Lucara Diamond Corp.

885 W. Georgia Street, Suite 2000 | Vancouver, BC, Canada V6C 3E8
Tel: 604 689 7842 | Fax: 604 689 4250
lucara@namdo.com | lucaradiamond.com

LUCARA DIAMOND CORP FIRST QUARTER RESULTS

MAY 9, 2013 (LUC – TSX, LUC – BSE, LUC – NASDAQ OMX First North) … Lucara Diamond Corp. ("Lucara" or the "Company") today reports its first quarter 2013 results.

William Lamb, President and Chief Executive Officer commented "Lucara had solid operational performance and sales for the first quarter continuing the growth trend from 2012. Also continuing is the recovery of high quality diamonds from the Karowe Mine. An exceptional 239 carat stone was recently recovered as well as several excellent quality stones greater than 50 carats. This along with the multiple recoveries of extremely rare and valuable blue diamonds highlights the importance of this new mine. We are planning to conduct our first special large stone tender in May in addition to our normal tender (twice quarterly) of diamonds which is in excess of 50,000 carats."

SUMMARY FINANCIAL RESULTS FOR THE QUARTER [(1)]:

		Three months ended March 31		
In millions of U.S. dollars unless otherwise noted		**2013**		2012
Revenues	$	32.5	$	-
Cash operating earnings		16.8		-
EBITDA		14.7		(4.7)
Basic and diluted earnings (loss) per share		0.02		(0.01)
Cash flow from operations (before working capital adjustments)		15.0		(4.5)
Cash on hand		17.4		26.3

Karowe Mine - Botswana

- During the first quarter of 2013 the Company completed two sales totalling 144,712 carats for proceeds of $32.5 million. The 2013 sales included six parcels totalling 18,233 carats, which were withheld from the December 2012 sale due to low volumes of competitive bidding. Excluding the December inventory sold in January, the average sales price for full 2013 production sold was $243 per carat. Total sales forecast for 2013 is 400,000 carats.

- The Company sold its second blue stone, a 4.77 carat diamond in its March sale for $1.6 million or $341,416 per carat.

- During the period the Company recovered a number of significant gem quality diamonds from its run of mine production. This includes 6 diamonds in excess of 50 carats and 28 diamonds between 20 and 50 carats. The company is planning its first large and exceptional stone tender in May, which is in addition to its normally planned tender of over 50,000 carats of diamond. The diamonds which will be sold during the large stone tender can be seen on the Company's website.

- Operating expenses per carat sold was $86 per carat.

[(1)] The Company's financial results are prepared in accordance with IFRS. This press release refers to cash operating earnings and EBITDA, which are not measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. Refer to the "Non-GAAP Measures" section in the MD&A for further details.

- Cash operating earnings during the first quarter of 2013 (excluding depreciation, amortization and depletion) was $16.8 million or 52% of gross revenue.

- The mill treated 0.6 million tonnes during the first quarter of 2013 and produced a total of 123,228 carats of diamond. Average grade processed during the quarter was 22.4 carats per hundred tonnes, which exceeded expectations.

Mothae Project - Lesotho

- A final sale of Mothae diamonds recovered from the test mining phase was held in February 2013. A total of 2,102 carats of diamond were sold for $918,828 for an average price of $437 per carat representing all unsold diamonds recovered from the Mothae test mining phase.

- The Mothae project remained on temporary care and maintenance during the quarter and the Company is currently reviewing a number of development options for Mothae.

Corporate

- Cash on hand as at March 31, 2013 was $17.4 million. This included $4.5 million drawn from the Company's Scotiabank credit facility.

- The principal balance of a $50 million debenture was reduced to $41.7 million ($50.0 million at December 31, 2012) with the first payment being made as scheduled at the end of the first quarter.

Safety

- There were no Lost Time Injuries ("LTI's") or reportable environmental incidents at Karowe during the year continuing its excellent safety, health and environment record. There have been over 3.2 million hours worked without any LTI's since March 2011, including 0.3 million hours since the beginning of 2013. Karowe's Lost Time Injuries Frequency Rate ("LTIFR") was zero for the quarter. LTIFR is defined as the total number of work hours lost per 200,000 work hours.

SELECT FINANCIAL INFORMATION

In millions of U.S. dollars unless otherwise noted	Three months ended March 31 **2013**	2012
Revenues	$ 32.5	$ -
Operating expenses	(12.5)	-
Royalty expenses	(3.2)	-
Cash operating earnings (1)	**16.8**	-
Exploration expenditures	(0.2)	(3.3)
Administration	(1.9)	(1.4)
Gain on sale of diamonds	0.6	-
Sales and marketing	(0.6)	-
EBITDA (2)	**14.7**	(4.7)
Depletion, amortization and accretion	(4.4)	-
Finance expenses	(1.0)	(0.3)
Foreign exchange gain (loss)	(3.1)	0.8
Net income (loss) for the period	**6.2**	(4.2)
Total equity	**152.8**	171.9
Cash flow from operations (before working capital adjustments)	**15.0**	(4.5)
Total assets	**222.0**	244.7
Cash on hand	**17.4**	26.3
Income (loss) per share (basic and diluted)	**0.02**	(0.01)
Per carats sold		
Sales price	**$ 225**	$ -
Operating expenses	**86**	-
Average grade (carats per hundred tonnes)	**22.4**	-

(1) Cash operating earnings is a non-GAAP measure defined as sales less operating expenses and royalty expenses.
(2) EBITDA is a non-GAAP measure defined as earnings before interest, taxation, depreciation and amortization.

Revenues

During the first quarter of 2013 the Company had two sales totalling 144,712 carats for gross proceeds of $32.5 million, which included the sale of 18,233 carats withheld from the its December 2012 sale. The average sales price for 2013 run of mine production was $243 per carat.

Cash operating earnings

Cash operating earnings for the three months ended March 31, 2013 was $16.8 million. This reflects a $225 per carat price received for diamonds sold net of royalties of 10% and operating expenses of $86 per carat sold.

Cash operating earnings of $16.8 million result in a gross margin of 52% on sales. The average grade for the quarter was 22.4 carats per hundred tonnes, which was in excess of budget.

Cash operating earnings is a non-GAAP measure and is reconciled in the table above.

Exploration expenditures

Exploration expenditures relating to the Mothae project were $0.2 million during the quarter compared to $3.3 million during the first quarter of 2012. The Mothae project was placed on temporary care and maintenance at the end of 2012 and as a result, incurred limited operating expenditures in the first quarter of 2013.

Administration expenses

Administration expenses increased 0.5 million when comparing the three month period ended March 31, 2013 to the three month period ended March 31, 2012. The increase in administration expenses is largely due to costs in Botswana, which are now expensed rather than being capitalized as was done in 2012 as part of the commissioning of Karowe.

Earnings before interest, tax, depreciation and amortization (EBITDA)

EBITDA for the first quarter of 2013 was $14.7 million compared to a loss of $4.7 million in the first quarter of 2012. This was a result of cash operating earnings of $16.8 million earned from Karowe and decreased exploration expenditures of $3.1 million at Mothae.

EBITDA is a non-GAAP measure and is reconciled in the table above.

