Lucara Diamond Corp.

FIRST QUARTER REPORT

March 31, 2011

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in United States Dollars unless otherwise indicated)
THREE MONTHS ENDED MARCH 31, 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 three months ended March 31, 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 June 28, 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

- Closed a CDN$60 million private placement in February 2011

AK6 Diamond Project - Botswana

- As at the end of the first quarter 2011 engineering was 82% complete and the project was overall 42% completed. As at the end of May 2011, the project execution overall was 64% complete;
- Botswana Power Corporation commenced construction of the of the bulk power line which is due to be complete in July;
- Senior operating team members have been recruited and are in place;
- Mining and process contractor have been selected; and
- All permits and licenses to operate are in place.

Mothae Diamond Project - Lesotho

- First sale of diamonds from the Mothae Diamond Project took place in March 2011 – 9,379ct sold for $8.18 million (Average of $871/ carat); 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 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 required 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 off-site infrastructures.

The project has an Indicated Resource of 51 million tonnes ("mt") containing 8.2 million carats ("ct") of diamonds, the mine design delineates a Probable Reserve of 36.2 million tonnes of ore, containing 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 May 2011, project execution is on schedule at overall 64% complete and 65% of the capital investment being committed. Agreements were reached during the first quarter with Botswana

Power Corporation for the supply of power and contracts for the construction of the bulk power line which has commenced. Grid power is anticipated to be available in July 2011 in time for early commissioning tasks.

Fabrication of mechanical package orders are progressing very well, with some of the critical long lead items on route or have been delivered to warehouse in South Africa. First planned steel recoveries deliveries have arrived.

Mothae Diamond Project, Lesotho

The Mothae project is located in northeast Lesotho and is a large low grade kimberlite which contains 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. Mothae Diamonds Holdings Inc, an indirect wholly owned subsidiary of the Company, 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 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.

For the quarter 51,966 dry tonnes of kimberlite were processed bringing the project to date to 189,994 tonnes, resulting in the recovery of 13,985 stones weighing 6,261 carats.

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 to the sample plant to improve processing of harder kimberlite material encountered as mining progresses deeper into less weathered portions of the Mothae pipe.

SELECTED QUARTERLY INFORMATION

Financial Data for 8 Quarters								
Three months Ended	**Mar-11**	**Dec-10**	**Sep-10**	**June-10**	**Mar-10**	**Two Months Dec-09**	**Oct-09**	**Jul-09**
	IFRS	Cdn GAAP	Cdn GAAP	Cdn GAAP	IFRS	Cdn GAAP	Cdn GAAP	Cdn GAAP
A. Exploration Expenditures ($'s)	1,200,247	2,654,649	2,533,078	3,866,021	2,539,510	30,138	561,232	237,531
B. Operating Expenses	2,776,978	1,821,642	815,455	890,353	928,210	1,579,908	424,669	508,025
C. Net loss ($)	1,860,890	2,075,509	2,976,618	4.627,617	3,366,995	11,853,195	956,005	760,442
D. Loss per share (basic and diluted)	0.01	0.01	0.02	0.02	0.02	0.11	0.01	0.01

The quarters ending December 31, 2010, September 2010, June 2010, December 31 2009, October 31, 2009 and July 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.

The exploration expenditures for the past three quarters relate primarily to the test mining program that commenced in May 2010 at the Mothae diamond project offset by the value of diamonds recovered. In June 2010, a definitive feasibility study was completed on the Boteti AK6 project and the project has been determined to be commercially feasible. Effective July 2010, pursuant to the Company's accounting policy for mineral properties, expenditures incurred on the Boteti AK6 project have been capitalized. The significant increase for the three months ended March 2010 as compare to the prior quarter was a result of expenditures incurred on the Boteti AK6 project that was acquired at the end of 2009 and increased activity on the Mothae diamond project in preparation for the test mining program.

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 US$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 operating expenditures for the three months ended December 2010 relates to discretionary bonuses awarded and donations of US$250,000. The significant increase in the operating expenditures for the two months ended December 31, 2009 compared to prior quarters is primarily a result of higher stock based compensation recognized and a donation to Lundin for Africa Foundation ("LFA").

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 March 31, 2011, the Company had cash and cash equivalents of $77.1 million and working capital of $78.7 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 quarter ended March 31, 2011 was $6.7 million and consists mainly of the net loss of $2.2 million adjusted for the impact of non-cash items, including depletion, depreciation and amortization of $0.4 million and changes in non-cash working capital items.

Net cash from financing activities for the three months ended March 31, 2011 was $58.4 million as a result of a private placement completed February 2011.

