



LUCARA

DIAMOND

Consolidated Financial Statements
Year Ended December 31, 2024



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, 2024 and 2023, 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, 2024 and 2023;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive (loss) income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers LLP
PwC Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T.: +1 604 806 7000, F.: +1 604 806 7806, Fax to mail: ca_vancouver_main_fax@pwc.com

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



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, 2024. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment test of the mineral properties, plant and equipment for the Karowe Mine cash generating unit (Karowe CGU)</p> <p><i>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.</i></p> <p>As at December 31, 2024, the total net book value of mineral properties, plant and equipment amounted to \$473.7 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.</p> <p>During the year, management identified impairment indicators due to the Company's market capitalization being lower than the net book value. As a result, management performed an impairment test of the Karowe CGU as at December 31, 2024. 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, 2024, no impairment was noted as the recoverable amount was higher than the carrying amount of the Karowe CGU.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none">• Tested how management determined the recoverable amount of the Karowe CGU, which included the following:<ul style="list-style-type: none">– Tested the appropriateness and mathematical accuracy of the discounted cash flow model.– Tested underlying data used in the discounted cash flow model.– Evaluated the reasonableness of significant assumptions by (i) comparing the operating and capital cost estimates to recent actual operating costs and capital expenditures incurred; (ii) comparing estimated diamond prices to recent actual sales data, external market and industry data; and (iii) assessing whether these assumptions were consistent with evidence obtained in other areas of the audit.– The work of management's experts was used in performing the procedures to evaluate the reasonableness of the significant assumptions, which included production volumes including high-values 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



Key audit matter	How our audit addressed the key audit matter
<p>The determination of the recoverable amount calculated using a discounted cash flow model included the following significant assumptions: estimated diamond prices, production volumes including high-value stones, operating and capital cost estimates, and discount rate.</p> <p>Management's estimates of the estimated diamond prices, production volumes including high-value 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).</p> <p>We considered this a key audit matter due to the significant judgment by management in determining the recoverable amount of the Karowe CGU, including the use of management's experts 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.</p>	<p>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.</p> <ul style="list-style-type: none">– Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the reasonableness of the discount rate.• Tested the disclosures made in the consolidated financial statements with regard to the impairment test for the Karowe CGU.

Other information

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

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

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

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



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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS 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
February 21, 2025

	December 31, 2024	December 31, 2023
ASSETS		
Current assets		
Cash	\$ 22,788	\$ 13,337
Receivables and other (Note 5)	33,039	35,050
Derivative financial instrument (Note 9)	2,089	3,010
Inventories (Note 6)	31,301	34,534
	89,217	85,931
Inventories (Note 6)	37,637	38,719
Mineral properties, plant and equipment (Note 7)	473,727	412,228
Intangible assets (Note 8)	-	6,211
Deferred financing fees (Note 9)	-	4,122
Derivative financial instrument (Note 9)	6,309	5,097
Cost overrun reserve account (Note 9)	49,148	18,574
Other non-current assets	4,795	4,921
TOTAL ASSETS	\$ 660,833	\$ 575,803
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	\$ 29,015	\$ 42,580
Deferred revenue (Note 13)	-	20,000
Working capital facility (Note 9)	25,000	35,000
Tax and royalties payable	7,227	3,444
Lease liabilities	831	1,472
	62,073	102,496
Project facility (Note 9)	180,000	86,515
Due to related party (Note 9)	15,000	15,000
Restoration provisions (Note 10)	17,640	13,738
Deferred income taxes (Note 15)	110,513	112,763
Other non-current liabilities	3,878	3,160
TOTAL LIABILITIES	389,104	333,672
EQUITY		
Share capital, unlimited common shares, no par value (Note 11)	348,401	349,718
Contributed surplus	9,513	9,371
Retained earnings (deficit)	26,202	(13,702)
Accumulated other comprehensive loss	(112,387)	(103,256)
TOTAL EQUITY	271,729	242,131
TOTAL LIABILITIES AND EQUITY	\$ 660,833	\$ 575,803

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

Commitments – Note 20
Subsequent events – Note 21

"Ian Gibbs"
Director

"David Dicaire"
Director

LUCARA DIAMOND CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
(In thousands of U.S. Dollars, except for share and per share amounts)

		2024		2023
Revenues (Note 13)	\$	203,876	\$	172,400
Cost of goods sold				
Operating expenses		79,581		73,212
Royalty expenses (Note 13)		23,208		20,056
Depletion and amortization		16,636		16,779
		119,425		110,067
Income from mining operations		84,451		62,333
Other expenses				
Administration (Note 14)		14,814		19,110
Sales and marketing		3,069		3,462
Finance expenses		2,895		4,221
(Gain) loss on derivative instrument (Note 9)		(290)		1,712
Foreign exchange loss		6,913		5,093
Loss on extinguishment of debt facilities (Note 9)		10,529		-
Loss on disposal of assets (Note 7)		152		943
		38,082		34,541
Net income from continuing operations before tax		46,369		27,792
Income tax expense				
Current income tax		480		3,483
Deferred income tax		2,277		29,268
		2,757		32,751
Net income (loss) from continuing operations		43,612		(4,959)
Net loss from discontinued operations (Note 8)		(3,708)		(15,232)
Net income (loss) for the year	\$	39,904	\$	(20,191)
Earnings (loss) per common share from continuing operations				
Basic	\$	0.10	\$	(0.01)
Diluted	\$	0.09	\$	(0.01)
Loss per common share from discontinued operations				
Basic and diluted	\$	(0.01)	\$	(0.03)
Weighted average common shares outstanding (millions)				
Basic		457.3		454.8
Diluted		468.0		454.8

