Lucara Diamond Corp.

Interim Consolidated Financial Statements
For the three months and six months ended June 30, 2011
(Unaudited)

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in United States Dollars unless otherwise indicated)
SIX MONTHS ENDED JUNE 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 six months ended June 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 August 4, 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

- Secured a US$50 million Debenture in early July 2011

AK6 Diamond Project - Botswana

- As at the end of the second quarter 2011, overall project progress was 75% complete (Engineering 99%, procurement 87%, construction 55% and Fabrication 76% completed);
- Construction of the bulk power line continued and full power is scheduled to be available during September 2011;
- 3 year mining contract signed and final negotiations with process contractor underway; and
- Construction contract awarded for the building of 12 senior staff houses in Letlhakane.

Mothae Diamond Project - Lesotho

- Sample G2A was completed in early May 2011, producing 1,903 carats of diamonds with an average stone size of 0.45 carats/stone from 33,691 dry tonnes of kimberlite for a sample grade of 5.65 carats per hundred tonnes ("cpht");
- Mining and processing of sample F2A commenced and approximately 1,412 carats had been recovered during the current quarter from a provisional estimation of 35,247 dry tonnes;
- Alternative diamond recovery technologies, including a grease table recovery unit and a high power x-ray machine, are being installed to complement current equipment and for ongoing audit purposes; and
- Commenced an environmental impact assessment for mine development, which is expected to be completed by the end of the third quarter of 2011.

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 Venture 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, exploration and prospecting diamond licenses in Lesotho, Botswana and Namibia. In addition, Lucara actively seeks 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
Namibia	Kavango Prospecting Licenses (10) (100% interest)	8,359

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, using 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 base price of $243/ct

As at the end of the second quarter 2011 there were 495 people on site and 497,000 hours worked since the construction decision was made (July 2010). Overall project progress was 75% complete, with engineering 99%, procurement 87%, construction was proceeding on schedule at 55% and fabrication

76% completed. During the quarter, construction of the power line and sub-stations was ongoing and grid power is anticipated to be available in time for early commissioning tasks. In addition, the construction contract was awarded for the employee housing and the contractor has mobilized to site.

In July 2011, there was an industrial action in the South Africa steel industry that caused delays to steel fabrication and delivery of supplies to the project. Work did continue on the site, delivered steel was erected and project tasks re-prioritised to mitigate the impacts on the construction schedule. The Company is currently evaluating the full impact of the industrial action, which has now ended, on the construction schedule and will provide further updates at they become available.

An agreement was reached with Kalcon (Proprietary) Ltd for a three year mining contract in early July 2011 and they are expected to mobilize to site during the third quarter. The processing contract was awarded to Minopex and negotiations are underway with the agreement anticipated to be finalized in August 2011.

In addition, negotiations continued with Lucara's primary sales consultants to provide diamond sales advisory services for Boteti, with the aim of developing an in-house sales team. Boteti's corporate office relocated in July 2011 and conversion of the current office space in the diamond technology park in Gaborone to a sorting/sales office is expected to be completed during the fourth quarter.

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 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 diamond sales, by open tender, will be conducted in order to improve the validity of our valuation process.

Total dry tonnes of kimberlite processed for the current quarter and first half of 2011 were 55,850 and 107,891, respectively, bringing the project to date to 245,539 tonnes, resulting in the recovery of 19,658 stones weighing 8,890 carats.

Diamond recovery information remains provisional; as Mothae Diamonds commissioned a grease table recovery unit during the current quarter and is in the process of treating x-ray recovery tailings for audit purposes. Results of this work will be incorporated into revised diamond recovery and grade information when complete. In addition, the Bourevestnik ("BV") x-ray diamond recovery unit was installed and commissioned subsequent to quarter end and is anticipated to be fully operational in August 2011.

Mothae Diamonds completed an upgrade to the process plant screens during May and early June as a means to reduce maintenance time and thereby increase daily plant throughput. In addition, Mothae Diamonds is planning the installation of a primary crushing circuit and an upgrade to the secondary crusher to improve the plant's ability to process harder kimberlite material encountered as mining progresses deeper into less weathered portions of the Mothae pipe.