Net cash used in investing activities for the three months ended March 31, 2011 was $9.95 million for expenditures primarily related to the development of the Boteti AK6 mine.

The Company's existing funds as March 31, 2011 and the receipt of proceeds from the sale of diamonds will not be sufficient to finance the anticipated expenditures of between US$120-130 million for the full development and construction of the AK6 mine, test mining program on the Mothae Project and general corporate expenses over the next twelve months. The timing and completion of these activities are conditional on additional funds being raised of approximately US$70-US$80 million either through debt or equity. The Company has entered into an exclusively agreement whereby a lender has agreed to arrange funding for the development of the Boteti AK6 diamond mine, subject to credit approval and finalization of documentation.

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 2.5 million tonnes per year. Commissioning is still on target to commence in the fourth quarter of 2011 with full ramp up during the first half of 2012

- The Company intends to construct a sales and sorting office in Gaborone, which is expected to be completed during the fourth quarter of 2011

Mothae Project, Lesotho

- The Company intends to continue with the test mining program 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 in the third quarter of 2011.

- The Company expects to have completed an Environment Impact Assessment in support of future mine development.

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 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 (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.

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 consolidated financial statements is not warranted.

CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards ("IFRS")

The Company has prepared its March 31, 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 2 to the unaudited interim consolidated financial statements. 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 following is an overview of the more significant impacts to the Company's financial results due to the transition to IFRS.

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 $8.1M 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 the 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 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 – Consolidation

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.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*. 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 three months ended March 31, 2011, the Company incurred:

(a) $105,498 (March 31, 2010 - $86,491) for administrative management services and office facilities provided by a company owned by a director and shareholder of the Company. At March 31, 2011, $33,107 (December 31, 2010 - $15,962) was due to this company.

(b) $608,644 (March 31, 2010 - $Nil) for a donation to Lundin for Africa Foundation, a charitable organization with directors in common.

(c) $306,605 (March 31, 2010 - $36,965) for air craft charter services provided by a company associated with the Chairman of the company. As at March 31, 2011, $74,396 (December 31, 2010 - $Nil) was due to the company.

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

OUTSTANDING SHARE DATA

As at June 28, 2011, the Company had 362,659,049 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 is alleging entitlement to an amount of approximately US$625,000. The claim was heard in court in early June and written judgement is expected during the month prior to the end of the third quarter. No provision has been made in the financial statements as management believes the claim is without merit.

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. Forward-looking statements are frequently, but not always, identified by words 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 involve 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 including, without limitation, exploration/drill results and budgets; capital expenditures; work programs; mineral reserve and resource estimates and the geology, grade and continuity of mineral deposits; mineral price and foreign currency fluctuations; uncertain political and economic environments; changes in laws or policies; delays or the inability to obtain the necessary government permits; the need to obtain financing and uncertainty as to the availability and terms of future financing; uncertainties involved in dispute or litigation and other risks and uncertainties describe under Risks and Uncertainties disclosed above and in the Company's Annual Information Form. 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)

	March 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Current assets			
Cash and cash equivalents	$ 77,062,797	$ 32,884,905	$ 49,123,926
Investments	317,785	287,308	306,199
Loan receivable	-	-	2,000,000
Trade receivables and other	10,471,699	1,542,948	298,665
	87,852,281	34,715,161	51,728,790
Rough Diamond Inventory	234,553	3,964,835	1,943,808
Plant and Equipment (Note 5)	27,905,722	17,492,039	1,681,910
Mineral Properties (Note 6)	87,793,845	89,154,742	82,283,912
Other Non-Current Assets	433,879	206,305	-
TOTAL ASSETS	$ 204,220,280	$ 145,533,082	$ 137,638,420
LIABILITIES			
Current liabilities			
Trade payables and accrued liabilities	$ 8,900,025	$ 7,284,929	$ 1,170,409
Due to related parties (Note 13)	107,503	167,147	113,287
	9,007,528	7,452,076	1,283,696
Long-term liabilities			
Due to related parties	-	-	9,863,306
Restoration provisions (Note 7)	566,504	567,697	360,641
	566,504	567,697	10,223,947
TOTAL LIABILITIES	9,574,032	8,019,773	11,507,643
EQUITY ATTRIBUTABLE TO SHAREHOLDERS			
Share capital (Note 8)	267,641,759	209,210,999	122,476,675
Contributed surplus (Note 9)	5,506,593	5,421,258	1,649,157
Cumulative Deficit	(86,123,910)	(84,121,453)	(13,394,287)
Accumulated other comprehensive income	5,694,559	5,141,321	255,190
Total equity attributable to shareholders of the parent	192,719,001	135,652,125	110,986,735
Non-controlling interests	1,927,247	1,861,184	15,144,042
TOTAL EQUITY	194,646,248	137,513,309	126,130,777
TOTAL LIABILITIES AND EQUITY	$ 204,220,280	$ 145,533,082	$ 137,638,420