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

LUCARA DIAMOND CORP.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
(In thousands of U.S. Dollars)

	2024		2023	
Net income (loss) for the year	\$	39,904	\$	(20,191)
Other comprehensive (loss) income				
<i>Items that will not be reclassified to net income</i>				
Change in fair value of marketable securities		(312)		150
<i>Items that may be subsequently reclassified to net income</i>				
Currency translation adjustment		(9,807)		(8,766)
Currency translation adjustment reclassified on disposal of subsidiary		988		-
		(9,131)		(8,616)
Comprehensive income (loss) for the year	\$	30,773	\$	(28,807)
Total comprehensive income (loss) attributable to shareholders of the Company from:				
Continued operations		34,481		(13,575)
Discontinued operations		(3,708)		(15,232)
	\$	30,773	\$	(28,807)

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, 2024 AND 2023
(In thousands of U.S. Dollars)

	2024	2023
Operating activities		
Net income (loss) for the year from continuing operations	\$ 43,612	\$ (4,959)
Items not affecting cash:		
Depletion and amortization	17,341	17,222
Unrealized foreign exchange loss	5,955	4,429
Share-based compensation	685	1,440
Loss on extinguishment of debt facilities	9,727	-
Unrealized (gain) loss on derivative instrument	(290)	1,712
Deferred income tax expense	2,277	29,268
Recognition of deferred revenue	(20,000)	-
Finance expenses	2,606	1,626
Loss on disposal of assets	152	943
	62,065	51,681
Net changes in working capital:		
Receivables and other	(761)	(5,302)
Inventories	(1,348)	(9,309)
Trade payables and accrued liabilities	(4,350)	18,880
Deferred revenue	-	8,000
Tax and royalties payable	4,040	1,815
Net cash provided by continuing operating activities	59,646	65,765
Net cash used in discontinued operating activities	(3,344)	(2,408)
Financing activities		
Drawdown on working capital facility	10,000	20,000
Drawdown on project facility	70,000	25,000
Drawdown on debenture	-	15,000
Withholding tax on share units vested	(67)	(461)
Lease payments	(1,590)	(1,540)
Funding of cost overrun reserve account	(30,574)	(18,000)
Net cash provided by continuing financing activities	47,769	39,999
Net cash used in discontinued financing activities	(13)	(338)
Investing activities		
Investment in mineral properties, plant and equipment	(95,010)	(115,682)
Disposal of subsidiary, net of cash disposed of	718	-
Net cash used in continuing investing activities	(94,292)	(115,682)
Net cash used in discontinued investing activities	(59)	(112)
Effect of exchange rate change on cash	(256)	(305)
Increase (decrease) in cash	9,451	(13,081)
Cash, beginning of the year	13,337	26,418
Cash, end of the year	\$ 22,788	\$ 13,337
Supplemental information		
Interest paid	\$ (20,578)	\$ (14,607)
Taxes paid	(412)	(8,494)
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⁾	(1,580)	(3,079)
Depletion and amortization included in inventories	(2,757)	(3,606)

⁽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 \$7.2 million at December 31, 2024 (December 31, 2023: \$8.2 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, 2024 AND 2023 (in thousands of U.S. Dollars, unless otherwise indicated)

	Number of shares issued and outstanding	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive loss	Total
Balance, January 1, 2023	453,566,923	\$ 348,083	\$ 10,129	\$ 6,489	\$ (94,640)	\$ 270,061
Net loss for the year	-	-	-	(20,191)	-	(20,191)
Other comprehensive loss	-	-	-	-	(8,616)	(8,616)
Total comprehensive loss	-	-	-	(20,191)	(8,616)	(28,807)
Shares issued for debenture	1,027,500	264	-	-	-	264
Shares issued from share units vested	1,582,970	1,371	(1,371)	-	-	-
Withholding tax for share units vested	-	-	(461)	-	-	(461)
Share-based compensation	-	-	1,074	-	-	1,074
Balance, December 31, 2023	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	\$ 28,085	\$ (112,387)	\$ 271,729

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

LUCARA DIAMOND CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

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

1. NATURE OF OPERATIONS AND LIQUIDITY

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

The Company’s common shares are listed on the Toronto Stock Exchange (the “TSX”), 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.

During the year ended December 31, 2024, the Company generated net income from continuing operations of \$43.4 million and generated cash of \$59.6 million from continuing operating activities. As at December 31, 2024, the Company had cash of \$22.8 million and working capital (current assets less current liabilities) of \$27.1 million.

The Company’s schedule and budget for the Karowe Underground Expansion Project (the “UGP”) anticipates commencement of underground production in the first half of 2028 with a completion cost forecast of \$683.4 million. As at December 31, 2024, capital expenditures of \$347.9 million had been incurred. Committed, not yet incurred, costs under the UGP are \$79.2 million at December 31, 2024 (Note 20).

