Lucara Diamond Corp.

Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2013
(Unaudited)

LUCARA DIAMOND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 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 and six months ended June 30, 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 August 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 June 30 **2013**	2012	Six months ended June 30 **2013**	2012
Revenues (2)	$ 47.2	$ -	$ 79.7	$ -
Proceeds from quarterly sales tenders (2)	49.3	-	81.8	-
Cash operating earnings	33.3	-	50.1	-
EBITDA	29.0	(6.2)	43.7	(10.9)
Net income (loss) for the period	22.7	(7.6)	28.8	(11.8)
Basic earnings (loss) per share	0.06	(0.02)	0.08	(0.03)
Cash flow from operations (before working capital adjustments)	29.4	(4.3)	44.3	(8.8)
Cash on hand	28.5	7.7	28.5	7.7

Karowe Mine - Botswana

- During the second quarter the Company completed its first large and exceptional stone tender along with two regular tenders achieving gross proceeds of $49.3 million (2). Full year to date proceeds are $81.8 million. The diamond sales completed during the second quarter included:
  - Large and exceptional stone tender held in May consisting of 15 single stone lots. All stones were sold for gross proceeds of $24.6 million ($30,184 per carat with a combined weight of 815 carats).

(1) The Company's financial results are prepared in accordance with IFRS. This MD&A 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-IFRS Measures" section and page 8 in this MD&A for further details.

(2) Total proceeds for diamond sales during the quarter were $49.3 million ($485 per carat) resulting in full year to June 30, 2013 proceeds of $81.8 million. Proceeds of $2.1 million or 12,833 carats were collected post June 30, 2013 due to the timing of the June month end sale and therefore not recognized as revenue in the Company's condensed interim consolidated statement of operations resulting in total revenue for the quarter of $47.2 million ($527 per carat). These $2.1 million proceeds were collected in early July and will be recognized as revenues in the third quarter of 2013.

- The Company's two regular tenders during the second quarter totalled 101,637 carats of diamond, achieving winning bids of $24.7 million or $243 per carat.

- The average value of run-of-mine diamonds recovered and sold during the quarter was $485 per carat.

- During the period the Company continued to recover a number of significant gem quality diamonds from its run of mine production. The Company is planning its second exceptional stone tender in September 2013, which will feature 16 single diamond lots, including five diamonds larger than 100 carats and one small pink diamond.

Operating costs per carat sold was $102 during the quarter compared to $86 per carat sold in the previous period. The increase is in line with budget and the Company's mine plan and reflects lower grades processed (15.6cpht) as the mine transitioned from the north lobe to the upper benches in the centre lobe as well as the planned increase in ore and waste mined.

- Cash operating earnings during the second quarter of 2013 (excluding depreciation, amortization and depletion) were $33.3 million or 71% of gross revenue.

Mothae Project - Lesotho

- 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 June 30, 2013 was $28.5 million. The Company's $25 million Scotiabank credit facility is currently undrawn.

- The principal balance of a $50 million debenture was reduced to $33.3 million ($50.0 million at December 31, 2012) with the quarterly $8.3 million payments being made as scheduled at the end of the first and second quarter 2013.

- Appointment of Mr Paul Day as Chief Operating Officer of the Company based in Gaborone effective April 15, 2013. Mr Day is a mining engineer with over 22 years of operational experience in the sub-Saharan mining industry. During this time Mr Day has been responsible for managing large scale open pit and underground mines as well as being involved in greenfield mine start ups and project development.

Safety

- There was one Lost Time Injury ("LTI's") and no reportable environmental incidents at Karowe during the quarter. Karowe's Lost Time Injuries Frequency Rate ("LTIFR") was 0.67 for the quarter and is 0.36 for the year. 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