Contingencies - Note 15
Commitments - Note 16

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 March 31, 2011	For the Three Months March 31, 2010
Exploration expenditures (Note 10)	$ 1,200,247	$ 2,539,510
Administration (Note 12)	2,776,978	928,210
Loss before the following	3,977,225	3,467,720
Gain on sale of diamonds (Note 11)	(2,339,282)	-
Finance income	(153,663)	(93,395)
Finance expenses	14,340	24,139
Foreign exchange loss/(gain) realized	362,270	(31,469)
Net Loss for the period	$ 1,860,890	$ 3,366,995
(Income)/Loss for the period attributable to:		
Non-controlling interests	$ (141,567)	$ 647,708
Equity holders of the parent	2,002,457	2,719,287
	$ 1,860,890	$ 3,366,995
Basic and diluted loss per common share	$ 0.01	$ 0.02
Weighted average number of common shares outstanding	**334,535,107**	**219,646,999**

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

Lucara Diamond Corp.
Interim Consolidated Statements of Comprehensive Income (Loss)
(All amounts expressed in U.S. Dollars, unless otherwise indicated.)
(Unaudited)

	For the Three Months March 31, 2011	For the Three Months March 31, 2010
Net loss for the period	$ (1,860,890)	$ (3,366,995)
Unrealized gain on investment available-for-sale	30,477	4,241
Gain/(loss) on translation to reporting currency	522,761	1,669,459
	553,238	1,673,700
Comprehensive Income/(Loss) for the period	$ (1,307,652)	$ (1,693,295)
Total Comprehensive Income/(Loss) for the period attributable to:		
Non-controlling interests	$ 66,063	$ (647,708)
Equity holders of the parent	(1,373,715)	(1,045,587)
	$ (1,307,652)	$ (1,693,295)

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 March 31, 2011	For the three Months Ended March 31, 2010
Cash flows from / (used in):		
Operating activities		
Net Loss for the period	$ (1,860,890)	$ (3,366,995)
Items not affecting cash:		
Share based compensation	141,168	275,620
Interest receivable	-	(61,943)
Finance costs	18,592	24,139
Depreciation	394,231	-
Net changes in non-cash working capital items:		
Trade receivables and other current assets	(8,928,752)	(174,791)
Rough diamond inventory	3,730,282	-
Trade payables and other current liabilities	186,252	449,988
	(6,319,116)	(2,853,982)
Financing activities		
Shares issued for cash (net of issue costs)	58,374,926	218,828
Investing activities		
Plant and equipment	(9,952,609)	(872,994)
Other assets	(227,574)	-
	(10,180,183)	(872,994)
Increase (decrease) in cash and cash equivalents	41,875,626	(3,508,148)
Effect of exchange rate changes on cash and cash equivalents	2,302,266	1,347,166
Cash and cash equivalents, beginning of the period	32,884,905	49,123,926
Cash and cash equivalents, end of the period	$ 77,062,797	$ 46,962,944
Supplemental Information:		
Cash received for interest	$ 153,663	$ 31,452
Cash paid for income taxes	$ -	$ -
Changes in accounts payable and accrued liabilities related to plant and equipment additions	$ 1,369,292	$ -

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	100,000	147,148	(55,833)	-	-	-	91,315
Private placement	60,000,000	58,283,612	-	-	-	-	58,283,612
Share based compensation	-	-	141,168	-	-	-	141,168
Effects of foreign currency translation	-	-	-	-	522,761	(75,504)	447,257
Unrealized gain(loss) on investments	-	-	-	-	30,477		30,477
Net income/(loss) for the period	-	-	-	(2,002,457)		141,567	(1,860,890)
Balance as of March 31, 2011	362,594,050	$ 267,641,759	$ 5,506,593	$ (86,123,910)	$ 5,694,559	$ 1,927,247	$ 194,646,248
Balance 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
Exercise of share options	395,078	270,588	(51,755)	-	-	-	218,832
Share based compensation	-	-	275,620	-	-	-	275,620
Unrealized gain(loss) on investments	-	-	-	-	4,241	-	4,241
Effects of foreign currency translation	-	-	-	-	1,669,459	-	1,669,459
Net loss for the period'	-	-	-	(2,719,287)	-	(647,708)	(3,366,995)
Balance as of March 31, 2010	221,354,445	$ 132,610,569	$ 1,873,022	$ (16,113,574)	$ 1,928,890	$ 14,496,334	$ 134,795,240