On January 9, 2024, the Company completed an agreement with its lenders to modify the debt package (the “Facilities”) for the UGP. The agreement includes increasing the project finance facility from \$170.0 million to \$190.0 million (the “Project Facility”), reducing the senior secured working capital facility (the “WCF”) from \$50.0 million to \$30.0 million, extending the maturity date of the WCF to June 30, 2031, and amending certain other terms (the “Rebase Amendments”). The WCF requires the Company to fully pay down the WCF for five successive business days at least once every 12 months. A pay down and subsequent redraw of the WCF was completed in October 2024. During the year ended December 31, 2024, the Company drew \$70.0 million under the Project Facility and \$10.0 million under the WCF.

Prior to June 30, 2025, the Company is required to place \$61.7 million in a cost overrun reserve account (the “CORA”) as a condition of the Facilities. The Facilities Agreement includes specific provisions for how and when these funds may be released from the CORA. The CORA balance was \$49.1 million as at December 31, 2024. The Company is required to fund the remaining balance with the proceeds from the sale of exceptional stones and cashflow from operations.

Under the terms of the Project Facility, the Company’s largest shareholder, Nemesia S.à.r.l. (“Nemesia”) provided a limited standby undertaking of up to \$63.0 million. The standby undertaking consists of two components: i) \$28.0 million component is for the undertaking to support the requirement to fill the CORA to \$61.7 million by June 30, 2025 and; ii) \$35.0 million component is for a funding shortfall guarantee in support for the UGP completion.

LUCARA DIAMOND CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

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

2. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES

(i) Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards 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.

These financial statements were approved by the Board of Directors for issue on February 21, 2025.

The following entities are included in these consolidated financial statements:

	Country of incorporation	Ordinary shares held	
		December 31, 2024	December 31, 2023
Lucara Botswana Proprietary Limited	Botswana	100%	100%
Wati Ventures Proprietary Limited	Botswana	100%	100%
Debwat Exploration Proprietary Limited	Botswana	100%	100%
Clara Diamond Solutions Limited Partnership ⁽¹⁾	Canada	-	100%
Clara Diamond Solutions GP Inc. ⁽¹⁾	Canada	-	100%
Clara Diamond Solutions BV ⁽¹⁾	Belgium	-	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%

⁽¹⁾ On October 4, 2024, the Company disposed of its interest in Clara Diamond Solutions BV, Clara Diamond Solutions Limited Partnership, and Clara Diamond Solutions GP Inc. (Note 8)

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.

(ii) Adoption of new accounting standards and accounting developments

Amendments to IAS 1 Presentation of Financial Statements

The IASB amended IAS 1 *Presentation of Financial Statements* to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

The amendment issued in October 2022 clarifies that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification as current or non-current, even if the covenant is only assessed after the entity's reporting date.

The amendment is effective for annual periods beginning on or after January 1, 2024. The amendment had no impact on the presentation of the Company's debt facilities. The Company has modified certain disclosures for the adoption of this new IFRS Accounting Standard pronouncement.

LUCARA DIAMOND CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

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

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

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures

On May 25, 2023, the IASB issued 'Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures)' to add disclosure requirements that ask entities to provide qualitative and quantitative information about supplier finance arrangements. The amendments supplement requirements already in the IFRS Accounting Standards and require a company to disclose the terms and conditions, the amount of the liabilities that are part of the arrangements, ranges of payment due dates; and liquidity risk information.

The amendments are effective for annual periods beginning on or after January 1, 2024. The Company has adopted these new IFRS Accounting Standard amendments. As the Company is not subject to supplier finance arrangements the amendments have no impact on the consolidated financial statements.

IFRS 18 Presentation and Disclosure in Financial Statements

On April 9, 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.

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 is effective for annual periods beginning on or after January 1, 2027. The Company will adopt the new standard once it becomes effective.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

(a) 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 estimated initial polished value is determined, the Company recognizes revenue if collectability is reasonably assured.

LUCARA DIAMOND CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

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

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

(b) *Assessment of impairment indicators*

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 necessitate impairment testing. The Company has an ongoing indicator of impairment of its mineral properties, and plant and equipment due to its market capitalization being lower than its net book value. The Company conducted an impairment assessment at December 31, 2024 and no impairment was noted.

(c) *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.

(d) *Going concern and liquidity risk*

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

(e) *Assets held for sale and discontinued operations*

The Company uses its judgement to determine whether an asset or disposal group is available for immediate sale in its present condition and whether the sale is highly probable and therefore should be classified as held for sale in the consolidated statements of financial position. The Company also used judgement to determine whether a component of the Company that either has been disposed of or is classified as held for sale meets the criteria of a discontinued operation. The key area that involved management judgement in this determination is whether the component represents a separate major line of business or geographical area of operations.

(f) *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 are 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

(a) *Estimated recoverable reserves and resources*

Mineral reserve and resource estimates are based on various assumptions relating to operating matters. These include production costs, mining and processing recoveries, cut-off grades, long term diamond prices and, in some cases, exchange rates, inflation rates and capital costs. Cost estimates are based on feasibility study estimates or operating history. Estimates are prepared by appropriately qualified persons, but will be affected by forecast commodity prices, diamond prices, inflation rates, exchange rates, capital and production costs and recoveries amongst other factors. Proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves geological and geophysical studies and economic data and the reliance on a number of assumptions.

LUCARA DIAMOND CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

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

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

(a) *Estimated recoverable reserves and resources (continued)*

The estimates of the reserves may change based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production.