	Unit	Q2-13	Q1-13	Q4-12	Q3-12	Q2-12
Sales						
Revenues	US$m	$ 47.2	$ 32.5	$ 29.1	$ 12.7	$ -
Carats sold	Carats	89,619	144,712	100,987	51,737	-
Average price per carat	US$	527	225	289	245	-
Production						
Tonnes mined (ore)	Tonnes	1,163,761	968,871	701,931	561,230	337,810
Tonnes mined (waste)	Tonnes	1,259,478	1,109,727	1,267,343	1,240,062	1,566,791
Tonnes treated	Tonnes	560,911	533,918	545,354	594,000	188,328
Average grade processed	cpht	15.6	23.1	25.4	15.4	34.1
Carats produced	Carats	87,580	123,335	138,487	91,476	64,204
Costs						
Operating costs per carats sold	US$	102	86	84	107	-
Capital expenditures	US$m	1.7	2.2	0.4	19.9	4.2

Tonnes of ore mined ex-pit for the quarter was in line with budget with diamond grade favourable by 5%. Waste mining to access deeper sections of the ore body in the south lobe was according to plan during the period. A drill programme to deliver ten water supply holes was completed with good water yields achieved. Equipping of these boreholes will take place during the second half of the year.

Process plant performance has been in line with expectations with over 30% of the second quarter mill feed being competent ore from the deeper section of the north lobe. Diamonds recovered surpassed budget of 86,523 carats with a total production of 87,580 carats for the quarter. A total of five diamonds in excess of 100 carats were recovered during the second quarter. These diamonds will be sold during the Company's second exceptional stone tender in September 2013.

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 large, high value diamonds within the principal kimberlite domains of the Mothae pipe, better assess the grade potential of these domains and 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 June 30, 2013

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 June 30** **2013**	2012	**Six months ended June 30** **2013**	2012
Revenues	$ 47.2	$ -	$ 79.7	$ -
Operating expenses	(9.1)	-	(21.6)	-
Royalty expenses	(4.8)	-	(8.0)	-
Cash operating earnings [(1)]	**33.3**	-	**50.1**	-
Exploration and other mining costs	(0.5)	(2.8)	(0.8)	(6.1)
Administration	(2.8)	(3.4)	(4.7)	(4.8)
Gain on sale of diamonds	-	-	0.6	-
Sales and marketing	(1.0)	-	(1.5)	-
EBITDA [(2)]	**29.0**	(6.2)	**43.7**	(10.9)
Depletion, amortization and accretion	(3.3)	-	(7.7)	-
Finance expenses	(0.8)	(0.1)	(1.9)	(0.4)
Foreign exchange loss	(2.2)	(1.3)	(5.3)	(0.5)
Net income (loss) for the period	**22.7**	(7.6)	**28.8**	(11.8)
Total equity	**169.1**	157.8	**169.1**	157.8
Cash flow from operations (before working capital adjustments)	**29.4**	(4.3)	**44.3**	(8.8)
Total assets	**225.9**	232.8	**225.9**	232.8
Cash on hand	**28.5**	7.7	**28.5**	7.7
Income (loss) per share (basic and diluted)	**0.06**	(0.02)	**0.08**	(0.03)
Per carats sold				
Sales price	**$ 527**	$ -	**$ 340**	$ -
Operating expenses	**102**	-	**92**	-
Average grade (carats per hundred tonnes)	**15.6**	-	**19.3**	-

(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 three months ended June 30, 2013, the Company completed two regular tenders and its first large and exceptional diamond tender. The Company's large and exceptional diamond tender generated gross proceeds of $24.6 million or $30,184 per carat. The regular tenders achieved winning bids totalling $24.7 million or $243 per carat. At June 30, 2013, proceeds of $2.1 million from 12,833 carats of diamond had not been collected and have not been recognized as revenues in the Company's condensed interim consolidated statement of operations. These proceeds were collected in early July and will be recognized as revenues in the third quarter of 2013.

Cash operating earnings

Cash operating earnings for the three months ended June 30, 2013 were $33.3 million.

Operating expenses were impacted by a decrease in grades during the quarter combined with an increase in ore and waste mined. The average grade for the quarter was 15.6 carats per hundred tonnes, which was in line with budget and the mine plan.

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

Exploration and other mining costs

Exploration expenditures and other mining costs relating to the Mothae project were $0.5 million during the second quarter of 2013 compared to $2.8 million during the second quarter of 2012. The costs incurred during the quarter include the final expenses for Mothae's PEA study and ongoing care and maintenance costs.

Administration expenses

Administration expenses increased $0.8 million during the quarter when compared to the previous three month period due largely to employee performance payments.

