Lucara Diamond Corp.

Third Quarter Report
September 30, 2011

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 nine months ended September 30, 2011 and the December 31, 2010 year end audited consolidated financial statements and related notes therein. The financial information in this MD&A is also derived from the Company's audited consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. The effective date of this MD&A is November 10, 2011.

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 and the Company's website www.lucaradiamond.com.

HIGHLIGHTS

Corporate

- Completed a US$50 million Debenture financing in early July 2011.

- Lucara commenced trading on the Toronto Stock Exchange in August 2011 and the Botswana Stock Exchange in July 2011.

AK6 Diamond Project - Botswana

- Construction advanced from 55% complete at the end of Q2 to 84% complete at the end of Q3. This is as per the August re-baselined schedule, which reflects the impact of the steel industry strike in July.

- The project is trending within the initial capital budget, and expenditure to the end of Q3 is 46%of budget with a total of 83% of the approved capital budget being committed.

- During the quarter, engineering, procurement and fabrication were essentially completed in support of construction activities and the focus of the EPCM contractors and Boteti is fully on the AK6 project site activities.

- The overhead power line from the Orapa sub-station to site has been completed. The AK6 substation is expected to be commissioned before the end of November, and the permanent tie into the Botswana electricity grid completed during Q4.

- In Gaborone the diamond sorting, sales and marketing offices have been completed and senior diamond sorting personnel have been recruited. The stock control software platform has been selected and operational procedures are being developed.

Mothae Diamond Project - Lesotho

- Sample F2A yielded 2 stones larger than 20 carats, 10 stones between 10 and 20 carats, 19 stones between 5 and 10 carats, and 95 stones between 2 and 5 carats. The three largest diamonds recovered were 29.94, 22.86, and 19.21 carats.

(Amounts in United States Dollars unless otherwise indicated)

- Sample G2B yielded 2 stones larger than 20 carats, 2 stones between 10 and 20 carats, 9 stones between 5 and 10 carats, and 48 stones between 2 and five carats. The largest 3 diamonds were 28.91, 25.09 and 12.00 carats.

- A primary crushing unit was delivered to site in early September and has been fully commissioned. A larger capacity secondary crusher will be installed in Q4. Both units are required to efficiently process harder kimberlite and basalt xenoliths. A drilling contract was awarded to Remote Drilling Services to conduct a 5,400m delineation drilling program.

- During October, a contract was awarded to ADP Project, to conduct a pre-feasibility level study in support of preliminary economic assessment on Mothae. The objective of this study will be to gain an increased understanding of the economic potential of the Mothae project through greater definition of the capital and operating costs required for the development of a mine at Mothae.

INTRODUCTION

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

The principal assets of Lucara and the focus of Lucara's development and exploration activities are its interests in mining in Lesotho and Botswana. Following an evaluation of the exploration work conducted to-date on the Kavango Project in eastern Namibia, by the Company's joint venture partner, Namdeb Diamond Corporation, the Company has made a determination not to renew the licenses. Lucara continues to actively seek development and growth opportunities to bring new projects into its portfolio.

DEVELOPMENT AND EXPLORATION UPDATE

Land status

The following summarizes the Company's current land holdings:

Country	Project Name and Interest Held	Area (km2)
Botswana	Boteti AK6 Diamond License (100% interest)	15.3
Lesotho	Mothae Diamond Mining Lease (75% interest)	20.0

Boteti AK6 Diamond Project, Botswana

Boteti 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, Centre 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 US$120-US$130 million (based on

ZAR/US$ exchange rate of R7.00), which includes the process plant and all mine site and off-site infrastructures.

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 metres. The reserves will be mined over an estimated 15 year life. The process plant has been designed at an estimated throughput rate of 2.5 million tonnes per annum ("mtpa"). Diamond recovery is estimated at approximately 400,000 carats per year at a March 2010 diamond price of $243/ct.

Nine Months to September Performance

Excellent progress has been made on the development of the AK6 Project. The continued focus on safety, health and environment by the Company, employees, the EPCM contractor and all sub-contractors resulted in 220,000 hours worked with no lost time injuries or environmental incidents. As of the end of September the project had worked 809,474 hours with a LTIFR of 0.25.

Construction advanced from 55% complete at the end of Q2 to 84% complete at the end of Q3. This is as per the August re-baselined schedule, which reflects the impact of the steel industry strike in July. During the quarter, engineering, procurement and fabrication were essentially completed in support of construction activities and the focus of the EPCM contractors and Boteti is fully on the AK6 project site activities. The project is still trending within the initial capital budget, and expenditure to end Q3 is 46% of budget with a total of 83% of the approved capital budget being committed.

In addition to the civil works, structural and mechanical activities, in Q3 building works, piping and electrical installation contractors commenced work on site. By the end of Q3 over 3km of piping around the open pit and to the process plant raw water dam had been installed. Equipping of the required eight dewatering wells is on schedule for delivery of water to the process facility during commissioning. The medium voltage (MV) and low voltage (LV), communications and instrumentation contracts have been awarded. The MV contractor has mobilized to site and work is progressing well. The LV, communications and instrumentation contractor mobilized to site in October.

The overhead power line from the Orapa sub-station to site has been completed. The AK6 substation is expected to be commissioned before the end of November, and the permanent tie in completed during Q4. Initial grid power for commissioning activities will come from a temporary tie in to the Letlhakane line that was completed during Q3.

The senior operation's team has made excellent progress with recruitment of key operations personnel for site. The mining contractor has mobilized to site and the sinking cut for the first production bench has commenced – the first blast in the pit took place on October 8. Extraction and stockpiling of ore started in October in preparation for commissioning activities early in Q1, 2012. The plant operations and maintenance contractor has mobilized to site and have commenced local recruiting. The contracts management team is working with the Boteti metallurgical team on finalizing operational and critical spares holdings and operational procedures.

In Gaborone the diamond sorting, sales and marketing offices have been completed and senior diamond sorting personnel have been recruited. The stock control software platform has been selected and operational procedures are being developed.

(Amounts in United States Dollars unless otherwise indicated)

On September 2, Lucara was pleased to host Dr. Ponatshego Kedikilwe, Minister of Minerals, Energy and Water Resources, and other regional and local officials at the AK6 project site. The Minister was impressed by the work completed and the safety, health and environmental accomplishments.

Mothae Diamond Project, Lesotho

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

Mothae Diamonds (PTY) Ltd ("Mothae Diamonds"), an indirect 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 (ie 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, if any.

In 2010, the Company commenced a trial mining program, based on results from the 100,000 tonnes bulk sample completed in 2009. The trial mining program is designed to sample and process up to 720,000 tonnes (including the former bulk sample of 100,000 tonnes) of kimberlite from various kimberlite domains, which have been identified within the pipe to confirm geological potential and the presence of the high value Type IIa diamonds. Periodic open-tender diamond sales, the first of which occurred in March 2011, are being undertaken to validate estimates of diamond value.

Nine Months to September Performance

On the Mothae trial mining project in Lesotho, sampling during Q3 on the 'F' and 'G' kimberlite domains, with samples 2A and G2B having been completed during the period. Results continue to be very good with above average grades returned. Summary tonnage and grade results are shown in the following table:

Table1. Mothae Trial Mining Results as of 3 October 2011

Bulk Sample	Dry Tonnage	Stones	Carats	Ave Stn Size (cts/stone)	Dry Grade (cpht)
F1D	1,592	111	77.65	0.70	4.88
C4A	29,649	1,453	757.70	0.52	2.55
C5A	48,542	3,119	1,117.07	0.36	2.29
C6A	7,296	525	259.54	0.49	3.40
C8A	49,152	3,511	1,440.49	0.41	2.93
C9A	40,370	3,835	1,938.66	0.51	4.78
G2A	33,691	4,245	1,906.87	0.45	5.65
F2A	50,181	4,077	1,978.33	0.49	3.93
G2B	22,689	2,997	1,280.23	0.43	5.64
G3A*	19,721	2,248	985.07	0.44	5.00
Totals	**302,883**	**26,121**	**11,741.61**	**0.45**	**3.88**

*Sample G3A is currently in progress, with final results expected during Q4.

