Lucara Diamond Corp.

Interim Consolidated Financial Statements
For the three months ended March 31, 2012 (Unaudited)

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 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 interim consolidated financial statements for the three months ended March 31, 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 May 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)

- Greater than 10,000 carats of diamonds were recovered from 28,000 tonnes of ore processed during April from the North Lobe where the grade in the upper benches is expected to exceed 32cpht. The ore mined during April had a resource grade of 34cpht. The mine production plan for the remainder of 2012 includes ore from the North and Centre Lobes and is expected to deliver an average ore grade of approximately 20cpht.

- Several large diamonds have been recovered including nine special stones larger than 10.8 carats. The three largest stones recovered are 26.57 carats, 25.88 carats and 24.59 carats. Diamonds recovered are of high quality and show strong crystal shapes.

- Commissioning activities at the Karowe mine were completed during April 2012 and the process facilities have been handed-over to operations. Ramp-up to full production is in progress with a target of 50% of the design throughput during May and 75% in June. At the end of the second quarter the operations are expected be operating as scheduled, at the full design capacity of 350 tonnes per hour.

- Karowe's inaugural diamond sale will be held in early June with a total of six sales planned during 2012. It is expected that up to 40,000 carats will be available at this sale.

- The construction of the Karowe Mine is forecast to be completed within budget at an estimated cost of $120 million. Expenditure to March 31 was $93 million with further expenditures of $24.5 million committed.

Mothae Diamond Project - Lesotho

- 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.

- The delineation drilling program, which commenced in the fourth quarter of 2011, has been completed during the quarter. Information from this drilling campaign will be used to update the geologic and resource model for the Mothae kimberlite.

- The preliminary economic assessment ("PEA") work on the Mothae kimberlite to determine the milling and diamond liberation characteristics continued during the quarter. The results from the preliminary economic assessment will be used to make an informed investment decision regarding Mothae during the fourth quarter of 2012. Approximately 15,000 tonnes of fresh, unweathered kimberlite from sample C11A have been stockpiled and will be processed through the Mothae plant early in the second quarter of 2012. Post completion of the PEA the NI 43-101 document will be updated.

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. Up to $15 million is available immediately with the remaining $10 million available following delivery of security over the Company's Karowe assets which is expected during the second quarter of this year.

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. The Company continues to actively seek development and growth opportunities to bring new projects into its portfolio.

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 which is estimated to require a capital investment of approximately $120 to $130 million (based on a ZAR/USD exchange rate of R7.53), which includes the process plant and all mine site and off-site infrastructures. In December 2011, the AK6 diamond mine was renamed to the Karowe Mine.

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"). Diamond recovery is estimated at approximately 400,000 carats per year at a November 2011 diamond price of $301/ct.

Performance during the three months ended March 31, 2012

In the first quarter of 2012, activities across engineering, procurement, construction and the development of the operations team advanced the project such that construction was sufficiently complete to allow integrated ore commissioning activities to commence in early April.

During the first quarter, all unit processes had been run individually at, or above, design capacity. More than 5,000t of ore was processed through the front-end of the plant (primary crusher to stockpile). Mining activities concentrated on waste stripping (1.5 million tonnes in the first quarter) once the ore stockpile had been built up to 280,000t. In addition to the ore stockpile, production benches were prepared and ready to feed ore directly to the processing plant.

As at March 2012, the project had achieved over 1,500,000 hours without a lost time injury (LTI) and no environmental incidents have been recorded.

The operations team comprising Karowe staff, mining contractor (Kalcon) and process plant contractor (Minopex) staffed up during the first quarter.

Commissioning activities at the Karowe mine were completed during April 2012 and the process facilities have been handed-over to operations. Ramp-up to full production is in progress with a target of 50% of the design throughput during May and 75% in June. At the end of the second quarter the operations are expected to be operating, as scheduled, at the full design capacity of 350 tonnes per hour.

In the sales and marketing offices in Gaborone, the security systems and the stock control systems were installed and commissioned and the facilities are now ready to receive diamonds from the Karowe mine.

The first Karowe sale is forecast in June, with five additional sales scheduled during the year.

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 75% owned subsidiary of the Company, holds a 100% interest in the Mothae project. The other 25% is owned by the Government of Lesotho. The Company, through a wholly owned subsidiary, is the project operator. One half of the project 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.

