Lucara Diamond Corp.

Second Quarter Results
For the three and six months ended June 30, 2012
(Unaudited)

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Lucara Diamond Corp. (the "Company") and its subsidiaries performance and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2012 and the audited consolidated financial statements of the Company for the year ended December 31, 2011, which are prepared in accordance with International Financial Reporting Standards. All amounts are expressed in U.S. dollars unless otherwise indicated. The effective date of this MD&A is August 10, 2012

Some of the statements in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary note contained herein.

Additional information about the Company and its business activities is available on SEDAR at www.sedar.com.

HIGHLIGHTS

Karowe Mine - Botswana (formerly AK6 Diamond Project)

- The mine continued its excellent safety, health and environment record during the second quarter. There have been over 2.25 million hours worked without any loss time injuries since March 2011, including 1.06 million hours since beginning of the year. Overall, the project has achieved a lost time injury frequency rate (LTIFR) of 0.09.

- The construction of the Karowe Mine has been completed on budget at a cost of $120 million.

- During the month of April, production commissioning activities commenced and 30,000 tonnes of kimberlite were treated yielding 10,200 carats. Commissioning and testing continued through May and June with 19,062 carats and 35,007 carats being recovered respectively. Commercial production commenced on July 1.

- As of the date of this MD&A, Karowe has successfully completed two diamond sales earning proceeds in excess of $12 million. Management withheld goods in both auctions as the recent softening of the diamond market, especially in the high color, high-quality diamond category meant Karowe was not being offered a competitive price for the quality of goods on sale. Management will review this strategy as market conditions evolve, with the objective of maintaining healthy cash flows balanced against the preservation of long term value.

    - Karowe's inaugural diamond sale was conducted in June. There were 35 lots totalling 29,339 carats of which 30 lots were sold for gross total proceeds of $5.6 million or $215 per carat.

    - Karowe's second diamond sale was held on July 16, 2012, a total of 35 individual lots containing 36,842 carats of diamond were put up for sale, of which 32 lots were sold for gross total proceeds of $US 6.5 million or $179 per carat. The bidding for high-color, high-quality diamonds was particularly soft and three lots of these goods where withdrawn from the sale.

- Forecast sales in 2012 are 230,000 carats (March guidance: 300,000 carats). The reduction in sales is predominantly as a result of plant production restrictions caused by insufficient water being recovered from the initialy installed dewatering wells and the processing of highly weathered ore which requires more water per tonne treated than originally expected. Installation of a number of already permitted additional water wells is advancing with a high priority to improve water supply quantity and additional steps are being taken in the plant to reduce water consumption per tonne. These modifications are anticipated to be complete by year end 2012 with the plant expected to be running at full original design capacity in Q1 2013. Ore feed from lower grade stockpiles in August and September also contribute to the reduced carat forecast. Operating costs of $22.5/tonne are anticipated to be achieved in the fourth quarter (March guidance: $20/tonne)

- Mining at Karowe focused on the small but high grade north lobe of the AK6 kimberlite. Diamond recoveries from this lobe have averaged in excess of 30 carats per hundred tonnes. Even when using diamond values from recent lot sales in a depressed market, margins are excellent, resulting in revenue of more than $60 per tonne of ore milled being generated compared to the above noted operating cost projection.

- The production plan for 2012 has been reforecast taking cognizance of the ore feed and water balance. The forecast for the second half of 2012 anticipates the treatment of 1.02 million tonnes with a yield of approximately 208,000 carats. Total production for 2012 is expected to be approximately 270,000 carats for the year and tonnes milled at 1.2 million tonnes (March guidance 1.9 million tonnes). The mine plan includes waste stripping and stockpiling of lower grade ore to access better grade ore and ensure sustainable operations into 2013.

Mothae Diamond Project - Lesotho

- Mining continued in the central portion of the south lobe, and processing was completed on the first fresh, unweathered kimberlite sample from Mothae. Extensive tests were completed on the comminution and diamond liberation properties of this material, which makes up the majority of the potential resource at Mothae. Data collected from this work is ongoing and is being incorporated in the diamond grade modeling and process plant design parameters as part of a preliminary economic assessment of the Mothae kimberlite.

- Evaluation of drill core from the delineation drilling program completed in the first quarter of 2012 was carried out in the second quarter and is ongoing. Based on drilling results, the overall pipe shape of the Mothae kimberlite has been remodelled to a depth of 300 meters. This drill information will be used to define the resource model for the Preliminary Economic Assessment which will be completed in the fourth quarter this year.

- Evaluation of the internal geology of the Mothae kimberlite is ongoing and will be integrated with recovery grade and diamond value models to develop an overall resource model for Mothae. This work is expected to be completed in the fourth quarter of 2012.

- A sale of Mothae diamonds is forecast in September.

Corporate

- In April the Company signed a definitive agreement with the Bank of Nova Scotia for a $25 million revolving term credit facility with a maturity date of March 26, 2014, which may be extended if both parties agree. As of the date of this MD&A, the Company has not drawn from this facility.

- In July 2012, the Company renegotiated the terms of its $50 million debenture. Under the amended terms of the agreement each scheduled principal payment has been extended by six months resulting in payments commencing in March 31, 2013 and a final maturity date of June 30, 2014. All other terms and conditions of the debenture agreement remain unchanged with no penalties being incurred.

INTRODUCTION

The Company is a diamond development company focused in Africa. The business of the Company consists of the acquisition, exploration, development and operation of diamond properties. The Company's head office is in Vancouver, BC, Canada and its common shares trade on the Toronto Stock Exchange, the Botswana Stock Exchange and NASDAQ OMX First North in Sweden under the symbol "LUC".

The principal assets of the Company and the focus of the Company's development and exploration activities are its interests in assets in Lesotho and Botswana.

DEVELOPMENT AND EXPLORATION UPDATE

The following summarizes the Company's current land holdings:

Country	Project Name and Interest Held	Area (km^2)
Botswana	Karowe Diamond License (100% interest)	15.3
Lesotho	Mothae Diamond Mining Lease (75% interest)	20.0

Karowe Mine, Botswana

The Company was granted a mining license in 2008 over the AK6 Diamond Project which is located in central Botswana and is part of the Orapa/Letlhakane kimberlite district, one of the world's most prolific diamond producing areas. The kimberlite consists of three lobes, South, Center and North, of which the South Lobe makes up approximately 75% of the kimberlites' resource potential. The pipe has an area of 4.2 hectares at the surface which expands to 7 hectares at a depth of 120 meters.