During the quarter, work commenced on the Environmental Impact Assessment (EIA) in support of future mine development. It is anticipated that the EIA will be available prior to the end of the third quarter 2011.

SELECTED QUARTERLY INFORMATION

Financial Data for 8 Quarters								
Three months Ended	**Jun-11**	**Mar-11**	**Dec-10**	**Sep-10**	**June-10**	**Mar-10**	**Two Months Dec-09**	**Oct-09**
	IFRS	IFRS	Cdn GAAP	Cdn GAAP	IFRS	IFRS	Cdn GAAP	Cdn GAAP
A. Total Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
B. Exploration Expenditures ($'s)	2,866,454	1,200,247	2,654,649	2,533,078	3,841,882	2,539,510	30,138	561,232
C. Administration Expenses	1,845,748	2,776,978	1,821,642	815,455	890,349	928,210	1,579,908	424,669
D. Net loss ($)	5,921,521	1,860,890	2,075,509	2,976,618	4,298,452	3,366,995	11,853,195	956,005
E. Loss per share (basic and diluted)	0.02	0.01	0.01	0.01	0.02	0.02	0.11	0.01

The quarters ending December 31, 2010, September 2010, December 31 2009, and October 31, 2009 are stated under Canadian GAAP, whereas the remaining quarters are stated under IFRS.

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 four quarters relate primarily to the test mining program, which commenced in May 2010 and is ongoing, at the Mothae diamond project offset in part by the value of the diamonds recovered, 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 combination of changes in market conditions and a change in estimate. Included in the exploration expenditures for the first two quarters 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 March 2011 relates to a donation to Lundin for Africa Foundation of $0.6 million and costs associated with an investor tour to the project sites.

Net Loss

Net loss for the quarter ended June 20, 2011 was impacted by a charge of $0.8 million to finance expenses for the costs associated with the exclusivity agreement to arrange funding for the development of the AK6 project that was terminated.

During the quarter ended March 31, 2011, Mothae Diamond 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 $2.3 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.

The increase in net loss for the two months ended December 31, 2009 as compared to the prior quarter results from $9.8 million of guarantee fees incurred with respect to the Boteti AK6 acquisition.

LIQUIDITY AND CAPITAL RESOURCES

At June 31, 2011, the Company had cash and cash equivalents of $56.2 million and working capital of $51.2 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 first half of 2011 was $7.2 million and consists mainly of the net loss of $7.8 million adjusted for the impact of non-cash items, including depletion, depreciation and amortization of $1.2 million and changes in non-cash working capital items.

Net cash from financing activities for the first half of 2011 was $58.4 million as a result of a private placement completed in February 2011.

Net cash used in investing activities for the first half of 2011 was $28.3 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 $50 million and estimated remaining capital expenditures of approximately $40 million.

The Company's existing funds as June 30, 2011, plus the $50 million debenture closed subsequent to quarter end 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's raising an additional $15-$20 million late in 2011 or 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 late in the fourth quarter of 2011 with full ramp up expected to be reached during the first half of 2012;

- The Company intends to continue with the construction of the the sales and sorting office in Gaborone, which is expected to be completed during the fourth quarter of 2011; and

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

- The Company expects ongoing diamond recoveries and periodic sales of Mothae's diamonds during the trial mining phase;

- The Company intends to commence a delineation drill program, of approximately 4,000 metres to extend the geological model to a depth of 320 meters and to define the internal geology of the Mothae kimberlite in the third quarter of 2011; and

- The Company expects to have completed an Environment Impact Assessment in support of future mine development by the end of the third quarter.

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 June 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.%% 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 June 30, 2010, the NCI's portion of the losses from June 23, 2010 to June 30, 2010 was immaterial and there was no allocation.

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 June 30, 2010 consolidated financial statements was not warranted.