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 months ended March 31, 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 C11A commenced in mid-January and exaction and processing is ongoing. Summary tonnage and grade results for the trial mining program are shown in the following table:

Table1. Mothae Trial Mining Results as of March 31, 2012

Fiscal Period	Bulk Sample	Wet Tonnage	Dry Tonnage	Stones	Carats*	Average Stone Size (cts/stone)	Dry Grade (cpht)*
2010	F1D	1,769	1,592	111	77.65	0.70	4.88
	C4A	33,785	29,649	1,458	759.23	0.52	2.56
	C5A	58,427	48,542	3,133	1,120.07	0.36	2.31
	C6A	8,122	7,296	529	260.50	0.49	3.57
	C8A	58,590	49,152	3,522	1,442.13	0.41	2.93
2011	C9A	47,797	40,370	3,841	1,940.71	0.51	4.81
	G2A	40,185	33,691	4,256	1,909.78	0.45	5.67
	F2A	59,692	50,181	4,083	1,979.66	0.48	3.95
	G2B	25,931	22,689	3,022	1,286.89	0.43	5.67
	G3A	34,497	29,874	3,722	1,654.70	0.44	5.54
	C7A	21,287	18,425	875	403.20	0.46	2.19
	C6B	11,215	9,592	572	348.02	0.61	3.63
Q1 2012	E2A**	18,115	15,720	631	329.06	0.52	2.09
	C11A***	61,990	55,514	2,736	1,411.96	0.52	2.54
	Totals	**481,402**	**412,287**	**32,491**	**14,923.56**	**0.46**	**3.62**

* All diamond recoveries and grades are reported at a bottom cut-off size of 2.0mm
** About 3,500t of sample E2A was processed in December 2011.
*** Sample C11A is ongoing. Final results will be reported when this sample is completed.

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.

The delineation drilling program which commenced in the fourth quarter of 2011 was completed during the quarter. A total of 31 holes were completed totalling 5,630 meters. Delineation drilling to define the internal geology of the Mothae pipe and to define the kimberlite volume to a depth of 320 meters comprised 26 core holes. In addition to these core holes, five holes were drilled for mining and civil geotechnical evaluation. Information from this drilling campaign is being interpreted to develop an updated geologic and resource model for the Mothae kimberlite.

Work on the preliminary economic assessment of the Mothae kimberlite during the quarter focused primarily on planning for detailed ore dressing studies (ODS) of the main kimberlite facies within the pipe. Core samples from the delineation drilling program have been collected and submitted for preliminary metallurgical analysis. In addition to this, approximately 15,000t of fresh, unweathered kimberlite from sample C11A have been stockpiled and will be processed through the Mothae plant early in the second quarter of 2012 to determine milling characteristics and diamond liberation requirements for this material.

SUMMARY OF QUARTERLY RESULTS *(unaudited)*

Three months ended	Mar-12	Dec-11	Sept-11	Jun-11	Mar-11	Dec-10	Sep-10	June-10
A. Total revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
B. Exploration expenditures	3,313,504	(564,851)	3,116,383	2,866,454	1,200,247	2,688,388	2,508,938	3,841,882
C. Administration expenses	1,363,964	2,254,982	1,304,914	1,845,748	2,776,978	1,821,675	815,463	890,349
D. Net loss	4,169,711	5,438,374	5,453,107	5,921,521	1,860,890	4,821,819	3,143,966	4,298,452
E. Loss per share (basic and diluted)	0.01	0.01	0.01	0.02	0.01	0.02	0.01	0.02

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 seven quarters 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 increase in exploration expenditures for the three months ended March 31, 2012 compared to the same quarter in 2011 is primarily due to revenue from the diamond sale which was completed in the first quarter of 2011. Included in exploration expenditures for the first half of 2010 is the cost to complete the definitive feasibility study of $2.7 million for the Karowe Mine. Based on the results of the study, the project was determined to be commercially feasible in July 2010, and pursuant to the Company's accounting policy for mineral properties, expenditures incurred thereafter have been capitalized.

Administration expenses

The decrease in administration expenses for the three months ended March 31, 2012 compared to the same quarter in 2011 is due primarily to increased corporate activities during the first quarter of 2011.

Net loss

Net loss for the three months ended March 31, 2012 was $4.2 million reflecting increased exploration expenditures as a result of a lack of diamond sales during the period.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2012, the Company had cash and cash equivalents of $26.3 million and a working capital deficit of $(1.7) 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 three months ended March 31, 2012 was $4.0 million, and consists mainly of the net loss of $4.2 million adjusted for the impact of non-cash items and changes in non-cash working capital items.