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

(b) *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 production volumes and diamond prices, 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.

(c) *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.

(d) *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.

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

(d) *Estimated variable consideration in determining revenue (continued)*

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

(e) *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 or other similar studies which outline the activities that will be carried out to meet the obligations. The restoration provision requires significant estimates and assumptions because the obligations are dependent on the laws and regulations of the country in which the mine operates and are based on future expectations of the timing, extent and cost of required decommissioning and site restoration activities. The provision for decommissioning and site restoration is remeasured at the end of each reporting period for changes in estimates or circumstances.

(f) *Deferred taxes*

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

4. SUMMARY OF MATERIAL ACCOUNTING POLICIES

The 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. Where the Company's interest is less than 100%, the Company recognizes non-controlling interests. 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.

LUCARA DIAMOND CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

4. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency translation (continued)

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.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

(c) *Financial instruments (continued)*

- (iii) Financial assets and liabilities at amortized cost: Financial assets and liabilities at amortized cost include cash, trade receivables, credit facilities and trade and royalties payable and are included in current classification 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 credit facilities are interest-bearing and are recorded at fair value upon inception. These are subsequently measured at amortized cost.

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

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

Furniture and office equipment	3 to 5 years straight line
Machinery and equipment	4 to 12 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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

(f) Mineral properties and capitalized production stripping costs

Mineral properties are carried at cost, less accumulated depletion and any 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.

(g) Intangible assets

Intangible assets with finite lives consist of acquired trademarks, copyrights, patents and intellectual property that are initially capitalized at the purchase price plus any other directly attributable costs. These assets are amortized using the straight-line method over their estimated useful lives.

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

(h) Impairment of non-financial assets

Long lived assets are reviewed at each reporting period for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are reviewed for impairment annually. When impairment indicators exist, an impairment assessment is conducted at the level of the CGU (a group of assets that generate independent cash inflows). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. 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 an asset'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.

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4. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

(i) Provisions

Asset retirement obligations

The Company recognizes a liability for an asset retirement obligation on long-lived assets when a present legal or constructive obligation exists, as a result of past events and the amount of the liability is reasonably determinable. Asset retirement obligations are initially recognized 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.

(j) Income taxes

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

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

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

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

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

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

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.

LUCARA DIAMOND CORP.

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4. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

(k) Share capital

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(l) 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.

(m) Share-based compensation

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

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

The fair value of the employee and non-employee services received in exchange for the grant of the options 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.

(n) Earnings (loss) per share

Earnings (loss) per share is calculated by dividing the income or loss attributable to the shareholders of the Company by the weighted average number of common shares issued and outstanding during the year. Diluted income per share is calculated using the treasury stock method. In periods of loss basic and diluted earnings per share are the same as dilutive instruments have an anti-dilutive effect.

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4. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

(o) 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 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 12 months or less.

(p) 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.

(q) Discontinued operations and assets held for sale

Non-current assets and disposal groups are classified as assets held for sale if it is probable that the value of these assets will be recovered primarily through sale rather than continued use. They are recorded at the lower of carrying amount and fair value less cost of disposal. Impairment losses on initial classified as assets held for sale and subsequent gains and losses on remeasurement are recognized in the consolidated statements of operations. Once classified as held for sale, intangible assets and property and equipment are no longer amortized. The assets and liabilities are presented as held for sale in the consolidated statements of financial position when the sale is highly probable, the asset or disposal group is available for immediate sale in its present condition and management is committed to the sale, which should be expected to be completed within one year from the date of classification.

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. When a disposal group is classified as held for sale, assets and liabilities are aggregated and presented as separate line items on the consolidated statements of financial position.

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5. RECEIVABLES AND OTHER

		2024		2023
Trade receivables	\$	18,416	\$	12,981
Value-added and income taxes		7,585		13,927
Prepayments		6,824		8,012
Other		214		130
	\$	33,039	\$	35,050

Trade receivables at December 31, 2024 were \$18.4 million (December 31, 2023: \$13.0 million) due from HB.

Value-added and income taxes receivable include \$5.0 million on December 31, 2024 (December 31, 2023: \$5.0 million) that relates to an income tax assessment dispute in Botswana.

6. INVENTORIES

		2024		2023
Rough diamonds	\$	14,987	\$	19,217
Ore stockpiles		3,339		2,038
Parts and supplies		12,975		13,279
Total current inventories	\$	31,301	\$	34,534
Non-current inventories – ore stockpiles	\$	37,637	\$	38,719

Inventory expensed during the year ended December 31, 2024 totaled \$79.6 million (2023: \$73.2 million). There was no inventory write-downs during the years ended December 31, 2024 and 2023.

LUCARA DIAMOND CORP.