Sample F2A yielded 2 stones larger than 20 carats, 10 stones between 10 and 20 carats, 19 stones between 5 and 10 carats, and 95 stones between 2 and 5 carats. The three largest diamonds recovered were 29.94, 22.86, and 19.21 carats.

Sample G2B yielded 2 stones larger than 20 carats, 2 stones between 10 and 20 carats, 9 stones between 5 and 10 carats, and 48 stones between 2 and five carats. The largest 3 diamonds were 28.91, 25.09 and 12.00 carats.

- Previous samples yielded the following results:
  - F1D, C4A, C5A and C6A completed by October 2011 produced 3 stones greater than 20 carats, 9 stones between 10 and 20 carats, 25 stones between 5 and 10 carats and 97 stones between 2 and 5 carats. The largest three stones recovered to date in this program are 53.53 carats, 37.24 carats and 20.26 carats
  - C8A completed in December 2011, produced 1 diamond greater than 20 carats, 12 stones between 10 and 20 carats, 23 stones between 5 and 10 carats and 62 stones between 2 and 5 carats. The three largest stones were 31.87, 17.88 and 16.54 carats.
  - C9A completed in mid-March 2011 produced 3 stones greater than 20 carats, 8 stones between 10 and 20 carats, 28 stones between 5 and 10 carats and 82 stones between 2 and 5 carats. The three largest stones were 48.54, 33.80 and 21.82 carats.
  - G2A completed in May 2011 produce 1 stone greater than 20 carats, 3 stones between 10 and 20 carats, 10 stones between 5 and 10 carats and 83 stones between 2 and 5 carats. The largest three stones were 41.38, 19.35 and 12.63 carats.

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 2mm bottom cut off size for diamond recovery. Diamond recovery and characterization work is carried out independently by the diamond sorting staff of Remote Exploration Services, also under contract to Mothae Diamonds.

In August, the Bourevestnik X-ray (high powered X-ray) machine was commissioned on site. The unit has been installed in an audit capacity and is being used to audit recovery tailings. Once audit work has been completed, the unit will be included as part of the sample plant flowsheet, reducing the current bottleneck constraints with currently installed equipment.

A primary crushing unit was delivered to site in early September and has been fully commissioned. A larger capacity secondary crusher will be installed in Q4. Both units are required to efficiently process harder kimberlite and basalt xenoliths, and in particular, to process unweathered kimberlite samples that are planned toward the end of the trial mining program.

A drilling contact was awarded to Remote Drilling Services to conduct a 5,400m delineation drilling program. The objectives of the program are to define the internal geology of the Mothae kimberlite, as well as to extend the currently defined kimberlite volume from a depth of 200m to 320m, to collect suitable sample material for ore dressing studies, and to collect core for geotechnical evaluation.

During October, a contract was awarded to ADP Project, to conduct a pre-feasibility level study in support of a preliminary economic assessment at Mothae. The objective of this study will be to gain an increased understanding of the economic potential of the Mothae project through greater definition of the capital and operating costs required for the development of a mine at Mothae.

Depending on current rough diamond market conditions the Company plans to sell a parcel of diamonds recovered from the trial mining program in December 2011. On March 28, 2011, Mothae had its first diamond sale in Antwerp. The parcel of diamonds totalled 9,381.35 carats and sold for an average price of US$871.70/ carat. Gross proceeds totalled $8.2 million. The three stones with the highest per carat value were a 13.87 carat diamond, which sold for $43,000/ct, a 24.57 carat diamond, which sold for $32,351/ct, and a 20.13 carat diamond, which sold for $27,995/ct.

(Amounts in United States Dollars unless otherwise indicated)

Namibia

Following an evaluation of the exploration work conducted to-date on the Kavango Project in eastern Namibia, by the Company's joint venture partner, Namdeb Diamond Corporation, the Company has made a determination not to renew the licenses which expire at the end of Q4. The Company is currently preparing the documentation required to formally relinquish its interest in all ten of the prospecting licenses.

SELECTED QUATERLY INFORMATION

Financial Data for 8 Quarters								
Three months Ended	**Sept 11**	**Jun-11**	**Mar-11**	**Dec-10**	**Sep-10**	**June-10**	**Mar-10**	**Two Months Dec-09**
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	CDN GAAP
A. Total Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
B. Exploration Expenditures ($'s)	3,116,383	2,866,454	1,200,247	2,688,388	2,508,938	3,841,882	2,539,510	30,138
C. Administration Expenses	1,304,914	1,845,748	2,776,978	1,821,675	815,463	890,349	928,210	1,579,908
D. Net loss ($)	5,453,107	5,921,521	1,860,890	923,765	3,143,966	4,298,452	3,366,995	11,853,195
E. Loss per share (basic and diluted)	0.01	0.02	0.01	0.01	0.01	0.02	0.02	0.11

QUARTERLY RESULTS ANALYSIS

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 five quarters relate primarily to the on-going trial mining program, which commenced in May 2010 at the Mothae diamond project, offset in part by the value of the 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. Included in the exploration expenditures for the first half of 2010 is the cost to complete the definitive feasibility study of $2.7 million for the Boteti AK6 project. 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, expenditure incurred thereafter have been capitalized.

Administration Expenses

The increase in administration expenses for the three months ended September 2011 compared to the prior year is due primarily to costs associated with the Company's listings on the TSX and Botswana stock exchanges and additional salaries.

Net Loss

Net loss for the quarter ended September 30, 2011 was $5.5 million reflecting the test mining program at the Mothae project.

The net loss for the nine months ended September 30, 2011 was $13.2 million. This reflects the exploration and depreciation costs at Mothae, net of the first diamond sales of 9,381 carats for $7.5 million (after payment of royalties and selling costs). The sale included the rough diamond inventory that was held at year end, which was valued using the Company's best estimate of the lower of cost and net realizable value. The Company has recorded a gain on the sale of this inventory in the amount of $2.3 million from net proceeds of $6.1 million in "Other income". The remaining proceeds from the sale have been netted against exploration expenditures for the current quarter.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2011, the Company had cash and cash equivalents of $70.7 million and working capital of $64.3 million, as compared to cash of $32.9 million and working capital of $27.3 million at December 31, 2010.

Cash used in operating activities for the nine months ending September 30, 2011 was $16.5 million, and consists mainly of the net loss of $13.2 million adjusted for the impact of non-cash items, including depletion, depreciation and amortization of $2.0 million, and changes in non-cash working capital items.

Net cash from financing activities for the nine months ending September 30, 2011 was $108.8 million, resulting from a private placement completed in February 2011, and the completion of a $50 million debenture financing in July 2011.

Net cash used in investing activities for the nine months ending September 30, 2011 was $52.9 million for expenditures primarily related to the development of the Boteti AK6 mine. In conjunction with the development of the AK6 mine, the Company has purchase commitments of $40 million and estimated remaining capital expenditures of approximately $20 million.

The Company's existing funds as of September 30, 2011, and the expected proceeds from the sale of diamonds may not be sufficient to finance the anticipated expenditures of between US$120-130 million for the full development and construction of the AK6 mine, working capital requirements prior to the first anticipated diamond sale at AK6, the ongoing test mining program on the Mothae Project and general corporate expenses over the next twelve months. Certain of these expenditures are discretionary and will be dependent on the Company having an additional $15-$20 million available in early 2012. There is no assurance that such financing will be available to the Company at the time and in the amount required or, if available, that it can be obtained on terms satisfactory to the Company.

FUTURE PLANS AND OUTLOOK

Boteti AK6 Project, Botswana

The Company intends to continue with the construction of the AK6 Phase 1 production facility, which includes a process plant and support facilities designed for an initial throughput of an estimated 2.5

million tonnes per year. Commissioning is intended to commence in Q1 of 2012, with full ramp up expected to be reached during the first half of 2012.

Based on current projections, the Company expects to conduct the first sale of diamonds from AK6 in the second quarter of 2012.