Net cash from financing activities for the three months ended March 31, 2012 was $0.1 million which resulted from the exercise of stock options.

Net cash used in investing activities for the three months ended March 31, 2012 was $19.9 million for expenditures primarily related to the development of the Karowe Mine. In conjunction with the development of the Karowe Mine, the Company has purchase commitments of $24.5 million.

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. Up to $15 million is available immediately with the remaining $10 million available following delivery of security over the Company's Karowe assets which is expected during the second quarter of this year.

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 fund ongoing operations primarily at the Karowe Mine in Botswana.

FUTURE PLANS AND OUTLOOK

Karowe Mine, Botswana

The Company expects ramp-up to full production capacity through the remainder of the second quarter.

The Company expects the first sale of diamonds from Karowe to take place at its dedicated sales and marketing facilities in Gaborone in June 2012. There are five 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 third quarter.

The results of the resource modelling 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 and periodic sales of Mothae's diamonds during the trial mining phase.

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 three months ended March 31, 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		March 31, 2012		March 31, 2011
Management fees	Namdo	$	131,723	$	105,498
Donations	LF		-		608,644
Exploration related expenditures	MS Group		1,047,555		-
Aircraft charter	Mile High		75,106		306,605
		$	1,254,384	$	1,020,747

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 372,797,749 common shares outstanding and 11,541,300 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 settle the record date of appeal. A date to hear the appeal is expected in the second half of 2012.

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 six months ended June 30, 2012 is expected to be published on August 10, 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 months ended March 31, 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 months ended March 31, 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.
CONSOLIDATED BALANCE SHEETS
(All amounts expressed in U.S. Dollars, unless otherwise indicated.)
(Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 26,301,495	$ 48,589,409
Investments	110,074	109,020
VAT receivables and other	5,051,659	6,298,262
Rough diamond inventories	3,176,391	1,597,255
	34,639,619	56,593,946
Plant and equipment (Note 3)	117,136,663	94,501,245
Mineral properties (Note 4)	92,748,904	90,042,677
Other non-current assets	149,584	149,513
TOTAL ASSETS	$ 244,674,770	$ 241,287,381
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	$ 16,560,562	$ 16,635,832
Current portion of long-term debt (Note 5)	19,788,966	10,950,493
	36,349,528	27,586,325
Long-term debt (Note 5)	23,508,390	30,864,165
Restoration provisions	12,914,140	12,485,650
TOTAL LIABILITIES	72,772,058	70,936,140
EQUITY		
Share capital (Note 6)	279,191,998	278,995,472
Contributed surplus (Note 7)	5,808,848	5,769,245
Cumulative deficit	(108,000,399)	(104,243,885)
Accumulated other comprehensive loss	(7,879,782)	(13,200,175)
Total equity attributable to shareholders of the Company	169,120,665	167,320,657
Non-controlling interests (Note 8)	2,782,047	3,030,584
TOTAL EQUITY	171,902,712	170,351,241
TOTAL LIABILITIES AND EQUITY	$ 244,674,770	$ 241,287,381

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

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

Approved on Behalf of the Board of Directors:

"Paul K. Conibear"
Director

"William Lamb"
Director

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

	Three months ended March 31, 2012	2011
Exploration expenditures (Note 9)	$ 3,313,504	$ 1,200,247
Administration (Note 10)	1,363,964	2,776,978
Gain on sale of diamonds (Note 11)	-	(2,339,282)
Loss before the following	4,677,468	1,637,943
Finance income	(169,492)	(153,663)
Finance expenses	445,769	14,340
Foreign exchange loss (gain)	(784,034)	362,270
Net loss for the period	$ 4,169,711	$ 1,860,890
Attributable to:		
Shareholders of the Company	$ 3,749,380	$ 2,002,457
Non-controlling interests	$ 420,331	$ (141,567)
Basic and diluted loss per common share	$ 0.01	$ 0.01
Weighted average common shares outstanding	372,464,388	334,535,107

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

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

	Three months ended March 31, 2012	2011
Net loss for the period	$ 4,169,711	$ 1,860,890
Other comprehensive income		
Change in fair value of available-for-sale securities	1,232	(30,477)
Currency translation adjustment	(5,486,285)	(522,761)
	(5,485,053)	(553,238)
Comprehensive loss (income)	$ (1,315,342)	$ 1,307,652
Comprehensive loss (income) attributable to:		
Shareholders of the Company	(1,571,013)	1,373,715
Non-controlling interests	255,671	(66,063)
	$ (1,315,342)	$ 1,307,652

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

LUCARA DIAMOND CORP.

