,217
Inventories (Note 6)	22,368	37,637
Mineral properties, plant and equipment (Note 7)	597,166	473,727
Derivative financial instrument (Note 9)	2,565	6,309
Cost overrun reserve account (Note 9)	33,720	49,148
Other non-current assets (Notes 5 and 10)	12,310	4,795
TOTAL ASSETS	\$ 772,710	\$ 660,833
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	\$ 38,158	\$ 29,015
Working capital facility (Note 9)	30,000	25,000
Tax and royalties payable	1,888	7,227
Lease liabilities	970	831
	71,016	62,073
Project facility (Note 9)	190,000	180,000
Due to related party (Note 9)	43,000	15,000
Restoration provisions (Note 10)	21,622	17,640
Deferred income taxes (Note 15)	127,753	110,513
Other non-current liabilities	2,894	3,878
TOTAL LIABILITIES	456,285	389,104
EQUITY		
Share capital, unlimited common shares, no par value (Note 11)	349,410	348,401
Contributed surplus	10,330	9,513
Retained earnings	51,232	26,202
Accumulated other comprehensive loss	(94,547)	(112,387)
TOTAL EQUITY	316,425	271,729
TOTAL LIABILITIES AND EQUITY	\$ 772,710	\$ 660,833

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

Nature of Operations and Going Concern – Note 1
Commitments – Note 19

"Ian Gibbs"
Director

"Melissa Harmon"
Director

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
(In thousands of U.S. Dollars, except for share and per share amounts)

	2025		2024	
Revenues (Note 13)	\$	159,663	\$	203,876
Cost of goods sold				
Operating expenses		77,205		79,581
Royalty expenses (Note 13)		17,737		23,208
Depletion and amortization		13,622		16,636
		108,564		119,425
Income from mining operations		51,099		84,451
Other expenses				
Administration (Note 14)		14,446		14,814
Sales and marketing		3,666		3,069
Finance expenses		3,456		2,895
Loss (gain) on derivative instrument (Note 9)		4,691		(290)
Foreign exchange (gain) loss		(9,523)		6,913
Loss on extinguishment of debt facilities (Note 9)		-		10,529
Loss on disposal of assets (Note 7)		69		152
		16,805		38,082
Net income from continuing operations before tax		34,294		46,369
Income tax expense (recovery)				
Current income tax (Note 15)		(1,916)		480
Deferred income tax (Note 15)		10,095		2,277
		8,179		2,757
Net income from continuing operations		26,115		43,612
Net loss from discontinued operations (Note 8)		-		(3,708)
Net income for the year	\$	26,115	\$	39,904
Earnings per common share from continuing operations				
Basic	\$	0.06	\$	0.10
Diluted	\$	0.06	\$	0.09
Loss per common share from discontinued operations				
Basic and diluted	\$	-	\$	(0.01)
Weighted average common shares outstanding (millions)				
Basic		454.0		457.3
Diluted		470.1		468.0

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

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
(In thousands of U.S. Dollars)

	2025	2024
Net income for the year	\$ 26,115	\$ 39,904
Other comprehensive income		
<i>Items that will not be reclassified to net income</i>		
Change in fair value of marketable securities	(156)	(312)
Other comprehensive loss reclassified on disposal of marketable securities	1,085	-
Currency translation adjustment reclassified on disposal of subsidiary	-	988
<i>Items that may be subsequently reclassified to net income</i>		
Currency translation adjustment	16,911	(9,807)
	17,840	(9,131)
Comprehensive income for the year	\$ 43,955	\$ 30,773
Total comprehensive income (loss) attributable to shareholders of the Company from:		
Continued operations	43,955	34,481
Discontinued operations	-	(3,708)
	\$ 43,955	\$ 30,773

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

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
(In thousands of U.S. Dollars)

	2025	2024
Operating activities		
Net income for the year from continuing operations	\$ 26,115	\$ 43,612
Items not affecting cash:		
Depletion and amortization	14,322	17,341
Unrealized foreign exchange (gain) loss	(9,585)	5,955
Share based compensation	918	685
Loss on extinguishment of debt facilities	-	9,727
Unrealized loss (gain) on derivative instrument	4,691	(290)
Deferred income tax expense	10,095	2,277
Current income tax recovery	(2,558)	-
Deferred revenue	-	(20,000)
Finance expenses	2,953	2,606
Loss on disposal of assets	69	152
Inventory write-down	1,023	-
	48,043	62,065
Net changes in working capital:		
Receivables and other	8,229	(761)
Inventories	(205)	(1,348)
Trade payables and accrued liabilities	3,584	(4,350)
Tax and royalties payable	(5,607)	4,040
Net cash provided by continuing operating activities	54,044	59,646
Net cash used in discontinued operating activities	-	(3,344)
Financing activities		
Drawdown on working capital facility	5,000	10,000
Drawdown on project facility	10,000	70,000
Drawdown on limited standby undertaking	28,000	-
Withholding tax on share units vested	-	(67)
Lease payments	(1,891)	(1,590)
Funding of cost overrun reserve account	(12,572)	(30,574)
Withdrawal from cost overrun reserve account	28,000	-
Net cash provided by continuing financing activities	56,537	47,769
Net cash used in discontinued financing activities	-	(13)
Investing activities		
Investment in mineral properties, plant and equipment	(101,499)	(95,010)
Disposal of subsidiary, net of cash disposed of	-	718
Disposal of marketable securities	388	-
Funding of rehabilitation guarantee	(737)	-
Net cash used in continuing investing activities	(101,848)	(94,292)
Net cash used in discontinued investing activities	-	(59)
Effect of exchange rate change on cash	399	(256)
Increase in cash	9,132	9,451
Cash, beginning of the year	22,788	13,337
Cash, end of the year	\$ 31,920	\$ 22,788
Supplemental information		
Interest paid	\$ (25,013)	\$ (20,578)
Taxes paid	(641)	(412)
Shares returned to treasury on disposal of subsidiary	-	3,314
Changes in trade payables and accrued liabilities related to plant and equipment and mineral properties ⁽¹⁾	1,597	(1,580)
Changes in lease liabilities related to plant and equipment and mineral properties	1,993	(1,359)

⁽¹⁾ Included within accounts payable and accrued liabilities at each period end are additions to plant and equipment and mineral properties, acquired on normal course payment terms, of \$8.8 million at December 31, 2025 (December 31, 2024: \$7.2 million).