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

EBITDA for the second quarter of 2013 was $29.0 million compared to a loss of $6.2 million in the second quarter of 2012. This was a result of cash operating earnings of $33.3 million earned from Karowe and decreased exploration and other mining costs at Mothae.

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

SUMMARY OF QUARTERLY RESULTS

(All amounts expressed in thousands of U.S. dollars, except per share data)

Three months ended	Jun-13	Mar-13	Dec-12	Sept-12
A. Total revenues	47,224	32,504	29,172	12,658
B. Exploration recovery (expenditures)	(557)	374	(2,277)	(4,465)
C. Administration expenses	(2,761)	(1,946)	(1,798)	(2,980)
D. Net income (loss)	22,679	6,169	7,664	(3,413)
E. Earnings (loss) per share (basic and diluted)	0.06	0.02	0.02	(0.01)

Three months ended	Jun-12	Mar-12	Dec-11	Sept-11
A. Total revenues	Nil	Nil	Nil	Nil
B. Exploration recovery (expenditures)	(2,798)	(3,314)	565	(3,116)
C. Administration expenses	(3,392)	(1,364)	(2,255)	(1,305)
D. Net income (loss)	(7,606)	(4,170)	(5,438)	(5,453)
E. Earnings (loss) per share (basic and diluted)	(0.02)	(0.01)	(0.01)	(0.01)

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 June 30, 2013, the Company had cash and cash equivalents of $28.5 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 six month period ended June 30, 2013 was an inflow of $44.3 million. These proceeds were partially offset by the Company's $8.3 million debenture payments at the end of March and June as well as repayment of the outstanding balance of the Company's revolving credit facility of $4.5 million. In addition, the Company incurred capital expenditures of $3.9 million, which includes payment of $2.2 million for project retentions during the period, which had been accrued. The project has been completed at a total expenditure marginally below $120 million.

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 June 30, 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 June 30, 2013 the full amount under this facility was available.

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 July to December 2013 at an average rate of Botswana Pula 7.9749 per $1.00, in the aggregate amount of $32.5 million.

FUTURE PLANS AND OUTLOOK

Boteti Karowe Mine, Botswana

Karowe is projected to process 2.5 million tonnes of ore and to sell 420,000 carats of diamond in 2013.

The Company anticipates holding three further regular run-of-mine diamonds and at least one sale of large and exceptional diamonds during the remainder of the year. The September sale is expected to be approximately 78,000 carats with the two sales in the fourth quarter averaging 53,000 carats of diamond each and there will be client viewings conducted in both Gaborone and Antwerp.

Karowe's operating cash costs are expected to be in the order of $23 per tonne treated, in-line with previous guidance. Capital expenditures for 2013, excluding any final project retention payments are expected to be approximately $5m, which is line with previous guidance.

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-IFRS 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.

Operating costs per carats sold (see "Karowe Mine, Botswana") is the term the Company uses to describe the mining, processing and site administration costs to produce a single carat of diamond. This is calculated as operating costs per carat of diamond sold.

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 six months ended June 30, 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.

(All amounts expressed in thousands of U.S. dollars)

Description of services	**Related party**	**June 30, 2013**	**June 30, 2012**
Management fees	Namdo	$ 248	$ 251
Exploration related expenditures	MS Group	86	1,303
Aircraft charter	Mile High	50	104
		$ 384	$ 1,658

OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had 376,367,749 common shares outstanding and 4,590,000 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 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.

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 nine months ended September 30, 2013 is expected to be published on November 8, 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 and six months ended June 30, 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 and six months ended June 30, 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.

August 9, 2013

To the Audit Committee of Lucara Diamond Corp.

In accordance with our engagement letter dated November 9, 2012, we have reviewed the condensed interim consolidated financial statements of Lucara Diamond Corp. (the “Company”) consisting of:

- The condensed interim consolidated balance sheet as at June 30, 2013;
- The condensed interim consolidated statements of operations for the three and six-month periods ended June 30, 2013 and June 30, 2012;
- The condensed interim consolidated statements of comprehensive income (loss) for the three and six-month periods ended June 30, 2013 and June 30, 2012;
- The condensed interim consolidated statements of cash flows for the three and six-month periods ended June 30, 2013 and June 30, 2012;
- The condensed interim consolidated statements of changes in equity for the six-month periods ended June 30, 2013 and June 30, 2012; and
- Select explanatory notes.

