Rockwell Diamonds Inc.
Unaudited Interim Consolidated Financial Statements
for the 3 months ended 31 May 2011

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The reports and statements set out below comprise the unaudited interim consolidated financial statements presented to the shareholders:

The unaudited interim consolidated financial statements set out on pages 3 to 33, which have been prepared on the going concern basis, were approved by the board on 10 August 2011 and were signed on its behalf by:

/s/ James Campbell

James Campbell
Director, Chief Executive Officer

/s/ Dr. Mark Bristow

Dr. Mark Bristow
Director

Notice of no Auditor Review of Interim Consolidated Financial Statements

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these interim consolidated financial statements they must be accompanied by a notice indicating that these interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

Statement of Financial Position

Figures in Canadian Dollar	Note(s)	31 May 2011	28 February 2011	31 May 2010
Assets				
Non-current assets				
Mineral property interests	2	23 568 707	23 562 969	23 725 171
Property, plant and equipment	3	63 770 319	62 828 438	56 397 896
Investment in associate	4	146 004	129 660	98 017
Other financial assets	5	2 522 749	2 042 291	679 648
Reclamation deposits	14	2 801 021	2 759 611	2 898 067
		92 808 800	**91 322 969**	**83 798 799**
Current assets				
Inventories	6	2 630 853	2 628 089	8 473 016
Loan to related party	7	90 751	92 398	28 363
Trade and other receivables	8	3 052 644	5 366 797	6 195 876
Cash and cash equivalents	9	6 647 789	4 771 124	8 570 097
		12 422 037	**12 858 408**	**23 267 352**
Total assets		**105 230 837**	**104 181 377**	**107 066 151**
Equity and liabilities				
Equity				
Equity attributable to equity holders of Company				
Share capital	10	136 425 223	135 989 508	135 989 508
Reserves		2 790 829	1 530 969	(867 479)
Retained loss		(53 602 698)	(52 686 500)	(48 335 365)
		85 613 354	84 833 977	86 786 664
Non-controlling interest		410 010	647 407	517 663
Total equity		**86 023 364**	**85 481 384**	**87 304 327**
Liabilities				
Non-current liabilities				
Loans from related parties	7	430 943	424 572	414 566
Capital lease obligation	12	-	-	34 401
Deferred tax	13	5 902 000	5 840 000	3 972 000
Reclamation obligation	14	3 890 782	3 814 638	4 002 878
		10 223 725	**10 079 210**	**8 423 845**
Current liabilities				
Loans from related parties	7	163 709	72 064	175 815
Current tax payable		247 774	245 228	333 534
Capital lease obligation	12	40 175	142 630	1 912 617
Trade and other payables	15	4 900 075	6 373 382	6 903 083
Bank overdraft	9	3 632 015	1 787 479	2 012 930
		8 983 748	**8 620 783**	**11 337 979**
Total liabilities		**19 207 473**	**18 699 993**	**19 761 824**
Total equity and liabilities		**105 230 837**	**104 181 377**	**107 066 151**

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Statement of Comprehensive Income

Figures in Canadian Dollar	Note(s)	3 months ended 31 May 2011	12 months ended 28 February 2011	3 months ended 31 May 2010
Revenue	16	8 505 539	42 507 747	8 456 582
Cost of sales	17	(8 002 823)	(37 525 869)	(5 956 359)
Gross profit		**502 716**	**4 981 878**	**2 500 223**
Other income		105 780	193 157	4 690
General and administration expenses		(1 765 858)	(7 063 633)	(2 175 137)
Operating (loss) profit	18	**(1 157 362)**	**(1 888 598)**	**329 776**
Investment income	19	107 261	101 953	13 346
Fair value adjustments	20	-	(31 920)	-
Income from equity accounted investments		14 873	34 396	2 327
Finance costs	21	(109 112)	(449 003)	(137 513)
(Loss) profit before taxation		**(1 144 340)**	**(2 233 172)**	**207 936**
Income tax expense	22	(62 000)	(2 933 066)	(1 066 453)
Loss for the period		**(1 206 340)**	**(5 166 238)**	**(858 517)**
Other comprehensive income:				
Exchange differences on translating foreign operations		(1 131 560)	(1 750 124)	(15 583)
Total comprehensive loss		**(2 337 900)**	**(6 916 362)**	**(874 100)**
Loss attributable to :				
Owners of the Company		(916 198)	(5 078 141)	(727 003)
Non-controlling interest		(290 142)	(88 097)	(131 514)
		(1 206 340)	**(5 166 238)**	**(858 517)**
Total comprehensive loss attributable to:				
Owners of the Company		(2 047 758)	(6 828 265)	(742 586)
Non-controlling interest		(290 142)	(88 097)	(131 514)
		(2 337 900)	**(6 916 362)**	**(874 100)**
Loss per share				
Per share information				
Basic and diluted loss per share (c)	23	0.004	0.013	0.002
Headline loss per share (c)	23	0.002	0.010	0.002

Rockwell Diamonds Inc.

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Statement of Changes in Equity

Figures in Canadian Dollar	Share capital	Foreign currency translation reserve	Share-based payment reserve	Total reserves	Retained loss	Total attributable to equity holders of the Company	Non-controlling interest	Total equity
Opening balance as previously reported	127 999 040	(7 979 683)	6 195 051	(1 784 632)	(49 020 317)	77 194 091	648 941	77 843 032
Adjustments								
Effects of transition to IFRS	-	680 591	-	680 591	1 411 958	2 092 549	-	2 092 549
Balance at 01 March 2010 as restated	**127 999 040**	**(7 299 092)**	**6 195 051**	**(1 104 041)**	**(47 608 359)**	**79 286 640**	**648 941**	**79 935 581**
Changes in equity								
Total comprehensive income (loss) for the year	-	1 750 124	-	1 750 124	(5 078 141)	(3 328 017)	(88 097)	(3 416 114)
Share-based payment expense	-	-	884 886	884 886	-	884 886	-	884 886
Rights offering at subscription price of $0.05 per share	4 583 644	-	-	-	-	4 583 644	-	4 583 644
Private placement, net of issue costs at $0.065 per share	3 406 824	-	-	-	-	3 406 824	-	3 406 824
Foreign exchange movement	-	-	-	-	-	-	86 563	86 563
Total changes	7 990 468	1 750 124	884 886	2 635 010	(5 078 141)	5 547 337	(1 534)	5 545 803
Opening balance as previously reported	135 989 508	(6 363 878)	7 079 937	716 059	(54 147 253)	82 558 314	647 407	83 205 721
Adjustments								
Effects of transition to IFRS	-	814 910	-	814 910	1 460 753	2 275 663	-	2 275 663
Balance at 01 March 2011 as restated	**135 989 508**	**(5 548 968)**	**7 079 937**	**1 530 969**	**(52 686 500)**	**84 833 977**	**647 407**	**85 481 384**
Changes in equity								
Total comprehensive income (loss) for the three months	-	1 131 560	-	1 131 560	(916 198)	215 362	(290 142)	(74 780)
Private placement, net of issue costs at $0.065 per share	435 715	-	-	-	-	435 715	-	435 715
Share-based payment expense	-	-	128 300	128 300	-	128 300	-	128 300
Foreign exchange movement	-	-	-	-	-	-	52 745	52 745
Total changes	435 715	1 131 560	128 300	1 259 860	(916 198)	779 377	(237 397)	541 980
Balance at 31 May 2011	**136 425 223**	**(4 417 408)**	**7 208 237**	**2 790 829**	**(53 602 698)**	**85 613 354**	**410 010**	**86 023 364**
Note(s)	10		11					

