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"	"William Lamb"
Director	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	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.