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 Exchange. 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 June 28, 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used to prepare these condensed interim consolidated financial statements are outlined as follows:

a) Consolidation

The financial statements consolidate the financial statements of the Company and its subsidiaries. Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated in full on consolidation. Unrealized gains and losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. Where the Company's interest is less than 100%, the Company recognized non-controlling interests. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

(ii) Non-controlling interest

Non-controlling interests represent the equity in a subsidiary not attributable, directly and indirectly, to the parent company and is presented separately within equity in the consolidated balance sheet, separately from equity attributable to the shareholders of the parent. Losses within a subsidiary continue to be attributed to the non-controlling interest even if that results in a deficit balance.

(iii) Acquisition

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the aggregate fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus any costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

b) Critical accounting estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates and judgments. It also requires management to exercise judgment in applying the Company's accounting policies. These judgments and estimates are based on management's best knowledge of the relevant facts and circumstances taking into account previous experience, but actual results may differ from amounts included in the financial statements.

Areas of judgement that have the most significant effect on the amounts recognized in the financial statements are:

Valuation of Mineral Properties – The Company carries the acquisition costs of its mineral properties at cost less any provision for impairment. The Company undertakes a periodic review of the carrying values of mineral properties and whenever events or changes in circumstances indicate that their carrying values may exceed their fair value. In undertaking this review, management of the Company is required to make significant estimates. These estimates are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the mineral properties and related expenditures.

Utilization of tax losses – The Company is subject to income taxes in a number of jurisdictions. At present all of the entities are making tax losses. These tax losses are only recognized to the extent that expected future taxable profits are available.

Stock-based Compensation - The fair value of stock options is determined using the Black-Scholes option pricing model and are expensed over their vesting periods. In estimating fair value, management of the Company is required to make certain assumptions and estimates regarding the life of the options, volatility and forfeitures rates. Changes in the assumptions used could result in materially different results.

Decommissioning and site restoration – The Company has obligations for site restoration and decommissioning related to its diamond properties. The future obligations for decommissioning and site restoration activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The decommissioning and site restoration provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The Company's policy for recording decommissioning and site restoration provisions is to establish provisions for future mine closure costs at the commencement of mining operations based on the present value of the future cash flows required to satisfy the obligations. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of the mine through a charge to operating costs. Actual results could differ from estimates made by management during the preparation of these interim consolidated financial statements, and those differences may be material.

c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the person that makes strategic decisions.

The Company's primary reporting segments are based on individual diamond projects, being the AK6 Diamond Project and the Mothae Diamond Project, and Corporate. The Corporate office provides support to the diamond projects with respect to treasury and finance, technical support, regulatory reporting and corporate administration.

d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in U.S. dollars. The functional currency of the parent company is the Canadian dollar.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Operations.

(iii) Group companies

The functional currency of the significant subsidiaries of the Company are Boteti Mining (PTY) Ltd., which has a Pula functional currency and Mothae Diamonds (Pty) Ltd, which has a Loti functional currency. The results and financial position of the group companies, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

a) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
b) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).
c) All resulting exchange differences are recognized in other comprehensive income and in accumulated other comprehensive income as a separate component of equity.

e) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset consists of its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

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

Machinery	5 to 10 years
Plant facilities	based on resources on a unit of production basis
Furniture and office equipment	2 to 3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other (losses)/gains – net' in the Statement of Operations.

f) Exploration and evaluation expenditure and mineral properties

Exploration and evaluation expenditure relates to the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- Researching and analysing historical exploration data;
- Gathering exploration data through topographical, geochemical and geophysical studies;
- Exploratory drilling, trenching and sampling;
- Determining and examining the volume and grade of the resource; and
- Surveying, transportation and infrastructure requirement

Exploration and development expenditures are expensed as incurred on mineral properties not sufficiently advanced as to identify their development potential. When it has been established that a mineral property is considered to be sufficiently advanced and an economic analysis has been completed, all further expenditures for the current year and subsequent years are capitalized as incurred.

g) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

h) Financial instruments

Classification of financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Recognition and measurement of financial assets

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Operations within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the Statement of Operations as part of other income when the Company's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the Statement of Operations as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the Statement of Operations as part of other income. Dividends on available-for-sale equity instruments are recognized in the Statement of Operations as part of other income when the Company's right to receive payments is established.

Impairment of financial assets

(i) Assets carried at amortized cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Company first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognized in the Statement of Operations.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the Statement of Operations.

(ii) Assets classified as available for sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the separate Statement of Operations. Impairment losses recognized in the separate Statement of Operations on equity instruments are not reversed through the separate Statement of Operations. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the separate Statement of Operations.

i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

j) Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired.