In July 2010, a formal decision was made to proceed with the construction of the AK6 diamond mine. The project has been completed within budget at a cost marginally below $120 million.

The project has an Indicated Resource of 51 million tonnes ("mt") containing an estimated 8.2 million carats ("ct") of diamonds. The mine design delineates a Probable Reserve of 36.2 million tonnes of ore, containing an estimated 6.3 million carats of diamonds at a 1.5mm bottom cut-off size, in an open pit to a depth of 324 meters. The reserves will be mined over an estimated 15 year life. The process plant has been designed at throughput rate of 2.5 million tonnes per annum ("mtpa").

Performance during the three and six months ended June 30, 2012

The Karowe mine transitioned from construction to commissioning in the second quarter of 2012, with its first diamond being recovered on April 4.

During the month of April, production commissioning activities commenced and 30,000 tonnes of kimberlite were treated yielding 10,200 carats. Commissioning and testing continued through May and June with 19,062 carats and 35,007 carats being recovered respectively. Commercial production commenced on July 1.

During this period, it was identified that the material characteristics of the weathered ore differed from that modeled at the design stage impacting commissioning and ramp-up to full production. Water consumption per tonne treated, therefore, has been much higher than expected. Projects have been initiated to increase water supply from the dewatering wells and to reduce water consumption per tonne treated. By the end of the second quarter, the process plant was milling consistent tonnage on a daily basis.

The production plan for 2012 has been reforecast taking cognizance of the ore feed and water balance. The forecast for the second half of 2012 anticipates the treatment of 1.02 million tonnes and the yield of 208,010 carats. Total production for 2012 is expected to be approximately 270,000 carats. The mine plan includes waste stripping and stockpiling of lower grade ore to access better grade ore and ensure sustainable operations into 2013. The Company is forecasting to achieve design capacity during Q1 2013.

The mine continued its excellent safety, health and environment record during the second quarter as the mine transitioned to operations and site responsibility transferred to Karowe staff. Since the beginning of the year, 1.06 million hours have been worked without any loss time injuries. There have been over 2.25 million hours worked since the only LTI recorded at Karowe during March 2011 (LTIFR is 0.09).

The mine's inaugural diamond sale was conducted in June. There were 35 lots totalling 29,339 carats of which 30 lots were sold for gross total proceeds of $5.6 million or $215 per carat. As the Company was in pre-commercial production the proceeds of $5.6 million was allocated to reduce plant and equipment accounts during the six months to June 30, 2012. Karowe's second sale on July 16, 2012, included a total of 35 individual lots containing 36,842 carats of diamond, of which 32 lots were sold for gross total proceeds of $US 6.5 million or $179 per carat. The bidding for high-color, high-quality diamonds was particularly soft and three lots of these goods were withdrawn from the sale.

Mothae Diamond Project, Lesotho

The Mothae project is located in northeast Lesotho and is a large low grade kimberlite which contains a significant population of large, high value Type IIa diamonds.

Mothae Diamonds (PTY) Ltd. ("Mothae Diamonds"), a subsidiary which is held 75% by the Company and 25% by the Government of Lesotho, holds a 100% interest in the Mothae project. One half of the interest held by the Government (i.e. 12.5% of the project interest) is a free carried interest and the other 12.5% will ultimately be paid for by the Government through its share of future project dividends. The Company, through a wholly owned subsidiary, is the project operator.

In 2010, the Company commenced a trial mining program, based on results from a 100,000 tonne bulk sample completed in 2009. The trial mining program is designed to sample and process up to an additional 620,000 wet tonnes of kimberlite from various kimberlite domains identified within the pipe to confirm the occurrence of high value Type IIa diamonds and to better assess the economic potential of the Mothae kimberlite. Sealed tender diamond sales are being undertaken to establish diamond value. In 2011, diamond sales were conducted in March and December.

Performance during the three and six months ended June 30, 2012

Mining was conducted in the central portion of the south lobe, exposing fresh, unweathered kimberlite, which will be tested to determine the comminution and liberation properties of the material. This kimberlite makes up the majority of the potential resource at Mothae. Sample C11C was completed in the second quarter of 2012 and consists of unweathered kimberlite from the west resource domain of the south lobe of the Mothae kimberlite.

Table 1 summarizes trial mining results, together with prior bulk sample results as of June 20, 2012. The bottom cut-off size for diamonds recovered at Mothae is 2.0mm; diamond grade and diamond size information reported in Table 1 is for diamonds greater than 2.0mm.

Samples C11A and C11C were completed during the quarter and sample F3A commenced. Sample C11A consists of kimberlite in the transition zone between weathered kimberlite and fresh kimberlite in the west resource domain of the south lobe of the Mothae pipe. This sample yielded 1,907.59 carats of diamond from 68,110 dry tonnes of kimberlite for a sample grade of 2.80 carats per hundred tonnes ("cpht") and an average stone size of 0.44 carats per stone.

Sample C11C consist of fresh, unweathered kimberlite from the west resource domain of the south lobe of the Mothae pipe and is positioned directly below sample C11A. C11C produced 474.18 carats of diamond from 23,078 dry tonnes of kimberlite for an average grade of 2.05 cpht and an average stone size of 0.51 cpht. The reduction in relative grade and increase in relative stone size in sample C11C as compared to C11A is a result of reduced liberation of small diamonds from hard, unweathered kimberlite in the comminution processes.

Sample F3A consists of material in a geologic transition zone between the west resource domain and the central resource domain of the south lobe of the Mothae pipe. This sample was processed to gain additional diamond size, grade and value data, and to develop access to fresh, unweathered kimberlite in the central resource domain of the pipe.