Statement of Cash Flows

Figures in Canadian Dollar	Note(s)	3 months ended 31 May 2011	12 months ended 28 February 2011	3 months ended 31 May 2010
Cash flows from operating activities				
Cash generated from operations	24	1 912 956	10 808 399	(969 873)
Investment income		107 261	101 953	13 346
Finance costs		(109 112)	(449 003)	(137 513)
Tax refunded (paid)	25	2 546	(899 141)	45 232
Net cash inflow (outflow) from operating activities		**1 913 651**	**9 562 208**	**(1 048 808)**
Cash flows from investing activities				
Purchase of property, plant and equipment	3	(2 220 076)	(10 790 700)	(129 950)
Proceeds from sale of property, plant and equipment	3	-	301 518	-
Purchase of mineral property interests	2	-	(845 773)	-
Acquisition of associate		-	(95 690)	(95 690)
Repayment of loans to group companies		-	(634 248)	(447 763)
Proceeds from loans from group companies		99 663	-	-
Proceeds from sale of financial assets		(94 368)	(1 024 738)	(141 128)
Net cash outflow from investing activities		**(2 214 781)**	**(13 089 631)**	**(814 531)**
Cash flows from financing activities				
Proceeds on share issue	10	435 714	7 990 468	7 990 468
Capital lease obligation repayments		(102 455)	(3 298 941)	(1 389 503)
Net cash inflow from financing activities		**333 259**	**4 691 527**	**6 600 965**
Net movement in cash and cash equivalents for the period		**32 129**	**1 164 104**	**4 737 626**
Cash and cash equivalents at the beginning of the period		2 983 645	1 819 541	1 819 541
Total cash and cash equivalents at end of the period	9	**3 015 774**	**2 983 645**	**6 557 167**

Accounting Policies

1. Presentation of Unaudited Interim Consolidated Financial Statements

Rockwell Diamonds Inc. (“Rockwell” or the “Company”) is engaged in the business of diamond production and the acquisition and exploration of natural resource properties. The Company’s principal mineral property interests are located in South Africa.

The accompanying unaudited interim consolidated financial statements are the first financial statements that have been prepared in accordance with International Financial Reporting Standards. The unaudited interim consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". The unaudited interim consolidated financial statements have been prepared on the historical cost basis, except for the measurement certain financial instruments at fair value, and incorporate the principal accounting policies set out below. Amounts are presented in Canadian Dollars, unless otherwise stated.

These accounting policies are consistent with the previous period, except for the changes set out in note 27 First-time adoption of International Financial Reporting Standards.

1.1 Continuance of operations and going concern

The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of business.

For the three months ended May 31, 2011, the Company incurred consolidated losses of $1.2 million and has incurred accumulated losses to date of $53.6 million

In fiscal 2011, diamond prices have increased gradually from US$1,010 for fiscal 2010 to US$1,365 for the year ending February 28, 2011, with the average sales value increasing to $1,631 for the current quarter in comparison to a fourth quarter of fiscal 2011 sales value of US$1,430.

At May 31, 2011, the Company’s current assets exceeded its current liabilities by $4.9 million and the Company’s total assets exceeded its total liabilities by $86.0 million. The Company has forecasted its cash flows for the fiscal years 2012 and 2013 and these forecasts indicate that the Company will continue as a going concern. The forecasts assume the plant operating at 85% of capacity, prices remaining at current levels and the South African Rand remaining at current levels relative to the United States and Canadian Dollars.

On the performance of the last two quarters, the operations made a positive contribution towards the cashflow. This is not sufficient to fund to planned capital projects at Wouterspan and Tirisano. These expansion projects will be funded by means of a planned private placement.

Based on the Company’s cash resources and the above forecasts, the Company has sufficient working capital and reserves to maintain operations. Accordingly, the financial statements have been prepared on the basis of accounting policies applicable to a going concern. Future events beyond the Company’s control may change the Company’s ability to continue as a going concern. If the going concern concept was no longer appropriate, significant adjustments would be required to the carrying value of assets and liabilities and would be recorded at that time.

1.2. Basis of presentation and principles of consolidation

Basis of consolidation

The unaudited interim consolidated financial statements incorporate the unaudited interim consolidated financial statements of the Company, its subsidiares and associates.

Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries are included in the unaudited interim consolidated financial statements from the effective date of acquisition to the effective date of disposal.

All intra-company transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised separately from the Company's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

1.2 Basis of presentation and principles of consolidation (continued)

Investment in associates

An associate is an entity over which the Company has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

An investment in associate is accounted for using the equity method. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost adjusted for post acquisition changes in the Company's share of net assets of the associate, less any impairment losses.

Losses in an associate in excess of the Company's interest in that associate are recognised only to the extent that the Company has incurred a legal or constructive obligation to make payments on behalf of the associate.

Profits or losses on transactions between the Company and an associate are eliminated to the extent of the Company's interest therein.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the unaudited interim consolidated financial statements, management is required to make estimates and assumptions that affect the amounts represented in the unaudited interim consolidated financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the unaudited interim consolidated financial statements. Significant judgements include:

Trade receivables and Loans and receivables

The Company assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the Company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the residual value and useful life assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The Company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Reclamation obligation.

1.4 Mineral property interests

The acquisition costs of mineral properties are capitalised until the property is placed into production, sold, or abandoned, or when management has determined that there has been an impairment in value. Such acquisition costs are amortised over the estimated life of the mine, based on a straight line basis, or written off to operations if the property is abandoned, allowed to lapse, or if there is little prospect of further work being carried out by the Company.

Exploration expenditure incurred subsequent to the mining operations which do not increase production or extend the life of operations are expensed in the period incurred.

The amount presented for mineral property interests represents costs incurred to date and accumulated amortisation costs, less write-downs, and does not necessarily reflect present or future values.

An impairment review of mineral property interests is carried out when there is an indication that these may be impaired by comparing the carrying amount of the interest to its estimated recoverable amount. Where the recoverable amount is less than the carrying amount an impairment charge is included in expenses in order to reduce the carrying amount of mineral property interest to its fair value.

1.5 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits associated with the item will flow to the Company; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to and replace part of it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	12 years
Plant and machinery	4 - 10 years
Motor vehicles	5 years
Office equipment	6 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Financial instruments

Initial recognition and measurement

Financial instruments are recognised initially when the Company becomes a party to the contractual provisions of the instruments.