These condensed interim consolidated financial statements are the responsibility of the Company’s management.

We performed our reviews in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity’s auditor. Such an interim review consists principally of applying analytical procedures to financial data and making inquiries of, and having discussions with, persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, whose objective is the expression of an opinion regarding the interim financial statements; accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

Based on our reviews, we are not aware of any material modification that needs to be made for these condensed interim consolidated financial statements to be in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements including International Accounting Standard 34, Interim Financial Reporting.

We have previously audited, in accordance with Canadian generally accepted auditing standards, the consolidated balance sheet of the Company as at December 31, 2012 and the related consolidated statements of loss and comprehensive loss for the year then ended (not presented herein) and related notes. In our report dated March 21, 2013, we expressed an unmodified audit opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as at December 31, 2012 is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

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This report is solely for the use of the Audit Committee of the Company to assist it in discharging its regulatory obligation to review these interim consolidated financial statements and should not be used for any other purpose. Any use that a third party makes of this report, or any reliance or decisions made based on it, are the responsibility of such third parties. We accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this report.

PricewaterhouseCoopers LLP

Chartered Accountants

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

		June 30, 2013		December 31, 2012
ASSETS				
Current assets				
Cash and cash equivalents	$	28,536	$	13,261
Investments		60		86
VAT receivables and other		4,077		5,527
Inventories (Note 4)		15,398		13,300
		48,071		32,174
Plant and equipment (Note 5)		103,824		118,395
Mineral properties (Note 6)		73,911		84,645
Other non-current assets		112		137
TOTAL ASSETS	$	225,918	$	235,351
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities	$	13,541	$	14,695
Current portion of long-term debt (Note 7)		31,808		30,311
		45,349		45,006
Long-term debt (Note 7)		-		20,643
Restoration provisions		11,513		12,242
TOTAL LIABILITIES		56,862		77,891
EQUITY				
Share capital (Note 8)		282,886		282,796
Contributed surplus (Note 9)		5,147		4,874
Cumulative deficit		(81,920)		(110,740)
Accumulated other comprehensive loss		(38,723)		(21,381)
Total equity attributable to shareholders of the Company		167,390		155,549
Non-controlling interests (Note 10)		1,666		1,911
TOTAL EQUITY		169,056		157,460
TOTAL LIABILITIES AND EQUITY	$	225,918	$	235,351

Contingencies (Note 18)

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 thousands of U.S. Dollars, unless otherwise indicated.)
(Unaudited)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Revenues	$ 47,224	$ -	$ 79,728	$ -
Cost of goods sold				
Operating expenses	9,125	-	21,579	-
Royalty expenses	4,763	-	7,973	-
Depletion, amortization and accretion	3,317	-	7,725	-
	17,205	-	37,277	-
Income from mining operations	30,019	-	42,451	-
Other expenses				
Exploration and other mine costs (Note 11)	557	2,798	767	6,112
Administration (Note 12)	2,761	3,392	4,707	4,756
Gain on sale of diamonds (Note 13)	-	-	(584)	-
Sales and marketing	963	-	1,541	-
Finance expenses	859	124	1,901	400
Foreign exchange loss	2,200	1,292	5,271	508
	7,340	7,606	13,603	11,776
Net income (loss) for the period	$ 22,679	$ (7,606)	$ 28,848	$ (11,776)
Attributable to:				
Shareholders of the Company	$ 22,747	$ (7,260)	$ 28,865	$ (11,009)
Non-controlling interests	$ (68)	$ (346)	$ (17)	$ (767)
Basic and diluted income (loss) per common share	$ 0.06	$ (0.02)	$ 0.08	$ (0.03)
Weighted average common shares outstanding	376,294,357	373,413,038	376,293,538	372,938,714