Table1. Mothae Bulk Sample and Trial Mining Results as of June 20, 2012

FISCAL PERIOD	SAMPLE ID	Wet Tonnage	Moisture %	Dry Tonnage	Stones	Carats*	AVE* Stone Size (CPS)	Dry* Grade (CPHT)
				Bulk Sample Program				
		99,959	**17.6**	**82,838**	**8,899**	**3,873.21**	**0.44**	**4.68**
				Trial Mining				
FY 2010		**160,693**	**15.2**	**136,231**	**8,753**	**3,659.58**	**0.42**	**2.69**
FY 2011		**240,586**	**14.9**	**204,822**	**20,371**	**9,523.06**	**0.47**	**4.65**
Q1 2012	E2A	18,115	13.2	15,720	631	329.06	0.52	2.09
Q1/Q2 2012	C11A	75,473	9.8	68,110	4,373	1,907.59	0.44	2.80
Q2 2012	C11C	24,550	6.0	23,078	933	474.18	0.51	2.05
Q2 2012	F3A	8,799	9.8	7,936	585	365.91	0.63	4.61
FY 2012 YTD		**126,937**	**9.5**	**114,844**	**6,522**	**3,076.74**	**0.47**	**2.68**
Project to Date		**628,175**	**14.2**	**538,735**	**44,545**	**20,132.59**	**0.45**	**3.74**

* All diamond recoveries and grades are reported at a bottom cut-off size of 2.0mm

Tonnage estimates are based on daily plant weightometer readings and moisture content measurements to determine a dry tonnage estimate. The process plant is being operated by Minopex under contract to Mothae Diamonds and operates at a 2.0mm bottom cut-off size for diamond recovery. Diamond recovery and characterization work is carried out by the Mothae Diamonds diamond sorting staff with recovery results being monitored and reported by Remote Exploration Services, also under contract to Mothae Diamonds.

A delineation drilling program was completed in the first quarter of 2012 and consisted of 5,630 meters of core drilling in 31 holes. Evaluation and analysis of the core was carried out during the second quarter to assess the tonnage potential of the Mothae pipe to a depth of 300 meters and to model the internal geology of the pipe. Interpretation of the overall pipe shape to 300 meters depth was completed in the second quarter. This drill information will be used to define the resource model for the Preliminary Economic Assessment which will be completed in the fourth quarter this year.

Work on interpreting the internal geology of the Mothae pipe is ongoing and is expected to be used to model the pipe’s resource potential. This work is expected to be completed in the fourth quarter of 2012.

Work on the preliminary economic assessment of the Mothae kimberlite during the quarter focused primarily on:

- systematic data collection from processing hard kimberlite as input for process plant design,
- ore dressing studies (ODS) of the west resource domain of the south lobe of the pipe for determination of additional plant design parameters,

- drill core logging and interpretation to assess the pipe's tonnage potential to a depth of 300 meters, and
- site layout and infrastructure review, including water and power options.

Work on the Preliminary Economic Assessment is expected to continue through the third quarter and is expected to be complete during the fourth quarter of 2012.

SUMMARY OF QUARTERLY RESULTS *(unaudited)*

Three months ended	Jun-12	Mar-12	Dec-11	Sept-11	Jun-11	Mar-11	Dec-10	Sep-10
A. Total revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
B. Exploration expenditures	2,798,489	3,313,504	(564,851)	3,116,383	2,866,454	1,200,247	2,688,388	2,508,938
C. Administration expenses	3,392,079	1,363,964	2,254,982	1,304,914	1,845,748	2,776,978	1,821,675	815,463
D. Net loss	7,607,000	4,169,711	5,438,374	5,453,107	5,921,521	1,860,890	4,821,819	3,143,966
E. Loss per share (basic and diluted)	0.02	0.01	0.01	0.01	0.02	0.01	0.02	0.01

Operating expenses and net loss, quarter over quarter, vary in relation to the level of activities undertaken by the Company during the financial quarters reported. These activities include corporate development initiatives, net exploration expenditures incurred and stock-based compensation recognized during the quarter.

Exploration expenditures

The exploration expenditures for the past two years relate primarily to the on-going trial mining program, which commenced in May 2010 at Mothae, offset in part by the value of diamonds recovered and sold, based on management's best estimate at the time of recovery. The difference between the carrying value and the subsequent proceeds from the sale of diamonds is treated as a gain or loss as it is a change in market conditions during the period. The Company has completed two diamond sales to date in March and December 2011.

Administration expenses

The increase in administration expenses for the three months ended June 30, 2012 compared to the same quarter in 2011 is due primarily to the accrual of performance incentive bonuses to key employees of the Company.

Net loss

Net loss for the three months ended June 30, 2012 was $7.6 million reflecting increased administration expenses and foreign exchange losses during the period.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2012, the Company had cash and cash equivalents of $7.7 million and a working capital deficit of $(19.8) million, as compared to cash and cash equivalents of $48.6 million and a working capital surplus of $29.0 million at December 31, 2011.

Cash used in operating activities for the six months ended June 30, 2012 was $18.4 million, and consists mainly of the net loss of $11.8 million adjusted for the impact of non-cash items and changes in non-cash working capital items which include cash used for the recovery of rough diamond inventories of $8.3 million.

Net cash from financing activities for the six months ended June 30, 2012 was $2.1 million which resulted from the exercise of stock options.

Net cash used in investing activities for the six months ended June 30, 2012 was $24.1 million for expenditures primarily related to the development of the Karowe Mine.

In April the Company signed a definitive agreement with the Bank of Nova Scotia for a $25 million revolving term credit facility with a maturity date of March 26, 2014, which may be extended if both parties agree. As of the date of this MD&A, the Company has not drawn from this facility.

The facility contains financial and non-financial covenants customary for a facility of this size and nature. The applicable interest rate of any loan under the facility will be determined by the Company's leverage ratio at any given time. The Company will provide security on the two year facility by way of a charge over the Company's Karowe assets and a guarantee by the Company's subsidiaries, which hold the Karowe assets.

The Company intends to use the facility to meet periodic working capital requirements.

FUTURE PLANS AND OUTLOOK

Karowe Mine, Botswana

Due to the water consumption and water supply constraints while the mine extracts and treats weathered ore, the Company expects to achieve approximately 85% of nameplate capacity through the remainder of 2012. Mine plans have been modified to improve treated ore grade to partially offset the lower tonnage treated.

The Company held its second sale of diamonds on July 16. There are four further sales planned in 2012.

Mothae Diamond Project, Lesotho

The Company intends to continue with trial mining program and project evaluation through to the end of the third quarter of 2012.

Resource modeling based on the recently completed drill program is ongoing and expected to be completed in the third quarter of 2012. Detailed ore dressing studies are underway and are also expected to be completed in the fourth quarter.

The results of the resource modeling and ore dressing studies will be integrated into the ongoing preliminary economic assessment of the Mothae project which is expected to be completed in the fourth quarter of 2012.

The Company expects ongoing diamond recoveries during the trial mining phase. A sale of Mothae diamonds is scheduled for September 2012.

CRITICAL ACCOUNTING ESTIMATES

The application of certain accounting policies requires the Company to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain. For a complete discussion of accounting estimated deemed most crucial by the Company, refer to the Company's annual 2011 Management's Discussion and Analysis.

RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2012, The Company incurred the following expenses with Namdo Management Services Limited ("Namdo") and Lundin Foundation ("LF"), companies related by way of directors in common. In addition the Company incurred air chartered services from Mile High Holdings Ltd. ("Mile High"), a company associated with the Chairman of the Company. The Company also incurred professional geological services and laboratory related expenditures from the Mineral Services Group ("MS Group"), a company that is associated with a director of Company.

Description of services	Related party		June 30, 2012		June 30, 2011
Management fees	Namdo	$	250,513	$	241,570
Donations	LF		-		614,160
Exploration related expenditures	MS Group		1,303,408		-
Aircraft charter	Mile High		103,650		306,605
		$	1,657,571	$	1,162,335

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 376,292,749 common shares outstanding and 4,315,000 stock options outstanding under its stock-based incentive plan. As at the same date, the Company had no stock purchase warrants outstanding.

FINANCIAL INSTRUMENTS

The Company classifies financial instruments as financial assets and liabilities at fair value through profit or loss, available-for-sale investments, loans and receivables or financial liabilities at amortized cost. The Company's financial instruments consist of cash and cash equivalents, investments, trade receivables and other, trade payables and accrued liabilities, due to related parties and long-term debt.

The fair value of the Company's investments is derived from quoted prices in active markets for identical assets. The fair value of the Company's long-term debt approximates their carrying amounts due to the fact that there have been no significant changes in the Company's own credit risk. The fair value of all other financial instruments of the Company approximates their carrying values because of the demand nature or short-term maturity of these investments.

CONTINGENCIES

Upon completion of the AFD Arrangement Agreement which resulted in the Company holding an undivided 100% ownership interest in the Karowe Mine, the Company retained certain liabilities related to legal proceedings initiated by two former directors of AFD against AFD alleging entitlement to a 3% NSR on production from the Karowe Mine. The claim was heard in the Botswana High Court in early June,

2011. The High Court delivered its ruling in August 2011 dismissing the claims against AFD, with costs awarded against the plaintiffs.

In September 2011, the Plaintiffs, now referred to as the Appellants, filed a Notice of Appeal in respect of the judgment. The Appellants requested an order setting aside the judgment in August 2011.

The case went to the High Court in Botswana on April 19, 2012 in order to set the record date of appeal. The Parties are still waiting on confirmation from the Registrar of the Appeal Court on when the Appeal is to be heard.

The Company continues to believe that the claim is without merit as has been determined by the Botswana High Court, and will continue to vigorously defend the claim.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high risk nature of its business which includes acquisition, financing, exploration, development and operation of diamond properties. These risk factors could materially affect the Company's future operations and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

The risk factors which should be taken into account in assessing the Company's activities, include, but are not necessarily limited to, those set out in the Management's Discussion and Analysis for the year ended December 31, 2011.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

FINANCIAL INFORMATION

The report for the three and nine months ended September 30, 2012 is expected to be published on November 9, 2012.

MANAGEMENT'S RESPONSIBILTY FOR THE FINANCIAL STATEMENTS

The Audit Committee is responsible for reviewing the contents of this document along with the interim quarterly financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three and six months ended June 30, 2012.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the accounting principles under which the Company's financial statements are prepared. An evaluation of the effectiveness of the Company's internal control over financial reporting was conducted as of December 31, 2011 by the Company's management, including the Chief Executive Officer and Chief Financial Officer. Based on this evaluation, management has concluded that the Company's internal controls over financial reporting were effective.

As required under Multilateral Instrument 52-109, management advises that there have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period, being the three and six months ended June 30, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain of the statements made and contained herein in the MD&A and elsewhere constitute forward-looking statements as defined in applicable securities laws. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or achieved.

Forward looking statements are based on the opinions and estimates of management as of the date such statements are made, and they are subject to a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward-looking statements. The Company believes that expectations reflected in this forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A should not be unduly relied upon. In particular, this MD&A may contain forward looking information pertaining to the following: the estimates of the Company's mineral reserve and resources; estimates of the Company's production and sales volumes for the Karowe Mine; estimated costs to construct the Karowe Mine, start-up, exploration and development plans and objectives, production costs, exploration and development expenditures and reclamation costs; expectation of diamond price and changes to foreign currency exchange rate; expectations regarding the need to raise capital; possible impacts of disputes or litigation and other risks and uncertainties describe under Risks and Uncertainties disclosed in the Company's Annual Information Form.

There can be no assurance that such statements will prove to be accurate, as the Company's results and future events could differ materially from those anticipated in this forward-looking information as a result of those factors discussed in or referred to under the heading "Risk Factors' in the Company's Annual Information Form dated March 22, 2012 available at http://www.sedar.com, as well as changes in general business and economic conditions, changes in interest and foreign currency rates, the supply and demand for, deliveries of and the level and volatility of prices of rough diamonds, costs of power and diesel, acts of foreign governments and the outcome of legal proceedings, inaccurate geological and recoverability assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources), unanticipated operational difficulties (including failure of plant, equipment or processes to operate in accordance with specifications or expectations, cost escalations, unavailability of materials and equipment, government action or delays in the receipt of government approvals, industrial disturbances or other job actions, adverse weather conditions, and unanticipated events relating to health safety and environmental matters)
Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date the statements were made, and the Company does not assume any obligations to update or revise them to reflect new events or circumstances, except as required by law.

LUCARA DIAMOND CORP.

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS
(All amounts expressed in U.S. Dollars, unless otherwise indicated.)
(Unaudited)

		June 30, 2012		December 31, 2011
ASSETS				
Current assets				
Cash and cash equivalents	$	7,695,586	$	48,589,409
Investments		86,781		109,020
VAT receivables and other		9,011,605		6,298,262
Rough diamond inventories		10,073,218		1,597,255
		26,867,190		56,593,946
Plant and equipment (Note 3)		117,198,693		94,501,245
Mineral properties (Note 4)		88,361,877		90,042,677
Other non-current assets		338,933		149,513
TOTAL ASSETS	$	232,766,693	$	241,287,381
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities	$	17,882,907	$	16,635,832
Current portion of long-term debt (Note 5)		28,866,710		10,950,493
		46,749,617		27,586,325
Long-term debt (Note 5)		15,918,274		30,864,165
Restoration provisions		12,288,126		12,485,650
TOTAL LIABILITIES		74,956,017		70,936,140
EQUITY				
Share capital (Note 6)		282,643,354		278,995,472
Contributed surplus (Note 7)		4,840,128		5,769,245
Cumulative deficit		(115,330,607)		(104,243,885)
Accumulated other comprehensive loss		(16,657,589)		(13,200,175)
Total equity attributable to shareholders of the Company		155,495,286		167,320,657
Non-controlling interests (Note 8)		2,315,390		3,030,584
TOTAL EQUITY		157,810,676		170,351,241
TOTAL LIABILITIES AND EQUITY	$	232,766,693	$	241,287,381