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

LUCARA DIAMOND CORP.**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
(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, 2024	456,177,393	\$ 349,718	\$ 9,371	\$ (13,702)	\$ (103,256)	\$ 242,131
Net income for the year	-	-	-	39,904	-	39,904
Other comprehensive (loss)	-	-	-	-	(9,131)	(9,131)
Total comprehensive income (loss)	-	-	-	39,904	(9,131)	30,773
Shares issued for limited standby undertaking	1,900,000	553	-	-	-	553
Shares issued for debenture	2,925,000	847	-	-	-	847
Shares issued from share units vested	846,555	597	(597)	-	-	-
Withholding tax for share units vested	-	-	(67)	-	-	(67)
Shares returned to treasury	(10,000,000)	(3,314)	-	-	-	(3,314)
Share-based compensation	-	-	806	-	-	806
Balance, December 31, 2024	451,848,948	\$ 348,401	\$ 9,513	\$ 26,202	\$ (112,387)	\$ 271,729
Balance, January 1, 2025	451,848,948	\$ 348,401	\$ 9,513	\$ 26,202	\$ (112,387)	\$ 271,729
Net income for the year	-	-	-	26,115	-	26,115
Other comprehensive income	-	-	-	-	17,840	17,840
Total comprehensive income	-	-	-	26,115	17,840	43,955
Shares issued for debentures	3,660,387	601	-	-	-	601
Shares issued for share units vested	411,332	177	(177)	-	-	-
Shares issued for deferred share units	1,378,517	231	-	-	-	231
Other comprehensive loss reclassified on disposal of marketable securities	-	-	-	(1,085)	-	(1,085)
Share-based compensation	-	-	994	-	-	994
Balance, December 31, 2025	457,299,184	\$ 349,410	\$ 10,330	\$ 51,232	\$ (94,547)	\$ 316,425

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

LUCARA DIAMOND CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Lucara Diamond Corp. together with its subsidiaries (collectively referred to as the “Company” or “Lucara”) is a diamond mining company focused on the development and operation of its Karowe Mine located in Botswana.

The Company’s common shares are listed on the Toronto Stock Exchange, NASDAQ First North Growth Market and Botswana Stock Exchanges under the symbol “LUC”. 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 2800, 1055 Dunsmuir Street, Vancouver, British Columbia.

Going Concern

During the year ended December 31, 2025, the Company recognized a net income from continuing operations of \$26.1 million and generated cash of \$54.0 million from continuing operating activities. As at December 31, 2025, the Company had cash of \$31.9 million and working capital (current assets less current liabilities) of \$33.6 million (December 31, 2024: \$27.1 million). On January 29, 2026, the Company closed a private placement equity financing (the “January 2026 equity financing”) for total gross proceeds of C\$165.0 million (Note 20).

The Company’s debt package (the “Facilities”) which is composed of the Project Facility of \$190.0 million and senior secured working capital facility (the “WCF”) of \$30.0 million are fully drawn. The Company did not comply with the covenants under the Facilities requiring a technically signed off financial model by June 30, 2025 (“Financial Model Covenant”), the execution of a lateral development contract by July 31, 2025 (“Lateral Development Contract Covenant”) and the requirement to provide a cost to complete certificate by August 31, 2025 (“Cost to Complete Covenant”), and the requirement to fully pay down the WCF for five successive business days at least once every 12 months (the “Clean Down” and collectively, the “Covenants”). On December 30, 2025, the Company and the lenders, a syndicate of six mandated lead arrangers (the “Lenders”) entered into an agreement to waive all Covenant breaches and events of default (the “Waiver Agreement”). The Waiver Agreement provided extensions to the following covenants: the Financial Model Covenant and the Lateral Development Contract Covenant to February 28, 2026, the Cost to Complete Covenant to March 31, 2026, and the Clean Down to June 30, 2026. As of the date these consolidated financial statements were approved by the Board of Directors, the Company is in full compliance with its Facilities, including the Financial Model Covenant and the Lateral Development Contract Covenant, with no outstanding Covenant breaches.

On March 3, 2026, the Company and the Lenders entered into a waiver agreement (the “Subsequent Waiver Agreement”). The Subsequent Waiver Agreement extends the Financial Model Covenant and Cost to Complete Covenant to July 15, 2026.

On January 30, 2026, the Company provided an update on the status of and estimate for the total costs of the UGP. The revised forecasted costs at completion are \$779.2 million, an increase of 14% from the prior estimate in July 2023. As at December 31, 2025, \$469.4 million of costs have been incurred for the UGP. Committed, not yet incurred, UGP costs are \$82.3 million at December 31, 2025 (Note 19). Completion of the UGP is currently being supported by continued operating cash flows from mining operations, the January 2026 equity financing, access to the cost overrun reserve account (the “CORA”), and guarantees from its largest shareholder, Nemesia S.à.r.l. (“Nemesia”) (Note 9). Access to the CORA and shareholder guarantees are subject to the receipt of certain approvals.

LUCARA DIAMOND CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

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

1. NATURE OF OPERATIONS AND GOING CONCERN (CONTINUED)

Management has assessed the Company's ability to continue as a going concern for at least twelve months from December 31, 2025. Based on this assessment, the Company estimates its working capital as at December 31, 2025, cash flow from operations, January 2026 equity financing, and other committed sources of liquidity will not be sufficient to meet the revised forecasted costs at completion for the UGP of \$779.2 million of which \$469.4 million of costs have been incurred. Given that committed sources of liquidity are not sufficient to meet the revised forecast and remaining cost to complete, the Company is not expected to comply with the Cost to Complete Covenant by July 15, 2026, unless additional financing is obtained or the Lenders grant a waiver or extension for the Cost to Complete Covenant. The Company is continuing to evaluate additional financing options to support completion of the UGP. While the Company has previously been successful in raising financing, future fundraising efforts may not succeed or may fall short of the required amounts. These conditions cast significant doubt on the Company's ability to continue as a going concern.

These consolidated financial statements have been prepared on a going concern basis which assumes the Company will continue operations, realize assets, and settle its liabilities as they become due.

These consolidated financial statements do not include adjustments that may be necessary if the Company is unable to continue normal operations; such adjustments could be material and affect asset recoverability, liability classification, expenses, and comprehensive income (loss).

2. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES

Basis of presentation

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

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which have been measured at fair value.

These consolidated financial statements were approved by the Board of Directors for issue on March 3, 2026.

LUCARA DIAMOND CORP.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)**

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

The following entities are included in these consolidated financial statements:

	Country of incorporation	Ordinary shares held	
		December 31, 2025	December 31, 2024
Lucara Botswana Proprietary Limited	Botswana	100%	100%
Wati Ventures Proprietary Limited	Botswana	100%	100%
Debwat Exploration Proprietary Limited	Botswana	100%	100%
Lucara Management Services Limited	United Kingdom	100%	100%
African Diamonds Limited.	United Kingdom	100%	100%
Lucara Diamond Holdings Inc.	Mauritius	100%	100%
Boteti Diamond Holdings Inc.	Mauritius	100%	100%

The Company has pledged the shares held in Lucara Botswana Proprietary Limited, through the various intermediate holding companies, to secure the Facilities (Note 9). The Company is not allowed to pledge the shares held as security for other borrowings.

Adoption of new accounting standards and accounting developments

New standards and interpretations not yet adopted

Amendments to the Classification and Measurement of Financial Instruments

In May 2024, the IASB issued targeted amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*. These amendments include the following:

- (a) clarify the date of recognition and derecognition of some financial assets and liabilities, with the exception for some financial liabilities settled through an electronic cash transfer system;
- (b) clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion;
- (c) add new disclosures for certain instruments with contractual terms that can change cash flows; and
- (d) update the disclosures for equity instruments designated at fair value through other comprehensive income.