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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, 2023	\$ 97,557	\$ 224,860	\$ 19,140	\$ 226,864	\$ 568,421
Additions	-	92,128	12,993	1,292	106,413
Borrowing cost capitalized	-	9,285	-	-	9,285
Adjustment to restoration provision	(472)	-	-	-	(472)
Disposals	-	-	(943)	(391)	(1,334)
Reclassifications	-	(38,832)	(12,073)	50,905	-
Translation differences	(4,573)	(10,864)	(903)	(10,696)	(27,036)
Balance, December 31, 2023	\$ 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

Accumulated depletion and amortization	Karowe Mine development costs and capitalized stripping	Karowe Underground Construction	Construction in progress	Plant and equipment	Total
Balance, January 1, 2023	\$ 78,287	-	-	157,765	\$ 236,052
Depletion and amortization	7,266	-	-	11,071	18,337
Disposals	-	-	-	(317)	(317)
Translation differences	(3,709)	-	-	(7,314)	(11,023)
Balance, December 31, 2023	\$ 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

Net book value					
As at December 31, 2023	\$ 10,668	\$ 276,577	\$ 18,214	\$ 106,769	\$ 412,228
As at December 31, 2024	\$ 6,294	\$ 347,913	\$ 3,799	\$ 115,721	\$ 473,727

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

Total borrowing costs of \$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 prior to the Rebase Amendments.

LUCARA DIAMOND CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023****(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated)**

7. MINERAL PROPERTIES, PLANT AND EQUIPMENT (CONTINUED)

The Company has an ongoing impairment indicator of its mineral properties, and plant and equipment due to its market capitalization being lower than the net book value. The Company conducted an impairment assessment at December 31, 2024 and the recoverable amount of the Karowe CGU was determined. The net book value of the mineral properties, plant and equipment related to the Karowe CGU was \$473.7 million. The recoverable amount of the Karowe CGU is based on the discounted projected after-tax cash flows expected to be derived and represents the CGU's fair value less cost of disposal ("FVLCD"). The determination of the FVLCD requires use of Level 2 and Level 3 valuation inputs. Significant assumptions to determine the FVLCD include estimated production volumes, operating and capital cost estimates from the Feasibility Study Technical Report, estimated diamond prices reflecting achieved pricing and market trends and discount rates ranging from 10.75% to 11.50%. The expected production volumes includes high-value stones, estimated on a basis consistent with historical recoveries. No impairment was noted as the FVLCD was higher than the carrying amount of the Karowe CGU.

8. SALE OF CLARA - INTANGIBLE ASSETS AND DISCONTINUED OPERATIONS**Cost**

Balance, January 1, 2023	\$	22,511
Development expenditures		112
Translation differences		499
Balance, December 31, 2023	\$	23,122
Development expenditures		59
Disposal		(22,838)
Translation differences		(343)
Balance, December 31, 2024	\$	-

Accumulated amortization and impairment

Balance, January 1, 2023	\$	4,287
Amortization		1,306
Impairment of intangible assets		11,200
Translation differences		118
Balance, December 31, 2023	\$	16,911
Amortization		232
Disposal		(17,006)
Translation differences		(137)
Balance, December 31, 2024	\$	-

Net book value

As at December 31, 2023	\$	6,211
As at December 31, 2024	\$	-

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8. SALE OF CLARA - INTANGIBLE ASSETS AND DISCONTINUED OPERATIONS (CONTINUED)

The following outlines the results of discontinued operations from the Clara for the period from January 1, 2023 to the date of disposal, October 4, 2024.

Year ended - December 31,		2024		2023
Revenue ⁽¹⁾	\$	2,223	\$	4,971
Cost of sales ⁽¹⁾		3,382		6,888
Gross margin		(1,159)		(1,917)
Other expenses		1,196		2,015
Impairment of intangible assets		-		11,200
Loss on disposal		1,353		-
Net loss from discontinued operations	\$	(3,708)	\$	(15,232)

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

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 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 when Lucara acquired the Clara platform.

At December 31, 2023, the Company identified an indicator of impairment. The recoverable amount of the Clara CGU was based on the fair value less cost of disposal ("FVLCD") expected to be derived from the sale of the platform. The determination of FVLCD required use of Level 1 valuation inputs. The impairment assessment resulted in an impairment expense of \$11.2 million recorded in net loss from discontinued operations.

On September 28, 2022, the Company's former wholly-owned subsidiary, Clara, with Lucara Diamond Corp. as guarantor, entered into a revolving credit facility agreement of \$4.0 million. The revolving credit facility was fully repaid during the year ended December 31, 2023. Effective July 2024, the Clara revolving credit facility was fully released and cancelled.

9. CREDIT FACILITIES

The movement in credit facilities are comprised of the following:

	Deferred financing fees	Project Facility	Working Capital Facility	Total
Balance, January 1, 2023	\$ 5,410	\$ (62,151)	\$ (15,000)	\$ (71,741)
Amortization of financial fees	-	(765)	-	(765)
Financing fees	113	-	-	113
Finance fees transfer	(1,401)	1,401	-	-
Drawdown	-	(25,000)	(20,000)	(45,000)
Balance, December 31, 2023	\$ 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)

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9. CREDIT FACILITIES (CONTINUED)

Senior secured project facility (Project Facility)

On January 9, 2024, the Company's wholly-owned subsidiary, Lucara Botswana, with Lucara Diamond Corp. as sponsor and guarantor, amended its senior secured project financing debt package of \$220.0 million that was originally entered into in 2021. The Facilities consist of the Project Facility of \$190.0 million (\$170.0 million prior to amendment) to fund the development of an underground expansion at the Karowe Mine and a \$30.0 million (\$50.0 million prior to amendment) senior secured WCF. The debt package is with a syndicate of five mandated lead arrangers (the "Lenders").