Commitments (Note 14), contingencies (Note 15) and subsequent events (Note 16)

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

Approved on Behalf of the Board of Directors:

"Paul K. Conibear"
Director

"William Lamb"
Director

LUCARA DIAMOND CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(All amounts expressed in U.S. Dollars, unless otherwise indicated.)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Exploration expenditures (Note 9)	$ 2,798,489	$ 2,866,454	$ 6,111,993	$ 4,066,701
Administration (Note 10)	3,392,079	1,845,748	4,756,043	4,622,726
Gain on sale of diamonds (Note 11)	-	-	-	(2,339,282)
Loss before the following	6,190,568	4,712,202	10,868,036	6,350,145
Finance income	(28,599)	(178,022)	(198,091)	(331,685)
Finance expenses	152,815	872,455	598,584	886,795
Foreign exchange loss	1,292,216	514,886	508,182	877,156
Net loss for the period	$ 7,607,000	$ 5,921,521	$ 11,776,711	$ 7,782,411
Attributable to:				
Shareholders of the Company	$ 7,260,229	$ 5,546,834	$ 11,009,609	$ 7,549,291
Non-controlling interests	$ 346,771	$ 374,687	$ 767,102	$ 233,120
Basic and diluted loss per common share	$ 0.02	$ 0.02	$ 0.03	$ 0.02
Weighted average common shares outstanding	373,413,038	362,644,384	372,938,714	348,664,912

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

LUCARA DIAMOND CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(All amounts expressed in U.S. Dollars, unless otherwise indicated.)
(Unaudited)

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net loss for the period	$ 7,607,000	$ 5,921,521	$ 11,776,711	$ 7,782,411
Other comprehensive loss (income)				
Change in fair value of available-for-sale securities	20,872	33,171	22,104	2,694
Currency translation adjustment	8,946,800	(29,562)	3,460,515	(552,323)
	8,967,672	3,609	3,482,619	(549,629)
Comprehensive loss	$ 16,574,672	$ 5,925,131	$ 15,259,330	$ 7,232,783
Comprehensive loss attributable to:				
Shareholders of the Company	16,038,036	5,560,128	14,467,023	6,933,843
Non-controlling interests	536,636	365,003	792,307	298,940
	$ 16,574,672	$ 5,925,131	$ 15,259,330	$ 7,232,783

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

LUCARA DIAMOND CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(All amounts expressed in U.S. Dollars, unless otherwise indicated.)
(Unaudited)

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Cash flows from (used in):				
Operating Activities				
Net loss for the period	$ (7,607,000)	$ (5,921,521)	$ (11,776,711)	$ (7,782,411)
Items not involving cash and cash equivalents:				
Depreciation	438,512	780,328	1,156,285	1,174,559
Finance costs	164,812	17,979	481,956	36,571
Stock-based compensation	84,001	134,690	187,654	275,858
Foreign exchange loss	2,619,996	-	1,162,014	-
	(4,299,679)	(4,988,524)	(8,788,802)	(6,295,423)
Net changes in working capital items:				
Trade receivables and other current assets	(3,675,094)	5,980,601	(2,424,548)	(2,948,151)
Rough diamond inventories	(6,872,130)	(1,734,853)	(8,448,787)	1,995,429
Trade payables and other current liabilities	624,160	(152,493)	1,465,961	33,760
	(14,222,743)	(895,269)	(18,196,176)	(7,214,385)
Financing Activities				
Proceeds from issue of shares, net of issue costs	-	-	-	58,283,612
Proceeds from exercise of stock options	2,398,635	54,540	2,531,111	145,854
Other	(466,370)	-	(456,391)	-
	1,932,265	54,540	2,074,720	58,429,466
Investing Activities				
Acquisition of plant and equipment	(4,234,030)	(18,497,938)	(24,148,948)	(28,450,547)
Acquisition of other assets	-	265,280	-	37,706
	(4,234,030)	(18,232,658)	(24,148,948)	(28,412,841)
Effect of exchange rate change on cash and cash equivalents	(2,081,401)	(1,768,653)	(623,419)	533,613
Increase (decrease) in cash and cash equivalents during the period	(18,605,909)	(20,842,040)	(40,893,823)	23,335,853
Cash and cash equivalents, beginning of period	26,301,495	77,062,798	48,589,409	32,884,905
Cash and cash equivalents, end of period	$ 7,695,586	$ 56,220,758	$ 7,695,586	$ 56,220,758
Supplemental Information				
Interest received	28,599	178,022	198,091	331,685
Taxes paid	-	-	-	-
Changes in accounts payable and accrued liabilities related to plant and equipment	733,505	957,416	(170,641)	2,326,708

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

LUCARA DIAMOND CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(All amounts expressed in U.S. Dollars, unless otherwise indicated.)
(Unaudited)

	Number of shares issued and outstanding	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Non-controlling interests	Total
Balance, January 1, 2011	302,494,050	$ 209,210,999	$ 5,421,258	$ (84,121,453)	$ 5,141,321	$ 1,861,184	$ 137,513,309
Private placement, net of share issue costs	60,000,000	58,283,612	-	-	-	-	58,283,612
Exercise of stock options	164,999	226,547	(80,693)	-	-	-	145,854
Stock-based compensation	-	-	275,858	-	-	-	275,858
Unrealized loss on investments	-	-	-	-	(2,694)	-	(2,694)
Effect of foreign currency translation	-	-	-	-	552,323	(65,820)	486,503
Net loss for the period	-	-	-	(7,549,291)	-	(233,120)	(7,782,411)
Balance, June 30, 2011	362,659,049	$ 267,721,158	$ 5,616,423	$ (91,670,744)	$ 5,690,950	$ 1,562,244	$ 188,920,031
Balance, January 1, 2012	372,349,049	$ 278,995,472	$ 5,769,245	$ (104,243,885)	$ (13,200,175)	$ 3,030,584	$ 170,351,241
Exercise of stock options	3,728,700	3,647,882	(1,116,771)	-	-	-	2,531,111
Stock-based compensation	-	-	187,654	-	-	-	187,654
Effect of foreign currency translation	-	-	-	-	(3,435,310)	(25,205)	(3,460,515)
Unrealized loss on investments	-	-	-	-	(22,104)	-	(22,104)
Free-carried non-controlling interests (Note 8)	-	-	-	(77,113)	-	77,113	-
Net loss for the period	-	-	-	(11,009,609)	-	(767,102)	(11,776,711)
Balance, June 30, 2012	376,077,749	$ 282,643,354	$ 4,840,128	$ (115,330,607)	$ (16,657,589)	$ 2,315,390	$ 157,810,676

