

A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in all of the provinces of Canada, other than the Province of Québec but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for this short form prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”), or any state securities laws. Accordingly, subject to certain exceptions, these securities may not be offered or sold in the United States and this short form prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any of these securities within the United States. See “Plan of Distribution”.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary or Investor Relations Department of Rockwell Diamonds Inc. at Level 1, Wilds View, Isle of Houghton, Corner Carse O’Gowrie and Boundary Road, Houghton Estate, Johannesburg 2198, telephone: +27 (11) 484 0830, and are also available electronically at www.sedar.com.

PRELIMINARY SHORT FORM PROSPECTUS

New Issue

February 27, 2015



ROCKWELL DIAMONDS INC.

**Minimum \$15,000,000 (● Subscription Receipts)
Maximum \$20,000,000 (● Subscription Receipts)
each representing the right to receive one unit**

This short form prospectus qualifies the distribution (the “**Offering**”) of a minimum ● subscription receipts and a maximum of ● subscription receipts (the “**Subscription Receipts**”) of Rockwell Diamonds Inc. (the “**Company**” or “**Rockwell**”) at a price of \$● per Subscription Receipt (the “**Offering Price**”) for minimum gross proceeds of \$15,000,000 (the “**Minimum Offering**”) and maximum gross proceeds of \$20,000,000 (the “**Maximum Offering**”), pursuant to an underwriting agreement (the “**Underwriting Agreement**”) dated ●, between the Company and Dundee Securities Ltd. (the “**Underwriter**”). If the Over-Allotment Option (as defined herein) is exercised in full (assuming a Maximum Offering), an aggregate of an additional ● Subscription Receipts will be offered by the Company. Each Subscription Receipt will entitle the holder thereof to receive, without payment of additional consideration or further action, upon satisfaction of the Release Conditions (as defined herein), one unit of the Company (a “**Unit**”). Each Unit will be comprised of one common share of the Company (a “**Unit Share**”) and ● of one common share purchase warrant (each full warrant, a “**Warrant**”). Each Warrant will entitle the holder thereof to acquire one common share of the Company (a “**Common Share**”) at a price of \$● for a period of ● months (each a “**Warrant Share**”) following the Closing Date (as defined herein). See “Plan of Distribution”. The Offering Price was determined by arm’s length negotiation between the Company and the Underwriter with reference to prevailing market prices.

Price: \$● per Subscription Receipt

	<u>Price to the Public</u>	<u>Underwriter’s Commission⁽¹⁾</u>	<u>Net Proceeds to the Company⁽²⁾</u>
Per Subscription Receipt.....	\$●	\$●	\$●
Minimum Offering ⁽³⁾⁽⁴⁾	\$●	\$●	\$●
Maximum Offering ⁽⁴⁾	\$●	\$●	\$●

- (1) The Company has agreed to pay the Underwriter a commission (the “**Underwriter’s Commission**”) consisting of: (i) a cash fee equal to 6.0% of the gross proceeds of the Offering (including upon exercise of the Over-Allotment Option (as defined herein), if any), provided that the amount of the cash fee payable in connection with gross proceeds received from persons or entities on the president’s list of the Company (the “**President’s List**”) is equal to 3.0%; and (ii) that number of compensation warrants (the “**Compensation Warrants**”) equal to 6% of the number of Subscription Receipts sold pursuant to the Offering (including upon exercise of the Over-Allotment Option, if any), provided that the number of Compensation Warrants payable in connection with Subscription Receipts sold to persons or entities on the President’s List is equal to 3.0% of the number of Subscription Receipts sold to such persons. The maximum number of Subscription Receipts that can be sold to persons on the President’s List under the Offering is limited to 25% of the Offering. Each Compensation Warrant is exercisable into one Unit (a “**Compensation Unit**”) at the Offering Price for a period of 18 months. Each Compensation Unit will be comprised of one Common Share (a “**Compensation Share**”) and ● of one common share purchase warrant (each full warrant, a “**Compensation Unit Warrant**”). Each Compensation Unit Warrant will entitle the holder thereof to acquire one common share of the Company (each a “**Compensation Warrant Share**”) at a price of \$● for a period of ● months. The Underwriter’s Commission is payable as to 1/3rd on the Closing Date and 2/3rd upon satisfaction of the Release Conditions on or before the Release Deadline (as defined herein). If the Release Conditions are not satisfied on or before the Release Deadline, then the Underwriter’s Commission will be limited to the 1/3rd paid on the Closing Date. The Company has also agreed to issue 200,000 Common Shares at the Closing Date to the Underwriter (the “**Work Fee Shares**”) as a work fee in connection with services provided pursuant to their engagement and the Offering. The distribution of the Work Fee Shares and the Compensation Warrants to the Underwriter is qualified by this short form prospectus. See “Plan of Distribution”.
- (2) Before deducting the expenses of the Offering, estimated to be \$● in the case of a Minimum Offering and \$● in the case of a Maximum Offering, which, together with the Underwriter’s Commission, will be paid by the Company from the proceeds of the Offering.
- (3) There will be no closing of this Offering unless the Minimum Offering is completed.
- (4) The Company has granted the Underwriter an over-allotment option, exercisable in whole or in part at any time not later than the earlier of (i) the 30th day following the date of the Closing Date and (ii) the occurrence of a Termination Event, to purchase up to an additional ● Subscription Receipts, representing 15% of the Subscription Receipts under the Maximum Offering, on the same terms and conditions of the Offering, to cover over-allocations, if any, and for market stabilization purposes (the “**Over-Allotment Option**”). If the Over-Allotment Option is exercised in full, the “Price to the Public”, the “Underwriter’s Commission” and the “Net Proceeds to the Company” (assuming no exercise of the Warrants and no Subscription Receipts are sold to persons or entities on the President’s List) will be \$●, \$● and \$●, respectively. In the event the Over-Allotment Option is exercised following the satisfaction or waiver of the Release Conditions, the Company shall issue the same number of Units in lieu of Subscription Receipts. This short form prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Subscription Receipts or Units, as applicable offered upon the exercise of the Over-Allotment Option. A purchaser who acquires Subscription Receipts or Units, as applicable forming part of the Underwriter’s over-allocation position acquires such Subscription Receipts under this short form prospectus regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See “Plan of Distribution”.