SUMMARY OF QUARTERLY RESULTS

Three months ended	Mar-13	Dec-12	Sept-12	Jun-12
A. Total revenues	32,503,543	29,171,742	12,658,547	Nil
B. Exploration recovery (expenditures)	374,318	(2,277,062)	(4,464,791)	(2,798,489)
C. Administration expenses	(1,945,896)	(1,798,381)	(2,979,850)	(3,392,079)
D. Net income (loss)	6,168,786	7,664,989	(3,413,079)	(7,607,000)
E. Earnings (loss) per share (basic and diluted)	0.02	0.02	(0.01)	(0.02)

Three months ended	Mar-12	Dec-11	Sept-11	Jun-11
A. Total revenues	Nil	Nil	Nil	Nil
B. Exploration recovery (expenditures)	(3,313,504)	564,851	(3,116,383)	(2,866,454)
C. Administration expenses	(1,363,964)	(2,254,982)	(1,304,914)	(1,845,748)
D. Net income (loss)	(4,169,711)	(5,438,374)	(5,453,107)	(5,921,521)
E. Earnings (loss) per share (basic and diluted)	(0.01)	(0.01)	(0.01)	(0.02)

Operating expenses and net income (loss), quarter over quarter, vary in relation to the level of activities undertaken by the Company during the financial quarters reported. These activities include the volumes and timing of diamond sales, the net price realized in such sales, cost of goods sold, corporate development initiatives and net exploration expenditures incurred.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2012, the Company had cash and cash equivalents of $17.4 million compared to cash and cash equivalents of $13.3 million at December 31, 2012.

Cash generated from operating activities before working capital movements for the quarter was an inflow of $15.0 million. These proceeds were offset by the Company's $8.3 million debenture payment at the end of March and payment of $2.2 million for project retentions during the quarter, which completes the capital book for the project at a total expenditure marginally below $120 million.

Net cash from financing activities for the three months ended March 31, 2013 included an $8.3 million repayment on the Company's debenture.

In April 2012 the Company signed a definitive agreement with the Bank of Nova Scotia for a $25 million revolving term credit facility with a maturity date of March 26, 2014, which may be extended if both parties agree.

The facility contains financial and non-financial covenants customary for a facility of this size and nature. As at March 31, 2013, the Company is in compliance with all financial and non-financial covenants. The applicable interest rate of any loan under the facility will be determined by the Company's leverage ratio at any given time. The Company has provided security on the two year facility by way of a charge over the Company's Karowe assets and a guarantee by the Company's subsidiaries, which hold the Karowe assets. As at March 31, 2013 the Company had drawn $4.5 million of the credit facility.

The Company has entered into a series forward exchange contracts to fix the rate at which future anticipated cash flows in U.S. dollars are exchanged in Botswana Pula. Such contracts include forward sales of U.S. dollars from May to December 2013 at an average rate of Botswana Pula 7.9586 per $1.00, in the aggregate amount of $39.0 million.

FUTURE PLANS AND OUTLOOK

Boteti Karowe Mine, Botswana

Karowe's 2013 budget is to mine and process 2.5 million tonnes of ore and to produce 400,000 carats of diamond for sale.

The Company anticipates holding eight sales (two per quarter) of regular run-of-mine diamonds and at least one sale for large and special diamonds in 2013. The sales are anticipated to average 50,000 carats of diamond each and there will be client viewings conducted in both Gaborone and Antwerp.

Mothae Diamond Project, Lesotho

The Mothae project will remain on temporary care and maintenance pending a decision regarding potential development options for the project.

Other Matters

At a meeting of the Board of Directors of the Company (the "Board") held on March 21, 2013, the Board adopted an Advance Notice Policy (the "ANP"), which includes, among other things, a provision that requires advance notice be given to the Company in circumstances where nominations of persons for election to the Board are made by shareholders of the Company. In the case of an annual meeting of shareholders, notice to the Company must be made not less than 30 days nor more than 65 days prior to the date of the annual meeting. However, in the event that the annual meeting is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of the annual meeting was made, notice may be made not later than the close of business on the 10th day following such public announcement. In the case of a special meeting of shareholders (which is not also an annual meeting) notice to the Company must be made not later than the close of business on the 15th day following the day on which the first public announcement of the date of the special meeting was made.

Additionally, the ANP sets forth the information that a shareholder must include in the notice of the Company, and establishes the form in which the shareholder must submit the notice for that notice to be in proper written form. The full text of the ANP is available on the Company's website and on SEDAR.

About Lucara

Lucara is a well positioned new diamond producer. The Company has an experienced board and management team with extensive diamond development and operations expertise. The Company's two key assets are the Karowe Mine in Botswana and the Mothae Project in Lesotho. The 100% owned Karowe Mine is in the production. The 75% owned Mothae Project has completed its trial mining program.

On Behalf of the Board,

William Lamb
President and CEO

Lucara's Certified Advisor on NASDAQ OMX First North is Pareto Öhman AB.

For further information, please contact:

Sophia Shane, Corporate Development +1 (604) 689-7842

Robert Eriksson, Investor Relations, Sweden +46 701-112615

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain of the statements made and contained herein in the press release constitute forward-looking statements as defined in applicable securities laws. Generally, these forward-looking statements include any statements with respect to predictions, expectations, beliefs, plans, projects, objectives, assumptions or future events or performance and often (but not always) can be identified by the use of forward-looking terminology such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or achieved.

Forward looking statements are based on the opinions and estimates of management as of the date such statements are made, and they are subject to a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward-looking statements. In particular, this press release contains forward looking information pertaining to the following: the estimates of the Company's mineral reserve and resources; estimates of the Company's production and sales volumes for the Karowe Mine; estimated costs to construct the Karowe Mine, start-up, exploration and development plans and objectives, production costs, exploration and development expenditures and reclamation costs; expectation of diamond price and changes to foreign currency exchange rate; expectations regarding the need to raise capital;

The Company believes that expectations reflected in this forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct. Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to materially differ from those reflected in the forward-looking statements including, without limitation, the following risks and uncertainties for the Company: general global financial and economic conditions; future market prices for diamonds; the supply and demand for rough diamonds; ability to access capital; fluctuations in interest rates and foreign currency exchange rates; inherent hazards and risks associated with mining operations; estimations of the Company's production and sales volume for the Karowe Mine; costs associated with the construction of the Karowe mine; operational costs, including costs of power and diesel; operational difficulties, including failure of plant, equipment or processes to operate in accordance with specifications or expectations; industrial job disturbances; environmental and other regulatory requirements, including changes in the same; the acts of the governments of the jurisdictions in which the Company's operations are located; obtaining governmental approvals and permits; estimation of mineral resources, including the continuity of grade of diamondiferous mineralization; risks related to property titles; the dependence on transportation facilities and infrastructure; the Company is required to carry uninsurable risks; the mining industry is competitive; risks associated with current and future legal proceedings; conflicts of interest; dependence on management and technical personnel; and risks associated with volatility in the securities market.

Certain of these risks are discussed under the heading "Risk Factors' in the Company's Annual Information Form dated March 22, 2012 available at http://www.sedar.com. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward looking statements due to these risks, uncertainties and other factors. Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements. The Company disclaims any intention or obligation to update or revise forward-looking statements if circumstances or management's beliefs, expectations, or opinions should change, except as required by law.

Lucara Diamond Corp.

Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2013
(Unaudited)

LUCARA DIAMOND CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2013

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, 2013, which are prepared in accordance with IAS 34: Interim Financial Statements, and the audited consolidated financial statements of the Company for the year ended December 31, 2012, which are prepared in accordance with International Financial Reporting Standards. All amounts are expressed in U.S. dollars unless otherwise indicated. The effective date of this MD&A is May 9, 2013.

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.