Mothae Project, Lesotho

The Company intends to continue with the test mining program of up to 720,000 tonnes and project evaluation through to the end of the third quarter of 2012.

The Company expects ongoing diamond recoveries and periodic sales of Mothae's diamonds during the trial mining phase. The Company plans to sell the second parcel of diamonds recovered from the trial mining program in December 2011.

A core drilling contact was awarded to Remote Drilling Services to conduct a 5,400m delineation drilling program. The objectives of the program are to define the internal geology of the Mothae kimberlite, as well as to extend the currently defined kimberlite volume from a depth of 200m to 320m, to collect suitable sample material for ore dressing studies, and to collect core for geotechnical evaluation.

During October, a contract was awarded to ADP Project to conduct a pre-feasibility level study in support of a preliminary economic assessment at Mothae. The objective of this study will be to gain an increased understanding of the economic potential of the Mothae project through greater definition of the capital and operating costs required for the development of a mine at Mothae.

ADJUSTMENT OF EQUITY TRANSFER TO THE GOVERNMENT OF LESOTHO ("GOL")

During the quarter ended March 31, 2011, the Company re-evaluated its accounting for the transfer of shares and a share option in Mothae Diamond Proprietary Limited ("Mothae") to the GOL during 2010. Previously, the Company had accounted for the transfer as an expropriation for no proceeds. The Company, after further review, has now concluded that it made a share-based payment in exchange for a mining license, which is capitalized as an intangible asset. The Company has made the following adjustments, as at September 2010 and for the year ended December 31, 2010:

- Increased mineral property costs by $3,530,120, representing the fair value of the intangible mining rights received from the GOL as based upon the fair value of the shares in Mothae as of June 2010;

- Increased non-controlling interest ("NCI") by $2,263,286, representing the fair value of the 12.5% "free-carried" interest in Mothae transferred to the GOL as of June 2010;

- Increased contributed surplus by $1,266,834, representing the fair value, as of June 2010, of the GOL's option on the additional 12.5% interest in Mothae, which will beneficially transfer to the GOL upon their full payment for these shares. These shares are to be paid for by the GOL on a contingent basis, such that they are payable only from the first $1.825 million of dividends on these shares. Management have fair valued the option on these shares by using the fair value established for the NCI portion above and deducting the fair value of the $1.825 million, discounted at 10% per annum for a period of approximately 6 years until the cash flows from Mothae are estimated to be sufficient to cover the required payment; and

- Decreased the NCI by $708,049 representing the NCI share of losses of Mothae from the date of the related Shareholder Agreement, June 23, 2010, whereby the GOL received its 12.5% free-carried interest, to December 31, 2010. The increased allocation of the losses of Mothae for the year ended December 31, 2010 result in an equivalent decrease in the loss attributable to the shareholders of the parent company for the year and to the deficit at December 31, 2010. For the period ended September 30, 2010, the NCI's portion of the losses from June 23, 2010 to September 30, 2010 was $656,834.

The option on the 12.5% interest, which has been treated as contributed surplus, will continue to be treated as contributed surplus and no attribution of the income or losses of Mothae will be recorded until the shares have been paid for by way of future dividends. At that time the amount will be transferred from contributed surplus to NCI and the future NCI attribution will be based on 25%.

Management has deemed the magnitude of the adjustment to not be material, and accordingly has determined that a restatement of the December 31, 2010 and September 30, 2010 consolidated financial statements was not warranted.

CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards ("IFRS")

The Company has prepared its September 30, 2011 interim consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the *Handbook of the Canadian Institute of Chartered Accountants* which changed to IFRS, with an effective transition date of January 1, 2010, including IFRS 1, First-time adoption of international financial reporting standards, and IAS 34, Interim financial reporting. Subject to certain transition elections disclosed in Note 4 to the unaudited interim financial statements, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout the periods presented, as if these policies had always been in effect.

The Company's IFRS accounting policies are disclosed in Note 3 of the condensed interim consolidated financial statements for the period ended March 31, 2011. Reconciliation between the Company's financial statements as previously reported under Canadian GAAP ("CGAAP") and current reporting under IFRS is detailed in Note 4 of the interim consolidated statements.

The most significant changes to the January 1, 2010 balance sheet on transition to IFRS were within the mineral properties, deferred taxes liabilities and shareholders' equity. These accounts were adjusted for the reversal of the January 1, 2010 future income tax of $8.1 million against mineral properties and currency translation adjustments. The net impact was a decrease of $6.7 million to mineral properties, a decrease of $8.1 million in deferred tax liabilities, a reduction to the deficit of US$1.8 million, an increase of $0.2 million to inventories, and an increase of $0.2 million in plant and equipment.

NEW IFRS PRONOUNCEMENTS

In May 2011, the IASB issued the following standards, which have not yet been adopted by the Company: IFRS 9, *Financial instruments - Classification and Measurement*; IFRS 10, *Consolidated Financial Statements*; IFRS 11, *Joint Arrangements,;* IFRS 12, *Disclosure of Interests in Other Entities*; IAS 27, *Separate Financial Statements*; IFRS 13, *Fair Value Measurement*; and amended IAS 28, *Investments in Associates and Joint Ventures*. Each of these new standards is effective for annual periods beginning on, or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that these new and amended standards will have on its

consolidated financial statements or whether to adopt any of these new requirements at an earlier date.
The following is a brief summary of these new standards:

IFRS 9 – Financial instruments - Classification and Measurement

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is amortized at cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.

IFRS 10 – Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities,* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

IAS 19 – Employee Benefits

In June 2011, the IASB issued an amended version of IAS 19, *Employee Benefits* ("IAS 19"). The amendments to IAS 19 are meant to improve the quality, transparency and comparability of information presented for post-employment benefits. For defined benefit plans, the amendments eliminate the option to defer actuarial gains and losses on the balance sheet through the "corridor method". The amendments also require any re-measurement gains or losses, including actuarial gains and losses, to be recognized immediately and presented in other comprehensive income, eliminating the option to recognize and present these through the income statement. Additional disclosures will also be required to present better information about the characteristics, amounts recognized, and risks related to defined benefit plans. The amendments to IAS 19 are effective for financial years beginning on or after January 1, 2013 with earlier adoption permitted.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 1, *Presentation of Financial Statements*, IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*. IAS 1 has been amended to require companies to group items within Other Comprehensive Income ("OCI") that may be reclassified to profit or loss. The amendment also reaffirms existing requirements that items in OCI and profit and loss should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 are effective for fiscal years beginning on, or after, July 1, 2012. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

CRITICAL ACCOUNTING ESTIMATES

The application of certain accounting policies requires the Company to make estimates based on assumptions that may be undertaken at the time the accounting estimate is made. For a complete discussion of accounting estimates deemed most critical by the Company, refer to the Company's annual 2010 Management's Discussion and Analysis.

RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2011, the Company incurred:

(a) $376,464 (September 30, 2010 - $260,704) for administrative management services and office facilities provided by a company owned by a director and shareholder of the Company. At September 30, 2011, $78,751 (December 31, 2010 - $15,962) was due to this company.

(b) $613,800 (September 30, 2010 - $Nil) for a donation to Lundin for Africa, a charitable organization with directors in common.

(c) $306,605 (September 30, 2010 - $55,981) for aircraft charter services provided by a company associated with the Chairman of the Company. As at September 30, 2011, $Nil (December 31, 2010 - $Nil) was due to the company.

OUTSTANDING SHARE DATA

As at November 10, 2011, the Company had 372,349,049 common shares outstanding and 10,915,000 share options outstanding under its stock-based incentive plan. As at the same date, the Company had no share purchase warrants outstanding.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, investments, accounts receivable, accounts payable and accrued liabilities, amount due to related parties and debt. The carrying value of cash, investments, accounts receivable, accounts payable and debt approximate fair value.

Investments are recorded at either fair value as determined by active market prices or measured at cost if there is no active quoted market price or recent sale.