These amendments are effective for annual periods beginning on or after January 1, 2026. These amendments are not expected to have a material impact on the consolidated financial statements.

IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* which sets out presentation and base disclosure requirements for financial statements. The changes, which mostly affect the income statement, include the requirement to classify income and expenses into three new categories – operating, investing and financing. Further, operating expenses are presented directly on the face of the income statement – classified either by nature, by function or using a mixed presentation. Expenses presented by function require more detailed disclosures about their nature.

LUCARA DIAMOND CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

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

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

IFRS 18 also provides enhanced guidance for aggregation and disaggregation of information in the financial statements, introduces new disclosure requirements for management-defined performance measures and eliminates classification options for interest and dividends in the statement of cash flows.

IFRS 18 will not impact the recognition and measurement of items in the financial statements, nor will it impact which items are classified in other comprehensive income and how these items are classified. The standard is effective for annual periods beginning on or after January 1, 2027. The Company is currently assessing the effect of this new standard on its financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Areas of accounting policy judgements

Satisfaction of performance obligations under the HB Trading BV sales arrangement

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

Mineral property valuation

The Company carries its mineral properties and plant and equipment at depleted and amortized cost, less any provision for impairment. The Company assesses at each reporting period whether there is an indication of impairment. Significant judgement is applied in assessing whether indicators of impairment exist that would require impairment testing. The Company has an ongoing indicator of impairment related to its mineral properties and plant and equipment, as its market capitalization is lower than its net book value. The Company conducted an impairment assessment at December 31, 2025, and no impairment was identified (Note 7).

Deferred taxes

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

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

Modification versus extinguishment of financial liabilities

Judgement is required in applying IAS 32 *Financial Instruments: Presentation* and IFRS 9 *Financial Instruments: Recognition and Measurement* to determine whether the amended terms of the credit facilities were a substantial modification of an existing financial liability and whether it should be accounted for as an extinguishment of the original credit facilities.

Sources of estimation uncertainty

Uncertain tax positions

The Company recognizes that its tax obligations are subject to interpretation and judgement. Uncertain tax positions arise when there is uncertainty regarding the application of tax laws and regulations to the Company's transactions or positions. Estimates of uncertain tax positions are measured using the most likely amount or expected value approach, considering all available information.

Impairment

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

Calculating the estimated recoverable amount of the cash-generating unit ("CGU") for non-current asset impairment tests requires management to make estimates and assumptions with respect to estimated production volumes, operating, and capital costs, diamond prices, and discount rates. Management relies on production history and geological experts to develop estimates of long-term diamond prices including exceptional stones, production volumes including the recoveries of exceptional stones as well as expected future operating and capital costs. These estimates are subject to various risks and uncertainties which may ultimately influence the estimated recoverability of the carrying amounts of non-current assets. Changes in these assumptions could significantly impact the valuation of the Company's assets in the future.

Estimated variable consideration in determining revenue

Revenues include an estimate of variable consideration receivable under the terms of the Company's diamond sales agreement with HB. Variable consideration is a component of the transaction price and represents an area of management estimate. Under the diamond sales agreement, at the time of sale of a rough diamond, the Company receives an initial payment based on an estimated initial polished value. When the manufactured diamond is sold to an end buyer, HB is entitled to receive a fee and reimbursement for the cost of manufacturing. If the final sales price is higher than the estimated initial polished value a true up payment is payable to the Company. Any manufactured diamonds sold to an end buyer for less than the estimated initial polished value (after deductions for HB's fee and the cost of manufacturing) will result in the difference being refunded to HB. Variable consideration is estimated using the most likely approach. The transaction price is reassessed at each reporting period, including any adjustments to the amount of variable consideration recognized. The revenue recognized as the transaction price, including any variable consideration, is recognized within the constraint of "highly probable". In evaluating the most likely approach, significant estimates include market conditions, the current estimated polished value provided by HB and the probability that the variable consideration will be realized.

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

Decommissioning and site restoration

The Company has obligations for site restoration and decommissioning related to the Karowe Mine. The restoration provision is based on cost estimates of the future decommissioning and site restoration activities estimated using mine closure plans which outline the activities that will be carried out to meet the obligations. The restoration provision requires significant estimates and assumptions because the obligations are dependent on the laws and regulations of the country in which the mine operates and are based on future expectations of the timing, extent and cost of required decommissioning and site restoration activities. The provision for decommissioning and site restoration is remeasured at the end of each reporting period for changes in estimates or circumstances.

Deferred taxes

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

4. SUMMARY OF MATERIAL ACCOUNTING POLICIES

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

(a) Consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries.

Subsidiaries are entities controlled by the Company. An entity is controlled by the Company when as a group; it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. For non wholly-owned subsidiaries, the net assets attributable to outside equity shareholders are presented as non-controlling interests in the equity section of the consolidated balance sheet. All intercompany balances and transactions have been eliminated on consolidation.

(b) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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4. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

Group companies

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

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement.
- (ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).
- (iii) All resulting exchange differences are recognized in other comprehensive income as currency translation adjustments.

(c) Financial instruments

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

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

- (i) Fair value through profit or loss: Financial assets or liabilities measured at fair value through profit or loss are assets or liabilities which do not qualify as financial instruments at amortized costs or those not designated in hedge relationships. Derivatives, including interest rate swaps, are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of operations. Gains and losses arising from changes in fair value are presented in the consolidated statement of operations in the period in which they arise.
- (ii) Fair value through other comprehensive income: The Company has made an irrevocable election to designate its investments in marketable equity securities as classified at fair value through other comprehensive income. Fair values are determined by reference to quoted market prices at the reporting date. When investments in marketable securities are disposed of or impaired, the cumulative gains and losses recognized in other comprehensive income are not recycled to profit and loss and remain within equity.
- (iii) Financial assets and liabilities at amortized cost: Financial assets and liabilities at amortized cost include cash, trade receivables, the WCF and trade and royalties payable due to their short-term nature. Trade receivables and payables and royalties payable are non-interest bearing if paid when due and are recognized at their face amount, less, when material, a discount, except when fair value is materially different. Amounts drawn on the WCF and Project Facility are interest-bearing and are recorded at fair value upon inception. These are subsequently measured at amortized cost.

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4. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

(d) Inventories

Inventories, which include rough diamonds, ore stockpiles and parts and supplies, are measured at the lower of cost and net realizable value. Cost is determined using the weighted average method. Cost includes the costs of mining, processing and directly attributable mining overhead.

Net realizable value represents the estimated selling price in the ordinary course of business, less all estimated costs to completion and selling expenses. The portion of the ore stockpile that is expected to be processed more than twelve months from year end is classified as non-current inventory.