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

	Three months ended March 31, 2012	2011
Cash flows from (used in):		
Operating Activities		
Net loss for the period	$ (4,169,711)	$ (1,860,890)
Items not involving cash and cash equivalents:		
Depreciation	717,773	394,231
Finance costs	317,144	18,592
Stock-based compensation	103,653	141,168
Foreign exchange gain	(1,457,982)	-
	(4,489,123)	(1,306,899)
Net changes in working capital items:		
Trade receivables and other current assets	1,250,546	(8,928,752)
Rough diamond inventories	(1,576,657)	3,730,282
Trade payables and other current liabilities	841,801	186,253
	(3,973,433)	(6,319,116)
Financing Activities		
Proceeds from issue of shares, net of issue costs	-	58,283,612
Proceeds from exercise of stock options	132,476	91,315
	132,476	58,374,927
Investing Activities		
Acquisition of plant and equipment	(19,914,918)	(9,952,609)
Other	9,979	-
Acquisition of other assets	-	(227,575)
	(19,904,939)	(10,180,184)
Effect of exchange rate change on cash and cash equivalents	1,457,982	2,302,265
Increase (decrease) in cash and cash equivalents during the period	(22,287,914)	44,177,892
Cash and cash equivalents, beginning of period	48,589,409	32,884,905
Cash and cash equivalents, end of period	$ 26,301,495	$ 77,062,797
Supplemental Information		
Interest received	169,492	153,663
Taxes paid	-	-
Changes in accounts payable and accrued liabilities related to plant and equipment	(904,146)	1,369,292

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

LUCARA DIAMOND CORP.

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	100,000	147,148	(55,833)	-	-	-	91,315
Stock-based compensation	-	-	141,168	-	-	-	141,168
Unrealized gain on investments	-	-	-	-	30,477	-	30,477
Effect of foreign currency translation	-	-	-	-	522,761	(75,504)	447,257
Net loss for the period	-	-	-	(2,002,457)	-	141,567	(1,860,890)
Balance, March 31, 2011	362,594,050	$ 267,641,759	$ 5,506,593	$ (86,123,910)	$ 5,694,559	$ 1,927,247	$ 194,646,248
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	213,700	196,526	(64,050)	-	-	-	132,476
Stock-based compensation	-	-	103,653	-	-	-	103,653
Effect of foreign currency translation	-	-	-	-	5,321,625	164,660	5,486,285
Unrealized loss on investments	-	-	-	-	(1,232)	-	(1,232)
Free-carried non-controlling interests (Note 8)	-	-	-	(7,134)	-	7,134	-
Net loss for the period	-	-	-	(3,749,380)	-	(420,331)	(4,169,711)
Balance, March 31, 2012	372,562,749	$ 279,191,998	$ 5,808,848	$ (108,000,399)	$ (7,879,782)	$ 2,782,047	$ 171,902,712

The accompanying notes are an integral part of these 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 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 May 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	19,294,970	-	-	908,178	20,203,148
Disposals and other	-	-	(2,150)	-	(2,150)
Translation differences	2,825,205	399,367	44,850	78,013	3,347,435
Balance, March 31, 2012	$ 108,840,187	$ 8,165,255	$ 1,356,500	$ 3,305,212	$ 121,667,154
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	-	680,330	12,939	24,504	717,773
Disposals and other	-	-	-	-	-
Translation differences	-	178,360	10,193	6,689	195,242
Balance, March 31, 2012	$ -	$ 4,023,054	$ 305,515	$ 201,922	$ 4,530,491
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 March 31, 2012	$ 108,840,187	$ 4,142,201	$ 1,050,985	$ 3,103,290	$ 117,136,663

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 three months ended March 31, 2012 was $1,192,376 (December 31, 2011 – $1,262,717).

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

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	2,155,128	367,856	183,243	2,706,227
Balance, March 31, 2012	$ 70,657,405	$ 18,593,716	$ 3,497,783	$ 92,748,904

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)

(b) Mothae Diamond Project

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

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. 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 $1.5 million was recorded of which $1.2 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 March 31, 2012	**Current portion**	**Long-term portion**	**Total**
Principal	$ 24,999,999	$ 25,000,001	$ 50,000,000
Unamortized discount	(5,211,033)	(1,491,611)	(6,702,644)
Total carrying value	$ 19,788,966	$ 23,508,390	$ 43,297,356

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

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

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.