The Company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through profit or loss are recognised in profit or loss.

Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each reporting date the Company assesses all financial assets, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the Company, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in profit or loss.

Reversals of impairment losses are recognised in profit or loss except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

1.6 Financial instruments (continued)

Investments

The Company classified its investments in debt and equity securities into the following categories: fair value through profit and loss, held-to-maturity and available-for-sale. The classification is dependant on the purpose for which the investments were required. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short term fluctuations in price are classified as trading investments and included in current assets. Investments with a fixed maturity that management has the intention and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the reporting date which are classified as current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the reporting date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognised on the trade day, which is the date that the Company commits to purchase or sell the asset. Cost of purchase includes transaction costs. Fair value through profit and loss and available-for-sale investments are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in equity in the period in which they arise. The fair value of investments is based on quoted bid prices or amounts derived from cash flow models. Equity securities for which fair value cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statement of comprehensive income as gains and losses from investment securities. Held-to-maturity investments are carried at amortised cost using the effective yield method.

Loans to (from) group companies

These include loans to and from subsidiaries and associates and are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as loans and receivables.

Loans from group companies are classified as financial liabilities measured at amortised cost.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the company's accounting policy for borrowing costs.

1.7 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

Deferred tax is provided for using the liability method, on all temporary differences, between the carrying values of assets and the liabilities for accounting purposes and the amounts used for tax purposes and on any tax losses. No deferred tax is provided for on temporary differences relating to the initial recognition of an asset or liability to the extent that neither accounting nor taxable profit is affected on acquisition.

The provision for deferred tax is calculated using enacted rates at the reporting date that are expected to apply when the asset is realised or the liability is settled. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset could be realised.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.8 Share-based payments

Goods or services received or acquired in a share-based payment transaction are recognised when the goods or as the services are received. A corresponding increase in equity is recognised if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they are recognised as expenses.

For equity-settled share-based payment transactions the goods or services received and the corresponding increase in equity are measured, directly, at the fair value of the goods or services received provided that the fair value cannot be estimated reliably.

If the fair value of the goods or services received cannot be estimated reliably, their value and the corresponding increase in equity, indirectly, are measured by reference to the fair value of the equity instruments granted.

For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

If the share based payments granted do not vest until the counterparty completes a specified period of service, Company accounts for those services as they are rendered by the counterparty during the vesting period, (or on a straight line basis over the vesting period).

If the share based payments vest immediately the services received are recognised in full.

1.8 Share-based payments (continued)

For share-based payment transactions in which the terms of the arrangement provide either the entity or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the components of that transaction are recorded, as a cash-settled share-based payment transaction if, and to the extent that, a liability to settle in cash or other assets has been incurred, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

1.9 Reclamation obligation

Estimated rehabilitation costs, which are based on the Company's interpretation of current environmental and regulatory requirements, represent the present value of the expected future costs to rehabilitate the mine properties at termination of mining operations. The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances.

Provision is made for the Company's legal and constructive obligations to dismantle, remove and restore items of property, plant and equipment and remediation of disturbed areas in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the balance sheet date. The provision is discounted using a market-based pre-tax discount rate and the unwinding of the discount is included in interest expense. The provision is not discounted if the discounting is not significant in relation to the provision made. Rehabilitation of disturbed areas is performed on a continuous basis. At the time of establishing the provision, a corresponding asset is capitalised, where it gives rise to a future benefit, and depreciated over its useful life on a straight line method.

Based on current environmental regulations and known rehabilitation requirements, management has included its best estimate of these obligations in its rehabilitation provision. However, it is reasonably possible that the Company's estimates of its ultimate rehabilitation liabilities could change as a result of changes in regulations or cost estimates.

1.10 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Canadian Dollar, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period in which they arise.

Cash flows arising from transactions in a foreign currency are recorded in Canadian Dollar by applying to the foreign currency amount the exchange rate between the Canadian Dollar and the foreign currency at the date of the cash flow.

1.10 Translation of foreign currencies (continued)

Investments in subsidiaries and associates

The results and financial position of a foreign operation are translated into the functional currency using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each item of profit or loss are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences are recognised to other comprehensive income and accumulated as a separate component of equity.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially to other comprehensive income and accumulated in the translation reserve. They are recognised in profit or loss as a reclassification adjustment through to other comprehensive income on disposal of net investment.

The cash flows of a foreign subsidiary are translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

1.11. Changes in accounting policies

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

The directors anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

Standard	Details of Amendment	Annual periods beginning on or after
IFRS 9 (AC 146)	Financial Instruments	1 January 2013
IFRS 7 amendment	Disclosures - Transfers of Financial Assets	1 July 2011

The aggregate impact of the initial application of the statements and interpretations on the Company's annual financial statements has not yet been assessed by the directors.

Notes to the Unaudited Interim Consolidated Financial Statements

Figures in Canadian Dollar

2. Mineral property interests

	2011			2011			2010		
	Cost	**Accumulated depletion**	**Carrying value**	**Cost**	**Accumulated depletion**	**Carrying value**	**Cost**	**Accumulated depletion**	**Carrying value**
Mineral property interests	31 820 968	(8 252 261)	23 568 707	31 540 840	(7 977 871)	23 562 969	30 228 646	(6 503 475)	23 725 171

Reconciliation of mineral property interests - May 31, 2011

	Opening balance	**Foreign exchange movements**	**Depletion**	**Total**
Wouterspan	13 890 989	136 830	-	14 027 819
Holpan	1 072 472	(125 894)	-	946 578
Klipdam	(227 805)	166 007	(95 124)	(156 922)
Saxendrift	7 398 138	17 837	(106 619)	7 309 356
Niewejaarskraal	239 459	2 127	-	241 586
Makoenskloof	332 727	2 955	-	335 682
Windsorton Erf 2004	856 997	7 611	-	864 608
	23 562 977	**207 473**	**(201 743)**	**23 568 707**

Figures in Canadian Dollar

2. Mineral property interests (continued)

Reconciliation of mineral property interests - February 28, 2011

	Opening balance	Effects of transition to IFRS	Additions	Foreign exchange movements	Depletion	Total
Mineral property interests	30 850 998	(30 850 998)	-	-	-	-
Wouterspan	-	13 722 048	-	168 941	-	13 890 989
Holpan	-	1 468 070	-	88 394	(483 992)	1 072 472
Klipdam	-	571 902	-	107 977	(907 684)	(227 805)
Saxendrift	-	7 743 816	-	199 374	(545 052)	7 398 138
Niewejaarskraal	-	235 907	-	3 552	-	239 459
Makoenskloof	-	327 791	-	4 928	-	332 719
Windsorton Erf 2004	-	-	845 773	11 224	-	856 997
	30 850 998	**(6 781 464)**	**845 773**	**584 390**	**(1 936 728)**	**23 562 969**