Underwriter’s position⁽¹⁾	Maximum size or number of securities available	Exercise period	Offering Price/ Exercise price
Over-Allotment Option	Option to purchase up to ● Subscription Receipts or ● Units, as applicable	Exercisable not later than the earlier of: (i) the 30 th day following the closing of the Offering, and (ii) the occurrence of a Termination Event	\$● per Subscription Receipt or Unit
Compensation Warrants	● Compensation Units	18 months from the closing of the Offering	\$● per Compensation Unit

(1) Assumes the Maximum Offering is completed.

Upon closing of the Offering, the gross proceeds from the sale of the Subscription Receipts (including upon the exercise of the Over-Allotment Option, if any) less the expenses of the Underwriter in connection with the Offering and 1/3rd of the Underwriter’s Commission (the “**Escrowed Proceeds**”) will be deposited with and held by Computershare Trust Company of Canada, as escrow agent (the “**Escrow Agent**”), and invested in short-term obligations of, or guaranteed by, the Government of Canada (and other approved investments), pending satisfaction of the Release Conditions. The funds held by the Escrow Agent, together with all interest and other income earned thereon, are referred to herein as the “**Escrowed Funds**”. Provided that the Release Conditions are satisfied on or before 5:00 p.m. (Toronto time) on ● (the “**Release Deadline**”), the Escrowed Funds less 2/3rds of the Underwriter’s Commission, each of which will be paid to the Underwriter (the “**Net Escrow Proceeds**”), will be released to the Company on satisfaction of the Release Conditions. Upon satisfaction of the Release Conditions, the Subscription Receipts will automatically be converted into Units, without payment of additional consideration or further action on the part of the holders.

In the event that: (i) the Release Conditions have not been satisfied on or prior to the Release Deadline; or (ii) prior to the Release Deadline the Company advises the Underwriter or announces to the public that (A) it does not intend

to satisfy the Release Conditions or (B) the Release Conditions are incapable of being satisfied by the Release Deadline (each such event being a “**Termination Event**”), then the Escrow Agent shall return to the holders of the Subscription Receipts, on the third business day following the occurrence of such Termination Event (the “**Termination Date**”), an amount equal to the Escrowed Proceeds held by them and their *pro rata* share of interest earned on the Escrowed Proceeds. The Company shall be responsible and liable to such holders of the Subscription Receipts for the amount that is equal to the expenses of the Underwriter in connection with the Offering and 1/3rd of the Underwriter’s Commission, including interest thereon (the “**Closing Commission Value**”). See “Description of Securities Being Distributed – Subscription Receipts”.

No additional consideration will be received by the Company and no commission or fee will be payable by the Company in connection with the issuance of the Units upon conversion of the Subscription Receipts.

On January 5, 2015, Rockwell RSA (as defined herein), a wholly-owned subsidiary of the Company, entered into the Agreement (as defined herein) with the Vendors (as defined herein), pursuant to which the Vendors agreed to sell to the Company, through its wholly-owned subsidiary, the diamond prospecting, mining, recovery, sorting and processing business carried on by the Vendors, including the mineral properties, equipment and infrastructure, earth moving equipment, processing plants and other assets owned by the Vendors (the “**Acquired Business**”) as well as the assumption of employment obligations in respect of employees of the Acquired Business operated on and in relation to the Remhoogte Property (as defined herein), the Holsloot Property (as defined herein) and the Bo-Karoo Property (as defined herein).