CONTINGENCIES

In April 2010, legal proceedings were initiated against African Diamonds, a subsidiary acquired by the Company in 2010, by two former directors of African Diamonds, alleging entitlement to a 3% royalty on production from the AK6 diamond project. The claim was heard in the Botswana High Court in early June, 2011. The High Court delivered its ruling on 10 August dismissing the claims against African Diamonds, with costs awarded against the plaintiffs.

In September, the Company was notified that the plaintiffs in the legal proceedings initiated against African Diamonds plc ("AFD"), had filed an appeal of the decision of the High Court of Botswana dismissing the plaintiffs claims with costs awarded in favour of AFD. At this stage the Company does not have any further details as to the timing of when the Appeal will be heard.

In March 2011, Mothae Diamonds terminated an agreement with a contractor at the Mothae diamond project. The contractor filed a claim against Mothae Diamonds and was alleging entitlement to an amount of approximately US$625,000. The claim was heard in court in June 2011 and written judgement was received in July 2011. The court ordered payment of Maloti 663,000 (approximately US$98,000) and reasonable expenditures relating to the termination. This payment has been made by the Company. The contractor is claiming further damages of Maloti 1.25 million. No provision has been made as management believe the claim is without merit.

During Q2, the Company and Boteti terminated an exclusivity agreement, whereby a lender had agreed to arrange funding for the development of the Boteti AK6 diamond mine. The Company has received an invoice from the Lender in the amount of $750,000 and is in discussion regarding the overall fee. There has been no accrual made for any potential payment.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high risk nature of its business which includes the acquisition, financing, exploration, development and operation of mining 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.

There have been no material changes in the risks and uncertainties affecting the Company that were discussed in the Company's 2010 annual MD&A filed on April 19, 2011.

OFF-BALANCE SHEET AGREEMENTS

The Company has no off-balance sheet arrangements.

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 AK6 project; estimated costs to construct the mine at AK6, 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 April 15, 2011 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.
INTERIM CONSOLIDATED BALANCE SHEETS
(All amounts expressed in U.S. Dollars, unless otherwise indicated.)
(Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 70,740,859	$ 32,884,905
Investments	191,415	287,308
Trade receivables and other	6,987,994	1,542,948
	77,920,268	34,715,161
Rough Diamond Inventory	2,886,210	3,964,835
Plant and Equipment (Note 5)	67,024,047	17,492,039
Mineral Properties (Note 6)	79,242,247	89,154,742
Other Non-Current Assets	153,218	206,305
TOTAL ASSETS	$ 227,225,990	$ 145,533,082
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	$ 11,155,810	$ 7,284,929
Due to related parties (Note 14)	78,751	167,147
Current portion of long-term debt (Note 7)	2,366,929	-
	13,601,490	7,452,076
Long-term liabilities		
Long-term debt (Note 7)	37,945,603	-
Restoration provisions (Note 8)	524,301	567,697
	38,469,904	567,697
TOTAL LIABILITIES	52,071,394	8,019,773
EQUITY ATTRIBUTABLE TO SHAREHOLDERS		
Share capital (Note 9)	278,849,721	209,210,999
Contributed surplus (Note 10)	5,640,958	5,421,258
Cumulative Deficit	(96,703,958)	(84,121,453)
Accumulated other comprehensive income/(loss)	(13,433,112)	5,141,321
Total equity attributable to equity holders of the parent	174,353,609	135,652,125
Non-controlling interests	800,987	1,861,184
TOTAL EQUITY	175,154,596	137,513,309
TOTAL LIABILITIES AND EQUITY	$ 227,225,990	$ 145,533,082

Contingencies - Note 16
Commitments - Note 17

Approved by the Board of Directors

/s/ Paul K. Conibear
Director

/s/ William Lamb
Director

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

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

	For the Three Months September 30, 2011	For the Three Months September 30, 2010	For the Nine Months September 30, 2011	For the Nine Months September 30, 2010
Exploration expenditures (Note 11)	$ 3,116,383	$ 2,508,938	$ 7,183,084	$ 8,890,330
Adminstration (Note 13)	1,304,914	815,463	5,927,640	2,634,022
Loss before the following	4,421,297	3,324,401	13,110,724	11,524,352
Gain on sale of diamonds (Note 12)	-	-	(2,339,282)	-
Finance income	(232,757)	(130,520)	(564,442)	(324,895)
Finance expenses	(149,991)	24,140	736,804	72,418
Foreign exchange loss/(gain) realized	1,414,558	(74,055)	2,291,714	(462,462)
Net Loss for the period	$ 5,453,107	$ 3,143,966	$ 13,235,518	$ 10,809,413
Loss for the period attributable to:				
Non-controlling interests	419,893	656,834	653,013	2,270,128
Equity holders of the parent	5,033,214	2,487,132	12,582,505	8,539,285
	$ 5,453,107	$ 3,143,966	$ 13,235,518	$ 10,809,413
Basic and diluted loss per common share	$ 0.01	$ 0.01	$ 0.04	$ 0.05
Weighted average number of common shares outstanding	**370,090,737**	**222,059,924**	**355,887,680**	**221,057,465**

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

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

	For the Three Months September 30, 2011	For the Three Months September 30, 2010	For the Nine Months September 30, 2011	For the Nine Months September 30, 2010
Net loss for the period	$ 5,453,107	$ 3,143,966	$ 13,235,518	$ 10,809,413
Unrealized loss on investment available-for-sale	93,197	(23,550)	95,891	9,471
Loss/(gain) on translation to reporting currency	19,372,229	(7,103,137)	18,885,726	(1,606,810)
	19,465,426	(7,126,687)	18,981,617	(1,597,339)
Comprehensive Loss for the period	$ 24,918,533	$ (3,982,721)	$ 32,217,135	$ 9,212,074
Total Comprehensive Loss for the period attributable to:				
Non-controlling interests	$ 761,257	$ (1,013,169)	$ 1,060,197	$ 2,209,622
Equity holders of the parent	24,157,276	(2,969,552)	31,156,938	7,002,452
	$ 24,918,533	$ (3,982,721)	$ 32,217,135	$ 9,212,074

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

LUCARA DIAMOND CORP.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)
(Unaudited)

	For the three Months Ended September 30, 2011	For the three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
Cash flows from/(used in):				
Operating activities				
Net Loss for the period	$ (5,453,107)	$ (3,143,966)	$ (13,235,518)	$ (10,809,413)
Items not affecting cash:				
Share based compensation	143,196	227,795	419,054	800,426
Interest receivable	-	(79,982)	-	(184,652)
Finance costs	18,122	24,140	54,693	72,418
Depreciation	924,438	335,342	2,098,997	335,342
Net changes in non-cash working capital items:				
Trade receivables and other current assets	(3,201,488)	(249,035)	(6,149,639)	(812,438)
Rough diamond inventory	(1,483,178)	(692,208)	512,251	(692,208)
Trade payables and other current liabilities	(224,307)	(777,777)	(190,545)	1,083,068
	(9,276,324)	(4,355,691)	(16,490,707)	(10,207,457)
Financing activities				
Proceeds from debt	50,000,000	-	50,000,000	-
Proceeds from non-controlling interest	-	126,698	-	2,808,825
Shares issued for cash (net of issue costs)	346,682	13,949	58,776,148	584,487
	50,346,682	140,647	108,776,148	3,393,312
Investing activities				
Plant and equipment	(24,497,220)	(1,915,934)	(52,947,767)	(5,382,469)
Proceeds from option exercised	-	-	-	7,356,256
Other assets	15,381	(263,281)	53,087	(263,281)
	(24,481,839)	(2,179,215)	(52,894,680)	1,710,506
Increase (decrease) in cash and cash equivalents	16,588,519	(6,394,259)	39,390,761	(5,103,639)
Effect of exchange rate changes on cash and cash equivalents	(2,068,420)	709,872	(1,534,807)	384,734
Cash and cash equivalents, beginning of the period	56,220,760	50,089,408	32,884,905	49,123,926
Cash and cash equivalents, end of the period	$ 70,740,859	$ 44,405,021	$ 70,740,859	$ 44,405,021
Supplemental Information:				
Cash received for interest	$ 410,779	$ 130,520	$ 564,442	$ 139,723
Cash paid for income taxes	$ -	$ -	$ -	$ -
Changes in accounts payable and accrued liabilities related to plant and equipment additions	$ 3,788,048	$ -	$ 5,157,340	$ -
Shares issued in conjunction with the debenture (Note 7)	$ 10,663,220	$ -	$ 10,663,220	$ -