(e) Plant and equipment

Plant and equipment are carried at cost, less accumulated amortization and accumulated impairment charges. The cost of an asset consists of its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

For production plant and equipment, depreciation is recorded on a units-of-production basis. Depreciation on all other plant and equipment is recorded on a straight-line basis over the estimated useful life of the asset or over the estimated remaining life of the mine, if shorter. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Residual values and useful lives are reviewed annually. Gains and losses on disposals are calculated as proceeds received less the carrying amount and are recognized in the consolidated statements of operations.

The estimated useful lives of plant and equipment are as follows:

Furniture and office equipment	3 to 5 years straight line
Machinery and equipment	3 to 10 years straight line
Plant facilities	units of production based on recoverable reserves
Right-of-use assets	straight line over the shorter of the lease term and useful lives

(f) Mineral properties and capitalized production stripping costs

Mineral properties are carried at cost, less accumulated depletion and any accumulated impairment charges. Costs are amortized from the date of commencement of production of the mine on a units of production basis over estimated recoverable reserves. Costs associated with mineral properties include acquisition costs, evaluation and project investigation costs, development costs and borrowing costs. Mineral property costs are expensed as incurred until such time that the project demonstrates technical feasibility and commercial viability, and the Company has demonstrated a commitment to advance the project. Once this has been established, all further expenditures are capitalized as incurred.

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

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4. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of non-financial assets

At the end of each reporting period, the Company assesses whether there is an indication that an asset or group of assets within a cash generating unit ("CGU") may be impaired. When impairment indicators exist, an impairment assessment is conducted at the level at which an asset or group of assets generate independent cash inflows. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. The recoverable amount is the higher of the asset or CGU's fair value less costs to sell and its value in use. Non-financial assets that have previously been impaired are reviewed for possible reversal of the impairment at each reporting date.

(h) Asset retirement obligations

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

(i) Income taxes

Income taxes are recognized in the statement of operations, except where they relate to items recognized in other comprehensive income or directly in equity, in which case the related taxes are recognized in other comprehensive income or equity. Current taxes receivable or payable are based on estimated taxable income for the current year at the statutory tax rates enacted or substantively enacted less amounts paid or received on account.

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

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

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

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4. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

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

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

(j) Revenue recognition

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

The Company sells its large stone production (diamonds greater than 10.8 carats) under the diamond sales agreement with HB. For diamonds sold under this agreement, control is transferred once the stones are delivered and the analysis of the rough diamonds are agreed upon according to the contract terms to which the stones relate. Once the estimated initial polished value is determined, the Company recognizes revenue if collectability is reasonably assured. The initial purchase price paid for the rough diamonds are based on an estimated initial polished value with a true up paid to the Company if the actual achieved polished sales price exceeds the initial price paid, or a repayment if the actual achieved polished sales price is below the initial price paid. The arrangement contains elements of variable consideration as the Company's final consideration is contingent on the price obtained in the future sale of the polished stones by HB. Variable consideration is recognized to the extent that it is highly probable that its inclusion will not result in a significant revenue reversal at the time the uncertainty has subsequently resolved. Final revenue is determined when the polished diamonds are sold to the end buyer.

(k) Share-based compensation

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

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

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

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4. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

(l) Earnings per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during each reporting period. Diluted earnings per share is calculated assuming the proceeds from the exercise of "in-the-money" share-based arrangements are used to purchase common shares at the average market price during the period.

(m) Leases

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

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

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

(n) Borrowing costs

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

(o) Discontinued operations

Discontinued operations are reported when a component of the Company, representing a separate major line of business or geographical area of operations with clearly distinguishable cash flows, has been disposed of or is held for sale. Classification as a discontinued operations occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. Discontinued operations are reported as a separate element on the consolidated statements of operations for both the current and comparative periods.

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5. RECEIVABLES AND OTHER

		2025		2024
Trade receivables	\$	9,478	\$	18,416
Value-added taxes ("VAT")		4,604		7,585
Prepayments		7,462		6,824
Other		465		214
Total current receivables and other	\$	22,009	\$	33,039
Non-current VAT receivables	\$	6,988	\$	-

Trade receivables at December 31, 2025 were \$9.5 million (December 31, 2024: \$18.4 million) due from HB.

VAT receivables include \$7.0 million at December 31, 2025 (December 31, 2024: \$5.0 million) relating to an income tax assessment dispute in Botswana. The VAT receivables under dispute are classified as non-current at December 31, 2025 and are included in other non-current assets on the consolidated statements of financial position (Note 15).

6. INVENTORIES

		2025		2024
Rough diamonds	\$	18,584	\$	14,987
Ore stockpiles		16,655		3,339
Parts and supplies		14,271		12,975
Total current inventories	\$	49,510	\$	31,301
Non-current inventories – ore stockpiles	\$	22,368	\$	37,637

Inventory expensed during the year ended December 31, 2025 totaled \$77.2 million (2024: \$79.6 million). Inventory write-downs of \$1.0 million were recognized during the year ended December 31, 2025 (2024: \$nil) relating to obsolete parts and supplies.

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7. MINERAL PROPERTIES, PLANT AND EQUIPMENT

Cost	Karowe Mine development costs and capitalized stripping	Karowe Underground Construction	Construction in progress	Plant and equipment	Total
Balance, January 1, 2024	\$ 92,512	\$ 276,577	\$ 18,214	\$ 267,974	\$ 655,277
Additions	-	64,666	11,574	1,108	77,348
Borrowing cost capitalized	-	17,441	-	-	17,441
Adjustment to restoration provision	3,056	-	-	-	3,056
Disposals	-	-	-	(994)	(994)
Reclassifications	-	2,677	(25,688)	23,011	-
Translation differences	(3,755)	(13,448)	(301)	(11,776)	(29,280)
Balance, December 31, 2024	\$ 91,813	\$ 347,913	\$ 3,799	\$ 279,323	\$ 722,848
Additions	-	75,768	8,942	1,347	86,057
Borrowing cost capitalized	-	19,032	-	-	19,032
Adjustments to restoration provision	667	-	-	-	667
Disposals	-	-	-	(333)	(333)
Reclassifications	-	2,113	(6,846)	4,733	-
Translation differences	5,690	24,556	301	18,088	48,635
Balance, December 31, 2025	\$ 98,170	\$ 469,382	\$ 6,196	\$ 303,158	\$ 876,906
Accumulated depletion and amortization	Karowe Mine development costs and capitalized stripping	Karowe Underground Construction	Construction in progress	Plant and equipment	Total
Balance, January 1, 2024	\$ 81,844	\$ -	\$ -	\$ 161,205	\$ 243,049
Depletion and amortization	7,124	-	-	10,231	17,355
Disposals	-	-	-	(725)	(725)
Translation differences	(3,449)	-	-	(7,109)	(10,558)
Balance, December 31, 2024	\$ 85,519	\$ -	\$ -	\$ 163,602	\$ 249,121
Depletion and amortization	4,170	-	-	10,171	14,341
Disposals	-	-	-	(264)	(264)
Translation differences	5,415	-	-	11,127	16,542
Balance, December 31, 2025	\$ 95,104	\$ -	\$ -	\$ 184,636	\$ 279,740
Net book value					
As at December 31, 2024	\$ 6,294	\$ 347,913	\$ 3,799	\$ 115,721	\$ 473,727
As at December 31, 2025	\$ 3,066	\$ 469,382	\$ 6,196	\$ 118,522	\$ 597,166

Reclassifications relate to construction in progress put into use during the periods and depreciation on plant and equipment in use on the Karowe underground construction asset.