Under the Agreement, Rockwell RSA has agreed to pay the Vendors ZAR 284.2 million (approximately \$30.9 million) as follows: (i) ZAR 120 million (approximately \$13 million) for certain mineral property rights and three processing plants payable on the closing date of the transaction which will occur on the day that is two business days after the date on which the last of the Conditions (as defined herein) have been fulfilled or waived and which is expected to occur no later than April 30, 2015, and which may be extend until May 31, 2015 by Rockwell upon providing written notice to Schalk (as defined herein) (the “**Acquisition Closing Date**”), such ZAR 120 million to be paid using the net proceeds of the Offering; and (ii) the remaining ZAR 164 million (approximately \$17.8 million) allocated to the earth moving fleet and other associated equipment, will, in the event the Maximum Offering isn’t achieved or pursued, be satisfied as follows: (A) ZAR 125.4 million (approximately \$13.6 million) which is payable on the Acquisition Closing Date is expected to be financed by the Company by additional financing options, including additional debt instruments to be entered into on or prior to the Acquisition Closing Date (the “**Additional Financing Transactions**”); and (B) the Company will pay the remaining ZAR 38.6 million (approximately \$4.2 million) plus interest accruing at 6% (nominal annual interest compounded monthly) (the “**Deferred Payments**”) to the Vendors in equal monthly installments over a 10 month period after the Acquisition Closing Date. The Company anticipates that the Deferred Payments will be funded by the Company from its ongoing cash flow from operations, including anticipated revenues derived from the Acquired Business (as defined herein) or from the proceeds from any asset dispositions such as the possible sale of the Tirisano property. See “The Company - The Acquisition” and “Use of Proceeds”.

The outstanding Common Shares are listed and posted for trading on the Toronto Stock Exchange (the “**TSX**”) and the Johannesburg Stock Exchange (the “**JSE**”) under the symbol “RDI”. On February 26, 2015, being the last trading day prior to the date of this short form prospectus, the closing price of the Common Shares on the TSX was \$0.245 and on the JSE was ZAR 220.

The Company has applied to list the following securities on the TSX and the JSE: (i) the Unit Shares; (ii) the Warrant Shares; (iii) the Compensation Shares; (iv) the Compensation Warrant Shares; and (v) the Work Fee Shares. Listing will be subject to the Company fulfilling all of the listing requirements of the TSX. Neither the Subscription Receipts nor the Warrants will be listed on any exchange. The JSE will defer to the TSX as the primary regulator of the Company concerning the specific requirements of listing of the Unit Shares, the Warrant Shares, the Compensation Shares, the Compensation Warrant Shares and the Work Fee Shares. **There is currently no market through which the Subscription Receipts or the Warrants may be sold and purchasers may not be able to resell the Subscription Receipts purchased under this short form prospectus or the underlying Warrants. This may affect the pricing of the Subscription Receipts and the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. See “Risk Factors”.**

An investment in the Subscription Receipts and the Units involves a high degree of risk and must be considered speculative due to the stage and nature of the Company's business. Prospective investors should consider the risk factors described under "Risk Factors" in this short form prospectus and in the Company's Annual Information Form (as defined herein), which can be found on the Company's profile on SEDAR at www.sedar.com, before purchasing the Subscription Receipts.

The Underwriter, as principal, conditionally offers the Subscription Receipts, subject to prior sale, if, as and when issued by the Company and accepted by the Underwriter in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Company by Fasken Martineau DuMoulin LLP and on behalf of the Underwriter by McMillan LLP.

In connection with the distribution of the Subscription Receipts by the Underwriter, the Underwriter may sell the Subscription Receipts at a price that is less than the Offering Price. Any such reduction to the Offering Price shall not affect the proceeds delivered to the Escrow Agent upon closing of the Offering and the compensation realized by the Underwriter will be decreased by the amount that the aggregate price paid by the purchasers of the Subscription Receipts is less than the gross proceeds paid by the Underwriter to the Escrow Agent. See "Plan of Distribution". Subject to applicable laws and in connection with the Offering, the Underwriter may over-allot or effect transactions intended to stabilize or maintain the market price of the Subscription Receipts at levels other than those which otherwise might prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

Prospective purchasers should rely only on the information contained or incorporated by reference in this short form prospectus. The Company and the Underwriter have not authorized anyone to provide prospective purchasers with additional or different information from that contained or incorporated by reference in this short form prospectus. The Subscription Receipts are being offered only in jurisdictions where, and to persons to whom, offers and sales are lawfully permitted.

Subscriptions for the Subscription Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The Subscription Receipts are anticipated to be delivered under the book based system through CDS Clearing and Depository Services Inc. ("CDS") or its nominee and deposited in electronic form with CDS on the closing date of the Offering, which is expected to occur on ●, or such other date as may be agreed by the Company and the Underwriter (the "Closing Date"). Notwithstanding the foregoing, the Closing Date must occur on or before 42 days after the date of the final receipt for the short form prospectus. A purchaser of Subscription Receipts will receive only a customer confirmation from the registered dealer through which the Subscription Receipts are purchased.

Mark Bristow, Richard Linnell, Willem Jacobs, Stephen Dietrich and Rick Menell, each a director of the Company, James Campbell, the President and Chief Executive Officer of the Company and John Shelton, the Chief Financial Officer of the Company reside outside of Canada. Each such person has appointed Fasken Martineau DuMoulin LLP, at 333 Bay Street, Suite 2400, Toronto, Ontario M5H 2T6, as their agent for service of process in Canada. Tania Marshall and Glenn Norton (the "Qualified Persons"), the authors of the Remhoogte/Holsloot Technical Report (as defined herein) reside outside of Canada and each has appointed Hunter Dickinson Inc., at 15th Floor - 1040 West Georgia Street, Vancouver, British Columbia, V6E 4H1 as their agent for service of process. Purchasers of Subscription Receipts are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.