SUMMARY FINANCIAL RESULTS FOR THE QUARTER [1]:

In millions of U.S. dollars unless otherwise noted	Three months ended March 31 **2013**	2012
Revenues	$ 32.5	$ -
Cash operating earnings	16.8	-
EBITDA	14.7	(4.7)
Basic and diluted earnings (loss) per share	0.02	(0.01)
Cash flow from operations (before working capital adjustments)	15.0	(4.5)
Cash on hand	17.4	26.3

Karowe Mine - Botswana

- During the first quarter of 2013 the Company completed two sales totalling 144,712 carats for proceeds of $32.5 million. The 2013 sales included six parcels totalling 18,233 carats, which were withheld from the December 2012 sale due to low volumes of competitive bidding. Excluding the December inventory sold in January, the average sales price for full 2013 production sold was $243 per carat. Total sales forecast for 2013 is 400,000 carats.

- The Company sold its second blue stone, a 4.77 carat diamond in its March sale for $1.6 million or $341,416 per carat.

- During the period the Company recovered a number of significant gem quality diamonds from its run of mine production. This includes 6 diamonds in excess of 50 carats and 28 diamonds between 20 and 50 carats. The Company is planning its first large and exceptional stone tender in May, which is in addition to its normally planned tender of over 50,000 carats of diamond. The diamonds which will be sold during the large stone tender can be seen on the Company's website.

- Operating expenses per carat sold was $86 per carat.

- Cash operating earnings during the first quarter of 2013 (excluding depreciation, amortization and depletion) was $16.8 million or 52% of gross revenue.

Mothae Project - Lesotho

- A final sale of Mothae diamonds recovered from the test mining phase was held in February 2013. A total of 2,102 carats of diamond were sold for $918,828 for an average price of $437 per carat representing all unsold diamonds recovered from the Mothae test mining phase.

- The Mothae project remained on temporary care and maintenance during the quarter and the Company is currently reviewing a number of development options for Mothae.

Corporate

- Cash on hand as at March 31, 2013 was $17.4 million. This included $4.5 million drawn from the Company's Scotiabank credit facility.

- The principal balance of a $50 million debenture was reduced to $41.7 million ($50.0 million at December 31, 2012) with the first payment being made as scheduled at the end of the first quarter.

Safety

- There were no Lost Time Injuries ("LTI's") or reportable environmental incidents at Karowe during the year continuing its excellent safety, health and environment record. There have been over 3.2 million hours worked without any LTI's since March 2011, including 0.3 million hours since the beginning of 2013. Karowe's Lost Time Injuries Frequency Rate ("LTIFR") was zero for the quarter. LTIFR is defined as the total number of work hours lost per 200,000 work hours.

INTRODUCTION

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

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

The following summarizes the Company's current land holdings:

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

Karowe Mine, Botswana

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

In July 2010, a formal decision was made to proceed with the construction of the AK6 diamond mine. The project has been completed within budget at a cost marginally below the budget of $120 million. In January 2012 the name of the mine was officially changed to the Karowe Mine.

Based on the technical report for the Karowe Mine dated December 31, 2010, the project has an Indicated Resource of 51 million tonnes ("mt") containing an estimated 8.2 million carats ("ct") of diamond. The mine design delineates a Probable Reserve of 36.2 million tonnes of ore, containing an estimated 6.1 million carats of diamond at a 1.5mm bottom cut-off size, in an open pit to a depth of 324 meters. The reserves will be mined over an estimated 15 year life. The process plant has been designed at throughput rate of 2.5 million tonnes per annum ("mtpa").

An independent resource reconciliation was conducted on the 2012 production. In summary 1.82mt of ore was mined of which 1.18mt was processed and 0.73mt was stockpiled. Adjustments to the ore/waste contacts (actual contact positions compared to modelled contact positions) resulted in a net 70,000t added to the Indicated Resource category.

Performance during the three months ended March 31, 2013

During the quarter, the Company successfully conducted two diamond sales totalling 144,712 earning proceeds of $32.5 million.

Modified AG mill discharge ports installed in January 2013 resulted in a 10% throughput improvement when treating hard ore. Further mill optimization test work is continuing to improve mill throughput on hard ore, which material will constitute the bulk of the feed to the mill from 2014 onwards.

The mill treated 0.6 million tonnes in the first quarter of 2013 and produced a total of 123,228 carats of diamond. Average grade processed during the quarter was 22.4 carats per hundred tonnes, which exceeded expectations.

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

In 2010, the Company commenced a trial mining program to mine and process up to an additional 620,000 dry tonnes of material from various kimberlite domains, which had been identified in the bulk sample program. This trial mining was aimed at providing confirmation of the frequency of occurrence of high value diamonds within the principal kimberlite domains of the Mothae pipe, better assess the grade potential of these domains, delineate the tonnage potential and internal geology of the pipe to a depth of 300 meters. To establish the market value of Mothae diamonds, four sealed tender sales were held in March 2011, December 2011, September 2012 and February 2013.

Trial mining on the Mothae project was completed in the fourth quarter of 2012 at which time the plant was put on temporary care and maintenance.

Geological modeling of the Mothae kimberlite was completed in the first quarter of 2013. The final mineral resource table is summarized as follows (2.0 mm bottom screen). The table contains rounded figures. The Company's NI 43-101 Technical Report and Mineral Resource Estimate for the Mothae Diamond Project is available on SEDAR at www.sedar.com.

	Volume (Mm3)	Bulk Density (g/cm3)	Tonnes (Mt)	Grade (cpht)	Average Revenue (USD/ct)	Average rock value (USD/t)	Total Resource (Mct)
Total Indicated	1.04	2.29	2.39	3	1,196	34	0.07
Total Inferred	14.37	2.55	36.57	2.7	1,053	28	1.00

Performance during the three months ended March 31, 2013

The Company completed a diamond sale in February 2013. Approximately 2,102 carats of diamond were sold for gross proceeds of $918,828 for an average price of $437 per carat.

The Company is currently reviewing a number of development options for Mothae following the completion of its trial mining program.

SELECT FINANCIAL INFORMATION

In millions of U.S. dollars unless otherwise noted	**Three months ended March 31** **2013**	2012
Revenues	$ 32.5	$ -
Operating expenses	(12.5)	-
Royalty expenses	(3.2)	-
Cash operating earnings [(1)]	**16.8**	-
Exploration expenditures	(0.2)	(3.3)
Administration	(1.9)	(1.4)
Gain on sale of diamonds	0.6	-
Sales and marketing	(0.6)	-
EBITDA [(2)]	**14.7**	(4.7)
Depletion, amortization and accretion	(4.4)	-
Finance expenses	(1.0)	(0.3)
Foreign exchange gain (loss)	(3.1)	0.8
Net income (loss) for the period	**6.2**	(4.2)
Total equity	**152.8**	171.9
Cash flow from operations (before working capital adjustments)	**15.0**	(4.5)
Total assets	**222.0**	244.7
Cash on hand	**17.4**	26.3
Income (loss) per share (basic and diluted)	**0.02**	(0.01)
Per carats sold		
Sales price	**$225**	$ -
Operating expenses	**86**	-
Average grade (carats per hundred tonnes)	**22.4**	-

(1) Cash operating earnings is a non-GAAP measure defined as sales less operating expenses and royalty expenses.
(2) EBITDA is a non-GAAP measure defined as earnings before interest, taxation, depreciation and amortization.

Revenues

During the first quarter of 2013 the Company had two sales totalling 144,712 carats for gross proceeds of $32.5 million, which included the sale of 18,233 carats withheld from the its December 2012 sale. The average sales price for 2013 run of mine production was $243 per carat.

Cash operating earnings

Cash operating earnings for the three months ended March 31, 2013 was $16.8 million. This reflects a $225 per carat price received for diamonds sold net of royalties of 10% and operating expenses of $86 per carat sold.

Cash operating earnings of $16.8 million result in a gross margin of 52% on sales. The average grade for the quarter was 22.4 carats per hundred tonnes which was in excess of budget.