Borrowing costs of \$53.1 million (December 31, 2024: \$34.1 million) 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 Facilities.

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7. MINERAL PROPERTIES, PLANT AND EQUIPMENT (CONTINUED)

The Company has an ongoing impairment indicator for its mineral properties and plant and equipment, as the Company's market capitalization at December 31, 2025 was lower than the carrying amount of its net assets. An impairment assessment was conducted and no impairment was recorded since the fair value less cost of disposal (FVLCD) of the Karowe CGU exceeded its carrying amount. Impairment assessments incorporate estimates of recoverable reserves and resources, which rely on assumptions including production volumes, mining and processing recoveries, operating and capital costs, and long-term diamond prices. Determining the FVLCD involves Level 2 and Level 3 inputs and key assumptions include estimated long-term diamond prices including exceptional stones, production volumes including the recoveries of exceptional stones, operating and capital cost estimates from the Feasibility Study Technical Report and real discount rates of 7.0% to 8.0%.

8. DISCONTINUED OPERATIONS

On October 4, 2024, the Company sold its interest in Clara Diamond Solutions Limited Partnership, Clara Diamond Solutions B.V., and Clara Diamond Solutions GP (together referred to as "Clara") including intangible assets. Total sale consideration comprised of \$3.0 million in cash less working capital adjustments of \$0.8 million, the return of 10,000,000 Lucara common shares (Note 11) and the elimination of contingent liabilities tied to certain sales performance metrics, EBITDA performance targets or a change of control, amounting to a share issuance obligation of 13,400,000 Lucara common shares. The 10,000,000 Lucara common shares were initially issued as partial consideration upon acquisition of Clara.

The following outlines the results of discontinued operations of Clara for the period from January 1, 2024 to the date of disposal, October 4, 2024.

Year ended December 31, 2024		
Revenue ⁽¹⁾	\$	2,223
Cost of sales ⁽¹⁾		3,382
Gross margin		(1,159)
Other expenses		1,196
Loss on disposal		1,353
Net loss from discontinued operations	\$	(3,708)

⁽¹⁾ Lucara continues to use Clara's platform to sell its Clara qualifying stones after the disposition of Clara, the revenue and cost of sales related to Lucara's diamonds has been included as part of continuing operations (See Note 13).

9. CREDIT FACILITIES

The movement in credit facilities is comprised of the following:

	Deferred financing fees	Project Facility	Working Capital Facility	Total
Balance, January 1, 2024	\$ 4,122	\$ (86,515)	\$ (35,000)	\$ (117,393)
Finance fees	2,922	-	-	2,922
Finance fees transfer	491	(491)	-	-
Transfer	-	(20,000)	20,000	-
Drawdown	-	(70,000)	(10,000)	(80,000)
Loss on extinguishment of debt facilities	(7,535)	(2,994)	-	(10,529)
Balance, December 31, 2024	\$ -	\$ (180,000)	\$ (25,000)	\$ (205,000)
Drawdown	-	(10,000)	(5,000)	(15,000)
Balance, December 31, 2025	\$ -	\$ (190,000)	\$ (30,000)	\$ (220,000)

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9. CREDIT FACILITIES (CONTINUED)

Senior Secured Facilities and Cost Overrun Reserve Account ("CORA")

On January 9, 2024, the Company's wholly-owned subsidiary, Lucara Botswana, with Lucara as sponsor and guarantor, amended its senior secured project financing debt package of \$220.0 million that was originally entered into in 2021 (the "Rebase Amendments"). The Facilities consist of the Project Facility of \$190.0 million (\$170.0 million prior to amendment) to fund the development of the UGP and a \$30.0 million (\$50.0 million prior to amendment) senior secured WCF. The Rebase Amendments modified the repayment schedule, extended the maturity date of the WCF to September 30, 2031, and amended certain other terms. At the financial close of the Rebase Amendments, \$20.0 million that was outstanding on the WCF was transferred to the Project Facility.

The Project Facility has been used to fund the development, construction costs and construction phase operating costs of the UGP as well as financing costs on the Facilities during construction. The Project Facility matures on September 30, 2031, with quarterly repayments commencing on September 30, 2028. The Project Facility bears interest at a rate of Term Secured Overnight Financing Rate ("SOFR") plus margin of 6.5% annually until the project completion date, 6.0% annually from project completion to September 30, 2029, and 7.0% annually thereafter, with commitment fees for the undrawn portion of the facility of 35.0% of the margin on the average daily available commitment. As at December 31, 2025, the Project Facility was fully drawn.

The WCF may be used for working capital and other corporate purposes. The WCF bears interest at a rate of Term SOFR plus a margin of 6.5% annually until the project completion date, 6.25% from project completion to September 30, 2029, 7.25% thereafter, and commitment fees for the undrawn portion of the WCF of 35.0% of the margin on the average daily available commitment. The WCF matures on September 30, 2031. As at December 31, 2025, the WCF was fully drawn.

Upon the Rebase Amendments, the remaining balance of deferred financing fees and unamortized initial arrangement costs incurred with the initial arranging of the Facilities, along with the costs of the Rebase Amendments were recognized as a loss on extinguishment in the amount of \$10.5 million.

The Facilities contain multiple covenants, including the Financial Model Covenant, Lateral Development Contract Covenant, Cost to Complete Covenant and Clean Down. On December 30, 2025, the Lenders and the Company entered into a Waiver Agreement to waive all Covenant breaches and events of default. The Waiver Agreement provided extensions to the following covenants: the Financial Model Covenant and the Lateral Development Contract Covenant to February 28, 2026, the Cost to Complete Covenant to March 31, 2026, and the Clean Down to June 30, 2026. The Company has a 30-day cure period following the breach of a Covenant before it is considered an event of default. As of the date these consolidated financial statements were approved by the Board of Directors, the Company is in full compliance with its Facilities, including the Financial Model Covenant and the Lateral Development Contract Covenant, with no outstanding covenant breaches.

Under the Rebase Amendments, Nemesia provided funding support of up to \$63.0 million consisting of two components:

- i. \$28.0 million component as the amended limited standby undertaking to support liquidity shortfalls until UGP completion; and
- ii. \$35.0 million component as a liquidity guarantee to cover cost overruns.

During the year ended December 31, 2025, the Company drew \$28.0 million from the amended limited standby undertaking to fund UGP construction.

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9. CREDIT FACILITIES (CONTINUED)

The Company was required to and successfully placed \$61.7 million in the CORA prior to June 30, 2025 as a condition of the Facilities. The Lenders approved the Company to draw up to \$28.0 million from the CORA to fund UGP construction in exchange for Nemesia amending the terms of its limited shareholder standby undertaking which previously supported the requirement to fill the CORA to \$61.7 million by June 30, 2025. The amendment includes extending the undertaking until project completion and the new required CORA balance of \$33.7 million.