The amendments modified the repayment schedule, extended the maturity date of the WCF to June 30, 2031, and amended certain other terms (the "Rebase Amendments"). 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 may be 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 June 30, 2031, with quarterly repayments commencing on September 30, 2028. As at December 31, 2024, \$180.0 million of the \$190.0 million facility was drawn. 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 June 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.

The WCF may be used for working capital and other corporate purposes. As at December 31, 2024, \$25.0 million of the \$30.0 million facility was drawn. 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 June 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 June 30, 2031.

Upon the Rebase Amendments, the remaining balance of deferred financing costs 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. As at December 31, 2024, the Company was in compliance with all covenants under the Facilities.

Under the Rebase Amendments, Nemesia provided a limited standby undertaking of up to \$63.0 million. The limited standby undertaking consists of two components:

- i) The \$28.0 million component for the undertaking to support the requirement to fill the CORA to \$61.7 million by June 30, 2025; and
- ii) The \$35.0 million component for a funding shortfall guarantee in support of the UGP completion.

For each \$500,000 drawn under the limited standby undertaking, the Company will issue 7,500 common shares per month settled quarterly to Nemesia until the amounts borrowed are repaid. A further 600,000 common shares will be issued if the undertaking is activated.

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.

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9. CREDIT FACILITIES (CONTINUED)

As part of the Rebase Amendments signed on January 9, 2024, 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 June 30, 2031.

As at December 31, 2024, the interest rate swaps had a total unrealized fair value of \$8.4 million (December 31, 2023: \$8.1 million), of which \$2.1 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 – debenture

In November 2023, the Company drew \$15.0 million from its liquidity support guarantee provided by Nemesia and issued a corresponding unsecured debenture (the "Debenture"). Subject to the receipt of all required regulatory approvals, for each \$500,000 outstanding under the 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 in terms of which common shares would be issued to Nemesia on a quarterly, instead of a monthly basis. The Debenture matures August 29, 2029.

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 8.4% at December 31, 2024 (December 31, 2023: 8.7%) and an annual inflation rate of 4.5% at December 31, 2024 (December 31, 2023: 4.5%). The estimated liability for reclamation and remediation costs on an undiscounted basis is approximately \$39.4 million (December 31, 2023: \$34.2 million).

Balance, January 1, 2023	\$	13,649
Changes to rates and estimates		(472)
Accretion		1,205
Translation differences		(644)
Balance, December 31, 2023	\$	13,738
Changes to rates and estimates		3,056
Accretion		1,525
Translation differences		(679)
Balance, December 31, 2024	\$	17,640

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11. SHARE CAPITAL

During the year ended December 31, 2023, 1,027,500 common shares (\$0.3 million) were issued to Nemesia consisting of 900,000 common shares for the activation and withdrawal of the Debenture and 127,500 common shares for payment of interest on the Debenture (Note 9).

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 for payment of interest on 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).

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 12, 2023. The Option Plan provides the Board of Directors with discretion to determine the vesting period for each stock option grant. Options historically vest in thirds over a three-year period beginning on the first anniversary of the date of grant and expire four years from the date of grant. Options granted in 2023 cliff vest following a three-year period and expire five years from the date of grant. Options granted in 2024 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, 2023	6,414,000	\$ 0.89
Granted	2,412,000	0.57
Expired	(1,134,000)	1.64
Forfeited	(1,148,000)	0.65
Balance at December 31, 2023	6,544,000	\$ 0.68
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

Options granted to acquire common shares are outstanding at December 31, 2024 as follows:

Outstanding Options				Exercisable Options		
Range of exercise prices CA\$	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CA\$)	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price (CA\$)
\$0.32 - \$0.60	3,678,000	3.88	0.44	396,000	3.16	0.57
\$0.61 - \$0.79	2,485,000	0.68	0.72	2,278,999	0.64	0.73
	6,163,000	2.59	\$ 0.55	2,674,999	1.01	\$ 0.70

During the year ended December 31, 2024, the Company recognized \$0.3 million (2023: \$0.3 million) in share-based compensation based on the vesting of option.

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12. SHARE BASED COMPENSATION (CONTINUED)

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:

	2024	2023
Assumptions:		
Risk-free interest rate (%)	3.74	2.99
Expected life (years)	3.53	4.54
Expected volatility (%)	45.61	49.81
Expected dividend (\$)	Nil	Nil
Results:		
Weighted average fair value of options granted (<i>per option</i>)	CA\$0.14	CA\$0.25

b. Restricted and performance share units

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

SUs typically vests 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, 2024, the Company recognized \$0.5 million (2023: \$0.8 million) in share-based payments for the SUs granted.

	Number of share units	Estimated fair value at date of grant (CA\$)
Balance at January 1, 2023	7,056,000	\$ 0.71
Granted	3,337,000	0.57
Redeemed	(2,876,001)	0.74
Cancelled	(3,902,999)	0.62
Balance at December 31, 2023	3,614,000	\$ 0.65
Granted	6,819,000	0.36
Redeemed	(1,075,000)	0.75
Cancelled	(1,323,332)	0.59
Balance at December 31, 2024	8,034,668	\$ 0.40

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12. SHARE BASED COMPENSATION (CONTINUED)

c. Deferred share units ("DSUs")

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

During the year ended December 31, 2024, the Company recognized a share-based payment recovery of \$0.1 million (2023: \$0.4 million expense) related to the revaluation DSUs granted.