Reconciliation of mineral property interests - May 31, 2010

	Opening balance	Effects of transition to IFRS	Foreign exchange movements	Depletion	Total
Mineral property interests	30 850 998	(30 850 998)	-	-	-
Wouterspan	-	13 642 143	-	-	13 642 143
Holpan	-	1 564 113	(1)	(104 033)	1 460 079
Klipdam	-	687 553	-	(275 595)	411 958
Saxendrift	-	7 878 492	-	(200 681)	7 677 811
Niewejaarskraal	-	236 149	-	-	236 149
Makoenskloof	-	297 031	-	-	297 031
	30 850 998	**(6 545 517)**	**(1)**	**(580 309)**	**23 725 171**

Figures in Canadian Dollar

3. Property, plant and equipment

	2011			2011			2010		
	Cost	**Accumulated depreciation**	**Carrying value**	**Cost**	**Accumulated depreciation**	**Carrying value**	**Cost**	**Accumulated depreciation**	**Carrying value**
Land and buildings	7 616 274	(1 272 167)	6 344 107	7 502 768	(1 149 217)	6 353 551	6 676 271	(111 551)	6 564 720
Plant and machinery	86 210 235	(37 910 485)	48 299 750	85 045 595	(35 833 250)	49 212 345	79 798 380	(31 198 541)	48 599 839
Motor vehicles	1 618 592	(1 067 872)	550 720	1 594 663	(1 006 082)	588 581	1 763 589	(956 729)	806 860
Office equipment	1 047 170	(652 001)	395 169	1 006 922	(615 659)	391 263	949 381	(522 904)	426 477
Construction in progress *	8 180 573	-	8 180 573	6 282 698	-	6 282 698	-	-	-
	104 672 844	**(40 902 525)**	**63 770 319**	**101 432 646**	**(38 604 208)**	**62 828 438**	**89 187 621**	**(32 789 725)**	**56 397 896**

Reconciliation of property, plant and equipment - May 31, 2011

	Opening balance	**Additions**	**Foreign exchange movements**	**Depreciation**	**Total**
Buildings	6 353 551	921	95 341	(105 706)	6 344 107
Plant and machinery	49 212 345	-	733 952	(1 646 547)	48 299 750
Motor vehicles	588 581	-	8 832	(46 693)	550 720
Office equipment	391 263	25 139	5 870	(27 103)	395 169
Construction in progress *	6 282 698	2 194 016	(296 141)	-	8 180 573
	62 828 438	**2 220 076**	**547 854**	**(1 826 049)**	**63 770 319**

Figures in Canadian Dollar

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - February 28, 2011

	Opening balance	Additions	Disposals	Foreign exchange movements	Depreciation	Impairment loss	Total
Land and buildings	6 627 966	93 310	-	183 030	(550 755)	-	6 353 551
Plant and machinery	50 926 945	4 396 818	(341 821)	1 238 687	(6 723 588)	(284 696)	49 212 345
Motor vehicles	781 353	111 711	(256 207)	63 454	(111 730)	-	588 581
Office equipment	454 472	39 439	-	20 724	(123 372)	-	391 263
Construction in progress *	-	6 149 422	-	133 276	-	-	6 282 698
	58 790 736	**10 790 700**	**(598 028)**	**1 639 171**	**(7 509 445)**	**(284 696)**	**62 828 438**

Reconciliation of property, plant and equipment - May 31, 2010

	Opening balance	Additions	Foreign exchange movements	Depreciation	Total
Land and buildings	6 627 966	24 565	158	(87 969)	6 564 720
Plant and machinery	50 926 945	14 879	3 835	(2 345 820)	48 599 839
Motor vehicles	781 353	87 884	112	(62 489)	806 860
Office equipment	454 472	2 622	55	(30 672)	426 477
	58 790 736	**129 950**	**4 160**	**(2 526 950)**	**56 397 896**

Components of property, plant and equipment are depreciated over their estimated useful life. The depreciation charge for the quarter was $1,826,049 (February 28, 2011 - $7,509,445).

The Company’s bankers have registered two notarial general covering bonds of ZAR 10 million ($1.4 million) over all loose assets on the property of the farm Holpan, Barkley West, Northern Cape (refer Note 26).

(*) Construction in progress at Tirisano.

Figures in Canadian Dollar	2011	2011	2010

4. Investment in associate

Name of company	% holding May 31, 2011	% holding February 28, 2011	% holding May 31, 2010	Carrying amount May 31, 2011	Carrying amount February 28, 2011	Carrying amount May 31, 2010
Flawless Diamonds Trading House (Pty) Ltd	20 %	20 %	20 %	146 004	129 660	98 017

Opening balance	129 660	-	-
Cost of investment in associate	-	95 690	95 690
Share of profit for the period	14 873	34 396	2 327
Foreign exchange adjustments	1 471	(426)	-
	146 004	**129 660**	**98 017**

Summarised financial information of associate

Total assets	3 551 876	9 690 007	5 159 027
Total liabilities	2 763 202	8 969 428	4 672 164
Net assets	788 674	703 579	486 863
Revenue	15 824 321	60 383 011	36 813 912
Total net earnings for the year	74 363	206 374	168 712
Capital commitments and contingent liabilities of associate	-	-	-

On April 21, 2010 the Company acquired a 20% shareholding in Flawless Diamonds Trading House (Pty) Ltd ("Flawless") incorporated in the Republic of South Africa for ZAR700,000 ($95,690) cash. Flawless is a registered diamond broker which provides specialist diamond valuation, marketing and tender sales services to the Company.

As the Company has significant influence over Flawless' operations it accounts for the investment using the equity method and includes a pro-rata share of the Flawless' net income (loss) for the year.

The carrying amounts of associates are shown net of impairment losses.

Notes to the Unaudited Interim Consolidated Financial Statements

Figures in Canadian Dollar	2011	2011	2010
5. Other financial assets			
At fair value through profit or loss - designated			
Investments	1 420 397	1 199 182	525 624

The Company invests in investment policies with endowment benefits on maturity of the policies. Premiums are invested on an initial lump sum and/or monthly annuity premium basis with the insurers and invested in specific investment plans. Policy investment value at any one time represents the value of premiums and growth after deduction of administration and investment fees. Withdrawals could be made against the policies before endowment against the deduction of penalties, which is lower than the investment value. To surrender the policy prior to maturity date will similarly attract penalties at a lower rate, and represents the value accessible at any one stage. Fair value at any one stage represents the surrender value of the investments. The fair value of the policies at May 31, 2011 amounted to $4,221,418 (February 28, 2010 - $3,958,793) of which $2,801,021 (February 28, 2011 - $2,759,611) has been disclosed as reclamation deposits (Refer note 14).

Loans and receivables			
Etruscan Diamonds Limited	1 026 146	768 030	-

Represents amounts paid to Etruscan Diamonds Limited.

Deposits	76 206	75 079	154 024

This deposit relates to deposits on motor vehicles only delivered in the 2011 fiscal year.