Interest rate swap agreements

On December 14, 2021, under the terms of the Project 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. As part of the Rebase Amendments, a new interest rate swap agreement was signed on February 15, 2024, which covers the principal amount available up to \$142.5 million. The Company receives interest at the rate equivalent to the three-month USD Term SOFR and pays interest at a fixed rate ranging from 2.447% to 2.577% on a quarterly basis. The final interest rate swap matures on September 30, 2031.

As at December 31, 2025, the interest rate swaps had a total unrealized fair value of \$3.7 million (December 31, 2024: \$8.4 million), of which \$1.1 million has been classified as a current asset. The fair value of the interest rate swaps is based on the difference between the three-month USD SOFR forward curve and the fixed rate, with the net interest due in the next twelve months classified as current.

Due to related party – debentures

During the year ended December 31, 2023, the Company drew \$15.0 million from its liquidity guarantee provided by Nemesia and issued a corresponding unsecured debenture (the "First Debenture"). Subject to the receipt of all required regulatory approvals, for each \$500,000 outstanding under the First Debenture, the Company is required to issue 7,500 common shares per month at the prevailing market price to Nemesia until the amounts borrowed are repaid. On June 17, 2024, the Company and Nemesia entered into a supplemental agreement to amend the frequency of common share issuances to Nemesia from a monthly to a quarterly basis. The First Debenture matures on August 29, 2029.

During the year ended December 31, 2025, the Company drew \$28.0 million under the amended limited standby undertaking provided by Nemesia and issued a second unsecured debenture (the "Second Debenture" and together with the First Debenture, the "Debentures"). For each \$500,000 drawn under the Second Debenture, the Company will issue 7,500 common shares per month, settled quarterly, to Nemesia until the amounts borrowed are repaid. The Second Debenture matures on June 30, 2031.

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10. RESTORATION PROVISIONS

The Company's restoration provisions relate to the rehabilitation of the Karowe Mine in Botswana. The provisions have been calculated based on total estimated rehabilitation costs and discounted back to their present values. The pre-tax discount rates and inflation rates are adjusted annually and reflect current market assessments for the applicable geographical areas.

The Company has applied a pre-tax discount rate of 10.2% at December 31, 2025 (December 31, 2024: 8.4%) and an annual inflation rate of 4.5% at December 31, 2025 (December 31, 2024: 4.5%). The estimated liability for reclamation and remediation costs on an undiscounted basis is approximately \$43.1 million (December 31, 2024: \$39.4 million). The Company expects these liabilities to be settled between 2026 and 2040.

Balance, January 1, 2024	\$	13,738
Changes to rates and estimates		3,056
Accretion		1,525
Translation differences		(679)
Balance, December 31, 2024	\$	17,640
Changes to rates and estimates		667
Accretion		2,136
Translation differences		1,179
Balance, December 31, 2025	\$	21,622

The Company has deposited \$5.3 million (December 31, 2024: \$4.3 million) as security for a mine rehabilitation guarantee provided to the Botswana Department of Mines. The restricted deposit matures in August 2026 and is included in other non-current assets on the consolidated statements of financial position.

11. SHARE CAPITAL

During the year ended December 31, 2024, 4,825,000 common shares (\$1.4 million) were issued to Nemesia consisting of 1,900,000 common shares as consideration for increasing the limited standby undertaking and 2,925,000 common shares in relation to the Debenture (Note 9). Additionally, the Company returned 10,000,000 common shares (\$3.3 million) to treasury relating to the sale of Clara (Note 8).

During the year ended December 31, 2025, a total of 3,660,387 common shares with a fair value of \$0.6 million were issued to Nemesia in relation to the Debentures (Note 9).

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12. 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 14, 2025. 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 2024 and 2025 vest in thirds over a three-year period beginning on the first anniversary of the date of grant and expire five years from the date of grant.

	Number of shares issuable pursuant to stock options	Weighted average exercise price per share (CA\$)
Balance at January 1, 2024	6,544,000	\$ 0.68
Granted	2,965,000	0.37
Expired	(1,173,000)	0.77
Forfeited	(2,173,000)	0.58
Balance at December 31, 2024	6,163,000	\$ 0.55
Granted	4,176,325	0.40
Expired	(819,000)	0.79
Forfeited	(975,778)	0.63
Balance at December 31, 2025	8,544,547	\$ 0.45

As of December 31, 2025, the following stock options remain outstanding:

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\$)
\$0.32 - \$0.43	6,140,547	3.84	0.39	676,662	3.19	0.36
\$0.44 - \$0.66	2,404,000	1.49	0.60	1,473,333	0.89	0.63
	8,544,547	3.148	\$ 0.45	2,149,995	1.62	\$ 0.54

During the year ended December 31, 2025, the Company recognized \$0.3 million (2024: \$0.3 million) in share-based compensation based on the vesting of options.

Stock option's fair values are estimated on grant date using Black-Scholes option pricing model with the following weighted average assumptions and resulting values:

	2025	2024
Assumptions:		
Risk-free interest rate (%)	2.54	3.74
Expected life (years)	3.35	3.53
Expected volatility (%)	47.52	45.61
Expected dividend (\$)	Nil	Nil
Results:		
Weighted average fair value of options granted (per option)	CA\$0.14	CA\$0.14

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12. SHARE BASED COMPENSATION (CONTINUED)**b. Restricted and performance share units**

The Company has a share unit ("SU") plan that provides for the issuance of SUs as a long-term incentive for management and employees. Amendments to the SU plan, including an increase in the common shares reserved for issuance upon the vesting of SUs to 22,000,000 were approved by shareholders at the May 14, 2025 annual meeting.

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

During the year ended December 31, 2025, the Company recognized an expense of \$0.7 million (2024: \$0.5 million) in share-based compensation for the SUs granted.

	Number of share units	Estimated fair value at date of grant (CA\$)
Balance at January 1, 2024	3,614,000	\$ 0.65
Granted	6,819,000	0.36
Redeemed	(1,075,000)	0.75
Forfeited	(1,323,332)	0.59
Balance at December 31, 2024	8,034,668	\$ 0.40
Granted	5,634,384	0.39
Redeemed	(411,332)	0.56
Forfeited	(554,403)	0.54
Balance at December 31, 2025	12,703,317	\$ 0.38

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 8,000,000 DSUs to eligible directors were most recently approved on May 14, 2025. Directors can elect to receive up to 100% of their fees earned to be settled 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 provides that upon payout a director can elect to receive the value of the DSUs in cash or common shares of the Company. The DSUs are presented as other non-current liabilities on consolidated statements of financial position.

During the year ended December 31, 2025, the Company recognized a share-based compensation recovery of \$0.1 million (2024: \$0.1 million) related to the revaluation of DSUs.