The registered office of the Company is located at 2900-550 Burrard Street, Vancouver, British Columbia V6C 0A3. The head office of the Company is located at Level 1, Wilds View, Isle of Houghton, Corner Carse O'Gowrie and Boundary Road, Houghton Estate, Johannesburg 2198.

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NOTICE TO PROSPECTIVE INVESTORS IN THE REPUBLIC OF SOUTH AFRICA

This short form prospectus does not constitute an “offer to the public” (as such expression is defined in the *South African Companies Act*, No. 71 of 2008 (as amended)) (the “**South African Companies Act**”) in South Africa and this short form prospectus does not, nor is it intended to, constitute a “registered prospectus” (as that term is defined in the South African Companies Act) prepared and registered under the South African Companies Act.

To the extent that Subscription Receipts and Units are offered for subscription or sale in South Africa pursuant to this short form prospectus or otherwise, such offer is made: (a) only to persons described in section 96(1)(a) of the South African Companies Act; (b) in terms of section 96(1)(b) of the South African Companies Act, such that the total acquisition cost of the securities for any single addressee acting as principal is equal to or greater than ZAR 1 million; (c) in terms of section 96(1)(g) of the South African Companies Act, such that, inter alia, the offer, or series of offers in aggregate, is accepted by a maximum of fifty persons acting as principals and the subscription price, including any premium, of the securities issued in respect of the series of offers does not exceed, in aggregate, ZAR 1 million; and/or (d) otherwise within the meaning of section 96 of the South African Companies Act which lists the types of offers that are deemed not to be offers to the public.

Accordingly, any offer made in terms of this document or flowing from it does not constitute an offer to the public or any section of the public within the meaning of the South African Companies Act.

This short form prospectus and any attachments to it constitute factual, objective information about the Subscription Receipts, the Units and/or the Company and nothing contained in it should be construed as constituting any form of investment advice or recommendation, guidance or proposal of a financial nature and/or the rendering of any “financial service” (as defined in and contemplated in the *Financial Advisory and Intermediary Services Act*, 2002) in respect of any transaction in the Subscription Receipts and Units or in general. Nothing in this short form prospectus should be construed as constituting the canvassing for, or marketing or advertising of “financial services” by any person in South Africa.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This short form prospectus includes “forward-looking information,” within the meaning of applicable Canadian securities laws. All statements other than statements of historical facts included in this short form prospectus, including statements regarding the expected completion of the Offering and the Acquisition (as defined herein) as well as the prospects of the industry and the Company’s prospects, plans, financial position and business strategy, including on a pro forma basis, constitute forward-looking information. This forward-looking information is based on current expectations, estimates, forecasts and projections about the industries in which the Company operates as well as beliefs and assumptions made by the Company’s management. Such information includes, in particular, information about the Company’s plans, prospects, financial position, estimated financial results, and business strategies. Words such as “may,” “will,” “should,” “expect,” “continue,” “intend,” “aim,” “estimate,” “target,” “anticipate,” “plan,” “foresee,” “believe,” “pro forma” or “seek” or the negatives of these terms or variations of them or similar terminology are intended to identify such forward-looking information. Although the Company believes that the expectations reflected in this forward-looking information are reasonable, this information, by its nature, involves risks and uncertainties and is not a guarantee of future performance. Such information is also subject to assumptions concerning, among other things, the Company’s anticipated business strategies and anticipated trends in the Company’s business. The Company can give no assurance that these estimates and expectations will prove to have been correct. Actual outcomes and results may, and often do, differ from what is expressed, implied or projected in such forward-looking information, and such differences may be material. Some important factors that could cause actual results to differ materially from those expressed in this forward-looking information include, but are not limited to:

- risks and uncertainties relating to the Acquisition, such as the Company’s ability to complete the Acquisition, or if completed, to integrate the Acquired Business, successfully operate the Acquired Business and realize the anticipated benefits of the Acquisition, including the continued generation of cash flows consistent with historical levels from the Acquired Business;
- risks and uncertainties relating to this Offering;