The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within “general and administrative expenses”. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against “general and administrative expenses” in the Statement of Operations.

k) Inventory

Rough diamond inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average method. Cost includes directly attributable mining overhead but excludes borrowing costs.

Net realisable value represents the estimated selling price in the ordinary course of business, less all estimated costs to completion and selling expenses.

l) Share capital

Common shares are classified as equity.

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

m) Payables

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

n) Deferred income tax

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

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

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

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

o) Share-based payments

The Company has a share-based compensation plan, under which the entity receives services from employees and non-employees as consideration for equity instruments (options) of the Company.

Stock options granted to employees are measured on the grant date. Stock options granted to non-employees are measured on the date that the goods or services are received.

The fair value of the employee and non-employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted and the vesting periods. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The cash subscribed for the shares issued when the options are exercised is credited to share capital, net of any directly attributable transaction costs.

p) Provisions

Provisions are recognized when:

- the Company has a present legal or constructive obligation as a result of a past event;
- a reliable estimate can be made of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance costs.

q) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

s) 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 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 – Consolidation

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.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*. 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. ADJUSTMENT 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.

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 consolidated financial statements is not warranted.

The effect of the Company's transition to IFRS, described in Note 2, is summarized in this note as follows:

b) Transition election

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).

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 January 1, 2010, was an increase in diamond inventory of $178,848, an increase in plant and equipment of $181,910, an increase in mineral properties of $1,455,884 and an offsetting cumulative translation adjustment ("CTA") adjustment of $1,816,642. As permitted by the exemption, the Company added this $1,816,642 adjustment to the Canadian GAAP CTA account of $385,035 as at January 1, 2010 and reset these amounts to nil with the offsetting credit applied to deficit in the amount of $2,201,677.

The net impact as at March 31, 2010 and for the three months then ended, was an increase in diamond inventory of $186,436, an increase in plant and equipment of $204,087, an increase in mineral properties of $1,748,411 and an offsetting cumulative translation adjustment ("CTA") adjustment of $2,138,934. As previously discussed, $1,816,642 of this adjustment was recorded at January 1, 2010 and the balance represents the CTA adjustment to be recorded on other comprehensive income for the quarter ended March 31, 2010 in the amount of $322,292.

The net impact as at December 31, 2010 and for the year then ended, was an increase in diamond inventory of $334,674, an increase in plant and equipment of $1,020,798, an increase in mineral properties of $4,696,720 and an offsetting cumulative translation adjustment ("CTA") adjustment of $6,052,192. As previously discussed, $1,816,642 of this adjustment was recorded at January 1, 2010 and the balance represents the CTA adjustment to be recorded on other comprehensive income for the year end ended December 31, 2010 in the amount of $4,235,550.

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.

The net impact at January 1, 2010, was a decrease in mineral properties and deferred tax liability of $8,051,101.

For the three months period ended March 31, 2010, the impact was a decrease in mineral properties and deferred tax liabilities of $8,051,101.

For the year ended December 31, 2010, the impact was a decrease in mineral properties of $8,051,101, deferred income tax liability of $5,391,720 and a reversal of unrealized foreign exchange loss of $537,619 and the deferred income tax recovery of $3,197,000.

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) Reconciliation of consolidated balance sheets as at January 1, 2010, March 31, 2010 and December 31, 2010 and the statements of comprehensive income for the three months ended March 31, 2010 and for the year ended December 31, 2010 from Canadian GAAP to IFRS