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12. SHARE BASED COMPENSATION (CONTINUED)

	Number of DSUs	Estimated fair value (CA\$)
Balance at January 1, 2024	3,172,156	\$ 0.49
Granted	1,589,322	0.37
Redeemed	(1,113,852)	0.34
Balance at December 31, 2024	3,647,626	\$ 0.42
Granted	2,835,723	0.26
Redeemed	(1,378,517)	0.23
Balance at December 31, 2025	5,104,832	\$ 0.20

13. REVENUES

Lucara has three sales channels including a diamond sales agreement with HB, the Clara sales platform and tender sales.

	2025	2024
<i>Sales Channels</i>		
HB	111,187	142,741
Clara	9,084	11,145
Tender	39,392	49,990
	\$ 159,663	\$ 203,876

A royalty of 10% of the gross sales value of diamonds produced from Karowe is payable to the government of Botswana, regardless of whether the diamond is sold as rough or polished. During the year ended December 31, 2025, the Company incurred a royalty expense of \$17.7 million (2024: \$23.2 million).

During the year ended December 31, 2024, the Company sold the 549-carat Sethunya diamond and recognized \$20.0 million of previously deferred revenue as revenue.

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14. ADMINISTRATION

	2025	2024
Salaries and benefits	\$ 6,280	\$ 5,842
Professional fees	3,612	3,712
Insurance, office and general	1,372	1,188
Promotion	206	375
Stock exchange, transfer agent and shareholder communication	271	314
Travel	300	764
Share-based compensation (Note 12)	918	685
Depreciation	700	705
Sustainability and donations	787	1,229
	\$ 14,446	\$ 14,814

15. INCOME TAXES

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

	2025	2024
Net income before tax	\$ 34,294	\$ 46,369
Combined basic federal and provincial rates	27.00%	27.00%
Expected income tax expense based on Canadian statutory income tax rates	9,259	12,520
Increase (decrease) due to:		
Differences in foreign tax rates	3,957	4,055
Differences in future expected foreign tax rates	(4,288)	(15,156)
Non-deductible expenses and other permanent differences	810	1,094
Change in deferred tax assets not recognized	406	(201)
Tax assets not previously recognized	(2,557)	-
Withholding taxes	592	445
Total income tax expense	\$ 8,179	\$ 2,757

The Company is subject to a variable tax rate in Botswana based on a profit and revenue ratio which increases as profit as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55% (only if taxable income were equal to revenue). The Company has estimated the variable tax rate to be 32.5% in 2025 (2024: 33.1%) for deferred income taxes based on current financial performance and the life of mine plan.

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15. INCOME TAXES (CONTINUED)

Deferred tax assets and liabilities recognized and not recognized in the consolidated statements of financial position are as follows:

Deferred income tax assets and liabilities recognized	2025	2024
<i>Deferred income tax assets</i>		
Non-capital losses	\$ 25,998	\$ 15,574
Accounts payable and other	20,774	7,070
Unrealized foreign exchange loss	-	1,271
Restoration provisions	6,587	5,480
Total deferred income tax assets	53,359	29,395
<i>Deferred income tax liabilities</i>		
Mineral properties, plant and equipment	177,358	139,908
Unrealized foreign exchange gain	3,754	-
Total deferred income tax liabilities	181,112	139,908
Deferred income tax liabilities, net	\$ 127,753	\$ 110,513
Deferred income tax assets not recognized		
Non-capital tax losses	\$ 36,896	\$ 34,370
Mineral properties, plant and equipment	103	-
Other deductible temporary differences	316	451
	\$ 37,315	\$ 34,821

As at December 31, 2025, the Company has non-capital losses for income tax purposes which expire as follows:

	2026	2027	2028	Subsequent to 2029	No expiry date	Total
Botswana	\$ -	\$ -	\$ -	\$ -	\$ 118,174	\$ 118,174
Canada	541	1,285	1,272	122,356	-	125,454
United Kingdom	-	-	-	-	5,923	5,923
	\$ 541	\$ 1,285	\$ 1,272	\$ 122,356	\$ 124,097	\$ 249,551

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

Various tax matters are outstanding from time to time. Judgements and assumptions regarding these matters are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations. If management's estimate of the future resolution of these matters changes, the Company will recognize the effects of these changes in the consolidated financial statements on the date such changes occur. Lucara Botswana received an assessment from the Botswana Unified Revenue Service ("BURS") for the fiscal years 2016 to 2020 related to the tax deductibility of certain expenditures associated with the Company's operations in Botswana.

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15. INCOME TAXES (CONTINUED)

On February 24, 2026, the Company received a response to its objections from BURS in relation to the above tax assessments. BURS allowed the tax deductibility of certain of the previously challenged expenditures, and as a result the Company reversed its previously recorded provision which included \$2.6 million against VAT receivables and a valuation allowance against certain losses of \$1.3 million. BURS maintained its position on two remaining matters. A penalty on the assessed amounts has also been maintained. The Company intends to lodge appeals for the remaining disallowed expenditures and believes that its tax positions are valid. The Company's view is that an economic outflow in relation to the remaining matters is not probable and accordingly no provision has been recorded in these financial statements. The ultimate outcome of an appeal of the remaining positions is uncertain and may have implications for the tax treatment of similar transactions in periods subsequent to those currently under assessment.

16. RELATED PARTY TRANSACTIONS*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:

		2025		2024
Salaries and wages	\$	2,589	\$	2,492
Short term benefits		17		32
Share based compensation		822		594
	\$	3,428	\$	3,118

Other related party transactions

During the year ended December 31, 2025, the Company incurred \$0.3 million (2024: \$0.8 million) primarily relating to office rental and related services provided by companies associated with the Company's significant shareholder and director. At December 31, 2025, included in trade payables and accrued liabilities is \$0.5 million (December 31, 2024: \$0.4 million) for related services.

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17. SEGMENT INFORMATION

The Company's primary business activity is the operation of the Karowe diamond mine in Botswana. The Company has one operating segment: Karowe Mine.

The following are summaries of the Company's revenues, net income (loss) from continuing operations, capital expenditures and total assets by segment:

Year ended December 31, 2025			
	Karowe Mine	Corporate	Total
Revenues	\$ 159,663	\$ -	\$ 159,663
Operating expenses	(77,205)	-	(77,205)
Royalty expenses	(17,737)	-	(17,737)
Depletion and amortization	(13,622)	-	(13,622)
Income from mining operations	51,099	-	51,099
Finance expenses	(2,805)	(651)	(3,456)
Loss on derivative instrument	(4,691)	-	(4,691)
Foreign exchange gain (loss)	9,563	(40)	9,523
Loss on disposal of assets	(69)	-	(69)
Administrative and other	(11,383)	(6,729)	(18,112)
Income tax	(7,866)	(313)	(8,179)
Net income (loss) for the period from continuing operations	\$ 33,848	\$ (7,733)	\$ 26,115
Capital expenditures	\$ 101,499	\$ -	\$ 101,499
Total assets	\$ 770,426	\$ 2,284	\$ 772,710