	1 102 352	**843 109**	**154 024**
Total other financial assets	**2 522 749**	**2 042 291**	**679 648**
Non-current assets			
At fair value through profit or loss	1 420 397	1 199 182	525 624
Loans and receivables	1 102 352	843 109	154 024
	2 522 749	**2 042 291**	**679 648**

6. Inventories

Rough diamond inventories	1 023 637	824 513	4 214 127
Mine supplies	1 607 216	1 803 576	4 258 889
	2 630 853	**2 628 089**	**8 473 016**

As at May 31, 2011, rough diamond inventories were valued at net realizable value and mine supplies at cost less accumulative impairment charges. Mine supplies were written down by $190,700 to $1,803,578 during the 2011 fiscal year.

The net realizable value of diamond inventories are estimated at the average price per carat achieved for the most recent diamond tender taking into account the variable factors of clarity, carat, shape and color. As at February 28, 2011, rough diamond inventories were written down by $708,334 from cost to net realizable value.

Notes to the Unaudited Interim Consolidated Financial Statements

Figures in Canadian Dollar	2011	2011	2010

7. Loans to (from) related parties

Current assets	90 751	92 398	28 363
Non-current liabilities	(430 943)	(424 572)	(414 566)
Current liabilities	(163 709)	(72 064)	(175 815)
	(503 901)	**(404 238)**	**(562 018)**

8. Trade and other receivables

Trade receivables	2 548 061	4 743 033	6 161 932
Prepayments	46 838	82 808	33 944
VAT	457 745	540 956	-
	3 052 644	**5 366 797**	**6 195 876**

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	6 647 789	4 771 124	8 565 151
Short-term cash deposits	-	-	4 946
Bank overdraft	(3 632 015)	(1 787 479)	(2 012 930)
	3 015 774	**2 983 645**	**6 557 167**

Current assets	6 647 789	4 771 124	8 570 097
Current liabilities	(3 632 015)	(1 787 479)	(2 012 930)
	3 015 774	**2 983 645**	**6 557 167**

10. Share capital

Reconciliation of number of shares issued:			
Beginning of period	518 185 238	370 843 069	370 843 069
Rights offering at subscription price of $0.05 per share	-	92 710 767	92 710 767
Private placement, net of issue costs at $0.065 per share	6 703 292	54 631 402	54 631 402
	524 888 530	**518 185 238**	**518 185 238**

Issued			
Ordinary	136 425 223	135 989 508	135 989 508

The Company's authorized share capital consists of an unlimited number of common shares, without par value, and an unlimited number of preferred shares without par value, of which no preferred shares have been issued.

Figures in Canadian Dollar 2011 2011 2010

11. Share-based payments

The Company has a share-based payment plan approved by the shareholders that allows the Company to grant options for up to 10% of the issued and outstanding shares of the Company at any one time, typically vesting over two years, to its directors, employees, officers, and consultants. The exercise price of each share option is set by the board of directors at the time of the grant and cannot be less than the market price (less permissible discounts) on the Toronto Stock Exchange. Share options have a maximum term of five years and typically terminate 30 days following the termination of the optionee's employment, except in the case of retirement or death.

From time to time, the Company may grant share options to employees, directors, and service providers. The Company uses the Black-Scholes option pricing model to estimate a value for these options. This model, and other models which are used to fair value share options, require inputs such as expected volatility, expected life to exercise, and interest rates. Changes in any of these inputs could cause a significant change in the share-based payment expense charged in a period.

The continuity of share-based payments for the year ended May 31, 2011 is as follows:

Expiry date	Exercise price	Feb 28, 2011	Granted / Issued	Exercised	Expired / cancelled	May 31, 2011
September 24, 2012	$ 0.62	5 891 500	-	-	-	5 891 500
November 14, 2012	$ 0.63	1 086 500	-	-	-	1 086 500
June 20, 2011	$ 0.45	950 000	-	-	-	950 000
December 7, 2014	$ 0.06	13 682 590	-	-	(16 500)	13 666 090
January 18, 2015	$ 0.07	600 000	-	-	-	600 000
October 8, 2015	$ 0.065	15 042 000	-	-	-	15 042 000
		37 252 590	-	-	(16 500)	37 236 090
Weighted average exercise price		$ 0.18	-	-	$ 0.18	$ 0.19
Weighted average fair value of share options granted during the period						-

As at May 31, 2011, 32,222,090 of the share options outstanding with a weighted average exercise price of $0.19 per share have vested with grantees.

The continuity of share-based payments for the year ended February 28, 2011 is as follows:

Expiry date	Exercise price	Feb 28, 2010	Granted / Issued	Exercised	Expired / cancelled	Feb 28, 2011
September 24, 2012	$ 0.62	5 896 500	-	-	(5 000)	5 891 500
November 14, 2012	$ 0.63	1 101 500	-	-	(15 000)	1 086 500
June 20, 2011	$ 0.45	950 000	-	-	-	950 000
December 7, 2014	$ 0.06	14 270 890	-	-	(588 300)	13 682 590
January 18, 2015	$ 0.07	600 000	-	-	-	600 000
October 8, 2015	$ 0.065	-	15 042 000	-	-	15 042 000
		22 818 890	15 042 000	-	(608 300)	37 252 590
Weighted average exercise price		$ 0.25	$ 0.065	-	$ 0.08	$ 0.18
Weighted average fair value of share options granted during the period						$ 0.056

As at February 28, 2011, 15,835,170 of the share options outstanding with a weighted average exercise price of $0.06 per share have vested with grantees.

Figures in Canadian Dollar	2011	2011	2010

11. Share-based payments (continued)

The continuity of share-based payments for the year ended May 31, 2010 is as follows:

Expiry date	Exercise price	Feb 28, 2010	Granted / Issued	Exercised	Expired / cancelled	May 31, 2010
September 24, 2012	$ 0.62	5 896 500	-	-	-	5 896 500
November 14, 2012	$ 0.63	1 101 500	-	-	(15 000)	1 086 500
June 20, 2011	$ 0.45	950 000	-	-	-	950 000
December 7, 2014	$ 0.06	14 270 890	-	-	(95 600)	14 175 290
January 18, 2015	$ 0.07	600 000	-	-	-	600 000
		22 818 890	-	-	(110 600)	22 708 290
Weighted average exercise price		$ 0.25	-	-	$ 0.14	$ 0.25
Weighted average fair value of share options granted during the period						-

As at May 31, 2010, 0 of the share options outstanding with a weighted average exercise price of $0.25 per share have vested with grantees.