- risks related to regulatory approvals related to the Acquisition;
- risks and uncertainties related to the completion of Additional Financing Transactions on satisfactory terms and the Company's ability to fund the Deferred Payments;
- receipt of shareholder approvals, if required;
- risks and uncertainties relating to exploration and development activities, such as those related to determining whether mineral resources or mineral reserves exist on a property;
- risks and uncertainties related to alluvial diamond properties and the production of diamonds therefrom;
- risks and uncertainties related to expected production rates, timing and amount of production and total costs of production and milling;
- risks related to properties that have no resources or reserves and risks related to properties that have indicated or inferred resources which have yet to be tested to prove economic viability;
- risks and uncertainties related to the ability to obtain necessary licenses, permits, electricity, surface rights and title for development projects;
- risks associated with technical difficulties in connection with mining development activities;
- risks and uncertainties related to the accuracy of mineral resource estimates and estimates of future production, future cash flow, total costs of production and diminishing quantities or grades of mineral resources;
- risks and uncertainties related to unexpected judicial or regulatory procedures or changes in, and the effects of, the laws, regulations and government policies affecting mining operations;
- risks relating to escalating costs and time delays on the completion of the Company's proposed upgrade of its Niewejaarskraal property;
- risks relating to the possible sale of its Tirisano property;
- risks and uncertainties related to changes in general economic conditions, financial markets and the demand and market price for mineral commodities such as and diesel fuel, electricity, and other forms of energy;
- risks associated with fluctuations in exchange rates, particularly with respect to the value of the US dollar, Canadian dollar and South African Rand;
- risks associated with geopolitical uncertainty and political and economic instability in South Africa;
- risks and uncertainties related to labour strikes, work stoppages, or other interruptions to, or difficulties in, the employment of labour in markets in which the Company operates;
- risks and uncertainties related to interruptions in production, including availability of electricity and third party interference that interrupts operation of the Company's projects;
- risks and uncertainties related to developments in diamond markets;
- actual diamonds recovered or mined varying from estimates of grade, quality, size and other characteristics;

- risks inherent in mining including environmental hazards, industrial accidents, unusual or unexpected geological formations;
- risks associated with the estimation of mineral resources and mineral reserves including the geology, grade and continuity of mineral deposits;
- the possibility that future exploration, development or mining results will not be consistent with the Company's expectations;
- uncertain political and economic environments and relationships with local communities;
- changes in laws or policies, foreign taxation, foreign investment regimes, or delays or the inability to obtain necessary governmental permits, licenses and regulatory approvals; and
- litigation risks.

Forward-looking statements are made based upon certain assumptions by Rockwell or its consultants and other important factors that, if untrue, could cause the actual results, performances or achievements of Rockwell to be materially different from future results, performances or achievements expressed or implied by such statements. Such statements and information are based on numerous assumptions regarding present and future business prospects and strategies and the environment in which Rockwell will operate in the future, including the price of diamonds, anticipated costs and Rockwell's ability to achieve its goals and integrate the Acquired Business, anticipated financial performance, regulatory developments, development plans, exploration, development and mining activities and commitments. Although management considers its assumptions on such matters to be reasonable based on information currently available to it, they may prove to be incorrect. Certain important assumptions by Rockwell or its consultants in developing forward-looking information include, but are not limited to: (i) required capital investment and estimated workforce requirements; (ii) estimates of net present value and internal rates of return; (iii) receipt of regulatory approvals on acceptable terms within commonly experienced time frames; (iv) the ability of the Company to obtain financing on acceptable terms; (v) market prices for rough diamonds and the potential impact on the Company's projects; (vi) future exploration plans and objectives; (vii) the ability of the Company to successfully complete the proposed upgrade its Nieuwejaarskraal processing plant; (viii) the completion of the proposed sale of its Tirisano property on satisfactory terms; (ix) the satisfaction or waiver of the Escrow Release Conditions; (x) the successful completion of the Additional Financing Transactions; and (xi) the integration of the Acquired Business and generation of cash flow.

Forward-looking information may also be based on other various assumptions including, without limitation:

- the expectations and beliefs of management and the assumed long term price of diamonds; and
- that the Company can access financing, appropriate equipment and sufficient labour and that the political environment where the Company operates will continue to support the development and operation of mining projects.

Purchasers are cautioned that the above list of cautionary statements is not exhaustive. These and other factors could cause actual results to differ materially from the Company's expectations expressed in the forward-looking information included in this short form prospectus, and further details and descriptions of these and other factors are disclosed in this short form prospectus, including under the section "Risk Factors." This forward-looking information speaks only as of the date of this short form prospectus. The Company will not update this information unless required under applicable securities laws.

CAUTIONARY NOTE REGARDING NON-IFRS FINANCIAL MEASURES

The Company uses a non-IFRS performance measure, operating cash cost (cash costs directly attributable to the production of diamonds and allocated production overhead cash costs, consisting of expenditures for fuel and oil, power, maintenance, replacement parts, operational salaries and direct mine operating costs and excludes depreciation, amortization and corporate expenses), in this short form prospectus or in documents incorporated by reference herein, which is not a measure calculated in accordance with IFRS and has limitations as an analytical

tool. The items excluded in the determination of operating cash cost represent items that are non-cash in nature, income taxes, finance charges or are otherwise not considered to be cash expenses ordinarily incurred directly in the production process. This measure is intended to provide further insight with respect to the Company's financial results and to supplement its financial information as determined in accordance with IFRS. Operating cash cost is used by management to measure and compare the effectiveness and sensitivity of the operations with respect to cash operating costs.