RECLASSIFICATION – DISPOSITION OF A PORTION OF THE COMPANY'S INTEREST IN THE AK6 PROJECT (April 2010)

During the second quarter of 2010, the Company's interest in the AK6 projected was diluted by 10.268%, when African Diamonds exercised its option by making a payment in cash of approximately US$7.3 million. The gain of $2,126,918 on the disposition was originally accounted for as reduction to the carrying value of the mineral properties and associated future tax liability. The entry has been reclassified in accordance with Section 1602 as an equity transaction and recorded as an adjustment to the "Deficit" account.

CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards ("IFRS")

The Company has prepared its June 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 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 and a reduction to the deficit of US$1.8 million, an increase of $0.2 million to inventories and $0.2 million in plant and equipment.

NEW ACCOUNTING 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 the 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 the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

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 remeasurement 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 six months ended June 30, 2011, the Company incurred:

(a) $241,570 (June 30, 2010 - $174,110) for administrative management services and office facilities provided by a company owned by a director and shareholder of the Company. At June 30, 2011, $NIL (December 31, 2010 - $15,962) was due to this company.

(b) $614,160 (June 30, 2010 - $Nil) for a donation to Lundin for Africa Foundation, a charitable organization with directors in common.

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

OUTSTANDING SHARE DATA

As at August 4, 2011, the Company had 371,659,049 common shares outstanding and 11,375,000 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, and accounts payable and accrued liabilities and amount due to related parties. The carrying value of cash, investments, accounts receivable and accounts payable 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

a) In April 2010, legal proceeds 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 court in early June and a written judgement is expected during the month of August 2011. No provision has been made in the financial statements as management believes the claim is without merit.

b) In March 2011, the 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. No provision was made in the financial statements as management believed the claim was without merit. 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.

c) Subsequent to the quarter end, the Company and Boteti have terminated an exclusivity agreement whereby a Bank had agreed to arrange funding for the development of the Boteti AK6 diamond mine. The Company has received an invoiced from the Bank in the amount of $750,000 with respect to the termination of the agreement. Management believes it has been incorrectly invoiced and intends to dispute it.

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)

		June 30, 2011		December 31, 2010
ASSETS				
Current assets				
Cash and cash equivalents	$	56,220,759	$	32,884,905
Investments		284,613		287,308
Trade receivables and other		4,491,099		1,542,948
		60,996,471		34,715,161
Rough Diamond Inventory		1,848,202		3,964,835
Plant and Equipment (Note 5)		47,281,238		17,492,039
Mineral Properties (Note 6)		88,905,861		89,154,742
Other Non-Current Assets		168,599		206,305
TOTAL ASSETS	$	199,200,371	$	145,533,082
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities	$	9,812,548	$	7,284,929
Due to related parties (Note 13)		-		167,147
		9,812,548		7,452,076
Long-term liabilities				
Restoration provisions (Note 7)		588,713		567,697
TOTAL LIABILITIES		10,401,261		8,019,773
EQUITY ATTRIBUTABLE TO SHAREHOLDERS				
Share capital (Note 8)		267,721,158		209,210,999
Contributed surplus (Note 9)		5,616,423		5,421,258
Cumulative Deficit		(91,629,675)		(84,121,453)
Accumulated other comprehensive income		5,544,075		5,141,321
Total equity attributable to equity holders of the parent		187,251,981		135,652,125
Non-controlling interests		1,547,129		1,861,184
TOTAL EQUITY		188,799,110		137,513,309
TOTAL LIABILITIES AND EQUITY	$	199,200,371	$	145,533,082