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

LUCARA DIAMOND CORP.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(All amounts expressed in thousands of 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 interest	Total
Balance as of January 1, 2011	302,494,050	$209,210,999	$ 5,421,258	$ (84,121,453)	$ 5,141,321	$ 1,861,184	$ 137,513,309
Exercise of share options	604,999	691,890	(199,354)	-	-	-	492,536
Private placement	60,000,000	58,283,612	-	-	-	-	58,283,612
Bonus shares	9,000,000	10,663,220	-	-	-	-	10,663,220
Share based compensation	-	-	419,054	-	-	-	419,054
Effects of foreign currency translation	-	-	-	-	(18,478,542)	(407,184)	(18,885,726)
Unrealized gain(loss) on investments	-	-	-	-	(95,891)		(95,891)
Net loss for the period	-	-	-	(12,582,505)		(653,013)	(13,235,518)
Balance as of September 30, 2011	372,099,049	$278,849,721	$ 5,640,958	$ (96,703,958)	$ (13,433,112)	$ 800,987	$ 175,154,596
Balance as of January 1, 2010	208,768,167	$122,476,675	$ 1,649,157	$ (13,394,287)	$ 255,190	$ 15,144,042	$ 126,130,777
Shares issued - guarantee fees	12,191,200	9,863,306	-	-	-	-	9,863,306
Proceeds from non-controlling interest	-	-	-	-	-	2,808,825	2,808,825
Disposition of a portion of non-controlling interest in Boteti Mining (PTY) LTD	-	-	-	2,126,918	-	5,229,338	7,356,256
Share based payment	-	-	1,266,834	-	-	2,263,286	3,530,120
Exercise of share options	1,102,291	738,205	(153,718)	-	-	-	584,487
Share based compensation	-	-	800,426	-	-	-	800,426
Unrealized gain(loss) on investments	-	-	-	-	(9,471)	-	(9,471)
Effects of foreign currency translation	-	-	-	-	1,546,305	60,505	1,606,810
Net loss for the period	-	-	-	(8,539,285)	-	(2,270,128)	(10,809,413)
Balance as of September 30, 2010	222,061,658	$133,078,186	$ 3,562,699	$ (19,806,654)	$ 1,792,024	$ 23,235,868	$ 141,862,123

The accompanying notes are an integral part of these 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 an indirect 100% interest in the AK6 Diamond Project located in Botswana, a 75% indirect interest in Mothae Diamond Project located in Lesotho. Following an evaluation of the exploration work conducted to-date on the Kavango Project in eastern Namibia, by the Company's joint venture partner, Namdeb Diamond Corporation, the Company has made a determination not to renew the licenses which expire at the end of October. The Company is currently preparing the documentation required to formally relinquish its interest in all ten of the prospecting licenses.

The Company's common shares are listed on the TSX and the 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 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Company prepared its financial statements in accordance with Canadian Generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these condensed interim consolidated financial statements. In these financial statements, the term 'Canadian GAAP' refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in Note 4, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout the period presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company's reported balance sheet, results of operations and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 10 2011, the date the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in a restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP financial statements for the year ended December 31, 2010. The Company's IFRS accounting policies were disclosed in Note 3 of the condensed interim consolidated financial statements for the period ended March 31, 2011.

Throughout these condensed interim consolidated financial statements additional disclosures relating to the year ended December 31, 2010 are provided in accordance with IFRS where material to an understanding of these condensed interim consolidated financial statements.

3. NEW IFRS PRONOUNCEMENTS

In May 2011, the IASB issued the following standards, which have not yet been adopted by the Company: IFRS 9, *Financial instruments - Classification and Measurement*; IFRS 10, *Consolidated Financial Statements*; IFRS 11, *Joint Arrangements,;* IFRS 12, *Disclosure of Interests in Other Entities*; IAS 27, *Separate Financial Statements*; IFRS 13, *Fair Value Measurement*; and amended IAS 28, *Investments in Associates and Joint Ventures*. Each of these new standards is effective for annual periods beginning on, or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that these new and amended standards will have on its consolidated financial statements or whether to adopt any of these new requirements at an earlier date.

The following is a brief summary of these new standards:

a) *IFRS 9 – Financial instruments - Classification and Measurement*

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is amortized at cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.

b) *IFRS 10 – Consolidated Financial Statements*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities,* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

c) *IFRS 11 - Joint Arrangements*

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

d) ***IFRS 12 – Disclosure of Interests in Other Entities***

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

e) ***IFRS 13 - Fair Value Measurement***

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

f) IAS 19 – Employee Benefits

In June 2011, the IASB issued an amended version of IAS 19, *Employee Benefits* ("IAS 19"). The amendments to IAS 19 are meant to improve the quality, transparency and comparability of information presented for post-employment benefits. For defined benefit plans, the amendments eliminate the option to defer actuarial gains and losses on the balance sheet through the "corridor method". The amendments also require any re-measurement gains or losses, including actuarial gains and losses, to be recognized immediately and presented in other comprehensive income, eliminating the option to recognize and present these through the income statement. Additional disclosures will also be required to present better information about the characteristics, amounts recognized, and risks related to defined benefit plans. The amendments to IAS 19 are effective for financial years beginning on or after January 1, 2013 with earlier adoption permitted.

g) ***Amendments to Other Standards***

In addition, there have been amendments to existing standards, including IAS 1, *Presentation of Financial Statements*, IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*. IAS 1 has been amended to require companies to group items within Other Comprehensive Income ("OCI") that may be reclassified to profit or loss. The amendment also reaffirms existing requirements that items in OCI and profit and loss should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 are effective for fiscal years beginning on, or after, July 1, 2012. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

4. ADJUSTMENTS AND TRANSITION TO IFRS

a) Adjustment of equity transfer to the Government of Lesotho ("GOL")

During the quarter ended March 31, 2011, the Company re-evaluated its accounting for the transfer of shares and a share option in Mothae Diamond Proprietary Limited ("Mothae") to the GOL during 2010. Previously, the Company had accounted for the transfer as an expropriation for no proceeds.

The Company, after further review, has now concluded that it made a share-based payment in exchange for a mining license, which is capitalized as an intangible asset. The Company has made the following adjustments, as at September 2010 and for the year ended December 31, 2010:

- Increased mineral property costs by $3,530,120, representing the fair value of the intangible mining rights received from the GOL as based upon the fair value of the shares in Mothae as of June 2010;

- Increased non-controlling interest ("NCI") by $2,263,286, representing the fair value of the 12.5% "free-carried" interest in Mothae transferred to the GOL as of June 2010;

- Increased contributed surplus by $1,266,834, representing the fair value, as of June 2010, of the GOL's option on the additional 12.5% interest in Mothae, which will beneficially transfer to the GOL upon their full payment for these shares. These shares are to be paid for by the GOL on a contingent basis, such that they are payable only from the first $1.825 million of dividends on these shares. Management have fair valued the option on these shares by using the fair value established for the NCI portion above and deducting the fair value of the $1.825 million, discounted at 10% per annum for a period of approximately 6 years until the cash flows from Mothae are estimated to be sufficient to cover the required payment; and

- Decreased the NCI by $708,049 representing the NCI share of losses of Mothae from the date of the related Shareholder Agreement, June 23, 2010, whereby the GOL received its 12.5% free-carried interest, to December 31, 2010. The increased allocation of the losses of Mothae for the year ended December 31, 2010 result in an equivalent decrease in the loss attributable to the shareholders of the parent company for the year and to the deficit at December 31, 2010. For the period ended September 30, 2010, the NCI's portion of the losses from June 23, 2010 to September 30, 2010 was $656,834.