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

1. NATURE OF OPERATIONS

Lucara Diamond Corp. together with its subsidiaries (collectively referred to as the "Company") is a development stage company focused on diamond properties in Africa. The Company holds a 100% interest in the Karowe Mine (previously named AK6 Diamond Project) located in Botswana and a 75% interest in Mothae Diamond Project located in Lesotho.

The Company's common shares are listed on the TSX, NASDAQ OMX First North and Botswana Stock Exchanges. The Company was continued into the Province of British Columbia under the Business Corporations Act (British Columbia) in August 2004 and its registered office is located at Suite 2610 - 1066 West Hastings Street, Vancouver, British Columbia, V6C 3E8.

2. BASIS OF PRESENTATION AND CONSOLIDATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, *IAS 34: Interim Financial Statements*, and do not contain all of the information required for annual financial statements. These statements follow the same accounting policies and methods of application of the most recent annual audited financial statements. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company.

These financial statements were approved by the Board of Directors for issue on August 10, 2012

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

3. PLANT AND EQUIPMENT

Cost	**Construction in progress**	**Mine and plant facilities**	**Vehicles**	**Furniture and office equipment**	**Total**
Balance, January 1, 2011	$ 11,495,024	$ 6,800,639	$ 455,111	$ 288,201	$ 19,038,975
Additions	84,164,797	2,412,460	1,017,022	2,268,944	89,863,223
Disposals and other	-	-	-	(8,103)	(8,103)
Translation differences	(8,939,809)	(1,447,211)	(158,333)	(230,021)	(10,775,374)
Balance, December 31, 2011	86,720,012	7,765,888	1,313,800	2,319,021	98,118,721
Additions	26,491,446	-	66,236	196,605	26,754,287
Disposals and other	882,317	-	(2,113)	(1,153,887)	(273,683)
Translation differences	(2,318,569)	(127,634)	(26,194)	(13,884)	(2,486,281)
Balance, June 30, 2012	$ 111,775,206	$ 7,638,254	$ 1,351,729	$ 1,347,855	$ 122,113,044
Accumulated depreciation					
Balance, January 1, 2011	$ -	$ 1,520,538	$ 2,234	$ 24,164	$ 1,546,936
Depreciation, depletion for the year	-	2,165,316	309,721	166,407	2,641,444
Disposals and other	-	-	-	(690)	(690)
Translation differences	-	(521,490)	(29,572)	(19,152)	(570,214)
Balance, December 31, 2011	-	3,164,364	282,383	170,729	3,617,476
Depreciation, depletion for the period	-	1,082,518	172,220	160,191	1,414,929
Disposals and other	-	-	-	-	-
Translation differences	-	(100,585)	(10,238)	(7,231)	(118,054)
Balance, June 30, 2012	$ -	$ 4,146,297	$ 444,365	$ 323,689	$ 4,914,351
Net book value					
As at December 31, 2011	$ 86,720,012	$ 4,601,524	$ 1,031,417	$ 2,148,292	$ 94,501,245
As at June 30, 2012	$ 111,775,206	$ 3,491,957	$ 907,364	$ 1,024,166	$ 117,198,693

During the six months ended June 30, 2012, depreciation of $258,644 (December 31, 2011 – nil) was taken on assets used during the testing and commissioning of the Karowe Mine. This amount has been capitalized to construction in progress.

During the six months ended June 30, 2012, the Company reduced plant and equipment by $5.64 million relating to diamonds sold during the pre-commercial production period.

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

3. PLANT AND EQUIPMENT (continued)

Plant and equipment include interest and financing costs relating to the construction of plant and equipment prior to the commencement of commercial production. Interest and financing costs are capitalized only for the project for which funds have been borrowed. Interest expense capitalized during the six months ended June 30, 2012 was $2,517,336 (December 31, 2011 – $1,262,717).

4. MINERAL PROPERTIES

Cost	Karowe Mine	Mothae Diamond	Mothae mining license	Total
Balance, January 1, 2011	$ 64,610,259	$ 20,483,498	$ 4,060,985	$ 89,154,742
Additions	12,959,168	187,518	-	13,146,686
Disposals and other	-	-	-	-
Translation differences	(9,067,150)	(2,445,156)	(746,445)	(12,258,751)
Balance, December 31, 2011	68,502,277	18,225,860	3,314,540	90,042,677
Additions	-	-	-	-
Disposals and other	-	-	-	-
Translation differences	(1,282,798)	(338,718)	(59,284)	(1,680,800)
Balance, June 30, 2012	$ 67,219,479	$ 17,887,142	$ 3,255,256	$ 88,361,877

a) *Karowe Mine*

In December 2009, the Company, through a newly created indirect wholly-owned subsidiary Boteti Diamond Holdings Inc. ("Boteti Holdings"), acquired an initial 70.268% interest in the Boteti Mining (PTY) Ltd. ("Boteti"), from De Beers Prospecting Botswana (Pty) Limited ("De Beers"), for consideration of $49 million. The remaining interest in Boteti was held as to 28.381% by African Diamonds PLC ("African Diamonds") and indirectly by Wati Ventures (Pty) Ltd. ("Wati Ventures") as to 1.351%. Boteti Holdings had granted an option to African Diamonds to increase its interest in Boteti by a further 10.268% by making a cash payment of approximately US$7.3 million, which was exercised in April 2010. After the exercise of the option, Boteti was held 60% by the Company and 40% by African Diamonds. In December 2010, the Company acquired the 40% non-controlling interest.

b) *Mothae Diamond Project*

In July 2006, the Company signed an option agreement with Motapa Diamonds Inc. ("Motapa") to acquire up to a 70% interest in the Mothae Diamond Project located in Lesotho, Africa. Pursuant to the terms of the option agreement the Company earned a 65% interest in the property in April 2009 by making payments to Motapa totaling $8.0 million.