Contingencies - Note 15
Commitments - Note 16
Subsequent events - 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 June 30, 2011	For the Three Months June 30, 2010	For the Six Months June 30, 2011	For the Six Months June 30, 2010
Exploration expenditures (Note 10)	$ 2,866,454	$ 3,841,882	$ 4,066,701	$ 6,381,392
Adminstration (Note 12)	1,845,748	890,349	4,622,726	1,818,559
Loss before the following	4,712,202	4,732,231	8,689,427	8,199,951
Gain on sale of diamonds (Note 11)	-	-	(2,339,282)	-
Finance income	(178,022)	(100,980)	(331,685)	(194,375)
Finance expenses	872,455	24,139	886,795	48,278
Foreign exchange loss/(gain) realized	514,886	(356,938)	877,156	(388,407)
Net Loss for the period	$ 5,921,521	$ 4,298,452	$ 7,782,411	$ 7,665,447
Loss for the period attributable to:				
Non-controlling interests	374,687	965,586	233,120	1,613,294
Equity holders of the parent	5,546,834	3,332,866	7,549,291	6,052,153
	$ 5,921,521	$ 4,298,452	$ 7,782,411	$ 7,665,447
Basic and diluted loss per common share	$ 0.02	$ 0.02	$ 0.02	$ 0.03
Weighted average number of common shares outstanding	**362,644,384**	**221,438,955**	**348,664,912**	**220,547,928**

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 June 30, 2011	For the Three Months June 30, 2010	For the Six Months June 30, 2011	For the Six Months June 30, 2010
Net loss for the period	$ 5,921,521	$ 4,298,452	$ 7,782,411	$ 7,665,447
Unrealized loss on investment available-for-sale	33,171	37,262	2,694	33,021
Loss/(gain) on translation to reporting currency	(29,562)	7,165,786	(552,323)	5,496,327
	3,609	7,203,048	(549,629)	5,529,348
Comprehensive Loss for the period	$ 5,925,131	$ 11,501,500	$ 7,232,783	$ 13,194,795
Total Comprehensive Loss for the period attributable to:				
Non-controlling interests	$ 365,003	$ 2,575,083	$ 298,940	$ 3,222,791
Equity holders of the parent	5,560,128	8,926,417	6,933,843	9,972,004
	$ 5,925,131	$ 11,501,500	$ 7,232,783	$ 13,194,795

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 June 30, 2011	For the three Months Ended June 30, 2010	For the six Months Ended June 30, 2011	For the six Months Ended June 30, 2010
Cash flows from / (used in):				
Operating activities				
Net Loss for the period	$ (5,921,521)	$ (4,298,452)	$ (7,782,411)	$ (7,665,447)
Items not affecting cash:				
Share based compensation	134,690	297,011	275,858	572,631
Interest receivable	-	(42,727)	-	(104,670)
Finance costs	17,979	24,139	36,571	48,278
Depreciation	780,328	-	1,174,559	-
Net changes in non-cash working capital items:				
Trade receivables and other current assets	5,980,601	(388,612)	(2,948,151)	(563,403)
Rough diamond inventory	(1,734,853)	-	1,995,429	-
Trade payables and other current liabilities	(152,491)	1,410,857	33,762	1,860,845
	(895,269)	(2,997,784)	(7,214,385)	(5,851,766)
Financing activities				
Proceeds from non-controlling interest	-	2,682,127	-	2,682,127
Shares issued for cash (net of issue costs)	54,540	351,710	58,429,466	570,538
	54,540	3,033,837	58,429,466	3,252,665
Investing activities				
Plant and equipment	(18,497,938)	(2,593,541)	(28,450,547)	(3,466,535)
Proceeds from option exercised	-	7,356,256	-	7,356,256
Other assets	265,280	-	37,706	-
	(18,232,658)	4,762,715	(28,412,841)	3,889,721
Increase (decrease) in cash and cash equivalents	(19,073,387)	4,798,768	22,802,240	1,290,620
Effect of exchange rate changes on cash and cash equivalents	(1,768,653)	(1,672,304)	533,613	(325,138)
Cash and cash equivalents, beginning of the period	77,062,798	46,962,944	32,884,905	49,123,926
Cash and cash equivalents, end of the period	$ 56,220,758	$ 50,089,408	$ 56,220,758	$ 50,089,408
Supplemental Information:				
Cash received for interest	$ 178,022	$ 58,253	$ 331,685	$ 89,705
Cash paid for income taxes	$ -	$ -	$ -	$ -
Changes in accounts payable and accrued liabilities related to plant and equipment additions	$ 957,416	$ -	$ 2,326,708	$ -