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

	December 31, 2010				
Consolidated Balance Sheet	**CDN GAAP**	**Adjustment (Note 4(a)**	**Adj #**	**IFRS Adjustments**	**IFRS**
ASSETS					
Current Assets					
Cash and cash equivalents	$ 32,884,905	-	-	-	$ 32,884,905
Investments	287,308	-	-	-	287,308
Loan receivable	-	-	-	-	-
Trade receivables	1,542,948	-	-	-	1,542,948
	34,715,161	-		-	34,715,161
Inventories	3,630,161		(c)	334,674	3,964,835
Plant and equipment,net	16,471,241		(c)	1,020,798	17,492,039
Mineral properties	88,979,003	3,530,120	(c,d)	(3,354,381)	89,154,742
Other assets	206,305			-	206,305
Total Assets	**144,001,871**	**3,530,120**		**(1,998,909)**	**145,533,082**
LIABILITIES					
Current Liabilities					
Trade payables and accrued liabilities	7,284,929	-	-	-	7,284,929
Due to related parties	167,147	-	-	-	167,147
	7,452,076	-		-	7,452,076
Long-term liabilities					
Due to related parties	-	-	-	-	-
Asset restoration provisions	567,697	-	-	-	567,697
Future income taxes	5,391,720	-	(d)	(5,391,720)	-
	5,959,417	-		(5,391,720)	567,697
Total Liabilities	**13,411,493**	**-**		**(5,391,720)**	**8,019,773**
EQUITY					
Share capital	209,210,999	-	-	-	209,210,999
Contributed surplus	4,154,424	1,266,834	-	-	5,421,258
Deficit	(84,384,456)	708,049	(c)	(445,046)	(84,121,453)
Accumulated other comprehensive income	1,609,411	-	(d)	3,531,910	5,141,321
Total equity attributable to equity holders of the parent	130,590,378	1,974,883		3,086,864	135,652,125
Non-controlling interests	-	1,555,237	(c)	305,947	1,861,184
	130,590,378	3,530,120	-	3,392,811	137,513,309
Total Liabilities and Equity	**144,001,871**	**3,530,120**	**-**	**(1,998,909)**	**145,533,082**

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

Consolidated Condensed Statement of Net loss and Comprehensive Other Income	CDN GAAP	For the Year Ended December 31, 2010 Adjustment Note 4(a)	Adj	IFRS Adjustments	IFRS
Exploration expenditures	11,617,397	-	(e)	(38,679)	11,578,718
Operating expenses	4,455,697	-	-	-	4,455,697
Loss before the following	16,073,094			(38,679)	16,034,415
Finance income	(454,750)	-	-	-	(454,750)
Finance expenses	-	-	(e)	38,679	38,679
Foreign exchange loss/(gain)	563,165		(d)	(550,277)	12,888
Loss before income taxes	16,181,509	-		(550,277)	15,631,232
Income Tax Recovery	(3,197,000)		(d)	3,197,000	-
Net Loss	12,984,509	-		2,646,723	15,631,232
Unrealized gain/(loss) on investment available-for-sale	(18,891)	-	-		(18,891)
Gain/(loss) on translation to reporting currency	988,077	-	(c)	3,916,945	3,916,945
	969,186	-		3,916,945	3,898,054
Comprehensive Loss	12,015,323	-		(1,270,222)	11,733,178
Net Loss attributable to					
Non-controlling interest	1,613,294	708,049	-	-	2,321,343
Equity holders of the parent	11,371,215	(708,049)	(c)	2,646,723	13,309,889
	12,984,509	-		2,646,723	15,631,232
Comprehensive Loss attributable to					
Non-controlling interest	1,613,294	708,049	(d)	305,947	2,627,290
Equity holders of the parent	10,402,029	(708,049)	(c,d)	3,916,945	13,610,925
	12,015,323	-		4,222,892	16,238,215

Lucara Diamond Corp.
Notes to Unaudited Interim Consolidated Financial Statements
March 31, 2011
(All amounts expressed in U.S. Dollars, unless otherwise indicated.)

	March 31, 2010				January 1, 2010			
	CDN				CDN			
Consolidated Balance Sheet	**GAAP**		**IFRS Adjustments**	**IFRS**	**GAAP**		**IFRS Adjustments**	**IFRS**
ASSETS								
Current Assets								
Cash and cash equivalents	$ 46,962,944	-	-	$ 46,962,944	$ 49,123,926	-	-	$ 49,123,926
Investments	310,440	-	-	310,440	306,199	-	-	306,199
Loan receivable	2,061,943	-	-	2,061,943	2,000,000	-	-	2,000,000
Trade receivables	473,460	-	-	473,460	298,665	-	-	298,665
	49,808,787		-	49,808,787	51,728,790		-	51,728,790
Inventories	1,764,960	(c)	186,436	1,951,396	1,764,960	(c)	178,848	1,943,808
Plant and equipment,net	2,550,906	(c)	204,087	2,754,993	1,500,000	(c)	181,910	1,681,910
Mineral properties	88,879,129	(d)	(6,302,690)	82,576,439	88,879,129	(d)	(6,595,217)	82,283,912
Other assets	-		-	-			-	-
Total Assets	**143,003,782**		**(5,912,167)**	**137,091,615**	**143,872,879**		**(6,234,459)**	**137,638,420**
LIABILITIES								
Current Liabilities								
Trade payables and accrued liabilities	1,796,732	-	-	1,796,732	1,170,409	-	-	1,170,409
Due to related parties	114,864	-	-	114,864	113,287	-	-	113,287
	1,911,596		-	1,911,596	1,283,696		-	1,283,696
Long-term liabilities								
Due to related parties	-	-	-	-	9,863,306	-	-	9,863,306
Asset restoration provisions	384,780	-	-	384,780	360,641	-	-	360,641
Future income taxes	8,051,101	(d)	(8,051,101)	-	8,051,101	(d)	(8,051,101)	-
	8,435,881		(8,051,101)	384,780	18,275,048		(8,051,101)	10,223,947
Total Liabilities	**10,347,477**		**(8,051,101)**	**2,296,376**	**19,558,744**		**(8,051,101)**	**11,507,643**
EQUITY								
Share capital	132,610,569	-	-	132,610,569	122,476,675	-	-	122,476,675
Contributed surplus	1,873,022	-	-	1,873,022	1,649,157	-	-	1,649,157
Deficit	(18,252,905)	(c)	2,139,331	(16,113,574)	(15,595,964)	(c)	2,201,677	(13,394,287)
Accumulated other comprehensive income	1,929,285	(c)	(395)	1,928,890	640,225	(c)	(385,035)	255,190
Total equity attributable to equity holders of the parent	118,159,971		2,138,936	120,298,907	109,170,093		1,816,642	110,986,735
Non-controlling interests	14,496,334	-	-	14,496,334	15,144,042	-	-	15,144,042
	132,656,305		2,138,936	134,795,241	124,314,135		1,816,642	126,130,777
Total Liabilities and Equity	**143,003,782**		**(5,912,165)**	**137,091,617**	**143,872,879**		**(6,234,459)**	**137,638,420**