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

LUCARA DIAMOND CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(All amounts expressed in thousands of U.S. Dollars, unless otherwise indicated.)
(Unaudited)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Net income (loss) for the period	$ 22,679	$ (7,606)	$ 28,848	$ (11,776)
Other comprehensive loss				
Change in fair value of available-for-sale securities	(18)	(21)	(22)	(22)
Currency translation adjustment	(6,782)	(8,947)	(17,593)	(3,460)
	(6,800)	(8,968)	(17,615)	(3,482)
Comprehensive income (loss)	$ 15,879	$ (16,574)	$ 11,233	$ (15,258)
Comprehensive income (loss) attributable to:				
Shareholders of the Company	16,061	(16,038)	11,523	(14,467)
Non-controlling interests	(182)	(536)	(290)	(792)
	$ 15,879	$ (16,574)	$ 11,233	$ (15,259)

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 thousands of U.S. Dollars, unless otherwise indicated.)
(Unaudited)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Cash flows from (used in):				
Operating Activities				
Net income (loss) for the period	$ 22,679	$ (7,606)	$ 28,848	$ (11,776)
Items not involving cash and cash equivalents:				
Depletion, amortization, accretion and depreciation	3,466	438	7,962	1,156
Finance costs	828	165	1,801	482
Stock-based compensation	282	84	305	188
Foreign exchange loss	2,103	2,620	5,395	1,162
	29,358	(4,299)	44,311	(8,788)
Net changes in working capital items:				
VAT receivables and other current assets	643	(3,675)	1,458	(2,425)
Inventories	(3,567)	(6,872)	(2,976)	(8,449)
Trade payables and other current liabilities	(900)	624	(2,231)	1,466
	25,534	(14,222)	40,562	(18,196)
Financing Activities				
Repayments of debenture	(8,333)	-	(16,666)	-
Repayments of revolving credit facility	(4,500)	-	(4,500)	-
Proceeds from exercise of stock options	58	2,398	58	2,531
Other	-	(466)	-	(456)
	(12,775)	1,932	(21,108)	2,075
Investing Activities				
Acquisition of plant and equipment	(1,666)	(4,234)	(3,911)	(24,149)
	(1,666)	(4,234)	(3,911)	(24,149)
Effect of exchange rate change on cash and cash equivalents	65	(2,081)	(268)	(623)
Increase (decrease) in cash and cash equivalents during the period	11,158	(18,605)	15,275	(40,893)
Cash and cash equivalents, beginning of period	17,378	26,301	13,261	48,589
Cash and cash equivalents, end of period	$ 28,536	$ 7,696	$ 28,536	$ 7,696
Supplemental Information				
Interest received (paid)	9	29	(153)	198
Taxes paid	-	-	-	-
Changes in accounts payable and accrued liabilities related to plant and equipment	(118)	734	(2,247)	(171)

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 thousands of U.S. Dollars, unless otherwise indicated.)
(Unaudited)

	Number of shares issued and outstanding	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Non-controlling interests	Total
Balance, January 1, 2012	372,349,049	$ 278,995	$ 5,769	$ (104,244)	$ (13,200)	$ 3,031	$ 170,351
Exercise of stock options	3,728,700	3,648	(1,117)	-	-	-	2,531
Stock-based compensation	-	-	188	-	-	-	188
Unrealized loss on investments	-	-	-	-	(22)	-	(22)
Effect of foreign currency translation	-	-	-	-	(3,435)	(25)	(3,460)
Free-carried non-controlling interests (Note 10)	-	-	-	(77)	-	77	-
Net loss for the period	-	-	-	(11,009)	-	(767)	(11,776)
Balance, June 30, 2012	376,077,749	$ 282,643	$ 4,840	$ (115,330)	$ (16,657)	$ 2,316	$ 157,812
Balance, January 1, 2013	376,292,749	$ 282,796	$ 4,874	$ (110,740)	$ (21,381)	$ 1,911	$ 157,460
Exercise of stock options	75,000	90	(32)	-	-	-	58
Stock-based compensation	-	-	305	-	-	-	305
Unrealized loss on investments	-	-	-	-	(22)	-	(22)
Effect of foreign currency translation	-	-	-	-	(17,320)	(273)	(17,593)
Free-carried non-controlling interests (Note 10)	-	-	-	(45)	-	45	-
Net income for the period	-	-	-	28,865	-	(17)	28,848
Balance, June 30, 2013	376,367,749	$ 282,886	$ 5,147	$ (81,920)	$ (38,723)	$ 1,666	$ 169,056

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 AND CONSOLIDATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, *IAS 34: Interim Financial Statements*. These condensed interim consolidated financial statements do not contain all of the information required for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB. 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.