Using a Black-Scholes option pricing model with the assumptions noted below, the fair values of share options vested have been reflected in the statement of operations as follows:

	2011	2011	2010
Exploration and engineering	32 970	270 674	20 966
Operations and administration	95 330	614 212	200 015
Total share-based payment cost expensed to operations, with the offset credited to share-based payment reserve	**128 300**	**884 886**	**220 981**

12. Capital lease obligation

	2011	2011	2010
Minimum lease payments due			
- within one year	40 448	143 997	1 960 468
- in second to fifth year inclusive	-	-	34 417
	40 448	143 997	1 994 885
less: future finance charges	(273)	(1 367)	(47 867)
Present value of minimum lease payments	**40 175**	**142 630**	**1 947 018**
Present value of minimum lease payments due			
- within one year	40 175	142 630	1 912 617
- in second to fifth year inclusive	-	-	34 401
	40 175	**142 630**	**1 947 018**
Non-current liabilities	-	-	34 401
Current liabilities	40 175	142 630	1 912 617
	40 175	**142 630**	**1 947 018**

Included in property, plant and equipment are mining equipment that the Company acquired pursuant to three year capital lease obligations.

Capital lease obligations as detailed above are secured over plant and equipment and are repayable, on average, in 36 monthly installments with the final payment being on June 30, 2011. Interest is charged at rates of between 1.25% to 2.00% less the prevailing prime rate, which is currently 9.00%, per annum. There are no significant restrictions imposed on the lessee as a result of the lease obligations.

Figures in Canadian Dollar	2011	2011	2010

13. Deferred tax

Deferred tax liability

Temporary differences	5 902 000	5 840 000	3 972 000

Reconciliation of deferred tax liability

At beginning of the year	5 840 000	11 545 000	11 545 000
Effects of transition to IFRS	-	(8 638 066)	(8 638 066)
Recognised through statement of comprehensive income	62 000	2 933 066	1 065 066
	5 902 000	**5 840 000**	**3 972 000**

14. Reclamation obligation

Reconciliation of obligation - May 31, 2011

	Opening balance	Reclamation (expenditure incurred) / obligation recognized	Foreign exchange movements	Total
Holpan, Wouterspan, and Klipdam Mines	2 565 377	52 895	38 619	2 656 891
Saxendrift Mine	1 249 261	(34 037)	18 667	1 233 891
	3 814 638	**18 858**	**57 286**	**3 890 782**

Reconciliation of obligation - February 28, 2011

	Opening balance	Reclamation (expenditure incurred) / obligation recognized	Foreign exchange movements	Total
Holpan, Wouterspan, and Klipdam Mines	2 918 102	(426 066)	73 341	2 565 377
Saxendrift Mine	804 882	427 875	16 504	1 249 261
	3 722 984	**1 809**	**89 845**	**3 814 638**

Reconciliation of obligation - May 31, 2010

	Opening balance	Reclamation (expenditure incurred) / obligation recognized	Foreign exchange movements	Accretion expense	Total
Holpan, Wouterspan, and Klipdam Mines	2 918 102	(50 703)	(237)	183 871	3 051 033
Saxendrift Mine	804 882	-	(264)	147 227	951 845
	3 722 984	**(50 703)**	**(501)**	**331 098**	**4 002 878**

Figures in Canadian Dollar	2011	2011	2010

14. Reclamation obligation (continued)

The liability is based on the disturbance of the natural physical environment due to the alluvial mining methods that the Company engages in. The volume of disturbance is quantified on a monthly basis by a professional surveyor through physical observation and technical quantification in cubic meters and is therefore not discounted.

The Company does not make use of a mining contractor and applies an internal costing rate per cubic meter which is based on applying its own resources and equipment in doing such rehabilitation. This costing rate represents the operating cost, including fuel, applying specific mining fleet units to the rehabilitation process and labor usage.

The physical disturbance in the cubic meters multiplied by the costing rate represents the rehabilitation liability at any one stage.

As required by regulatory authorities, at May 31, 2011, the Company had cash reclamation deposits totaling $2,801,021 (February 28, 2011 – $2,759,611) comprised of $1,711,679 (2010 – $1,686,913) for the Holpan, Wouterspan and Klipdam mine and $1,089,342 (2010 – $1,072,698) for the Saxendrift mine. These deposits are invested in interest bearing money market linked investments at rates ranging from 9.5% to 11.0% per annum. These investments have been ceded as security in favour of the guarantees the bank issued on behalf of the Company. Refer to note 26.

15. Trade and other payables

Trade payables	4 900 075	6 373 382	6 608 191
VAT	-	-	294 892
	4 900 075	**6 373 382**	**6 903 083**

16. Revenue

Sale of diamonds	7 561 697	37 732 476	8 167 572
Beneficiation income	943 842	4 775 271	289 010
	8 505 539	**42 507 747**	**8 456 582**

17. Cost of sales

Production cost	6 161 983	27 538 347	5 783 391
Inventory movement	(186 952)	541 349	(2 934 291)
	5 975 031	**28 079 696**	**2 849 100**
Depreciation of property, plant and equipment	1 826 049	7 509 445	2 526 950
Depletion of mineral property interest	201 743	1 936 728	580 309
	2 027 792	**9 446 173**	**3 107 259**
	8 002 823	**37 525 869**	**5 956 359**

18. Operating (loss) profit

Operating (loss) profit for the period is stated after accounting for the following:

Profit on sale of property, plant and equipment	-	(296 510)	-
Depreciation on property, plant and equipment	1 826 049	7 509 445	2 526 950
Depletion mineral property interests	201 743	1 936 728	580 309
Employee costs	490 268	2 185 744	478 625

Figures in Canadian Dollar	2011	2011	2010

19. Investment income

Interest revenue			
Bank	107 261	101 953	13 346

20. Fair value adjustments

Other financial assets	-	(31 920)	-

21. Finance costs

Capital leases obligation	28 123	119 286	88 555
Bank	80 989	329 717	48 958
	109 112	**449 003**	**137 513**

22. Income tax expense

Major components of the tax expense

Current tax			
Local income tax - current period	-	-	1 387
Deferred tax			
Movement in deferred tax balance	62 000	2 933 066	1 065 066
	62 000	**2 933 066**	**1 066 453**

23. Loss per share

Basic and diluted loss per share

Basic loss per share was calculated based on a weighted average number of ordinary shares of 524 888 530 (February 28, 2011: 518 185 238 ; May 31, 2010: 477 651 502).

Reconciliation of loss for the period to basic loss			
Total comprehensive loss	(2 337 900)	(6 916 362)	(874 100)
Adjusted for:			
Non-controlling interest	290 142	88 097	131 514
Basic loss attributable to owners of the Company	**(2 047 758)**	**(6 828 265)**	**(742 586)**

Diluted loss per share is equal to loss per share because there are no dilutive potential ordinary shares in issue.