	Number of DSUs	Estimated fair value (CA\$)
Balance at January 1, 2023	2,116,103	\$ 0.50
Granted	1,056,053	\$ 0.47
Balance at December 31, 2023	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

13. REVENUE

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

	2024	2023
<i>Sales Channels</i>		
HB	142,741	106,185
Clara	11,145	12,507
Tender	49,990	53,708
Total revenue	\$ 203,876	\$ 172,400

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, 2024, the Company incurred a royalty expense of \$23.2 million (2023: \$20.1 million).

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

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14. ADMINISTRATION

	2024	2023
Salaries and benefits	\$ 5,842	\$ 6,331
Professional fees	3,712	4,797
Insurance, office and general	1,188	1,228
Promotion	375	1,052
Stock exchange, transfer agent and shareholder communication	314	334
Travel	764	614
Share-based compensation (Note 12)	685	1,440
Depreciation	705	815
Sustainability and donations	1,229	1,255
Exploration	-	1,244
	\$ 14,814	\$ 19,110

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:

	2024	2023
Net income before tax	\$ 46,369	\$ 27,792
Combined basic federal and provincial rates	27.00%	27.00%
Expected income tax expense based on Canadian statutory income tax rates	12,520	7,504
Increase (decrease) due to:		
Differences in foreign tax rates	4,055	9,778
Differences in future expected foreign tax rates	(15,156)	7,660
Non-deductible expenses and other permanent differences	1,094	1,407
Change in deferred tax assets not recognized	(201)	1,669
Other	-	3,793
Withholding taxes	445	940
Total income tax expense	\$ 2,757	\$ 32,751

The Company is subject to a variable tax rate in Botswana based on a profit and revenue ratio which increases as profit as a percentage of revenue increases. The lowest variable tax rate is 22% while the highest variable tax rate is 55% (only if taxable income were equal to revenue). The Company has estimated the variable tax rate to be 33.1% in 2024 (2023: 37.8%) for deferred income taxes based on current financial performance and the life of mine plan which includes the Karowe underground expansion.

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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	2024	2023
<i>Deferred income tax assets</i>		
Non-capital losses	\$ 15,574	\$ 16,325
Accounts payable and other	7,070	2,059
Unrealized foreign exchange loss	1,271	978
Restoration provisions	3,881	3,022
Total deferred income tax assets	27,796	22,384
<i>Deferred income tax liabilities</i>		
Mineral properties, plant and equipment	136,482	135,147
Deferred income tax liabilities	136,482	135,147
Deferred income tax liabilities, net	\$ 108,686	\$ 112,763
Deferred income tax assets not recognized		
Non-capital tax losses	\$ 34,370	\$ 35,346
Mineral properties, plant and equipment	-	379
Other deductible temporary differences	451	262
	\$ 34,821	\$ 35,987

As at December 31, 2024, the Company has non-capital losses for income tax purposes which expire as follows:

	2025	2026	2027	Subsequent to 2027	No expiry date	Total
Botswana	\$ -	\$ -	\$ -	\$ -	\$ 70,794	\$ 70,794
Canada	-	516	1,225	114,137	-	115,878
United Kingdom	-	-	-	-	5,578	5,578
	\$ -	\$ 516	\$ 1,225	\$ 114,137	\$ 76,372	\$ 191,250

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 additional assessment from the Botswana Unified Revenue Service for the fiscal years 2016 to 2020 related to the tax deductibility of certain expenditures associated with the Company's operations in Botswana. The additional taxes, interest and penalties assessed for the fiscal years 2016 to 2020 were approximately \$7.0 million. The Company has paid the additional assessment and filed a notice of objection. The Company believes that its tax positions are valid and intends to vigorously defend its tax filing positions.

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16. EARNINGS (LOSS) PER COMMON SHARE*a) Basic*

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

b) Diluted

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

		2024		2023
Net income (loss) for the year from continuing operations	\$	43,612	\$	(4,959)
Net loss from discontinued operations		(3,708)		(15,232)
Weighted average number of common shares outstanding		457,314,547		454,781,585
Adjustment for share units		10,646,229		-
Weighted average number of common shares for diluted earnings per share		467,960,776		454,781,585
Basic earnings (loss) per share from continuing operations	\$	0.10	\$	(0.01)
Diluted earnings (loss) per share from continuing operations		0.09		(0.01)
Basic and diluted loss from discontinued operations	\$	(0.01)	\$	(0.03)

17. 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:

		2024		2023
Salaries and wages	\$	2,492	\$	3,637
Short term benefits		32		34
Share based compensation		594		991
	\$	3,118	\$	4,662

Other related party transactions

During the year ended December 31, 2024, the Company incurred \$0.8 million (2023: \$nil), primarily relating to office rental, renovation and related services provided by companies associated with the Company's significant shareholder and director. At December 31, 2024, included in trade payables and accrued liabilities is \$0.4 million (December 31, 2023: \$nil) for related services.

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18. SEGMENT INFORMATION

The Company's primary business activity is the operation of an open-pit diamond mine in Botswana. The Company has one operating segment: Karowe Mine. Clara which was previously included in the Corporate operating segment was disposed of during the year ended December 31, 2024 (Note 8).