These financial statements were approved by the Board of Directors for issue on August 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 thousands of 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

		June 30, 2013		December 31, 2012
Rough diamond inventories	$	6,635	$	8,444
Ore stockpile inventories		3,719		1,797
Parts inventories		5,044		3,059
	$	15,398	$	13,300

Inventory expensed during the six months ended June 30, 2013 totaled $21.6 million (2012 – nil).

(All amounts expressed in thousands of 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	$ 7,766	$ 1,314	$ 2,319	$ 98,119
Additions	27,070	8,027	284	1,241	36,622
Disposals and other	862	-	(2)	(1,129)	(269)
Translation differences	(1,256)	(2,759)	(54)	(70)	(4,139)
Reclassification	(113,396)	113,396	-	-	-
Balance, December 31, 2012	-	126,430	1,542	2,361	130,333
Additions	-	1,598	43	28	1,669
Disposals and other	-	(136)	(36)	110	(62)
Translation differences	-	(12,891)	(161)	(236)	(13,288)
Balance, June 30, 2013	$ -	$ 115,001	$ 1,388	$ 2,263	$ 118,652
Accumulated depreciation					
Balance, January 1, 2012	$ -	$ 3,164	$ 282	$ 171	$ 3,617
Depreciation, depletion for the year	-	7,922	334	431	8,687
Disposals and other	-	-	-	-	-
Translation differences	-	(334)	(18)	(14)	(366)
Balance, December 31, 2012	-	10,752	598	588	11,938
Depreciation, depletion for the period	-	4,183	183	263	4,629
Disposals and other	-	-	(36)	(21)	(57)
Translation differences	-	(1,538)	(72)	(72)	(1,682)
Balance, June 30, 2013	$ -	$ 13,397	$ 673	$ 758	$ 14,828
Net book value					
As at December 31, 2012	$ -	$ 115,678	$ 944	$ 1,773	$ 118,395
As at June 30, 2013	$ -	$ 101,604	$ 715	$ 1,505	$ 103,824

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 during the six months ended June 30, 2013 was nil (2012 – $2.5 million).

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

6. MINERAL PROPERTIES

Cost		Karowe Mine		Mothae Diamond		Mothae mining license		Total
Balance, January 1, 2012	$	68,502	$	18,226	$	3,315	$	90,043
Additions		-		29		-		29
Disposals and other		(547)		-		-		(547)
Translation differences		(2,451)		(567)		(138)		(3,156)
Balance, December 31, 2012		65,504		17,688		3,177		86,369
Additions		-		-		-		-
Disposals and other		-		-		-		-
Translation differences		(6,616)		(1,315)		(450)		(8,381)
Balance, June 30, 2013	$	58,888	$	16,373	$	2,727	$	77,988
Accumulated depletion								
Balance, January 1, 2012	$	-	$	-	$	-	$	-
Depletion for the year		1,761		-		-		1,761
Disposals and other		-		-		-		-
Translation differences		(37)		-		-		(37)
Balance, December 31, 2012		1,724		-		-		1,724
Depletion for the period		2,642		-		-		2,642
Disposals and other		-		-		-		-
Translation differences		(289)		-		-		(289)
Balance, June 30, 2013	$	4,077	$	-	$	-	$	4,077
Net book value								
As at December 31, 2012	$	63,780	$	17,688	$	3,177	$	84,645
As at June 30, 2013	$	54,811	$	16,373	$	2,727	$	73,911

(All amounts expressed in thousands of 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

	June 30, 2013	December 31, 2012
Debenture (a)		
Principal	$ 33,333	$ 50,000
Unamortized discount	(1,525)	(3,179)
Revolving credit facility (b)	-	4,500
Deferred finance charges (b)	-	(367)
	31,808	50,954
Less: Current portion	(31,808)	(30,311)
Long-term portion of long-term debt	$ -	$ 20,643

(All amounts expressed in thousands of 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 and second quarterly installment payment in March 2013 and June 2013, respectively.