Year ended December 31, 2024			
	Karowe Mine	Corporate	Total
Revenues	\$ 203,876	\$ -	\$ 203,876
Operating expenses	(79,581)	-	(79,581)
Royalty expenses	(23,208)	-	(23,208)
Depletion and amortization	(16,636)	-	(16,636)
Income from mining operations	84,451	-	84,451
Finance expenses	(1,966)	(929)	(2,895)
Gain on derivative financial instrument	290	-	290
Foreign exchange gain (loss)	(7,282)	369	(6,913)
Loss on disposal of assets	(152)	-	(152)
Loss on extinguishment	(10,529)	-	(10,529)
Administrative and other	(10,773)	(7,110)	(17,883)
Income tax	(2,387)	(370)	(2,757)
Net income (loss) for the year from continuing operations	\$ 51,652	\$ (8,040)	\$ 43,612
Capital expenditures	\$ 95,010	\$ -	\$ 95,010
Total assets	\$ 657,466	\$ 3,367	\$ 660,883

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17. SEGMENT INFORMATION (CONTINUED)

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

	Plant and equipment		Mineral properties		Other	
	2025	2024	2025	2024	2025	2024
Canada	\$ 706	\$ 1,316	\$ -	\$ -	\$ -	\$ -
Botswana	124,050	118,204	472,410	354,207	70,963	97,889
	\$ 124,756	\$ 119,520	\$ 472,410	\$ 354,207	\$ 70,963	\$ 97,889

Depletion and amortization expense for Karowe Mine and Corporate during the year ended December 31, 2025 totaled \$13.9 million and \$0.4 million, respectively (2024: \$17.0 million and \$0.3 million).

During the year ended December 31, 2025, diamonds sold to HB generated 70% (2024: 70%) of the Company's revenue. The Company attributes revenue from external customers based on the location where the sales originated. During the year ended December 31, 2025 and 2024, the Company generated 100% of revenue from sales originating in Botswana.

18. 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 Company's financial instruments include cash and trade receivables, which are categorized as financial assets at amortized cost, and trade and royalties payable, which are categorized as financial liabilities at amortized cost. The fair value of these financial instruments approximates their carrying values due to the short-term nature of these instruments. Amounts drawn on the Facilities and due to related parties are interest-bearing and are recorded at fair value upon inception. These are subsequently measured at amortized cost. The Company's marketable securities are classified as financial instruments measured at fair value through other comprehensive income, with fair values derived from quoted prices in active markets for identical assets.

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 in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for assets or liabilities, either directly (i.e. observed prices) or indirectly (i.e. derived from prices).
- Level 3 - Inputs for the assets or liabilities that are not based on observable market data. No financial assets or liabilities are recognized at level 3.

	December 31, 2025	December 31, 2024
Level 1: Fair value through other comprehensive income		
– Marketable Securities	\$ -	\$ 498
Level 2: Derivative financial instruments	\$ 3,707	\$ 8,398

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18. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (CONTINUED)

c) *Financial risk management*

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

Currency risk

The Company is exposed to the financial risk related to fluctuating foreign exchange rates. All sales revenues are denominated in U.S. dollars, while directly related costs are denominated in Botswana Pula.

At December 31, 2025, the Company was exposed to currency risk relating to U.S. dollar and Botswana Pula 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 \$6.4 million in net income for the period. A 10% change in the Botswana Pula would give rise to an increase/decrease of approximately \$0.6 million in net income for the period.

Liquidity risk

Liquidity risk is the risk of the Company's potential inability to meet financial obligations as they mature. The Company manages this risk through regular cash flow forecasting at the operational level, aggregated at the corporate level to determine capital needs. Rolling liquidity forecasts are prepared and monitored to ensure sufficient cash is available for short- and long-term operational requirements. Such forecasting takes into consideration the Company's ability to generate cash from the sale of diamonds and additional liquidity support such as financings, accessing the CORA and funding support provided by Nemesia.

Trade payable and accrued liabilities are predominately due within 30 to 60 days. Tax and royalties payable are predominately due within 15 days. As at December 31, 2025, \$1.0 million of the Company's contractual maturities related to amounts due to related parties and lease liabilities are due within twelve months, and \$45.9 million is due beyond twelve months. The WCF is classified as current due to the Clean Down. The maturity date for the WCF is September 30, 2031. Further details regarding the Company's liquidity risks are disclosed in Notes 1 and 9.

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 by holding its deposits with international financial institutions. Considering the nature of the Company's ultimate customers and the relevant terms and conditions entered 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 tenders or on the Clara platform.

A large 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 tender sales and sales through the Clara platform (five days). The Company maintains legal title over goods shipped to HB until the estimated initial polished value is paid and continues to monitor outstanding amounts for collectability. 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.

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18. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (CONTINUED)

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 cash flow interest rate risk on its Project Facility through interest rate swaps that exchange a portion of the variable rate inherent in the term debt for a fixed rate (Note 9). 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 interest rate swap derivative will however fluctuate in response to changing market interest rates that will result in a corresponding increase or decrease to profit or loss.

In September 2024, the Company amended interest rate swap contracts to exchange variable interest rate (three-month USD Term SOFR) for a fixed interest rate ranging from 2.447% to 2.577% on 75% of its expected borrowings from the Project Facility (approximately \$142.5 million). The Company is exposed to cash flow interest rate risks on 25% of its expected borrowings from the Project Facility, and amounts drawn from its WCF which remain subject to market interest rates (Term SOFR or a replacement benchmark).

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 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 the traditional tender process for rough diamonds. 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.

19. COMMITMENTS

As at December 31, 2025, purchase orders and contracts resulting in commitments for future minimum payments for services to be provided related to the UGP amounted to \$82.3 million (December 31, 2024: \$79.2 million). The following table summarizes the approximate timing of the commitments (undiscounted) at December 31, 2025:

<i>In millions of dollars</i>	2026	2027	2028	2029	2030	Total
UGP commitments	\$ 37.9	38.8	5.6	-	-	\$ 82.3

As at December 31, 2025, minimum payments in relation to lease commitments amount to \$2.5 million (December 31, 2024: \$2.8 million). The following table summarizes the approximate timing of the undiscounted minimum lease payments at December 31, 2025:

<i>In millions of dollars</i>	2026	2027	2028	2029	2030	Total
Minimum lease payments	\$ 1.2	0.9	0.3	0.1	-	\$ 2.5

LUCARA DIAMOND CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

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

20. SUBSEQUENT EVENTS

On January 29, 2026, the Company closed a non-brokered private placement for aggregate gross proceeds of C\$165.0 million. Pursuant to the January 2026 equity financing, a total of 1,031,250,000 common shares of the Company were sold at a price of C\$0.16 per common share, which included participation by Nemesia. All common shares issued pursuant to the January 2026 equity financing are subject to a four-month statutory hold period under applicable Canadian securities laws.

On March 3, 2026, the Company and the Lenders entered into the Subsequent Waiver Agreement. The Subsequent Waiver Agreement approved a reduction of the required CORA balance from \$33.7 million to \$21.2 million.