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	164,999		226,547		(80,693)		-		-		-		145,854
Private placement	60,000,000		58,283,612		-		-		-		-		58,283,612
Share based compensation	-		-		275,858		-		-		-		275,858
Effects of foreign currency translation	-		-		-		-		552,323		(65,820)		486,503
Unrealized gain(loss) on investments	-		-		-		-		(2,694)				(2,694)
Net loss for the period	-		-		-		(7,549,291)				(233,120)		(7,782,411)
Balance as of June 30, 2011	362,659,049	$	267,721,158	$	5,616,423	$	(91,670,744)	$	5,690,950	$	1,562,244	$	188,920,031
Balance 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	-		-		-		-				2,682,127		2,682,127
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	1,074,654		719,699		(149,155)		-		-		-		570,544
Share based compensation	-		-		572,631		-		-		-		572,631
Unrealized gain(loss) on investments	-		-		-		-		(33,021)		-		(33,021)
Effects of foreign currency translation	-		-		-		-		(3,886,829)		(1,609,497)		(5,496,326)
Net loss for the period	-		-		-		(6,052,153)		-		(1,613,294)		(7,665,447)
Balance as of June 30, 2010	222,034,021	$	133,059,680	$	3,339,467	$	(17,319,522)	$	(3,664,660)	$	22,096,002	$	137,510,967

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 and 10 exploration licenses in Namibia.

The Company's common shares are listed on the TSX Venture 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 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 August 4, 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 the 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 the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

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 at amortized 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 remeasurement 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 IAS1, 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 reaffirm 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 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 as of June 2010 of the shares and share option in Mothae;

- 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 (Note 6b). 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.%% 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 June 30, 2010, the NCI's portion of the losses from June 23, 2010 to June 30, 2010 was considered immaterial and there was no allocation.

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 June 30, 2010 consolidated financial statements is not warranted.

b) Reclassification – Disposition of a portion of the Company's interest in the AK6 project (April 2010)

During the second quarter of 2010, the Company's interest in the AK6 projected was diluted by 10.268%, when African Diamonds exercised its option by making a cash payment of approximately US$7.3 million.

The gain of $2,126,918 on the disposition was originally accounted for as reduction to the carrying value of the mineral properties and associated future tax liability. The entry has been reclassified in accordance with Section 1602 as an equity transaction and recorded as an adjustment to the deficit in the period ended.

c) 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 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).

d) 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 June 30, 2010 and for the six months then ended, was an increase to diamond inventory of $109,754, an increase to plant and equipment of $55,437, a increase to foreign exchange gain of $266,813, a decrease in mineral properties of $3,519,737, a decrease to NCI of $1,609,497 and an offsetting cumulative translation adjustment ("CTA") loss adjustment of $2,011,862. As previously discussed, $1,816,642 CTA gain adjustment was recorded at January 1, 2010 and the balance represents the CTA loss adjustment to be recorded on other comprehensive income for the six months ended June 30, 2010 in the amount of $3,828,504.

e) 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 six month period ended June 30, 2010, the impact was a decrease in mineral properties of $8,051,101, a decrease of deferred tax liabilities of $8,051,101.

f) 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.

g) 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.