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 June 30, 2013		Current portion		Long-term portion		Total
Principal	$	33,333	$	-	$	33,333
Unamortized discount		(1,525)		-		(1,525)
Total carrying value	$	31,808	$	-	$	31,808

As at December 31, 2012		Current portion		Long-term portion		Total
Principal	$	33,333	$	16,667	$	50,000
Unamortized discount		(2,729)		(450)		(3,179)
Total carrying value	$	30,604	$	16,217	$	46,821

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 June 30, 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 June 30, 2013, the full amount under this facility was available. As a result, the deferred finance charges have been classified under VAT receivables and other.

8. SHARE CAPITAL

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

(All amounts expressed in thousands of 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	2,625,000		0.70
Forfeited	(50,000)		1.03
Expired	(525,000)		0.92
Exercised	(75,000)		0.82
Balance at June 30, 2013	**4,640,000**	**$**	**0.78**

The weighted average share price of options exercised during the period was $0.80.

Options to acquire common shares have been granted and are outstanding at June 30, 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$
$0.61 - $0.70	2,625,000	2.9014	$	0.70	874,909	2.9014	$	0.70
$0.71 - $0.80	1,100,000	1.4110		0.80	733,311	1.4110		0.80
$0.81 - $0.90	50,000	0.0027		0.82	50,000	0.0027		0.82
$0.91 - $1.00	815,000	0.8312		0.96	698,327	0.7482		0.96
$1.01 - $1.25	50,000	1.6493		1.13	33,333	1.6493		1.13
	4,640,000	2.1397	$	0.78	2,389,880	1.7368	$	0.82

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

9. STOCK OPTIONS (continued)

During the six months ended June 30, 2013, an amount of $0.3 million (2012 – $0.2 million) 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:

		June 30, 2013		December 31, 2012
Assumptions:				
Risk-free interest rate *(%)*		0.99		1.03
Expected life *(years)*		3.00		3.00
Expected volatility *(%)*		52.95		51.23
Expected dividend		Nil		Nil
Results:				
Weighted average fair value of options granted *(per option)*	$	0.25	$	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 June 30,				Six months ended June 30,			
		2013		2012		2013		2012
Test mining	$	-	$	2,357	$	-	$	4,858
Depreciation		-		402		-		1,084
Geology		-		199		-		424
Office and other		86		180		183		282
Care and maintenance		129		-		220		-
Feasibility study		342		-		364		-
Resource development		-		233		-		1,211
Diamonds recovered		-		(573)		-		(1,747)
	$	557	$	2,798	$	767	$	6,112

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

12. ADMINISTRATION

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Salaries and benefits	$ 1,301	$ 2,031	$ 1,979	$ 2,476
Office and general	436	438	588	479
Stock-based compensation (Note 9)	282	84	305	188
Stock exchange, transfer agent, shareholder communication	186	250	445	543
Travel	153	152	390	269
Depreciation	149	36	237	72
Professional fees	131	263	515	459
Management fees	123	119	248	251
Donations	-	19	-	19
	$ 2,761	$ 3,392	$ 4,707	$ 4,756

13. GAIN ON SALE OF DIAMONDS

During the six months ended June 30, 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. INCOME TAXES

As at December 31, 2012, the Company had non-capital losses for income tax purposes as follows:

	2013	2014	2015	Subsequent to 2016	No expiry date	Total
Canada	$ -	$ -	$ 1,197	$ 36,682	$ -	$ 37,879
Botswana	-	-	-	-	153,800	153,800
Lesotho	-	-	-	-	23,911	23,911
	$ -	$ -	$ 1,197	$ 36,682	$ 177,711	$ 215,590

During the six months ended June 30, 2013, the Company has fully offset the taxes on current earnings, as determined using the effective tax rate, by recognizing a portion of the benefit of previously unrecognized non-capital tax losses in Botswana.

As at June 30, 2013, no deferred tax assets have been recognized on the balance of the non-capital losses in Botswana or the non-capital losses in Canada or Lesotho, due to the uncertainty of future profits.