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

Consolidated Condensed	**For the Three Months March 31, 2010**			
Statement of Net loss and	**CDN**			
Comprehensive Other Income	**GAAP**		**IFRS Adjustments**	**IFRS**
Exploration expenditures	2,563,649	(e)	(24,139)	2,539,510
Operating expenses	928,210	-	-	928,210
Loss before the following	3,491,859		(24,139)	3,467,720
Finance income	(93,395)	-	-	(93,395)
Finance expenses	-	(e)	24,139	24,139
Foreign exchange loss/(gain)	(93,816)	(c)	62,347	(31,469)
Net Loss before income taxes	3,304,648		62,347	3,366,995
Unrealized gain/(loss) on investment available-for-sale	36,197	(c)	(31,956)	4,241
Gain/loss on translation to reporting currency	1,289,060	(c)	380,099	1,669,159
	1,325,257		348,143	1,673,400
Comprehensive Loss	1,979,391		(285,796)	1,693,595
Net Loss attributable to				
Non-controlling interest	647,708	-	-	647,708
Equity holders of the parent	2,656,941	-	62,347	2,719,288
	3,304,649		62,347	3,366,996
Comprehensive Loss attributable to				
Non-controlling interest	647,708	-	-	647,708
Equity holders of the parent	1,331,683	(c)	(285,796)	1,045,887
	1,979,391		(285,796)	1,693,595

(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	10,935,767	4,458,906	424,576	267,815	16,087,064
Disposals	-	-	-	-	-
Translation differences	559,258	659,821	30,536	20,386	1,270,001
As at December 31, 2010	11,495,025	6,800,637	455,112	288,201	19,038,975
Additions	10,741,371	580,437	-	-	11,321,808
Disposals	-	-	-	-	-
Translation differences	(348,360)	(197,560)	(1,957)	(1,239)	(549,116)
As at March 31, 2011	21,888,036	7,183,514	453,155	286,962	29,811,667
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	-	388,560	490	5,300	394,350
Disposals	-				-
Translation differences	-	(35,227)	(10)	(104)	(35,341)
As at March 31, 2011	-	1,873,871	2,714	29,360	1,905,945
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	17,492,040
As at March 31, 2011	21,888,036	5,309,643	450,441	257,602	27,905,722

(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	(951,325)	(231,901)	(61,798)	(115,874)	(1,360,898)
As at March 31, 2011	63,658,934	19,683,521	506,279	3,945,111	87,793,845

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. 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.

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

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.

c) Laws and regulations

Any changes in the laws of Botswana, Lesotho or Namibia relating to mining could have a material adverse effect to the rights and title to the interests held in those countries by the Company. No assurance can be given that applicable governments will not revoke or significantly alter the conditions of applicable exploration and mining authorizations nor that such exploration and mining authorizations will not be challenged or impugned by third parties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, all of its properties are in good standing.

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	18,592
Changes in exchange rate	(19,785)
Balance, March 31, 2011	566,504

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

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 period ended March 31, 2011, no stock options were granted.

The total share-based compensation for the period ended March 31, 2011 was $141,168 (2010 - $275,620). Share-based compensation of $141,168 (2010 - $275,620) has been allocated to Administration expenses.