On July 3, 2009, the Company acquired the remaining 35% interest in the property by acquiring Motapa through a plan of arrangement by issuing a total of 34,455,022 shares to the shareholders of Motapa at an exchange ratio of 0.9055 shares ("Exchange Ratio") for each Motapa share. In addition, the Company issued a total of 3,019,835 replacement stock options to the Motapa stock option holders at the same exchange ratio.

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

4. MINERAL PROPERTIES (continued)

Pursuant to the terms of the mining agreement, Mothae Diamonds, an indirect 75% owned subsidiary of the Company has a 100% interest in the project. The remaining 25% of Mothae Diamonds is held by the Government of Lesotho (Note 8). One half of the project interest held by the Government is a free carried interest and one half is funded by the Government through its share of project dividends. During an initial pre-production test mining stage, a royalty of 4% of the sales value of diamonds produced from Mothae will be payable to the government. At full production the royalty will increase to 8% of diamond sales value. The mining lease is valid until September 2019 and renewable for an additional 10 years.

5. LONG-TERM DEBT

a) Debenture

In July 2011, the Company secured a $50 million debenture to fund the development of the Company's projects. The loan facility has a maturity date of December 31, 2013 and requires quarterly repayments of $8.3 million commencing September 30, 2012 (Note 16). No interest is payable during the term of the facility.

The Company has pledged shares in the subsidiaries that control the companies that own the projects as security over the facility. The facility has been issued by Zebra Holdings and Investments S.a.r.l ("Zebra") and Lorito Holdings S.a.r.l ("Lorito"), each an investment company owned by a trust settled by the late Adolf H. Lundin, and not a related party of the Company.

The terms of the debenture financing also included the Company issuing an aggregate of 9 million common shares (fair value $10.7 million) to Zebra and Lorito as consideration for the facility, in lieu of interest and fees. During the period, accretion of $3.0 million was recorded of which $2.5 million has been capitalized in plant and equipment (Note 3).

The borrowings have been measured at fair value. The liability is measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

As at June 30, 2012	Current portion	Long-term portion	Total
Principal	$ 33,333,334	$ 16,666,666	$ 50,000,000
Unamortized discount	(4,466,624)	(748,392)	(5,215,016)
Total carrying value	$ 28,866,710	$ 15,918,274	$ 44,784,984

As at December 31, 2011	Current portion	Long-term portion	Total
Principal	$ 16,666,666	$ 33,333,334	$ 50,000,000
Unamortized discount	(5,716,173)	(2,469,169)	(8,185,342)
Total carrying value	$ 10,950,493	$ 30,864,165	$ 41,814,658

5. LONG-TERM DEBT (continued)

b) Revolving credit facility

In April 2012, the Company signed a definitive agreement with the Bank of Nova Scotia for a $25 million revolving term credit facility with a maturity date of March 26, 2014, which may be extended if both parties agree. The applicable interest rate of any loan under the facility will be determined by the Company's leverage ratio at any given time.

The Company will provide security on the two year facility by way of a charge over the Company's Karowe assets and a guarantee by the Company's subsidiaries, which hold the Karowe assets.
The Bank of Nova Scotia has first ranking security over the Karowe assets.

6. SHARE CAPITAL

The authorized share capital consists of an unlimited number of common shares, with no par value.

In February 2011, the Company completed a private placement of 60,000,000 common shares at price of CAD$1.00 per share of gross proceeds of CAD$60.0 million. A fee of 5% was paid on a portion of the private placement.

In July 2011, 9.0 million common shares with a fair value of $10.7 million were issued Zebra and Lorito as consideration for the $50.0 million debenture (Note 5).

7. STOCK OPTIONS

The Company has one rolling stock option plan (the "Plan") approved by the shareholders of the Company on May 13, 2011 which reserves an aggregate of 10% of the issued and outstanding shares of the Company for issuance upon the exercise of options granted. Vesting and terms of the option agreement are at the discretion of the Board of Directors.

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

7. STOCK OPTIONS (continued)

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

	Number of shares issuable pursuant to stock options	Weighted average exercise price per share (CDN$)
Balance at January 1, 2011	**11,550,000**	**$ 0.91**
Granted	1,525,000	0.84
Forfeited	(168,330)	0.95
Expired	(20,000)	0.77
Exercised	(854,999)	0.71
Balance at December 31, 2011	**12,031,671**	**0.93**
Granted	150,000	1.03
Forfeited	-	-
Expired	(3,722,971)	1.18
Exercised	(3,728,700)	0.71
Balance at June 30, 2012	**4,730,000**	**$ 0.90**

The weighted average share price of options exercised during the period was $0.89.

Options to acquire common shares have been granted and are outstanding at June 30, 2012 as follows:

	Outstanding Options			**Exercisable Options**		
Range of exercise prices CDN$	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price CDN$	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price CDN$
$0.00 - $0.49	215,000	0.0164	$ 0.48	215,000	0.0164	$ 0.48
$0.50 - $0.99	2,590,000	1.9306	0.86	1,326,578	1.6435	0.87
$1.00 - $1.49	1,925,000	0.5478	1.01	1,883,331	0.5049	1.00
	4,730,000	1.2808	$ 0.90	3,424,909	0.9152	$ 0.92

During the six months ended June 30, 2012, an amount of $187,654 (2011 – $275,858) was charged to operations in recognition of stock-based compensation expense, based on the vesting schedule for the options granted.

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

7. STOCK OPTIONS (continued)

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

		June 30, 2012		December 31, 2011
Assumptions:				
Risk-free interest rate *(%)*		1.03		1.12
Expected life *(years)*		3.00		3.00
Expected volatility *(%)*		51.23		57.95
Expected dividend		Nil		Nil
Results:				
Weighted average fair value of options granted *(per option)*	$	0.35	$	0.32

8. NON-CONTROLLING INTERESTS

As consideration for acquiring a mining license from the Government of Lesotho ("GOL"), the Company issued the GOL 25% ownership in Mothae. One half of the interest held by the GOL is a free-carried interest and the other 12.5% will ultimately be paid for by the GOL through its share of future dividends paid by Mothae, if any.

The GOL's equity interest must be kept at 25% and cannot be diluted by further equity issuances. As such, the 12.5% free-carried interest portion of the Company's capital contributions into Mothae is accounted for as an equity transaction between shareholders.