This non-IFRS measure should not be considered in isolation from, or as a substitute for, IFRS measures such as: (i) profit or loss for the period, as an indicator of the Company's profitability; or (ii) cash provided by or used in operating activities, as a measure of the Company's ability to generate cash. Operating cash cost does not have any standardised meaning prescribed by IFRS and is, therefore, unlikely to be comparable to similar measures presented by other companies.

ELIGIBILITY FOR INVESTMENT

In the opinion of Fasken Martineau DuMoulin, counsel to the Company, and McMillan LLP, counsel to the Underwriter, based on the current provisions of the *Income Tax Act* (Canada) (the "**Tax Act**") and the regulations thereunder (the "**Regulations**") in effect on the date hereof, as applicable, if issued on the date hereof the Subscription Receipts, together with the Unit Shares and the Warrants issuable pursuant to the Subscription Receipts, would be qualified investments under the Tax Act for trusts governed by registered retirement savings plans ("**RRSPs**"), registered retirement income funds ("**RRIFs**"), deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts ("**TFSAs**"), all as defined in the Tax Act (each, a "**Plan**"), provided that at all material times: (i) the Common Shares are listed on a "designated stock exchange" as defined in the Tax Act (which currently includes the TSX and JSE), and (ii) in the case of the Subscription Receipts and the Warrants, the Company is not a "connected person" under the Plan. A "connected person" is defined in the Regulations, in relation to a Plan, as a person who is an annuitant, a beneficiary, an employer or a subscriber under, or a holder of, the Plan as well as any other person who does not deal at arm's length with that person.

Notwithstanding that the Subscription Receipts, Unit Shares and Warrants may be qualified investments for an RRSP, RRIF or TFSA (a "**Registered Plan**"), the annuitant or holder, as the case may be, of a Registered Plan which acquired Subscription Receipts, Unit Shares and Warrants will be subject to a penalty tax if such security is a "prohibited investment" for a particular Registered Plan. The Subscription Receipts, Unit Shares and Warrants will not be a prohibited investment, provided the annuitant or holder of the Registered Plan deals at arm's length with the Company for the purposes of the Tax Act and does not have a "significant interest" (as defined in the Tax Act for purposes of the prohibited investment rules) in the Company. The Subscription Receipts, Unit Shares and Warrants also will not be a prohibited investment if they are "excluded property" as defined in the Tax Act for the particular Registered Plan. Investors should consult their own tax advisors as to whether the Subscription Receipts, Unit Shares and Warrants would be a prohibited investment in their particular circumstances.

ENFORCEMENT OF LEGAL RIGHTS

Mark Bristow, Richard Linnell, Willem Jacobs, Stephen Dietrich and Rick Menell, each a director of the Company, James Campbell, the Chief Executive Officer of the Company and John Shelton, the Chief Financial Officer of the Company, reside outside of Canada. Each such director and officer has appointed Fasken Martineau DuMoulin LLP as their agent for service of process in Canada. The Qualified Persons reside outside of Canada and each has appointed Hunter Dickinson Inc. as their agent for service of process in Canada.

Purchasers of Subscription Receipts are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.

CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION

The Company presents its consolidated financial statements in Canadian dollars. This short form prospectus contains references to United States dollars, referred to herein as "U.S. dollars" or "US\$", South African Rand, referred to

herein as “ZAR” and Canadian dollars, referred to herein as “\$”. All dollar amounts referenced, unless otherwise indicated, are expressed in Canadian dollars.

As at February 26, 2015 the noon exchange rate as reported by the Bank of Canada for U.S. dollars was US\$1.00 = \$1.2603 or \$1.00 = US\$0.7935.

As at February 26, 2015 the noon exchange rate as reported by the Bank of Canada for South African Rand was ZAR 1.00 = \$0.1086 or \$1.00 = ZAR 9.2081.

Unless otherwise stated, amounts in this short form prospectus that are converted to Canadian dollars from U.S. dollars or South African Rand were converted at the above exchange rates.

The following table sets forth, for each of the years indicated, the high, low and average noon exchange rates for the Canadian dollar in terms of the United States dollar, as reported by the Bank of Canada.

	Years Ended December 31		
	2014	2013	2012
High	1.1643	1.0697	1.0418
Low	1.0614	0.9839	0.971
Average	1.1045	1.0299	0.9996

The following table sets forth, for each of the years indicated, the high, low and average exchange spot rates for the Canadian dollar in terms of the South African Rand, as reported by the Bank of Canada.

	Years Ended December 31		
	2014	2013	2012
High	0.1056	0.1162	0.1324
Low	0.09843	0.1003	0.111
Average	0.1018	0.107	0.1221

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in all of the provinces of Canada, other than the Province of Québec (the “Commissions”). Copies of the documents incorporated herein by reference may be obtained upon request without charge from the Secretary or Investor Relations Department of the Company at Level 1, Wilds View, Isle of Houghton, Corner Carse O’Gowrie and Boundary Road, Houghton Estate, Johannesburg 2198, telephone: +27 (11) 484 0830. These documents are also available under the Company’s profile on SEDAR which can be accessed at www.sedar.com.