Cash operating earnings is a non-GAAP measure and is reconciled in the table above.

Exploration expenditures

Exploration expenditures relating to the Mothae project were $0.2 million during the quarter compared to $3.3 million during the first quarter of 2012. The Mothae project was placed on temporary care and maintenance at the end of 2012 and as a result, incurred limited operating expenditures in the first quarter of 2013.

Administration expenses

Administration expenses increased 0.5 million when comparing the three month period ended March 31, 2013 to the three month period ended March 31, 2012. The increase in administration expenses is largely due to costs in Botswana, which are now expensed rather than being capitalized as was done in 2012 as part of the commissioning of Karowe.

Earnings before interest, tax, depreciation and amortization (EBITDA)

EBITDA for the first quarter of 2013 was $14.7 million compared to a loss of $4.7 million in the first quarter of 2012. This was a result of cash operating earnings of $16.8 million earned from Karowe and decreased exploration expenditures of $3.1 million at Mothae.

EBITDA is a non-GAAP measure and is reconciled in the table above.

SUMMARY OF QUARTERLY RESULTS

Three months ended	Mar-13	Dec-12	Sept-12	Jun-12
A. Total revenues	32,503,543	29,171,742	12,658,547	Nil
B. Exploration recovery (expenditures)	374,318	(2,277,062)	(4,464,791)	(2,798,489)
C. Administration expenses	(1,945,896)	(1,798,381)	(2,979,850)	(3,392,079)
D. Net income (loss)	6,168,786	7,664,989	(3,413,079)	(7,607,000)
E. Earnings (loss) per share (basic and diluted)	0.02	0.02	(0.01)	(0.02)

Three months ended	Mar-12	Dec-11	Sept-11	Jun-11
A. Total revenues	Nil	Nil	Nil	Nil
B. Exploration recovery (expenditures)	(3,313,504)	564,851	(3,116,383)	(2,866,454)
C. Administration expenses	(1,363,964)	(2,254,982)	(1,304,914)	(1,845,748)
D. Net income (loss)	(4,169,711)	(5,438,374)	(5,453,107)	(5,921,521)
E. Earnings (loss) per share (basic and diluted)	(0.01)	(0.01)	(0.01)	(0.02)

Operating expenses and net income (loss), quarter over quarter, vary in relation to the level of activities undertaken by the Company during the financial quarters reported. These activities include the volumes and timing of diamond sales, the net price realized in such sales, cost of goods sold, corporate development initiatives and net exploration expenditures incurred.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2012, the Company had cash and cash equivalents of $17.4 million compared to cash and cash equivalents of $13.3 million at December 31, 2012.

Cash generated from operating activities before working capital movements for the quarter was an inflow of $15.0 million. These proceeds were offset by the Company's $8.3 million debenture payment at the end of March and payment of $2.2 million for project retentions during the quarter, which completes the capital book for the project at a total expenditure marginally below $120 million.

Net cash from financing activities for the three months ended March 31, 2013 included an $8.3 million repayment on the Company's debenture.

In April 2012 the Company signed a definitive agreement with the Bank of Nova Scotia for a $25 million revolving term credit facility with a maturity date of March 26, 2014, which may be extended if both parties agree.

The facility contains financial and non-financial covenants customary for a facility of this size and nature. As at March 31, 2013, the Company is in compliance with all financial and non-financial covenants. The applicable interest rate of any loan under the facility will be determined by the Company's leverage ratio at any given time. The Company has provided security on the two year facility by way of a charge over the Company's Karowe assets and a guarantee by the Company's subsidiaries, which hold the Karowe assets. As at March 31, 2013 the Company had drawn $4.5 million of the credit facility.

The Company has entered into a series forward exchange contracts to fix the rate at which future anticipated cash flows in U.S. dollars are exchanged in Botswana Pula. Such contracts include forward sales of U.S. dollars from May to December 2013 at an average rate of Botswana Pula 7.9586 per $1.00, in the aggregate amount of $39.0 million.

FUTURE PLANS AND OUTLOOK

Boteti Karowe Mine, Botswana

Karowe's 2013 budget is to mine and process 2.5 million tonnes of ore and to produce 400,000 carats of diamond for sale.

The Company anticipates holding eight sales (two per quarter) of regular run-of-mine diamonds and at least one sale for large and special diamonds in 2013. The sales are anticipated to average 50,000 carats of diamond each and there will be client viewings conducted in both Gaborone and Antwerp.

Mothae Diamond Project, Lesotho

The Mothae project will remain on temporary care and maintenance pending a decision regarding potential development options for the project.

NON-GAAP FINANCIAL MEASURES

This MD&A refers to certain financial measures, such as cash operating earnings and EBITDA which are not measures recognized under IFRS and does not have a standardized meaning prescribed by IFRS. These measures may differ from those made by other corporations and accordingly may not be comparable to such measures as reported by other corporations. These measures have been derived from the Company's financial statements, and applied on a consistent basis, because the Company believes they are of assistance in the understanding of the results of operations and financial position.

Cash operating earnings (see "Select Annual Financial Information") is the term the Company uses to describe the cash that is generated from sales net of cost of goods sold, excluding depletion, amortization and accretion, and excluding the effect of changes in working capital.

EBITDA (see "Select Annual Financial Information") is the term the Company uses as an approximate measure of the Company's pre-tax operating cash flow and is generally used to better measure performance and evaluate trends of individual assets. EBITDA comprises earnings before deducting interest and other financial charges, income taxes, depreciation and amortization and net loss attributable to non-controlling interests.

CRITICAL ACCOUNTING ESTIMATES

The application of certain accounting policies requires the Company to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain. For a complete discussion of accounting estimated deemed most crucial by the Company, refer to the Company's annual 2012 Management's Discussion and Analysis.

RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2013, the Company incurred the following expenses with Namdo Management Services Limited ("Namdo") and Mile High Holdings Ltd. ("Mile High"), companies related by way of directors in common. The Company also incurred professional geological services and laboratory related expenditures from the Mineral Services Group ("MS Group"), a company that is associated with a director of Company.

Description of services	Related party	March 31, 2013	March 31, 2012
Management fees	Namdo	$	$
Exploration related expenditures	MS Group	40,469	1,047,555
Aircraft charter	Mile High	50,017	75,106
		$	$

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 376,292,749 common shares outstanding and 2,365,000 stock options outstanding under its stock-based incentive plan. As at the same date, the Company had no stock purchase warrants outstanding.

FINANCIAL INSTRUMENTS

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statements of operations or consolidated statements of comprehensive loss. Those categories are: fair value through profit or loss; loans and receivables; available for sale assets; and, for liabilities, amortized cost.

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

In the normal course of business, the Company is inherently exposed to currency and commodity price risk. The Company uses currency hedging instruments to mitigate the currency price risk.

CONTINGENCIES

Upon completion of the AFD Arrangement Agreement which resulted in the Company holding an undivided 100% ownership interest in the Karowe Mine, the Company retained certain liabilities related to legal proceedings initiated by two former directors of AFD against AFD alleging entitlement to a 3% NSR on production from the Karowe Mine. The claim was heard in the Botswana High Court in early June, 2011. The High Court delivered its ruling in August 2011 dismissing the claims against AFD, with costs awarded against the plaintiffs.

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

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

RISKS AND UNCERTAINTIES

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

The risk factors which should be taken into account in assessing the Company's activities, include, but are not necessarily limited to, those set out in the Management's Discussion and Analysis for the year ended December 31, 2012.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

FINANCIAL INFORMATION

The report for the six months ended June 30, 2013 is expected to be published on August 9, 2013.