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

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

	June 30, 2010				
Consolidated Balance Sheet	**CDN GAAP**	**Adjustments Note 4(a & b)**		**IFRS Adjustments**	**IFRS**
ASSETS					
Current Assets					
Cash and cash equivalents	$ 50,089,408		-	-	$ 50,089,408
Investments	273,178		-	-	$ 273,178
Loan receivable	2,104,670		-	-	$ 2,104,670
Trade receivables	862,072		-	-	$ 862,072
	53,329,328	-		-	53,329,328
Inventories	1,764,960		(c)	109,754	1,874,714
Plant and equipment,net	5,144,447		(c)	55,437	5,199,884
Mineral properties	86,043,238	6,366,011	(d)	(11,570,838)	80,838,411
Other assets	-			-	-
Total Assets	**146,281,973**	**6,366,011**		**(11,405,647)**	**141,242,337**
LIABILITIES					
Current Liabilities					
Trade payables and accrued liabilities	3,264,348		-	-	3,264,348
Due to related parties	58,104		-	-	58,104
	3,322,452			-	3,322,452
Long-term liabilities					
Due to related parties	-		-	-	-
Asset restoration provisions	408,919		-	-	408,919
Future income taxes	7,342,128	708,973	(d)	(8,051,101)	-
	7,751,047	708,973		(8,051,101)	408,919
Total Liabilities	**11,073,499**	**708,973**		**(8,051,101)**	**3,731,371**
EQUITY					
Share capital	133,059,680			-	133,059,680
Contributed surplus	2,072,633	1,266,834		-	3,339,467
Deficit	(21,914,930)	2,126,918	(c)	2,468,490	(17,319,522)
Accumulated other comprehensive income	548,879		(c)	(4,213,539)	(3,664,660)
Total equity attributable to equity holders of the parent	113,766,262	3,393,752	-	(1,745,049)	115,414,965
Non-controlling interests	21,442,212	2,263,286	-	(1,609,497)	22,096,001
	135,208,474	5,657,038		(3,354,546)	137,510,966
Total Liabilities and Equity	**146,281,973**	**6,366,011**		**(11,405,647)**	**141,242,337**

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

Consolidated Condensed Statement of Net loss and Comprehensive Other Income	For the Three Months Ended June 30, 2010				
	CDN GAAP	Adjustments Note 4(a & b)		IFRS Adjustments	IFRS
Exploration expenditures	3,866,021	-	(e)	(24,139)	3,841,882
Adminstration expenses	890,353	-	-	-	890,353
Loss before the following	4,756,374			(24,139)	4,732,235
Finance income	(100,980)	-	-	-	(100,980)
Finance expenses	-	-	(e)	24,139	24,139
Foreign exchange loss/(gain)	(27,782)	-	(c)	(329,160)	(356,942)
Net Loss before income taxes	4,627,612	-		(329,160)	4,298,452
Unrealized loss on investment available-for-sale	69,218	-	(c)	-	69,218
Loss on translation to reporting currency	26,370	-	(c)	7,107,460	7,133,830
	95,588	-		7,107,460	7,203,048
Comprehensive Loss	4,723,200	-		6,778,300	11,501,500
Net Loss attributable to					
Non-controlling interest	965,586	-	-	-	965,586
Equity holders of the parent	3,662,026	-	-	(329,160)	3,332,866
	4,627,612	-		(329,160)	4,298,452
Comprehensive Loss attributable to					
Non-controlling interest	965,586	-	-	1,609,497	2,575,083
Equity holders of the parent	3,757,614	-	(c)	5,168,803	8,926,417
	4,723,200	-		6,778,300	11,501,500

Consolidated Condensed Statement of Net loss and Comprehensive Other Income	For the Six Months Ended June 30, 2010				
	CDN GAAP	Adjustments Note 4(a & b)		IFRS Adjustments	IFRS
Exploration expenditures	6,429,670	-	(e)	(48,278)	6,381,392
Administration expenses	1,818,559	-	-	-	1,818,559
Loss before the following	8,248,229			(48,278)	8,199,951
Finance income	(194,375)	-	-	-	(194,375)
Finance expenses	-	-	(e)	48,278	48,278
Foreign exchange loss/(gain)	(121,594)	-	(c)	(266,813)	(388,407)
Net Loss before income taxes	7,932,260	-		(266,813)	7,665,447
Unrealized loss on investment available-for-sale	33,021	-	(c)	-	33,021
Loss on translation to reporting currency	58,326	-	(c)	5,438,001	5,496,327
	91,347	-		5,438,001	5,529,348
Comprehensive Loss	8,023,607	-		5,171,188	13,194,795
Net Loss attributable to					
Non-controlling interest	1,613,294	-	-	-	1,613,294
Equity holders of the parent	6,318,966	-	-	(266,813)	6,052,153
	7,932,260	-		(266,813)	7,665,447
Comprehensive Loss attributable to					
Non-controlling interest	1,613,294	-	-	1,609,497	3,222,791
Equity holders of the parent	6,410,318	-	(c)	3,561,691	9,972,009
	8,023,612	-		5,171,188	13,194,800