The option on the 12.5% interest, which has been treated as contributed surplus, will continue to be treated as contributed surplus and no attribution of the income or losses of Mothae will be recorded until the shares have been paid for by way of future dividends. At that time the amount will be transferred from contributed surplus to NCI and the future NCI attribution will be based on 25%.

Management has deemed the magnitude of the adjustment to not be material, and accordingly has determined that a restatement of the December 31, 2010 and September 30, 2010 consolidated financial statements was not warranted.

b) Transition elections

The Company has applied the following transition exceptions and exemptions to the full retrospective application of IFRS as follows:

- Business combinations – in applying this exemption the Company will continue to carry forward its previous Canadian GAAP accounting for business combinations prior to the transition date.
- Stock-based compensation - In applying this exemption the Company will not be required to apply IFRS 2 to options vested before the transition date.
- Cumulative translation adjustments ("CTA") – in applying this exemption the cumulative translation differences for all foreign operations (subsidiaries, joint ventures and equity method investments) with a functional currency different from the reporting entity's reporting currency (self-sustaining

foreign operations under current Canadian GAAP) will be deemed to be zero at transition (CTA balances are eliminated with offsetting entry recorded directly to retained earnings).

c) Functional currency and cumulative translation adjustment account

Under Canadian GAAP the Company determines whether a subsidiary is an integrated operation or a self-sustaining entity which determines the method of translation into the presentation currency of the Group. IFRS requires that an entity determine the functional currency of each subsidiary individually, prior to consolidation into the Group's presentation currency.

The Company has determined that the parent company and its significant subsidiaries had functional currencies other than the U.S. dollar, which under Canadian GAAP had been classified as being integrated operations. Those subsidiaries under Canadian GAAP were consolidated using the temporal method (i.e. monetary assets and liabilities translated at the current rate and nonmonetary assets and liabilities at historic exchange rates with gains or losses being charged to income), whereas under IFRS those entities with non U.S. dollar functional currencies are translated into U.S. dollars using the current rate method (whereby all assets and liabilities are translated using the reporting date exchange rates with any gains or losses being recorded in equity).

The net impact as at September 30, 2010 and for the nine months then ended, was an increase to diamond inventory of $345,995, an increase to plant and equipment of $514,284, an increase to foreign exchange gain of $99,472, an increase in mineral properties of $2,939,247 an increase to NCI of $11,234, and and offsetting cumulative translation adjustment ("CTA") gain of $1,210,843. As previously discussed, $1,816,642 CTA gain adjustment was recorded at January 1, 2010 and the balance represents the CTA gain adjustment to be recorded on other comprehensive income for the nine months ended September 30, 2010 in the amount of $1,122,605.

d) Reversal of deferred income tax liability

Under Canadian GAAP, the Company was required to record a future income tax liability on prior assets acquisitions and such a purchase price gross up is not permitted under IFRS.

For the nine month period ended September 30, 2010, the impact was a decrease in mineral properties of $8,051,101, and a decrease of deferred tax liabilities of $8,051,101.

e) Reclassification of accretion to finance charges

Under Canadian GAAP, accretion was previously reflected with depreciation and depletion. Pursuant to IFRS accretion has been reclassified to Finance Charges.

f) Reconciliations

A reconciliation of assets, liabilities, equity, comprehensive income and cash flows of the Company from those reported under Canadian GAAP to IFRS at January 1, 2010, December 31 2010 and March 31, 2010 were disclosed in Note 4 of the condensed interim consolidated financial statements for the period ended March 31, 2011. The adoption of IFRS has had no impact on the net cash flows of the Company. The changes made to the statements of consolidated earnings and consolidated balance sheets have resulted in reclassification of various amounts on the statements of cash flows, however as there have been no changes to the net cash flows, and accordingly no reconciliations have been prepared.

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

Reconciliations of assets, liabilities, equity and comprehensive income (loss) of the Company at September 30, 2010 from those reported under Canadian GAAP to IFRS are as follows:

	September 30, 2010				
Consolidated Balance Sheet	**CDN GAAP**	**Adjustments Note 4(a)**		**IFRS Adjustments**	**IFRS**
ASSETS					
Current Assets					
Cash and cash equivalents	$ 44,405,020	$ -	-	-	$ 44,405,020
Investments	296,728	-	-	-	296,728
Loan receivable	2,184,652	-	-	-	2,184,652
Trade receivables	1,111,103	-	-	-	1,111,103
	47,997,503	-		-	47,997,503
Inventories	2,457,168	-	(c)	345,995	2,803,163
Plant and equipment, net	5,547,642	-	(c)	514,284	6,061,926
Mineral properties	90,807,372	3,530,120	(c,d)	(5,872,661)	88,464,831
Other assets	263,281	-		-	263,281
Total Assets	**$ 147,072,966**	**$ 3,530,120**		**$(5,012,382)**	**$ 145,590,704**
LIABILITIES					
Current Liabilities					
Trade payables and accrued liabilities	$ 3,137,263	$ -	-	$ -	$ 3,137,263
Due to related parties	158,258	-	-	-	158,258
	3,295,521			-	3,295,521
Long-term liabilities					
Due to related parties	-	-	-	-	-
Asset restoration provisions	433,059	-	-	-	433,059
Future income taxes	8,051,101	-	(d)	(8,051,101)	-
	8,484,160	-		(8,051,101)	433,059
Total Liabilities	**11,779,681**	**-**		**(8,051,101)**	**3,728,580**
EQUITY					
Share capital	133,078,186	-		-	133,078,186
Contributed surplus	2,295,865	1,266,834		-	3,562,699
Deficit	(22,764,636)	656,834	(b,c)	2,301,149	(19,806,653)
Accumulated other comprehensive income	1,065,688		(b,c)	726,336	1,792,024
Total equity attributable to equity holders of the parent	113,675,103	1,923,668	-	3,027,485	118,626,256
Non-controlling interests	21,618,182	1,606,452	-	11,234	23,235,868
	135,293,285	3,530,120		3,038,719	141,862,124
Total Liabilities and Equity	**$ 147,072,966**	**$ 3,530,120**		**$(5,012,382)**	**$ 145,590,704**

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

Consolidated Condensed	For the Nine Months Ended September 30, 2010				
Statement of Net loss and	**CDN**	**Adjustments**			
Comprehensive Other Income	**GAAP**	**Note 4(a)**		**IFRS Adjustments**	**IFRS**
Exploration expenditures	$ 8,962,748	$ -	(e)	$ (72,418)	$ 8,890,330
Administration expenses	2,634,022	-	-	-	2,634,022
Loss before the following	11,596,770			(72,418)	11,524,352
Finance income	(324,895)	-	-	-	(324,895)
Finance expenses	-	-	(e)	72,418	72,418
Foreign exchange loss/(gain)	(362,990)	-	(c)	(99,472)	(462,462)
Net Loss before income taxes	$ 10,908,885	$ -		$ (99,472)	$ 10,809,413
Unrealized loss on investment available-for-sale	(9,471)	-	(c)	-	(9,471)
Gain on translation to reporting currency	484,205	-	(c)	1,122,605	1,606,810
	474,734	-		1,122,605	1,597,339
Comprehensive Loss	$ 10,434,151	$ -		$ (1,222,077)	$ 9,212,074
Net Loss attributable to					
Non-controlling interest	$ 1,613,295	$ 656,834		$ -	$ 2,270,128
Equity holders of the parent	9,295,590	(656,834)	-	(99,472)	8,539,285
	$ 10,908,885	$ -		$ (99,472)	$ 10,809,413
Comprehensive Loss attributable to					
Non-controlling interest	$ 1,564,023	$ 656,834		$ (11,234)	$ 2,209,623
Equity holders of the parent	8,870,128	(656,834)	(c)	(1,210,843)	7,002,451
	$ 10,434,151	$ -		$ (1,222,077)	$ 9,212,074