MANAGEMENT'S RESPONSIBILTY FOR THE FINANCIAL STATEMENTS

The Audit Committee is responsible for reviewing the contents of this document along with the interim quarterly financial statements to ensure the reliability and timeliness of the Company's disclosure while providing another level of review for accuracy and oversight. There have been no changes in the Company's disclosure controls and procedures during the three months ended March 31, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the accounting principles under which the Company's financial statements are prepared. An evaluation of the effectiveness of the Company's internal control over financial reporting was conducted as of December 31, 2012 by the Company's management, including the Chief Executive Officer and Chief Financial Officer. Based on this evaluation, management has concluded that the Company's internal controls over financial reporting were effective.

As required under Multilateral Instrument 52-109, management advises that there have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period, being the three months ended March 31, 2013, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

Forward looking statements are based on the opinions and estimates of management as of the date such statements are made, and they are subject to a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward-looking statements. The Company believes that expectations reflected in this forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A

should not be unduly relied upon. In particular, this MD&A may contain forward looking information pertaining to the following: the estimates of the Company's mineral reserve and resources; estimates of the Company's production and sales volumes for the Karowe Mine; estimated costs to construct the Karowe Mine, start-up, exploration and development plans and objectives, production costs, exploration and development expenditures and reclamation costs; expectation of diamond price and changes to foreign currency exchange rate; expectations regarding the need to raise capital; possible impacts of disputes or litigation and other risks and uncertainties describe under Risks and Uncertainties disclosed in the Company's Annual Information Form.

There can be no assurance that such statements will prove to be accurate, as the Company's results and future events could differ materially from those anticipated in this forward-looking information as a result of those factors discussed in or referred to under the heading "Risk Factors' in the Company's Annual Information Form dated March 27, 2013 available at http://www.sedar.com, as well as changes in general business and economic conditions, changes in interest and foreign currency rates, the supply and demand for, deliveries of and the level and volatility of prices of rough diamonds, costs of power and diesel, acts of foreign governments and the outcome of legal proceedings, inaccurate geological and recoverability assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources), unanticipated operational difficulties (including failure of plant, equipment or processes to operate in accordance with specifications or expectations, cost escalations, unavailability of materials and equipment, government action or delays in the receipt of government approvals, industrial disturbances or other job actions, adverse weather conditions, and unanticipated events relating to health safety and environmental matters)
Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date the statements were made, and the Company does not assume any obligations to update or revise them to reflect new events or circumstances, except as required by law.

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

	March 31, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 17,378,268	$ 13,261,484
Investments	80,128	85,517
VAT receivables and other	4,554,019	5,526,880
Inventories (Note 4)	11,795,102	13,300,257
	33,807,517	32,174,138
Plant and equipment (Note 5)	109,379,562	118,395,399
Mineral properties (Note 6)	78,682,839	84,645,249
Other non-current assets	125,619	136,754
TOTAL ASSETS	$ 221,995,537	$ 235,351,540
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	$ 14,033,842	$ 14,694,757
Current portion of long-term debt (Note 7)	35,413,909	30,310,587
	49,447,751	45,005,344
Long-term debt (Note 7)	8,181,650	20,643,420
Restoration provisions	11,528,462	12,241,624
TOTAL LIABILITIES	69,157,863	77,890,388
EQUITY		
Share capital (Note 8)	282,796,453	282,796,453
Contributed surplus (Note 9)	4,896,904	4,874,086
Cumulative deficit	(104,671,358)	(110,739,778)
Accumulated other comprehensive loss	(32,037,235)	(21,381,019)
Total equity attributable to shareholders of the Company	150,984,764	155,549,742
Non-controlling interests (Note 10)	1,852,910	1,911,410
TOTAL EQUITY	152,837,674	157,461,152
TOTAL LIABILITIES AND EQUITY	$ 221,995,537	$ 235,351,540

Contingencies (Note 17)

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

Approved on Behalf of the Board of Directors:

"Paul K. Conibear"
Director

"William Lamb"
Director

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

	Three months ended March 31 2013	2012
Revenues	$ 32,503,543	$ -
Cost of goods sold		
Operating expenses	12,454,106	-
Royalty expenses	3,210,354	-
Depletion, amortization and accretion	4,407,756	-
	20,072,216	-
Income from mining operations	12,431,327	-
Other expenses		
Exploration expenditures (Note 11)	209,721	3,313,504
Administration (Note 12)	1,945,896	1,363,964
Gain on sale of diamonds (Note 13)	(584,039)	-
Sales and marketing	578,213	-
Finance expenses	1,042,072	276,277
Foreign exchange loss (gain)	3,070,678	(784,034)
	6,262,541	4,169,711
Net income (loss) for the period	$ 6,168,786	$ (4,169,711)
Attributable to:		
Shareholders of the Company	$ 6,117,741	$ (3,749,380)
Non-controlling interests	$ 51,045	$ (420,331)
Basic and diluted income (loss) per common share	$ 0.02	$ (0.01)
Weighted average common shares outstanding	376,292,749	372,464,388

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

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

	Three months ended March 31 2013	2012
Net income (loss) for the period	$ 6,168,786	$ (4,169,711)
Other comprehensive income (loss)		
Change in fair value of available-for-sale securities	(3,678)	(1,232)
Currency translation adjustment	(10,811,404)	5,486,285
	(10,815,082)	5,485,053
Comprehensive income (loss)	$ (4,646,296)	$ 1,315,342
Comprehensive income (loss) attributable to:		
Shareholders of the Company	(4,538,475)	1,571,013
Non-controlling interests	(107,821)	(255,671)
	$ (4,646,296)	$ 1,315,342

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

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

	Three months ended March 31 2013	2012
Cash flows from (used in):		
Operating Activities		
Net income (loss) for the period	$ 6,168,786	$ (4,169,711)
Items not involving cash and cash equivalents:		
Depletion, amortization and accretion	4,495,808	717,773
Foreign exchange loss (gain)	3,291,935	(1,457,982)
Stock-based compensation	22,818	103,653
Finance costs	973,376	317,144
	14,952,723	(4,489,123)
Net changes in working capital items:		
Trade receivables and other current assets	814,720	1,250,546
Inventories	590,626	(1,576,657)
Trade payables and accrued liabilities	(1,329,929)	841,801
	15,028,140	(3,973,433)
Financing Activities		
Repayments of debenture	(8,333,333)	-
Proceeds from exercise of stock options	-	132,476
	(8,333,333)	132,476
Investing Activities		
Acquisition of plant and equipment	(2,244,560)	(19,914,918)
Other	-	9,979
	(2,244,560)	(19,904,939)
Effect of exchange rate change on cash and cash equivalents	(333,463)	1,457,982
Increase (decrease) in cash and cash equivalents during the period	4,116,784	(22,287,914)
Cash and cash equivalents, beginning of period	13,261,484	48,589,409
Cash and cash equivalents, end of period	$ 17,378,268	$ 26,301,495
Supplemental Information		
Interest received (paid)	(161,685)	169,492
Taxes paid	-	-
Changes in accounts payable and accrued liabilities related to plant and equipment	(2,129,333)	(904,146)