Headline loss per share

Reconciliation between basic loss and headline loss			
Basic loss	(2 047 758)	(6 828 265)	(742 586)
Adjusted for:			
Exchange differences on translating foreign operations	1 131 560	1 750 124	15 583
Headline loss attributable to owners of the Company	**(916 198)**	**(5 078 141)**	**(727 003)**

Notes to the Unaudited Interim Consolidated Financial Statements

Figures in Canadian Dollar	2011	2011	2010

24. Cash generated from operations

Loss before taxation	(1 144 340)	(2 233 172)	207 936
Adjustments for:			
Depreciation and depletion	2 027 792	9 446 173	3 107 259
Loss on sale of assets	-	296 510	-
Loss on foreign exchange	-	(82 873)	-
Income from equity accounted investments	(14 873)	(34 396)	(2 327)
Investment income	(107 261)	(101 953)	(13 346)
Finance costs	109 112	449 003	137 513
Fair value adjustments	-	31 920	-
Net reclamation obligation recognised	76 144	1 809	280 395
Share-based payment expense	128 300	884 886	220 981
Write down on inventory	-	899 034	-
Write down of property, plant and equipment	-	284 696	-
Write down of investment held for reclamation	-	-	146 670
Write down of amounts receivable	-	-	153 837
Changes in working capital:			
Inventories	(2 764)	(476 349)	(5 496 958)
Trade and other receivables	2 314 153	1 686 027	138 727
Trade and other payables	(1 473 307)	(242 916)	149 440
	1 912 956	**10 808 399**	**(969 873)**

25. Tax refunded (paid)

Balance at beginning of the period	(245 228)	(1 144 369)	(286 915)
Current tax for the period recognised in profit or loss	-	-	(1 387)
Balance at end of the period	247 774	245 228	333 534
	2 546	**(899 141)**	**45 232**

26. Contingencies

Bank indebtedness

Consistent with the prior financial year, the Company has an overdraft facility in the amount of ZAR28.0 million ($3.9 million) available for its operations (current balance of $3,632,015). This facility has an interest cost of prime (currently 9% per annum) plus 0.6%. The security for the ZAR28.0 million consists of 2 notorial bonds of ZAR10.0 million ($1.4 million) each over loose assets and property of the farm Holpan.

HC van Wyk Diamonds Ltd, Klipdam Mining Company Ltd, Saxendrift Mine (Pty) Ltd held guarantees with the bank towards Eskom (Electricity Provider) of ZAR4,856,100 ($663,828) and the Department of Minerals and Energy (DME) of ZAR21,367,228 ($2,920,896) towards rehabilitation expenses.

Kwango River Project, Democratic Republic of Congo

Rockwell's subsidiary, Durnpike Investments (Proprietary) Limited's ("Durnpike") interest in the Kwango River project that was constituted by an agreement (''Midamines Agreement'') which was concluded between Durnpike and Midamines SPRL (''Midamines''), the holder of the permit for the Kwango River Project, during 2006, in terms of which Durnpike was to act as independent contractor on behalf of Midamines to manage and carry out exploration activities and potentially, mining activities. Durnpike was entitled to an 80% share of the net revenue from the sale of any diamonds produced from the contract area.

Under the Midamines Agreement, Durnpike agreed to certain minimum royalty payments being made to Midamines, and Midamines undertook certain obligations in favour of Durnpike, including that of procuring and facilitating Durnpike's access to the Kwango River Project site. The royalties took the form of a series of recurring annual minimum royalty payments of US$1.2 million per annum, as escalated in accordance with the Midamines Agreement (commencing on December 31, 2007). During the first quarter of 2008, pursuant to an amendment to the Midamines Agreement (contained in the Fifth Addendum thereto), Durnpike paid consideration of US$600,000 to Midamines as compensation for access to the entire concession area (Permit 331), as opposed to the limited contract area. As part of such amendment, Midamines waived its right to payment of the above mentioned US$1.2 million royalty payment due on December 31, 2007.

Subsequently, and pursuant to Midamines' persistent breach of material provisions of the Midamines Agreement coupled with its failure to remedy such instances of breach not withstanding notice to do so, Durnpike and/or Rockwell cancelled the Midamines Agreement and/or the Fifth Addendum thereto. Midamines thereafter disputed the entitlement of Durnpike and/or Rockwell to cancel the Midamines Agreement. It has referred to arbitration a dispute against Durnpike and Rockwell, in which it claims payment by Rockwell and Durnpike of compensation in the amount of US$41.8 million (while reserving the right to increase the claim to US$68.073 million if the DRC authorities cancel Midamines' permit for the Kwango Project) plus interest. Durnpike and/or Rockwell have defended the claim and have, in turn, instituted a counter-claim in the estimated and provisional amounts of approximately ZAR25.4 million for equipment purchased to undertake exploration and feasibility work, C$1.6 million for start-up and acquisition costs in the DRC, and US$20 million (while reserving the right to increase the counter-claim to at least $164.3 million) as an initial estimate of possible lost earnings.

Comprehensive documentation has been filed by the parties and arbitration proceedings were completed in Belgium. Their ruling is expected in October 2011. Subsequent to the quarter ending May 31, 2011, the Company was notified of additional legal fees of €90 000 to be paid before the outcome will be announced.

Figures in Canadian Dollar 2011 2011 2010

27. First-time adoption of International Financial Reporting Standards

The company has applied IFRS 1, First-time adoption of International Financial Reporting Standards, to provide a starting point for the reporting under International Reporting and Accounting Standards. On principle these standards have been applied retrospectively and the May 31, 2010 and February 28, 2011 comparatives contained in these unaudited interim consolidated financial statements differ from those published in the financial statements published for the three months ended May 31, 2010 and the 12 months ended February 28, 2011.

The date of transition was March 1, 2010 and the effect of the transition was as follows.

Reconciliation of equity at May 31, 2010

	As reported under Canadian GAAP	Effects of transition to IFRS	IFRS
Property, plant and equipment	56 397 896	-	56 397 896
Mineral property interests	30 229 885	(6 504 714)	23 725 171
Investment in associate	98 017	-	98 017
Other assets and deposits	679 648	-	679 648
Reclamation deposits	2 898 067	-	2 898 067
Total non-current assets	**90 303 513**	**(6 504 714)**	**83 798 799**
Trade and other receivables	6 195 876	-	6 195 876
Inventories	8 473 016	-	8 473 016
Loan to related party	28 363	-	28 363
Cash and cash equivalents	8 570 097	-	8 570 097
Total current assets	**23 267 352**	**-**	**23 267 352**
Capital leases	1 947 018	-	1 947 018
Trade and other payables	6 608 191	-	6 608 191
Loans from related parties	590 381	-	590 381
Reclamation obligation	4 002 878	-	4 002 878
Current tax liability	628 426	-	628 426
Deferred tax liability	11 871 000	(7 899 000)	3 972 000
Bank overdraft	2 012 930	-	2 012 930
Total liabilities	**27 660 824**	**(7 899 000)**	**19 761 824**
Total assets less total liabilities	**85 910 041**	**1 394 286**	**87 304 327**
Issued capital	135 989 508	-	135 989 508
Share-based payment reserve	6 416 032	-	6 416 032
Foreign currency translation reserve	(7 963 816)	680 305	(7 283 511)
Retained loss	(49 049 346)	713 981	(48 335 365)
Minority interest	517 663	-	517 663
Total equity	**85 910 041**	**1 394 286**	**87 304 327**