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Consolidated Condensed	For the Three Months Ended September 30, 2010				
Statement of Net loss and	**CDN**	**Adjustment**			
Comprehensive Other Income	**GAAP**	**Note 4(a)**		**IFRS Adjustments**	**IFRS**
Exploration expenditures	$ 2,533,078	$ -	(e)	$ (24,140)	$ 2,508,938
Adminstration expenses	815,463	-	-	-	815,463
Loss before the following	3,348,541			(24,140)	3,324,401
Finance income	(130,520)	-	-	-	(130,520)
Finance expenses	-	-	(e)	24,140	24,140
Foreign exchange loss/(gain)	(241,396)	-	(c)	167,341	(74,055)
Net Loss before income taxes	$ 2,976,625	$ -		$ 167,341	$ 3,143,966
Unrealized loss on investment available-for-sale	(23,550)	-	(c)	-	(23,550)
Loss on translation to reporting currency	261,192	-	(c)	(7,364,330)	(7,103,138)
	237,642	-		(7,364,330)	(7,126,688)
Comprehensive Loss	$ 3,214,267	$ -		$ (7,196,989)	$ (3,982,722)
Net Loss attributable to					
Non-controlling interest	$ -	$ 656,834		$ -	$ 656,834
Equity holders of the parent	2,976,625	(656,834)		167,341	2,487,132
	$ 2,976,625	$ -		$ 167,341	$ 3,143,966
Comprehensive Loss attributable to					
Non-controlling interest	$ 49,271	$ 656,834		$ (1,719,274)	$ (1,013,169)
Equity holders of the parent	3,164,996	(656,834)		(5,477,714)	(2,969,552)
	$ 3,214,267	$ -		$ (7,196,988)	$ (3,982,721)

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

5. PLANT AND EQUIPMENT

Cost	Construction In progress	Mine and plant facilities	Vehicles	Furniture and Office equipment	Total
As at January 1, 2010	$ -	$ 1,681,910	$ -	$ -	$ 1,681,910
Additions	10,935,766	4,458,906	424,576	267,815	16,087,063
Disposals and other	-	-	-	-	-
Translation differences	559,258	659,823	30,535	20,386	1,270,002
As at December 31, 2010	11,495,024	6,800,639	455,111	288,201	19,038,975
Additions	55,782,632	3,007,731	-	290,532	59,080,895
Disposals and other	-	-	-	-	-
Translation differences	(6,648,079)	(1,315,339)	(11,105)	(22,595)	(7,997,118)
As at September 30, 2011	$ 60,629,577	$ 8,493,031	$ 444,006	$ 556,138	$ 70,122,752
Accumulated Depreciation					
As at January 1, 2010	$ -	$ -	$ -	$ -	$ -
Depreciation, depletion for the period	-	1,333,977	1,960	21,199	1,357,136
Disposals and other	-	-	-	-	-
Translation differences	-	186,561	274	2,965	189,800
As at December 31, 2010	-	1,520,538	2,234	24,164	1,546,936
Additions	-	2,059,431	2,940	36,626	2,098,997
Disposals and other	-	-	-	-	-
Translation differences	-	(546,374)	(55)	(799)	(547,228)
As at September 30, 2011	$ -	$ 3,033,595	$ 5,119	$ 59,991	$ 3,098,705
Net book amount					
As at January 1, 2010	$ -	$ 1,681,910	$ -	$ -	$ 1,681,910
As at December 31, 2010	$ 11,495,024	$ 5,280,101	$ 452,877	$ 264,037	$ 17,492,039
As at September 30, 2011	$ 60,629,577	$ 5,459,436	$ 438,887	$ 496,147	$ 67,024,047

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

6. MINERAL PROPERTIES

Cost	AK6 Diamond Acquisition	Mothae Mothae Acquisitions	Mothae Commission Asset	Mothae Mining License	Total
As at Janauary 1, 2010	$ 63,718,210	$ 18,315,673	$ 250,029	$ -	$ 82,283,912
Additions	-	-	99,874	3,530,120	3,629,994
Disposals	-	-	-	-	-
Translation differences	892,049	1,599,749	218,173	530,865	3,240,836
As at December 31, 2010	$ 64,610,259	$ 19,915,422	$ 568,076	$ 4,060,985	$ 89,154,742
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Translation differences	(7,008,966)	(2,119,172)	(126,839)	(657,518)	(9,912,495)
As at September 30, 2011	$ 57,601,293	$ 17,796,250	$ 441,237	$ 3,403,467	$ 79,242,247

a) AK6 Diamond Project

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. The value of the non-controlling interest in Boteti that was disposed of was $5,229,338. In accordance with Section 1602, this transaction has been accounted for as an equity transaction. The $2,126,918 received in excess of the non-controlling interest has been recorded as an adjustment to the deficit in the period ended June 30, 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.

To fund the AK6 acquisition, Lucara and Boteti Holdings had entered into a guarantee and loan facility with a significant shareholder of the Company in the amount of $49.0 million. As consideration for the guarantee, the lender was entitled to receive 12,191,200 shares in the Company. The shares were issued in 2010 at a fair value of $9.8 million.

The net assets acquired on the acquisition of Boteti are not considered to meet the definition of a business under *Emerging Issues Abstract 124*, as published by the Canadian Institute of Chartered Accountants; accordingly, the acquisition had been accounted for as a purchase of assets and liabilities.

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 Diamonds Inc ("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.

The net assets acquired on the acquisition of Motapa are not considered to meet the definition of a business under *Emerging Issues Abstract 124*, as published by the Canadian Institute of Chartered Accountants; accordingly, the acquisition had been accounted for as a purchase of assets and liabilities.

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. 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.

In terms of IFRS 2, the granting of this equity stake classifies the transaction as a share-based payment, as the entity is obtaining the right to mine the kimberlite pipe in exchange for equity in the entity. The mining lease provides for the ultimate transfer of a 25% equity interest in the entity and makes no provisions for cash settlement. As such, the share-based payment was treated and recognised as an equity settled share-based payment.

7. LIABILITIES

In July 2011, the Company entered into a $50 million loan agreement secured by a 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 principal commencing September 30, 2012. No interest is payable during the term of the facility. The facility is secured by a pledge by the Company of the shares of the subsidiaries that control the companies that own the projects. 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 each an insider of the Company.

The terms of the debenture financing also included the Company issuing an aggregate of 9 million common shares (fair value $10.6 million) to Zebra and Lorito as consideration for the facility, in lieu of interest and fees.

The borrowings have been measured at fair value. The liability is measured at amortised 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.

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

As of September 30, 2011	Total	Current Portion	Long Term Portion
Principal	$ 50,000,000	$ 8,333,333	$ 41,666,667
Unamortized Discount	(9,687,468)	(5,966,404)	(3,721,064)
Total Carrying Value	40,312,532	2,366,929	37,945,603

8. RESTORATION PROVISIONS

These provisions have been recognized as the Group has an obligation for rehabilitation of the diamond project areas. The provisions have been calculated based on total estimated rehabilitation costs and discounted back to their present values. The pre-tax discount rates are adjusted annually and reflect current market assessments. These costs are expected to be incurred in 2023. The estimated total liability for reclamation and remediation costs on an undiscounted basis after inflation is approximately $3.2 million (December 31, 2010 - $3.2 million, December 31, 2009 – $1.7 million).

Balance, January 1, 2010	**$ 360,641**
Obligations incurred	99,874
Accretion	38,679
Expenditures	-
Changes in exchange rates	68,503
Balance - December 31, 2010	**$ 567,697**
Obligations incurred	-
Accretion	54,693
Expenditures	-
Changes in exchange rates	(98,089)
Balance - September 30, 2011	**$ 524,301**

9. 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 were issued to Zebra and Lorito as consideration of a $50.0 million debenture in lieu of interest and fees with a fair value of $10.6 million.

10. STOCK OPTIONS

a) Stock Option Plan

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

During the nine months ending September 30, 2011 the Company granted 275,000 stock options. The weighted average grant-date fair value of stock options granted in the period was $0.47 per share.

The total share-based compensation for the nine months ended September 30, 2011 was $419,054 (2010 - $800,426) and has been allocated to Administration expenses.