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

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

	Number of shares issued and outstanding	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Non-controlling interests	Total
Balance, January 1, 2012	372,349,049	$ 278,995,472	$ 5,769,245	$ (104,243,885)	$ (13,200,175)	$ 3,030,584	$ 170,351,241
Exercise of stock options	213,700	196,526	(64,050)	-	-	-	132,476
Stock-based compensation	-	-	103,653	-	-	-	103,653
Effect of foreign currency translation	-	-	-	-	5,321,625	164,660	5,486,285
Unrealized loss on investments	-	-	-	-	(1,232)	-	(1,232)
Free-carried non-controlling interests (Note 10)	-	-	-	(7,134)	-	7,134	-
Net loss for the period	-	-	-	(3,749,380)	-	(420,331)	(4,169,711)
Balance, March 31, 2012	372,562,749	$ 279,191,998	$ 5,808,848	$ (108,000,399)	$ (7,879,782)	$ 2,782,047	$ 171,902,712
Balance, January 1, 2013	376,292,749	$ 282,796,453	$ 4,874,086	$ (110,739,778)	$ (21,381,019)	$ 1,911,410	$ 157,461,152
Stock-based compensation	-	-	22,818	-	-	-	22,818
Effect of foreign currency translation	-	-	-	-	(10,652,538)	(158,866)	(10,811,404)
Unrealized loss on investments	-	-	-	-	(3,678)	-	(3,678)
Free-carried non-controlling interests (Note 10)	-	-	-	(49,321)	-	49,321	-
Net income for the period	-	-	-	6,117,741	-	51,045	6,168,786
Balance, March 31, 2013	376,292,749	$ 282,796,453	$ 4,896,904	$ (104,671,358)	$ (32,037,235)	$ 1,852,910	$ 152,837,674

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

1. NATURE OF OPERATIONS

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

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

2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, *IAS 34: Interim Financial Statements*, and do not contain all of the information required for annual financial statements. These statements follow the same accounting policies and methods of application of the most recent annual audited financial statements, except as described in Note 3. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company.

These financial statements were approved by the Board of Directors for issue on May 9, 2013.

3. ADOPTION OF NEW IFRS PRONOUNCEMENTS

As of January 1, 2013, the Company adopted the new and amended IFRS pronouncements in accordance with the transitional provisions outlined in the respective standards as listed below.

a) Pronouncement affecting financial statement presentation or disclosures

i) IFRS 12, Disclosure of interests in other entities
The Company adopted IFRS 12 on January 1, 2013. IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities.

The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption. IFRS 12 does not require the disclosures to be included for any period that precedes the first annual period for which IFRS 12 is applied. Additional disclosures will be included in the Company's annual consolidated financial statements for the year ended December 31, 2013.

3. ADOPTION OF NEW IFRS PRONOUNCEMENTS (continued)

ii) IFRS 13, Fair value measurement
The Company adopted IFRS 13 with prospective application from January 1, 2013. IFRS 13 is a comprehensive standard for fair value measurement and disclosure 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.

The adoption of IFRS 13 did not have an effect on the Company's condensed interim consolidated financial statements for the current period. The disclosure requirements of IFRS 13 will be incorporated in the annual consolidated financial statements for the year ended December 31, 2013.

iii) Amendment to IAS 1, Presentation of Financial Statements
The Company adopted the amendments to IAS 1 on January 1, 2013, with restrospective application. The amendments to IAS 1 require items to be grouped within other comprehensive income that may be reclassified to profit or loss and those that will not be reclassified.

The adoption of the IAS 1 amendments did not have an effect on the Company's condensed interim consolidated financial statements for the current period or prior period.

iv) Amendment to IAS 34, Interim financial reporting
The Company adopted the amendments to IAS 34 effective January 1, 2013. IAS 34 was amended to establish criteria for disclosing total segmented assets and require certain fair value disclosures. The fair value disclosures have been incorporated into these condensed interim consolidated financial statements.

b) Pronouncements affecting accounting policies only

i) IFRS 10, Consolidated financial statements
The Company adopted IFRS 10 on January 1, 2013 with retrospective application. IFRS 10 requires an entity to consolidate an investee when it has power over the investee, 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. IFRS 10 supercedes IAS 27, Consolidated and Separate Financial Statements and SIC 12, Consolidation – Special Purpose Entities.

The Company has concluded that IFRS 10 did not have an effect on the consolidated financial statements for the current period or prior periods presented as the adoption did not result in the consolidation status of any of the subsidiaries.

ii) IFRS 11, Joint arrangements
The Company adopted IFRS 11 on January 1, 2013 with retrospective application. IFRS 11 requires a venturer to classify its interest in a joint agreement 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.

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

3. ADOPTION OF NEW IFRS PRONOUNCEMENTS (continued)

The Company has concluded that IFRS 11 did not have an effect on the condensed interim consolidated financial statements for the current period or prior periods presented as the Company does not have any joint arrangements.

iii) IFRIC 20, Stripping costs in the production phase of a surface mine
The Company adopted IFRIC 20 and applied the requirements to production stripping costs incurred on or after January 1, 2012, in accordance with the transitional provisions. The predecessor stripping assets recorded as of January 1, 2012, the date of the earliest period presented, have been reviewed in accordance with IFRIC 20. IFRIC 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine.

The Company has identified components of ore bodies to be phases, pits or sub-pits depending on the ore body being analyzed. These components align with the view of the mine and the plan of mining activities. Previously, the Company recorded stripping activity relating to major expansions only. Under IFRIC 20, the Company recognizes stripping activity assets when the following three criteria are met:

- It is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- The entity can identify the component of the ore body for which access has been improved; and
- The costs relating to the stripping activity associated with that component can be measured reliably.

Stripping activity assets capitalized under IFRIC 20 are classified within mineral properties, which is consistent with the classification of the asset these costs relate to.

These assets are amortized on a units-of-production basis over the remaining proven and probable reserves of the respective components.

The Company completed an analysis of IFRIC 20 and did not require any adjustments to the condensed interim consolidated financial statements.

4. INVENTORIES

	March 31, 2013	**December 31, 2012**
Rough diamonds	$ 5,769,878	$ 8,444,619
Ore stockpile	2,040,452	1,797,011
Parts and supplies	3,984,772	3,058,627
	$ 11,795,102	$ 13,300,257

Inventory expensed during the three months ended March 31, 2013 totaled $12.5 million (2012 – nil).

(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
Balance, January 1, 2012	$ 86,720,012	$ 7,765,888	$ 1,313,800	$ 2,319,021	$ 98,118,721
Additions	27,070,119	8,027,394	284,355	1,240,659	36,622,527
Disposals and other	861,996	-	(2,065)	(1,128,962)	(269,031)
Translation differences	(1,256,128)	(2,759,463)	(54,065)	(69,863)	(4,139,519)
Reclassification	(113,395,999)	113,395,999	-	-	-
Balance, December 31, 2012	-	126,429,818	1,542,025	2,360,855	130,332,698
Additions	-	114,865	-	5,204	120,069
Disposals and other	-	(138,891)	-	112,615	(26,276)
Translation differences	-	(7,163,745)	(90,974)	(129,072)	(7,383,791)
Balance, March 31, 2013	$ -	$ 119,242,047	$ 1,451,051	$ 2,349,602	$123,042,700
Accumulated depreciation					
Balance, January 1, 2012	$ -	$ 3,164,364	$ 282,383	$ 170,729	$ 3,617,476
Depletion, amortization and accretion for the year	-	7,921,928	333,683	430,756	8,686,367
Disposals and other	-	-	-	-	-
Translation differences	-	(334,739)	(18,183)	(13,622)	(366,544)
Balance, December 31, 2012	-	10,751,553	597,883	587,863	11,937,299
Depletion, amortization and accretion for the period	-	2,415,832	84,442	128,998	2,629,272
Disposals and other	-	-	-	(21,434)	(21,434)
Translation differences	-	(808,355)	(38,331)	(35,313)	(881,999)
Balance, March 31, 2013	$ -	$ 12,359,030	$ 643,994	$ 660,114	$ 13,663,138
Net book value					
As at December 31, 2012	$ -	$ 115,678,265	$ 944,142	$ 1,772,992	$ 118,395,399
As at March 31, 2013	$ -	$ 106,883,017	$ 807,057	$ 1,689,488	$ 109,379,562

During the year ended December 31, 2012, the Company reduced construction in progress by $12.8 million relating to diamonds sold during the pre-commercial production period.