The following documents filed by the Company with the Commissions are specifically incorporated by reference into, and form an integral part of, this short form prospectus:

- (i) the annual information form dated May 30, 2014 (the “**Annual Information Form**”);
- (ii) the audited annual consolidated financial statements and the notes thereto as at and for the years ended February 28, 2014 and February 28, 2013, together with the auditors’ report thereon;
- (iii) management’s discussion and analysis for the year ended February 28, 2014 (the “**Annual MD&A**”);

- (iv) the unaudited condensed interim consolidated financial statements and the notes thereto as at and for the three and nine month periods ended November 30, 2014 (the “**Interim Financial Statements**”);
- (v) management’s discussion and analysis for the three and nine month periods ended November 30, 2014 (the “**Interim MD&A**”);
- (vi) the management information circular dated June 16, 2014 for the annual general and special meeting of shareholders held on July 25, 2014 (the “**2014 Circular**”);
- (vii) the material change report dated December 3, 2014 relating to a \$4.1 million debenture financings from two related parties;
- (viii) the material change report dated January 15, 2015 relating to the announcement of the Acquisition; and
- (ix) the material change report dated February 17, 2015 relating to the announcement of more detailed information in respect of the Acquisition.

Any documents of the foregoing type, and all other documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, which may be filed by the Company with a securities commission or similar regulatory authority in Canada after the date of this short form prospectus and before completion or withdrawal of the Offering will be deemed to be incorporated by reference into this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained in this short form prospectus or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded will not constitute a part of this short form prospectus, except as so modified or superseded. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of such a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

MARKETING MATERIALS

Any “template version” of “marketing materials” (as such terms are defined in National Instrument 41-101) will be incorporated by reference in the final short form prospectus. However, such “template version” of “marketing materials” will not form part of the final short form prospectus to the extent that the contents of the “template version” of “marketing materials” are modified or superseded by a statement contained in the final short form prospectus. Any “template version” of “marketing materials” filed on SEDAR after the date of the final short form prospectus and before the termination of the distribution under the Offering will be deemed to be incorporated by reference into the final short form prospectus.