The unrecognized compensation cost for non-vested share options at September 30, 2011 was $222,167.

b) *Stock Options Outstanding*

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

	Number of Options		Weighted Average Exercise price - CDN
Outstanding as of January 1, 2010	**5,704,782**	**$**	**0.76**
Granted	7,840,000	$	0.95
Exercised	(1,108,957)	$	0.56
Forfeited	(885,825)	$	0.77
Outstanding as at Dececember 31, 2010	**11,550,000**	**$**	**0.91**
Granted	275,000	$	0.95
Exercised	(604,999)	$	0.80
Cancelled	(35,001)	$	0.89
Expired	(20,000)	$	0.77
Outstanding as at September 30, 2011	**11,165,000**	**$**	**0.91**
Exercisable	**9,721,626**	**$**	**0.93**

The following summarized information about the stock options outstanding and exercisable at September 30, 2011:

	Outstanding Options			**Exercisable Options**		
Range of Exercise Prices (CDN$)	Number of Options Outstanding (In thousands)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price CDN$	Number of Options Exercisable (In thousands)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price CDN$
$0.00 - $0.49	1,515,000	0.77	$0.48	1,515,000	0.77	$0.48
$0.50 - $0.99	5,960,000	1.03	0.85	5,208,302	0.86	0.84
$1.00 - $1.49	2,690,000	1.02	1.11	1,998,324	1.07	1.14
$1.50 - $1.99	800,000	0.72	1.56	800,000	0.72	1.56
$2.00 - $2.50	200,000	0.72	2.08	200,000	0.72	2.08
	11,165,000	0.99	0.93	9,721,626	0.87	0.93

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

11. EXPLORATION AND PROJECT INVESTIGATION

For the nine months ended September 30 2011	Mothae Project Lesotho	Boteti AK6 Project Botswana	Other	Total
Test mining	$ 8,605,709	$ -	$ -	$ 8,605,709
Depreciation	2,093,457	-	-	2,093,457
Resource development	88,197	-	-	88,197
Office and other	492,171	-	7,829	500,000
Environment Impact Assessme	163,620	-	-	163,620
Diamonds recovered	(4,267,901)	-	-	(4,267,901)
Total for the period	**$ 7,175,253**	**$ -**	**$ 7,829**	**$ 7,183,084**

For the nine months ended September 30 2010	Mothae Project Lesotho	Boteti AK6 Project Botswana	Other	Total
Test mining	$ 4,562,920	$ -	$ -	$ 4,562,920
Feasibility	-	2,669,553	-	2,669,553
tailings and concentrates	-	514,494	-	514,494
Geology	342,326	-	-	342,326
Office and other	234,837	566,200	-	801,037
Total for the period	**$ 5,140,083**	**$ 3,750,247**	**$ -**	**$ 8,890,330**

Based on the results of the definitive feasibility study completed in June 2010, the AK6 project was determined to be commercially feasible and commencing in July 2010 pursuant to the Company's accounting policy for mineral properties, expenditures incurred thereafter have been capitalized.

12. GAIN ON SALE OF DIAMONDS

During the quarter ended March 31, 2011, Mothae Diamonds held its first diamond sales and received net proceeds of $7.5 million (after payment of royalties and selling costs) on 9,381 carats. The sale included the rough diamond inventory that was held at year end, which was valued using the Company's best estimate of the lower of cost and net realizable value. The Company has recorded a gain on the sale of this inventory in the amount of $2,339,282 from net proceeds of $6,065,604 in "Other income". The remaining proceeds from the sale have been netted against exploration expenditures (Note 13).

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

13. ADMINISTRATION EXPENSES

	For the Three Months September 30, 2011	For the Three Months September 30, 2010	For the Nine Months September 30, 2011	For the Nine Months September 30, 2010
Share based compensation	$ 143,196	$ 227,795	$ 419,054	$ 800,426
Salaries and benefits	349,507	175,401	1,095,813	484,842
Management fees	134,894	86,594	376,464	260,704
Professional fees	272,859	99,094	1,446,646	314,484
Stock exchange, transfer agent, shareholder communication	181,170	15,701	1,180,351	168,587
Travel	161,576	182,968	579,418	522,653
Office and general	62,072	11,013	216,094	65,429
Donations	(360)	16,897	613,800	16,897
Total for the period	$ 1,304,914	$ 815,463	$ 5,927,640	$ 2,634,022

14. RELATED PARTY TRANSACTIONS

a) Related party expenses

The Company incurred the following expenses with Namdo Management Services Limited ("Namdo"), and Lundin for Africa ("LFA"), companies related by way of directors in common. In addition, the Company incurred air chartered services from Mile High Holdings Ltd. ("Mile"), a company associated with the Chairman of the Company. In 2010, the Company incurred professional geological services and laboratory related expenditures from MS Group, a company that was associated with a director of Company.

Description of Services	Related Party	September 30, 2011	September 30, 2010
Management Fees	Namdo	$ 376,464	$ 260,704
Donations	LFA	613,800	-
Exploration related expenditures	MS Group of Companies	-	378,830
Aircraft Charter	Mile High	306,605	55,981
Total Related Party Expenses		$ 1,296,869	$ 695,515

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

b) Related party liabilities

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

Related Party Liabilities	September 30, 2011	September 30, 2010
Namdo	$ 78,751	$ 4,061
LFA	-	-
MS Group of Companies	-	154,198
Mile High Holdings	-	-
Total Related Party Liabilities	$ 78,751	$ 158,259

c) Key management compensation

Key management personnel are those persons having 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:

Note Disclosure:	2011	2010
Salaries and fees	$ 932,273	$ 488,645
Short term benefits	$ 99,667	$ 38,481
Share-based compensaton	$ 339,769	$ 631,309

15. 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:

	Property, plant and equipment, net		Mineral Properties		Other	
	Sep 30, 2011	Dec 31, 2010	Sep 30, 2011	Dec 31, 2010	Sep 30, 2011	Dec 31, 2010
Canada	$ 1,133,575	$ -	$ -	$ -	$ 7,668	$ -
Lesotho	3,861,504	5,573,411	21,640,954	24,544,483	145,550	171,879
Botswana	62,028,969	11,918,628	57,601,293	64,610,259	-	34,426
	$ 67,024,047	$ 17,492,039	$ 79,242,247	$ 89,154,742	$ 153,218	$ 206,305

16. CONTINGENCIES

In April 2010, legal proceedings were initiated against African Diamonds, a subsidiary acquired by the Company in 2010, by two former directors of African Diamonds, alleging entitlement to a 3% royalty on production from the AK6 diamond project. The claim was heard in the Botswana High Court in early June, 2011. The High Court delivered its ruling on 10 August dismissing the claims against African Diamonds, with costs awarded against the plaintiffs.

In September, the Company was notified that the plaintiffs, in the legal proceedings initiated against African Diamonds plc ("AFD"), had filed an appeal of the decision of the High Court of Botswana dismissing the plaintiff's claims with costs awarded in favour of AFD. At this stage the Company does not have any further details as to the timing of when the Appeal will be heard.

In March 2011, Mothae Diamonds terminated an agreement with a contractor at the Mothae diamond project. The contractor filed a claim against Mothae Diamonds and was alleging entitlement to an amount of approximately US$625,000. The claim was heard in court in June 2011 and written judgement was received in July 2011. The court ordered payment of Maloti 663,000 (approximately US$98,000) and reasonable expenditures relating to the termination. This payment has been made by the company. The contractor is claiming further damages of Maloti 1.25 million. No provision has been made as management believe the claim is without merit.

During Q2, the Company and Boteti terminated an exclusivity agreement whereby a lender had agreed to arrange funding for the development of the Boteti AK6 diamond mine. The Company has received an invoice from the Lender in the amount of $750,000 with respect to the termination of the agreement and is in discussion regarding the overall fee. There has been no accrual made for any potential payment.

17. COMMITMENTS

In conjunction with the development of the AK6 diamond mine, the Company has committed to approximately US$40 million in additional capital expenditures.