The unrecognized compensation cost for non-vested share options at March 31, 2011 was $413,652.

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
Exercised	(100,000)	$0.90
Outstanding at March 31, 2011	11,450,000	$0.91
Exercisable at March 31, 2011	9,470,621	$0.94

The following summarized information about the stock options outstanding and exercisable at March 31, 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	1,525,000	1.27	$0.48	1,010,655	1.27	$0.48
$0.50 - $0.99	6,250,000	1.37	0.84	5,463,308	1.22	0.83
$1.00 - $1.49	2,675,000	1.61	1.11	1,996,658	1.57	1.14
$1.50 - $1.99	800,000	1.23	1.56	800,000	1.23	1.56
$2.00 - $2.50	200,000	1.23	2.08	200,000	1.23	2.08
	11,450,000	1.40	0.91	9,470,621	1.30	0.95

10.EXPLORATION AND PROJECT INVESTIGATION

	Mothae Project Lesotho	Boteti AK6 Project Botswana	Other	Total
For the three months ended March 31, 2011				
Test mining	$ 2,096,581	$ -	$ -	$ 2,096,581
Depreciation	394,350	-	-	394,350
Office and other	199,056	-	7,829	206,885
Proceeds from diamonds recovered	(1,497,571)	-	-	(1,497,571)
Total for the period	**$ 1,192,416**	**$ -**	**$ 7,829**	**$ 1,200,247**

	Mothae Project Lesotho	Boteti AK6 Project Botswana	Other	Total
For the three months ended March 31, 2010				
Test mining	$ 418,138	$ -	$ -	$ 418,138
Feasibility	-	1,484,774	-	1,484,774
Relocation of core samples, tailings and concentrates	-	419,888	-	419,888
Geology	26,906	-	-	26,906
Office and other	36,297	126,361	27,144	189,802
Total for the period	**$ 481,341**	**$ 2,031,023**	**$ 27,144**	**$ 2,539,508**

(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 for the current quarter (Note 10).

12. ADMINISTRATION EXPENSES

	March 31, 2011	March 31, 2010
Salaries and benefits	321,965	252,867
Share-based payments	141,168	275,620
Management fees	105,498	86,491
Professional fees	557,381	36,197
Donation	608,644	-
Stock exchange, transfer agent and investor relations	765,960	105,074
Travel	193,383	143,400
Office and general expenses	82,979	28,561
Total administration expenses	2,776,978	928,210

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	March 31, 2011	March 31, 2010
Management fees (i)	Namdo	105,498	86,491
Donations	LFA	608,644	-
Exploration related expenditures	MS Group	-	54,522
Aircraft charter	Mile	306,605	36,965
Total related parties expenses		1,020,747	177,978

(i) Pursuant to an Agreement for services and office facilities, which is 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:

	March 31, 2011	March 31, 2010
Namdo	33,107	33,660
Mile	74,396	37,753
MS Group	-	43,451
Total related parties liabilities	107,503	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:

	Three months ended March 31, 2011	Three months ended March 31, 2010
Salaries	294,708	230,092
Short term benefits	27,257	22,775
Share-based compensation	141,168	275,620
	463,133	578,487

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	
	March 31, 2011	Dec-31 2010	Mar-31 2011	Dec-31 2010	Mar-31 2011	Dec-31 2010
Canada	580,481	-	-	-	-	-
Lesotho	5,013,058	5,573,411	24,134,911	24,544,483	168,714	171,879
Botswana	22,987,626	11,918,628	65,965,408	64,610,259	274,376	34,426
	28,581,165	17,492,038	90,100,319	89,154,742	443,090	206,305

15. CONTINGENCIES

a) In April 2010, legal proceeds were initiated against African Diamonds 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 Company terminated an agreement with a contractor at the Mothae diamond project. The contractor filed a claim against Mothae Diamonds and is alleging entitlement to an amount of approximately US$625,000. The claim was heard in court in early June and written judgement is expected prior to the end of the third quarter. No provision has been made in the financial statements as management believes the claim is without merit.

16. COMMITMENTS

a) In conjunction with the development of the AK6 diamond mine, the Company has committed to approximately US$56 million in additional capital expenditures.

b) The Company and Boteti have entered into an exclusivity agreement whereby a lender has agreed to arrange funding for the development of the Boteti AK6 diamond mine (“Arranging Agreement”). Boteti is committed to paying a fee of US$750,000 if the arrangement is not drawn upon or if the Arranging Agreement is terminated by Boteti prior to September 30, 2011. In addition, a further US$750,000 is payable if an alternative lender provides funding within one year of terminating the Arranging Agreement.