(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 Janauary 1, 2010	-	1,681,910	-	-	1,681,910
Additions	10,935,766	4,458,906	424,576	267,815	16,087,064
Disposals	-	-	-	-	-
Translation differences	559,258	659,821	30,535	20,386	1,270,001
As at December 31, 2010	11,495,025	6,800,637	455,112	288,201	19,038,974
Additions	29,788,647	988,611	-	-	30,777,258
Disposals	-	-	-	-	-
Translation differences	472,432	(198,082)	(1,957)	(1,239)	271,154
As at June 30, 2011	41,756,104	7,591,165	453,155	286,962	50,087,386
Accumulated Depreciation					
As at Janauary 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	-	1,162,979	980	10,600	1,174,558
Disposals	-				-
Translation differences	-	(36,163)	(10)	(95)	(36,267)
As at June 30, 2011	-	2,647,354	3,204	34,669	2,685,227
Net book amount					
As at January 1, 2010	-	1,681,910	-	-	1,681,910
As at December 31, 2010	11,495,025	5,280,099	452,878	264,037	17,492,039
As at June 30, 2011	41,756,104	4,943,812	449,951	252,293	47,402,159

(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	19,915,421	568,076	4,060,985	89,154,742
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Translation differences	84,994	(153,188)	(62,119)	(118,569)	(248,882)
As at June 30, 2011	64,695,253	19,762,233	505,957	3,942,417	88,905,861

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 (Notes 4c). 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 had earned a 65% 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.

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

7. 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
Changes in exchange rate	68,503
Balance, December 31, 2010	567,697
Accretion	36,571
Changes in exchange rate	(15,555)
Balance, June 30, 2011	588,713

8. 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.

9. 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 first half of 2011, 25,000 stock options were granted. The weighted average grant-date fair value of stock options granted in the period was $0.62 per option.

The total share-based compensation for the six months ended June 30, 2011 was $275,858 (2010 - $572,631). Share-based compensation of $275,858 (2010 - $572,631) has been allocated to Administration expenses.

The unrecognized compensation cost for non-vested share options at June 30, 2011 was $325,607.

b) Stock Options Outstanding

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

	Number of Shares	Weighted-average Exercise price CDN$
Outstanding at 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 at December 31, 2010	11,550,000	$0.91
Granted	25,000	$1.25
Exercised	(164,999)	$0.86
Forfeited	(35,001)	$0.95
Outstanding at June 30, 2011	11,375,000	$0.93
Exercisable at June 30, 2011	9,547,294	$0.95

The following summarized information about the stock options outstanding and exercisable at June 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	1.02	$0.48	1,005,660	1.02	$0.48
$0.50 - $0.99	6,170,000	1.12	0.84	5,543,310	0.99	0.83
$1.00 - $1.49	2,690,000	1.37	1.11	1,998,324	1.32	1.14
$1.50 - $1.99	800,000	0.98	1.56	800,000	0.98	1.56
$2.00 - $2.50	200,000	0.98	2.08	200,000	0.98	2.08
	11,375,000	1.15	0.93	9,547,294	1.06	0.95

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

10. EXPLORATION AND PROJECT INVESTIGATION

	Mothae Project Lesotho	Boteti AK6 Project Botswana	Other	Total
For the six months ended June 30, 2011				
Test mining	$ 5,423,832	$ -	$ -	$ 5,423,832
Depreciation	1,174,564	-	-	1,174,564
Office and other	289,966	-	7,829	297,795
Environment Impact Assessment	58,468			58,468
Diamonds recovered	(2,887,960)	-	-	(2,887,960)
Total for the period	**$ 4,058,870**	**$ -**	**$ 7,829**	**$ 4,066,701**