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

15. 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.

		Six months ended June 30,	
Description of services	**Related party**	**2013**	**2012**
Management fees	Namdo	$ 248	$ 251
Exploration related expenditures	MS Group	86	1,303
Aircraft charter	Mile High	50	104
		$ 384	$ 1,658

b) Related party liabilities

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

	June 30, 2013	December 31, 2012
Namdo	$ -	$ 38
MS Group	-	54
	$ -	$ 92

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:

	Six months ended June 30,	
	2013	**2012**
Salaries and wages	$ 1,330	$ 1,549
Short term benefits	31	35
Stock-based compensation	236	114
	$ 1,597	$ 1,698

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

16. 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 June 30, 2013

	Karowe Mine	Mothae Diamond Project	Corporate and other	Total
Revenues	$ 47,224	$ -	$ -	$ 47,224
Income from mining operations	30,071	-	(52)	30,019
Exploration expenditures	-	(557)	-	(557)
Gain on sale of diamonds	-	-	-	-
Finance income (expenses)	26	-	(885)	(859)
Other income (expenses)	(1,532)	11	(4,403)	(5,924)
Net income (loss) for the period	28,565	(546)	(5,340)	22,679
Capital expenditures	1,666	-	-	1,666

Three months ended June 30, 2012

	Karowe Mine	Mothae Diamond Project	Corporate and other	Total
Revenues	$ -	$ -	$ -	$ -
Income from mining operations	-	-	-	-
Exploration expenditures	-	(2,798)	-	(2,798)
Finance income (expenses)	19	(18)	(125)	(124)
Other income (expenses)	(545)	42	(4,181)	(4,684)
Net loss for the period	(526)	(2,774)	(4,306)	(7,606)
Capital expenditures	4,234	-	-	4,234

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

16. SEGMENT INFORMATION (continued)

Six months ended June 30, 2013

	Karowe Mine	Mothae Diamond Project	Corporate and other	Total
Revenues	$ 79,728	$ -	$ -	$ 79,728
Income from mining operations	42,590	-	(139)	42,451
Exploration expenditures	-	(767)	-	(767)
Gain on sale of diamonds	-	584	-	584
Finance income (expenses)	44	-	(1,945)	(1,901)
Other income (expenses)	(1,923)	45	(9,641)	(11,519)
Net income (loss) for the period	40,711	(138)	(11,725)	28,848
Capital expenditures	3,911	-	-	3,911
Total assets	200,049	20,701	5,168	225,918

Six months ended June 30, 2012

	Karowe Mine	Mothae Diamond Project	Corporate and other	Total
Revenues	$ -	$ -	$ -	$ -
Income from mining operations	-	-	-	-
Exploration expenditures	-	(6,112)	-	(6,112)
Finance income (expenses)	117	(37)	(480)	(400)
Other income (expenses)	(652)	12	(4,624)	(5,264)
Net loss for the period	(535)	(6,137)	(5,104)	(11,776)
Capital expenditures	24,149	-	-	24,149
Total assets	196,317	26,940	9,510	232,767

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

	Plant and equipment		Mineral properties		Other	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Canada	$ 171	$ 209	$ -	$ -	$ -	$ -
Lesotho	516	1,369	19,099	20,864	112	137
Botswana	103,137	116,817	54,812	63,781	-	-
	$ 103,824	$ 118,395	$ 73,911	$ 84,645	$ 112	$ 137

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

17. 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 income (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:

	June 30, 2013	December 31, 2012
ASSETS		
Loans and receivables		
Cash	$ 28,536	$ 13,261
Trade receivables	-	1,503
Other receivables	517	248
	$ 29,053	$ 15,012
Available for sale		
Investments	60	86
	$ 60	$ 86
LIABILITIES		
Amortized cost		
Trade payables	$ 7,159	$ 7,429
Accrued liabilities	6,382	7,266
	13,541	14,695
Long-term debt	31,808	50,954
	$ 45,349	$ 65,649

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

17. 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).

	June 30, 2013	December 31, 2012
Level 1		
Investments	$ 60	$ 86
Level 2 and Level 3 – N/A		

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.