Plant and equipment include interest and financing costs relating to the construction of plant and equipment prior to the commencement of commercial production. Interest and financing costs are capitalized only for the project for which funds have been borrowed. Interest expense capitalized in during the year ended December 31, 2012 was $2,533,290.

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

6. MINERAL PROPERTIES

Cost	Karowe Mine	Mothae Diamond	Mothae mining license	Total
Balance, January 1, 2012	$ 68,502,277	$ 18,225,860	$ 3,314,540	$ 90,042,677
Additions	-	28,613	-	28,613
Disposals and other	(546,779)	-	-	(546,779)
Translation differences	(2,451,361)	(567,359)	(137,432)	(3,156,152)
Balance, December 31, 2012	65,504,137	17,687,114	3,177,108	86,368,359
Additions	-	-	-	-
Disposals and other	-	-	-	-
Translation differences	(3,715,465)	(755,929)	(258,696)	(4,730,090)
Balance, March 31, 2013	$ 61,788,672	$ 16,931,185	$ 2,918,412	$ 81,638,269

Accumulated depletion	Karowe Mine	Mothae Diamond	Mothae mining license	Total
Balance, January 1, 2012	$ -	$ -	$ -	$ -
Depletion for the year	1,760,598	-	-	1,760,598
Disposals and other	-	-	-	-
Translation differences	(37,488)	-	-	(37,488)
Balance, December 31, 2012	1,723,110	-	-	1,723,110
Depletion for the period	1,362,925	-	-	1,362,925
Disposals and other	-	-	-	-
Translation differences	(130,605)	-	-	(130,605)
Balance, March 31, 2013	$ 2,955,430	$ -	$ -	$ 2,955,430

Net book value	Karowe Mine	Mothae Diamond	Mothae mining license	Total
As at December 31, 2012	$ 63,781,027	$ 17,687,114	$ 3,177,108	$ 84,645,249
As at March 31, 2013	$ 58,833,242	$ 16,931,185	$ 2,918,412	$ 78,682,839

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

6. MINERAL PROPERTIES (continued)

a) Karowe Mine

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

A royalty of 10% of the sales value of diamonds produced from Karowe is payable to the government of Botswana.

b) Mothae Diamond Project

Pursuant to the terms of the mining agreement, Mothae Diamonds, an indirect 75% owned subsidiary of the Company has a 100% interest in the project. The remaining 25% of Mothae Diamonds is held by the Government of Lesotho (Note 10). 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 has been paid 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.

7. LONG-TERM DEBT

	March 31, 2013	December 31, 2012
Debenture (a)		
Principal	$ 41,666,667	$ 50,000,000
Unamortized discount	(2,283,568)	(3,179,473)
Revolving credit facility (b)	4,500,000	4,500,000
Deferred finance charges (b)	(287,540)	(366,520)
	43,595,559	50,954,007
Less: Current portion	(35,413,909)	(30,310,587)
Long-term portion of long-term debt	$ 8,181,650	$ 20,643,420

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

7. LONG-TERM DEBT (continued)

a) Debenture

In July 2011, the Company secured a $50 million debenture to fund the development of the Company's projects. In July 2012, the Company renegotiated the terms of the debenture resulting in quarterly repayments of $8.3 million commencing March 31, 2013 and a final maturity date of June 30, 2014. No interest is payable during the term of the facility. The Company paid the first quarterly installment payment in March 2013.

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

The terms of the debenture financing also included the Company issuing an aggregate of 9 million common shares (fair value $10.7 million) to Zebra and Lorito as consideration for the facility, in lieu of interest and fees. During the year ended December 31, 2012, accretion of $5.0 million was recorded of which $2.5 million has been capitalized in plant and equipment (Note 5).

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

As at March 31, 2013	**Current portion**	**Long-term portion**	**Total**
Principal	$ 33,333,334	$ 8,333,333	$ 41,666,667
Unamortized discount	(2,131,885)	(151,683)	(2,283,568)
Total carrying value	$ 31,201,449	$ 8,181,650	$ 39,383,099

As at December 31, 2012	**Current portion**	**Long-term portion**	**Total**
Principal	$ 33,333,334	$ 16,666,666	$ 50,000,000
Unamortized discount	(2,729,209)	(450,264)	(3,179,473)
Total carrying value	$ 30,604,125	$ 16,216,402	$ 46,820,527

7. LONG-TERM DEBT (continued)

b) Revolving credit facility

In April 2012, the Company signed a definitive agreement with the Bank of Nova Scotia for a $25 million revolving term credit facility with a maturity date of March 26, 2014, which may be extended if both parties agree. Funds drawn under the revolving credit facility are due in full at maturity. The facility contains financial and non-financial covenants customary for a facility of this size and nature. As at March 31, 2013, the Company is in compliance with all financial and non-financial covenants. Outstanding amounts under the facility bear interest at LIBOR or an alternative base rate plus an applicable margin based on the Company's leverage ratio.

The Company has provided security on the two year facility by way of a charge over the Company's Karowe assets and a guarantee by the Company's subsidiaries, which hold the Karowe assets.

The Bank of Nova Scotia has first ranking security over the Karowe assets.

As at March 31, 2013, the Company has drawn $4.5 million from the credit facility. Deferred finance charges of $0.3 million have been netted against this drawdown relating to the set-up of the facility.

8. SHARE CAPITAL

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

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

9. STOCK OPTIONS

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

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

	Number of shares issuable pursuant to stock options	Weighted average exercise price per share (CDN$)	
Balance at December 31, 2011	**12,031,671**	**$**	**0.93**
Granted	150,000		1.03
Forfeited	(391,671)		0.90
Expired	(5,181,300)		1.13
Exercised	(3,943,700)		0.70
Balance at December 31, 2012	**2,665,000**		**0.88**
Granted	-		-
Forfeited	-		-
Expired	(200,000)		1.00
Exercised	-		-
Balance at March 31, 2013	**2,465,000**	**$**	**0.87**

Options to acquire common shares have been granted and are outstanding at March 31, 2013 as follows:

	Outstanding Options				**Exercisable Options**			
Range of exercise prices CDN$	Number of options outstanding	Weighted average remaining contractual life (years)		Weighted average exercise price CDN$	Number of options exercisable	Weighted average remaining contractual life (years)		Weighted average exercise price CDN$
$0.80 - $0.85	1,450,000	1.34	$	0.81	1,074,977	1.22	$	0.81
$0.86 - $0.90	75,000	0.18		0.87	75,000	0.18		0.87
$0.91 - $0.95	465,000	0.71		0.95	465,000	0.71		0.95
$0.96 - $1.00	400,000	1.39		0.98	283,327	1.31		0.98
$1.01 - $1.25	75,000	1.63		1.17	49,999	1.63		1.17
	2,465,000	1.20	$	0.87	1,948,303	1.08	$	0.88

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

9. STOCK OPTIONS (continued)

During the three months ended March 31, 2013, an amount of $22,818 (2012 – $103,653) was charged to operations in recognition of stock-based compensation expense, based on the vesting schedule for the options granted.