	Mothae Project Lesotho	Boteti AK6 Project Botswana	Other	Total
For the six months ended June 30, 2010				
Test mining	$ 2,184,389	$ -	$ -	$ 2,184,389
Feasibility	-	2,669,553	-	2,669,553
Relocation of core samples, tailings and concentrates	-	514,494	-	514,494
Geology	9,721	-	-	9,721
Office and other	126,901	849,190	27,144	1,003,235
Total for the period	**$ 2,321,011**	**$ 4,033,237**	**$ 27,144**	**$ 6,381,392**

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.

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

11. 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 10).

12. ADMINISTRATION EXPENSES

	For the Three Months June 30, 2011	For the Three Months June 30, 2010	For the Six Months June 30, 2011	For the Six Months June 30, 2010
Share based compensation	134,690	297,011	275,858	572,631
Salaries and benefits	424,341	56,574	746,306	309,441
Management fees	136,072	87,619	241,570	174,110
Professional fees	616,406	179,193	1,173,787	215,390
Stock exchange, transfer agent, shareholder communication	233,221	47,812	999,181	152,886
Travel	224,459	196,285	417,842	339,685
Office and general	71,043	25,855	154,022	54,416
Donations	5,516	-	614,160	-
	1,845,748	890,349	4,622,726	1,818,559

13. RELATED PARTY TRANSACTIONS

a) Related party expenses

The Company incurred the following expenses with Namdo Management Services Limited ("Namdo"), and Lundin for Africa Foundation ("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.

	Related Party	June 30, 2011	June 30, 2010
Management fees (i)	Namdo	241,570	174,110
Donations	LFA	614,160	-
Exploration related expenditures	MS Group	-	165,063
Aircraft charter	Mile	306,605	55,981
Total related parties expenses		1,162,335	395,154

(i) Pursuant to an Agreement for services and office facilities, which was renewable on August 1, 2011.

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

Related party liabilities

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

	June 30, 2011	June 30, 2010
Namdo	-	33,660
Mile	-	37,753
MS Group	-	43,451
Total related parties liabilities	-	114,864

b) 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 includes the Company's executive officers, vice-presidents and members of its Board of Directors.

The remuneration of key management personnel were as follows:

	Six months ended June 30 2011	Six months ended June 30, 2010
Salaries & fees	613,755	326,622
Short term benefits	38,276	32,888
Share-based compensation	198,222	465,043
	850,253	824,553

14. 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	
	June 30, 2011	Dec-31 2010	June 30, 2011	Dec-31 2010	June 30, 2011	Dec-31 2010
Canada	579,240	-	-	-	-	-
Lesotho	4,522,250	5,573,411	24,210,607	24,544,483	168,599	171,879
Botswana	42,179,748	11,918,628	64,695,253	64,610,259	-	34,426
	47,281,238	17,492,039	88,905,861	89,154,742	168,599	206,305

15.CONTINGENCIES

a) In April 2010, legal proceeds 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 court in early June and a written judgement is expected during the month of August 2011. No provision has been made in the financial statements as management believes the claim is without merit.

b) In March 2011, the 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. No provision was made in the financial statements as management believed the claim was without merit. 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.

c) Subsequent to the quarter end, the Company and Boteti have 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 invoiced from the Lender in the amount of $750,000 with respect to the termination of the agreement. Management believes it has been incorrectly invoiced and intends to dispute it.

16.COMMITMENTS

In conjunction with the development of the AK6 diamond mine, the Company has committed to approximately US$50 million in additional capital expenditures.

17.SUBSEQUENT EVENTS

a) In July 2011, the Company entered into a $50 million debenture to fund the development of the Company's projects. The 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 also included the Company issuing an aggregate of 9.0 million common shares to Zebra and Lorito as consideration for the facility, in lieu of interest and fees with a fair value of $11.1 million.

b) Other subsequent events are disclosed in Contingencies - Note 15(b) and Note 15(c).