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

2024			
	Karowe Mine	Corporate	Total
Revenues	\$ 203,876	\$ -	\$ 203,876
Income (loss) from operations	84,451	-	84,451
Finance expenses	(1,966)	(929)	(2,895)
Gain on derivative financial instrument	290	-	290
Foreign exchange 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)
Taxes	(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	\$ 3,554	\$ 661,020

2023			
	Karowe Mine	Corporate	Total
Revenues	\$ 172,400	\$ -	\$ 172,400
Income (loss) from operations	62,536	(203)	62,333
Finance expenses	(3,852)	(369)	(4,211)
Loss on derivative financial instrument	(1,712)	-	(1,712)
Foreign exchange loss	(4,822)	(271)	(5,093)
Loss on disposal of assets	(943)	-	(943)
Administrative and other	(12,762)	(9,810)	(22,572)
Taxes	(32,489)	(262)	(32,751)
Net income (loss) for the year from continuing operations	\$ 5,956	\$ (10,915)	\$ (4,959)
Capital expenditures	\$ 115,682	\$ -	\$ 115,682
Total assets	\$ 566,382	\$ 9,421	\$ 575,803

During the year ended December 31, 2024, diamonds sold to HB generated 70% (2023: 62%) 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, 2024 and 2023, the Company generated 100% of revenue from sales originating in Botswana.

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18. SEGMENT INFORMATION (CONTINUED)

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

	Plant and equipment		Mineral properties		Other	
	2024	2023	2024	2023	2024	2023
Canada	\$ 1,316	\$ 130	-	\$ -	-	\$ 7,022
Belgium	-	8	-	-	-	-
Botswana	118,204	124,845	354,207	287,245	97,889	70,622
	\$ 119,520	\$ 124,983	\$ 354,207	\$ 287,245	\$ 97,889	\$ 77,644

Depletion and amortization expense for Karowe Mine and Corporate during the year ended December 31, 2024 totaled \$17.0 million and \$0.3 million, respectively (2023: \$13.0 million and \$0.2 million).

19. 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 credit facilities are interest-bearing and are recorded at fair value upon inception. These are subsequently measured at amortized cost. The value of the Company's financial instruments at fair value through other comprehensive income is derived from quoted prices in active markets for identical assets.

b) *Fair value hierarchy*

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

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

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

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs). No financial assets or liabilities are recognized at level 3.

	2024	2023
Level 1: Fair value through other comprehensive income		
– Investments	\$ 498	\$ 811
Level 2: Derivative financial instruments	\$ 8,398	\$ 8,107

c) *Financial risk management*

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

Currency risk

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

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

19. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (CONTINUED)

c) *Financial risk management (Continued)*

At December 31, 2024, 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 \$6.7 million in net income for the period. A 10% change in the Botswana Pula would give rise to an increase/decrease of approximately \$0.7 million in net income for the period.

Liquidity risk

The Company has in place a planning and forecasting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. To manage liquidity risk, regular cash flow forecasting is performed in the operating entities of the Company and aggregated in the head office to understand what level of capital is required. Rolling forecasts of the Company's liquidity requirements are prepared and monitored to assess whether there is sufficient cash available to meet the Company's short and long-term operational needs. Such forecasting takes into consideration the Company's ability to generate cash from the sale of diamonds and additional liquidity support such as accessing the CORA and standby undertakings provided by Nemesia.

As a condition of the Facilities Agreement, the Company is required to place \$61.7 million in the CORA by June 30, 2025. The Facilities Agreement includes specific provisions for how and when these funds may be released. As at December 31, 2024, the CORA balance was \$49.1 million.

Trade payable and accrued liabilities are predominately due within 60 days. Tax and royalties payable are predominately due within 15 days. As at December 31, 2024, the amount of the Company's contractual maturities for credit facilities, due to related party, and lease liabilities of \$25.8 million are due within twelve months, and \$198.9 million due beyond twelve months.

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

On September 28, 2023, the Company terminated the old sales agreement with HB. A new diamond sales agreement was entered into with HB in February 2024 and governs deliveries of goods since December 2023. Under the new diamond sales agreement terms, 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 Clara (5 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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19. 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 the variable rate inherent in the term debt for a fixed rate (see 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 derivative financial instrument will however fluctuate in response to changing market interest rates that will result in a corresponding increase or decrease to net income.

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 its 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

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20. COMMITMENTS

As at December 31, 2024, purchase orders and contracts that give rise to commitments for future minimum payments for services to be provided related to the UGP amounted to \$79.2 million (December 31, 2023: \$77.2 million). The following table summarizes the approximate timing of the commitments (undiscounted) at December 31, 2024:

<i>In millions of dollars</i>	2025	2026	2027	2028	2029	Total
Underground expansion project	\$ 63.7	14.9	0.4	0.2	0.0	\$ 79.2

As at December 31, 2024, minimum payments in relation to lease commitments amount to \$2.8 million (December 31, 2023: \$3.8 million). The following table summarizes the approximate timing of the undiscounted minimum lease payments at December 31, 2024:

<i>In millions of dollars</i>	2025	2026	2027	2028	2029	Total
Lease payments	\$ 1.1	0.7	0.7	0.3	0.1	\$ 2.8

21. SUBSEQUENT EVENTS

On January 3, 2025 and February 5, 2025, the Company drew \$10.0 million and \$5.0 million from the Project and Working Capital Facilities, respectively.

On January 3, 2025, 667,000 stock options with exercise prices ranging from C\$0.66 to C\$0.79 were cancelled.