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

9. EXPLORATION EXPENDITURES

	Three months ended June 30, 2012			Three months ended June 30, 2011		
	Mothae Diamond	Other	Total	Mothae Diamond	Other	Total
Test mining	$ 2,356,656	$ -	$ 2,356,656	$ 3,327,251	$ -	$ 3,327,251
Depreciation	402,378	-	402,378	780,214	-	780,214
Geology	199,111	-	199,111	-	-	-
Office and other	180,195	-	180,195	90,910	-	90,910
Resource development	232,699	-	232,699	58,468	-	58,468
Diamonds recovered	(572,550)	-	(572,550)	(1,390,389)	-	(1,390,389)
	$ 2,798,489	$ -	$ 2,798,489	$ 2,866,454	$ -	$ 2,866,454

	Six months ended June 30, 2012			Six months ended June 30, 2011		
	Mothae Diamond	Other	Total	Mothae Diamond	Other	Total
Test mining	$ 4,857,706	$ -	$ 4,857,706	$ 5,423,832	$ -	$ 5,423,832
Depreciation	1,083,740	-	1,083,740	1,174,564	-	1,174,564
Geology	423,615	-	423,615	-	-	-
Office and other	282,536	-	282,536	289,966	7,831	297,797
Resource development	1,211,010	-	1,211,010	58,468	-	58,468
Diamonds recovered	(1,746,614)	-	(1,746,614)	(2,887,960)	-	(2,887,960)
	$ 6,111,993	$ -	$ 6,111,993	$ 4,058,870	$ 7,831	$ 4,066,701

10. ADMINISTRATION

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Salaries and benefits	$ 2,031,372	$ 424,341	$ 2,475,890	$ 746,306
Stock exchange, transfer agent, shareholder communication	249,830	233,221	542,676	999,181
Professional fees	263,287	616,406	459,460	1,173,787
Management fees	118,790	136,072	250,513	241,570
Travel	152,248	224,459	269,121	417,842
Stock-based compensation (Note 7)	84,001	134,690	187,654	275,858
Office and general	437,528	71,043	479,295	154,022
Depreciation	36,134	-	72,545	-
Donations	18,889	5,516	18,889	614,160
	$ 3,392,079	$ 1,845,748	$ 4,756,043	$ 4,622,726

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

11. GAIN ON SALE OF DIAMONDS

During the six months ended June 30, 2011, Mothae Diamonds held one diamond sale and received net proceeds of $7.5 million (after payment of royalties and selling costs). The sale included the rough diamond inventory that was held at December 31, 2010, which was valued using the Company's best estimate of the lower of cost and net realizable value. The Company recorded a gain relating to the increase in the value of the rough diamond inventory held at December 31, 2010 of $2,339,282 in the Statement of Operations. The proceeds relating to the sale of diamonds recovered during the six months ended June 30, 2011 have been netted against exploration expenditures (Note 9).

12. RELATED PARTY TRANSACTIONS

a) *Related party expenses*

The Company incurred the following expenses with Namdo Management Services Limited ("Namdo") and Lundin Foundation ("LF"), companies related by way of directors in common. In addition, the Company incurred air chartered services from Mile High Holdings Ltd. ("Mile High"), a company associated with the Chairman of the Company. The Company also incurred professional geological services and laboratory related expenditures for geological and modeling work at Mothae from the Mineral Services Group ("MS Group"), a company that is associated with a director of Company.

		Six months ended June 30,	
Description of services	**Related party**	**2012**	**2011**
Management fees	Namdo	$ 250,513	$ 241,570
Donations	LF	-	614,160
Exploration related expenditures	MS Group	1,303,408	-
Aircraft charter	Mile High	103,650	306,605
		$ 1,657,571	$ 1,162,335

b) *Related party liabilities*

The liabilities of the Company include the following amounts due to related parties:

	June 30, 2012	**December 31, 2011**
Namdo	$ 11,727	$ -
Mile High	16,104	-
	$ 27,831	$ -

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

12. RELATED PARTY TRANSACTIONS (continued)

c) *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 executive officers, vice-presidents and members of its Board of Directors.

The remuneration of key management personnel were as follows:

	Six months ended June 30, 2012	2011
Salaries and wages	$ 1,549,349	$ 613,755
Short term benefits	34,946	38,276
Stock-based compensation	113,529	198,222
	$ 1,697,824	$ 850,253

13. SEGMENT INFORMATION

The Company's primary business activity is the exploration and development of diamond properties in Africa so there is only one reportable operating segment.

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

	Plant and equipment		Mineral properties		Other	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Canada	$ 230,915	$ 259,925	$ -	$ -	$ 198,362	$ 7,766
Lesotho	3,595,775	4,751,648	21,142,398	21,540,400	140,571	141,747
Botswana	113,372,003	89,489,672	67,219,479	68,502,277	-	-
	$117,198,693	$94,501,245	$88,361,877	$90,042,677	$ 338,933	$ 149,513

Note 9 contains the geographic distribution of exploration expenditures, which are all incurred in Lesotho.

14. COMMITMENTS

In conjunction with the development of the Karowe Mine, the Company has committed to approximately $11 million in additional capital expenditures.

15. CONTINGENCIES

In April 2010, legal proceedings were initiated against African Diamonds (Plc) ("AFD"), a subsidiary acquired by the Company in 2010. Legal proceedings were instituted by two former directors of AFD in respect of a Joint Venture Agreement (the "Agreement") entered into during 2002. The Plaintiffs alleged that the Karowe Mine fell within the Project Area as defined in the Agreement and alleged entitlement to a 3% royalty of the Net Smelter Return on any production from the Karowe Mine for the first ten years of production.

The claim was heard in the Botswana High Court in early June 2011. Judgment in respect hereof was handed down in August 2011 in favor of AFD and dismissed the Plaintiff's claim with costs.

In September 2011, the Plaintiffs, now referred to as the Appellants, filed a Notice of Appeal in respect of the judgment. The Appellants requested an order setting aside the judgment in August 2011.

The case went to the High Court in Botswana on April 19, 2012 in order to set the record date of appeal. The Parties are still waiting on confirmation from the Registrar of the Appeal Court on when the Appeal is to be heard.

The Company continues to believe that the claim is without merit as has been determined by the Botswana High Court, and will continue to vigorously defend the claim.

16. SUBSEQUENT EVENTS

In July 2012, the Company renegotiated the terms of its $50 million debenture. Under the amended terms of the agreement each scheduled principal payment has been extended by six months resulting in payments commencing in March 31, 2013 and a final maturity date of June 30, 2014. All other terms and conditions of the debenture agreement remain unchanged with no penalties being incurred.