Figures in Canadian Dollar 2011 2011 2010

27. First-time adoption of International Financial Reporting Standards (continued)

Reconciliation of equity at February 28, 2011

	As reported under Canadian GAAP	Effects of transition to IFRS	IFRS
Property, plant and equipment	62 828 438	-	62 828 438
Mineral property interests	29 565 306	(6 002 337)	23 562 969
Investment in associate	129 660	-	129 660
Other assets and deposits	2 042 291	-	2 042 291
Reclamation deposits	2 759 611	-	2 759 611
Total non-current assets	**97 325 306**	**(6 002 337)**	**91 322 969**
Trade and other receivables	5 366 797	-	5 366 797
Inventories	2 628 089	-	2 628 089
Loan to related party	92 398	-	92 398
Cash and cash equivalents	4 771 124	-	4 771 124
Total current assets	**12 858 408**	**-**	**12 858 408**
Capital leases	142 630	-	142 630
Trade and other payables	6 373 382	-	6 373 382
Loans from related parties	496 636	-	496 636
Reclamation obligation	3 814 638	-	3 814 638
Current tax liability	245 228	-	245 228
Deferred tax liability	14 118 000	(8 278 000)	5 840 000
Bank overdraft	1 787 479	-	1 787 479
Total liabilities	**26 977 993**	**(8 278 000)**	**18 699 993**
Total assets less total liabilities	**83 205 721**	**2 275 663**	**85 481 384**
Issued capital	135 989 508	-	135 989 508
Share-based payment reserve	7 079 937	-	7 079 937
Foreign currency translation reserve	(6 363 880)	814 912	(5 548 968)
Retained loss	(54 147 251)	1 460 751	(52 686 500)
Minority interest	647 407	-	647 407
Total equity	**83 205 721**	**2 275 663**	**85 481 384**

Notes to the Unaudited Interim Consolidated Financial Statements

Figures in Canadian Dollar	2011	2011	2010

28. Related parties

Related party balances

Balances payable			
Banzi Trade (e)	9 100	34 385	5 582
Hunter Dickinson Services Inc. (a)	122 769	34 113	159 547
Seven Bridges Trading (c)	-	-	10 686
Flawless Diamonds Trading House (d)	31 840	3 566	-
Current balances payable	163 709	72 064	175 815
Liberty Lane (g)	430 943	424 572	414 566
Non-current balances payable	430 943	424 572	414 566
Balances receivable			
Banzi Trade (e)	90 751	92 398	28 363
Current balances receivable	90 751	92 398	28 363

Related party transactions

Services rendered and expenses reimbursed:			
Hunter Dickinson Services Inc. (a)	90 465	467 151	140 333
CEC Engineering (b)	23 331	23 331	7 600
Seven Bridges Trading (c)	31 704	134 483	19 823
Banzi Trade 26 (e)	31 120	165 077	25 151
Flawless Diamonds Trading House (d)	1 847 945	420 006	37 736
Sales rendered to:			
Banzi Trade 26 (Pty) Ltd (e)	119	879	249

28. Related parties (continued)

All related party transactions are arms length transaction in the normal course of business.

(a) Hunter Dickinson Services Inc. (“HDSI”) is a private company with a director in common with the Company. HDSI provides geological, technical, corporate development, administrative and management services to, and incurs third party costs on behalf of, the Company on a full cost recovery market related basis pursuant to an agreement dated November 21, 2008.

(b) CEC Engineering Ltd is a private company owned by David Copeland, Chairman and a director of the Company, which provides engineering and project management services at market rates.

(c) Seven Bridges Trading 14 (Pty) Ltd ("Seven Bridges Trading") is a wholly-owned subsidiary of Randgold Resources Ltd, a public company where Mark Bristow, a director of the Company, serves in an executive capacity. Seven Bridges Trading provides office, conferencing, information technology, and other administrative and management services at market rates to the Company’s South African subsidiaries.

(d) Flawless Diamonds Trading House (Pty) Ltd (“Flawless Diamonds Trading House”) is a private company where certain directors, former directors and officers of the Company, namely, Messr. Brenner, J.W. and D.M. Bristow and Van Wyk, are shareholders. During fiscal 2011 the Company acquired a 20% shareholding in Flawless Diamonds Trading House (refer note 4). Flawless is a registered diamond broker which provides specialist diamond valuation, marketing and tender sales services to the Company for a fixed fee of 1% of turnover which is below the market rate charged by similar tender houses.

(e) Banzi Trade 26 (Pty) Ltd (“Banzi”) is 49% owned by HC van Wyk Diamonds Ltd and 51% by Bokomoso Trust. Banzi is an empowered private company established to provide self sustaining job creation programs to local communities as part of the company’s Social and Labour Plan which is required in terms of the Minerals and Petroleum Resources Development Act (“MPRDA”). Banzi provides the Company with building materials at market rates.

(f) Jakes Tyres is a private company with former directors and officers (H C van Wyk) in common with the Company that provides tyres, tyre repair services and consumables at market rates to Rockwell’s remote Middle Orange River operations.

(g) Liberty Lane is the BEE partner of the Saxendrift property and has certain directors in common with the Company.

(h) Cashmere Trade 19 (Pty) Ltd ("Cashmere Trade") is a private company owned by Hennie Van Wyk, a former officer of the Company, which provides helicopter services for the movement of products on an ad-hoc basis at competitive market rates thereby providing benefits to the Company and its employees in respect of secure transport of high value product and reduced insurance premiums.

(i) Diacor CC is a private company of which H C van Wyk, a former director and officer of the Company, is a director from which the Company has purchased consumable materials at market rates.

29. Events after the reporting period

On July 26, 2011 Rockwell Diamonds Inc. announced the sale of three non core assets which generated total proceeds of $6.5 million.

The assets which have been disposed of are as follows:

- The sale of Makoenskloof property, located in the Northern Cape, was concluded in mid July 2011 for $0.9million, which will be settled by the end of August 2011.
- The PC3000 excavator located at the Wouterspan mine which is on care and maintenance has been sold. The sale was completed in the third week of July 2011 and the full sale consideration of $3.0 million has been received.
- A sale agreement for the Holpan DMS plant has been concluded for a total consideration of $2.6 million which is payable in two equal tranches. The first payment of $1.3 million has been received with the balance payable within 30 days.

On July 1, 2011 the board of directors of Rockwell have resolved and the shareholders advised, that a decision was taken to consolidate the authorized and issued ordinary share capital of Rockwell on the basis of 1 share for every 15 shares held ("the consolidation"). The consolidation was aimed at reducing the large number of issued and unissued shares in Rockwell and increasing the price per share at which ordinary shares in Rockwell are traded on the Canadian Stock Exchange ("the TSX") and the JSE Limited ("the JSE").

Trading in shares under the new consolidated share capital commenced on Monday July 11, 2011.