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

	March 31, 2013	December 31, 2012
Assumptions:		
Risk-free interest rate *(%)*	-	1.03
Expected life *(years)*	-	3.00
Expected volatility *(%)*	-	51.23
Expected dividend	Nil	Nil
Results:		
Weighted average fair value of options granted *(per option)*	$ -	$ 0.35

10. NON-CONTROLLING INTERESTS

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

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

11. EXPLORATION EXPENDITURES

	Three months ended March 31, 2013	Three months ended March 31, 2012
Test mining	$ -	$ 2,501,050
Depreciation	-	681,362
Resource development	-	978,311
Geology	-	224,504
Office and other	97,348	102,341
Care and maintenance	90,455	-
Feasibility study	21,918	-
Diamonds recovered	-	(1,174,064)
	$ 209,721	$ 3,313,504

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

12. ADMINISTRATION

		Three months ended March 31, 2013		2012
Salaries and benefits	$	678,394	$	444,518
Professional fees		384,300		196,173
Stock exchange, transfer agent, shareholder communication		258,705		292,846
Travel		237,259		116,873
Office and general		151,326		41,767
Management fees		125,042		131,723
Depreciation		88,052		36,411
Stock based compensation		22,818		103,653
	$	1,945,896	$	1,363,964

13. GAIN ON SALE OF DIAMONDS

During the three months ended March 31, 2013, Mothae Diamonds held a diamond sale and received gross proceeds of $0.9 million. The sale included the rough diamond inventory that was held at December 31, 2012, 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 $0.6 million.

14. RELATED PARTY TRANSACTIONS

a) *Related party expenses*

The Company incurred the following expenses with Namdo Management Services Limited ("Namdo") and Mile High Holdings Ltd. ("Mile High"), companies related by way of directors in common. The Company also incurred professional geological services and laboratory related expenditures from the Mineral Services Group ("MS Group"), a company that is associated with a director of Company.

Description of services	Related party		Three months ended March 31, 2013		2012
Management fees	Namdo	$	125,042	$	131,723
Exploration related expenditures	MS Group		40,469		1,047,555
Aircraft charter	Mile High		50,017		75,106
		$	215,528	$	1,254,384

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

14. RELATED PARTY TRANSACTIONS (continued)

b) Related party liabilities

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

	March 31, 2013	December 31, 2012
Namdo	$ 54,887	$ 37,919
MS Group	-	54,435
	$ 54,887	$ 92,354

c) Key management compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers, vice-presidents and members of its Board of Directors.

The remuneration of key management personnel were as follows:

	Three months ended March 31, 2013	2012
Salaries and wages	$ 349,077	$ 314,339
Short term benefits	22,631	22,409
Stock based compensation	14,788	62,408
	$ 386,496	$ 399,156

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

15. SEGMENT INFORMATION

The Company's primary business activity is the development and operation of diamond properties in Africa. The Company has three operating segments: Karowe Mine, Mothae Diamond Project and Corporate and other.

Three months ended March 31, 2013

	Karowe Mine	Mothae Diamond Project	Corporate and other	Total
Revenues	$ 32,503,543	$ -	$ -	$ 32,503,543
Income from mining operations	12,517,927	-	(86,600)	12,431,327
Exploration expenditures	-	(209,721)	-	(209,721)
Gain on sale of diamonds	-	584,039	-	584,039
Finance income (expenses)	18,289	-	(1,060,361)	(1,042,072)
Other income (expenses)	(391,482)	34,045	(5,237,350)	(5,594,787)
Net income (loss) for the period	12,144,734	408,363	(6,384,311)	6,168,786
Capital expenditures	(2,244,560)	-	-	(2,244,560)
Total assets	194,565,166	22,185,992	5,244,379	221,995,537

Three months ended March 31, 2012

	Karowe Mine	Mothae Diamond Project	Corporate and other	Total
Revenues	$ -	$ -	$ -	$ -
Income from mining operations	-	-	-	-
Exploration expenditures	-	(3,313,504)	-	(3,313,504)
Finance income (expenses)	97,498	(19,051)	(354,724)	(276,277)
Other expenses	(106,465)	(30,096)	(443,369)	(579,930)
Net loss for the period	(8,967)	(3,362,651)	(798,093)	(4,169,711)
Capital expenditures	(19,914,918)	-	-	(19,914,918)
Total assets	196,030,156	30,299,032	18,345,582	244,674,770

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

	Plant and equipment		Mineral properties		Other	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Canada	$ 190,729	$ 208,953	$ -	$ -	$ -	$ -
Lesotho	1,282,889	1,369,478	19,849,597	20,864,222	125,619	136,754
Botswana	107,905,944	116,816,968	58,833,242	63,781,027	-	-
	$ 109,379,562	$118,395,399	$78,682,839	$84,645,249	$ 125,619	$ 136,754

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

16. FINANCIAL INSTRUMENTS

a) Measurement categories and fair values

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statements of operations or consolidated statements of comprehensive loss. Those categories are: fair value through profit or loss; loans and receivables; available for sale assets; and, for liabilities, amortized cost.

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

The Company's financial assets and liabilities are categorized as follows:

	March 31, 2013	December 31, 2012
ASSETS		
Loans and receivables		
Cash	$ 17,378,268	$ 13,261,484
Trade receivables	-	1,502,718
Other receivables	168,764	248,069
	$ 17,547,032	$ 15,012,271
Available for sale		
Investments	80,128	85,517
	$ 80,128	$ 85,517
LIABILITIES		
Amortized cost		
Trade payables	$ 7,323,631	$ 7,429,283
Accrued liabilities	6,710,211	7,265,474
	14,033,842	14,694,757
Long-term debt	43,595,559	50,954,007
	$ 57,629,401	$ 65,648,764

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

16. FINANCIAL INSTRUMENTS (continued)

b) Fair value hierarchy

The following table classifies financial assets and liabilities that are recognized on the balance sheet at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

	March 31, 2013	December 31, 2012
Level 1		
Investments	$ 80,128	$ 85,517
Level 2 and Level 3 – N/A		

17. CAPITAL MANAGEMENT

The Company's condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

In July 2011, the Company secured a $50 million debenture (the "debenture") to fund the development of the Company's projects. The debenture has been issued by Zebra Holdings and Investments S.a.r.l ("Zebra") and Lorito Holdings S.a.r.l ("Lorito"), each an investment company owned by a trust settled by the late Adolf H. Lundin, and not a related party of the Company. Zebra and Lorito hold a total of 60,000,000 common shares of the Company, which represent approximately 16.1% of the current outstanding common shares.

In July 2012, the Company renegotiated the terms of the debenture resulting in quarterly repayments of $8.3 million commencing March 31, 2013 and a final maturity date of June 30, 2014. No interest is payable during the term of the facility. The Company's ability to repay the quarterly installment payments on its debenture depends on a number of factors, some of which are beyond the Company's control, including the global economy and the demand for and selling price of our diamonds.

The Company paid the first quarterly installment payment in March 2013. However, market weakness may impact the company's ability to make its quarterly debenture payments. Although the Company has a $25 million revolving credit facility, under the terms of this facility, it cannot be used to repay the debenture.

17. CAPITAL MANAGEMENT (continued)

The Company will continue to monitor and forecast its expected cash flow from operations. However, should factors beyond the Company's control worsen, the Company will begin discussions with Zebra and Lorito to negotiate amendments to the debenture to provide the Company with additional time to generate cash and/or access appropriate sources of long-term financing to repay the debenture. Although the Company has been successful in renegotiating the debenture in the past, there can be no assurance that the Company will be successful again.

18. CONTINGENCIES

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

In September 2011, the Company was notified that the plaintiffs, in the legal proceedings initiated against AFD, had filed an appeal of the decision of the High Court of Botswana dismissing the plaintiff's claims with costs awarded in favor of AFD. At this stage the Company does not have any further details as to the timing of when the Appeal will be heard.