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	(191,661)		0.99
Exercised	(213,710)		0.66
Balance at March 31, 2012	**11,776,300**	**$**	**0.93**

The weighted average share price of options exercised during the period was $0.99.

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

7. STOCK OPTIONS (continued)

Options to acquire common shares have been granted and are outstanding at March 31, 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	1,410,000	0.27	\$ 0.48	1,410,000	0.27	\$ 0.48
\$0.50 - \$0.99	6,801,300	0.97	0.85	5,404,543	0.61	0.85
\$1.00 - \$1.49	2,565,000	0.65	1.11	2,514,997	0.61	1.11
\$1.50 - \$1.99	800,000	0.22	1.56	800,000	0.22	1.56
\$2.00 - \$2.50	200,000	0.22	2.08	200,000	0.22	2.08
	11,776,300	0.75	\$ 0.93	10,329,540	0.53	\$ 0.94

During the three months ended March 31, 2012, an amount of \$103,653 (2011 – \$141,168) was charged to operations in recognition of stock-based compensation expense, based on the vesting schedule for the options granted.

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

	March 31, 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 March 31, 2012	Mothae Diamond	Other	Total
Test mining	$ 2,501,050	$ -	$ 2,501,050
Depreciation	681,362	-	681,362
Geology	224,504	-	224,504
Office and other	102,341	-	102,341
Resource development	978,311	-	978,311
Diamonds recovered	(1,174,064)	-	(1,174,064)
	$ 3,313,504	$ -	$ 3,313,504

Three months ended March 31, 2011	Mothae Diamond	Other	Total
Test mining	$ 2,096,581	$ -	$ 2,096,581
Depreciation	394,350	-	394,350
Geology	-	-	-
Office and other	199,056	7,831	206,887
Resource development	-	-	-
Diamonds recovered	(1,497,571)	-	(1,497,571)
	$ 1,192,416	$ 7,831	$ 1,200,247

10. ADMINISTRATION

	Three months ended March 31, 2012	2011
Salaries and benefits	$ 444,518	$ 321,965
Stock exchange, transfer agent, shareholder communication	292,846	765,960
Professional fees	196,173	557,381
Management fees	131,723	105,498
Travel	116,873	193,383
Stock-based compensation (Note 7)	103,653	141,168
Office and general	41,767	82,979
Depreciation	36,411	-
Donations	-	608,644
	$ 1,363,964	$ 2,776,978

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

11. GAIN ON SALE OF DIAMONDS

During the three months ended March 31, 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 three months ended March 31, 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.

		Three months ended March 31,	
Description of services	**Related party**	**2012**	**2011**
Management fees	Namdo	$ 131,723	$ 105,498
Donations	LF	-	608,644
Exploration related expenditures	MS Group	1,047,555	-
Aircraft charter	Mile High	75,106	306,605
		$ 1,254,384	$ 1,020,747

b) *Related party liabilities*

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

	March 31, 2012	**December 31, 2011**
Namdo	$ 28,690	$ -
MS Group	21,370	-
Mile High	75,106	-
	$ 125,166	$ -

(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:

	Three months ended March 31, 2012	2011
Salaries and wages	$ 314,339	$ 294,708
Short term benefits	22,409	27,257
Stock-based compensation	62,408	141,168
	$ 399,156	$ 463,133

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	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Canada	$ 251,167	$ 259,925	$ -	$ -	$ -	$ 7,766
Lesotho	4,277,189	4,751,648	22,091,501	21,540,400	149,584	141,747
Botswana	112,608,307	89,489,672	70,657,403	68,502,277	-	-
	$117,136,663	$94,501,245	$92,748,904	$90,042,677	$ 149,584	$ 149,513

Note 9 contains the geographic distribution of exploration expenditures.

14. COMMITMENTS

In conjunction with the development of the Karowe Mine, the Company has committed to approximately $24.5 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 settle the record date of appeal. A date to hear the appeal is expected in the second half of 2012.

16. SUBSEQUENT EVENTS

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. Up to $15 million is available immediately with the remaining $10 million available following delivery of security over the Company's Karowe assets. 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.