THE COMPANY

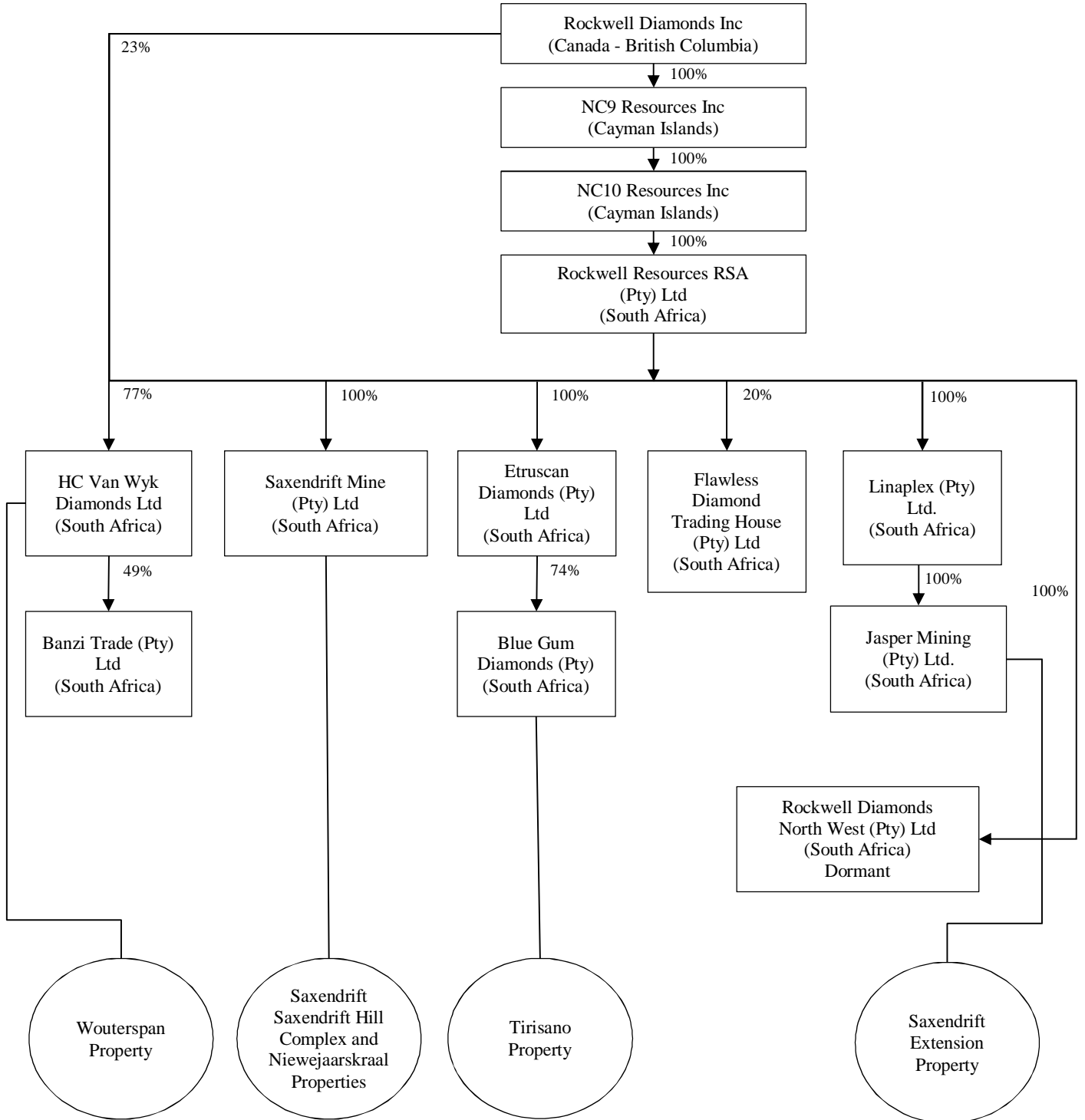
Corporate Structure

Rockwell was incorporated under the *Company Act* (British Columbia) (the predecessor legislation to the current *Business Corporations Act* (British Columbia)). It was incorporated on November 10, 1988 under the name “Annabel Gold Mines Inc.” and has since changed its name to Rockwell Diamonds Inc.

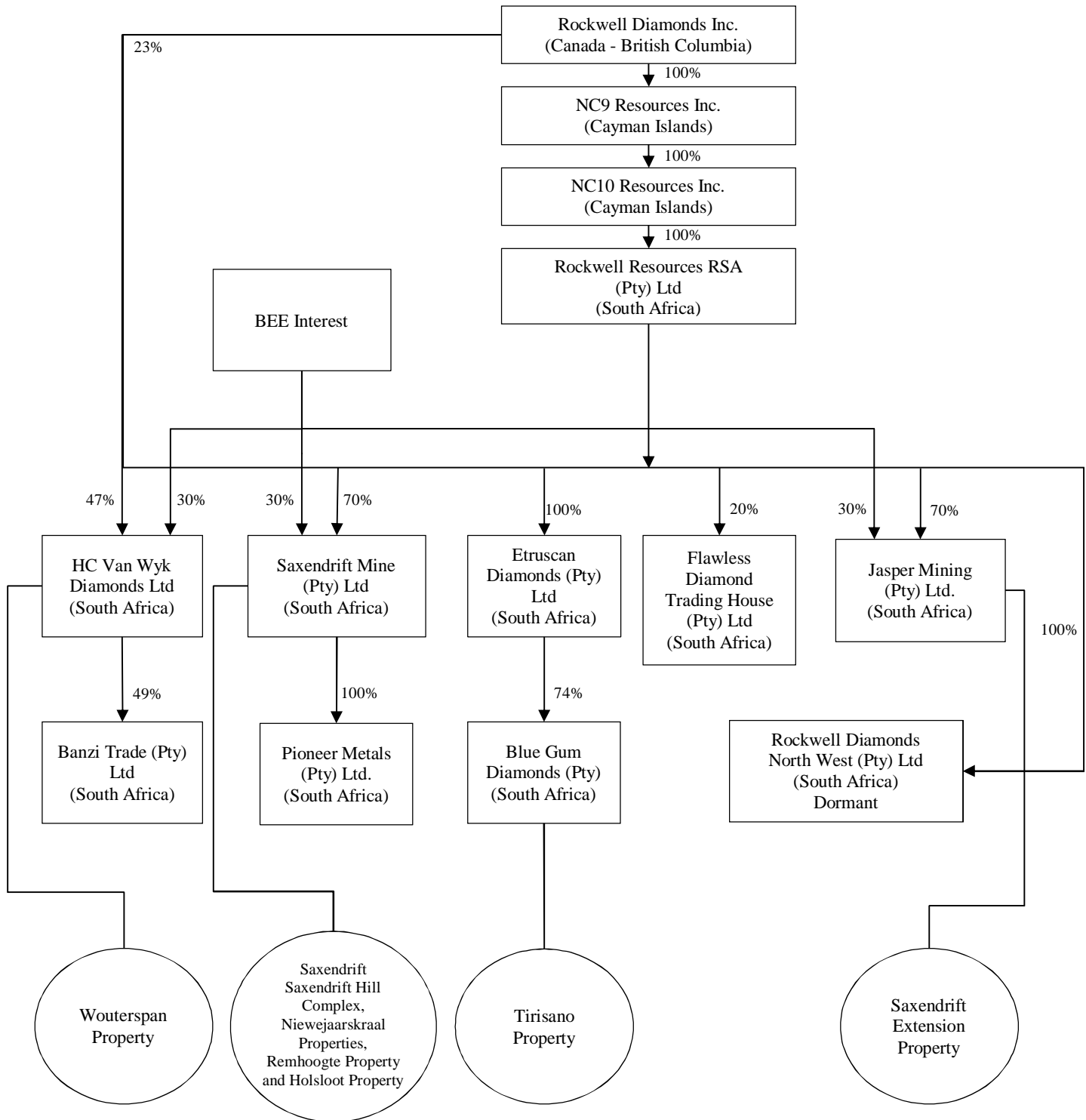
The head office of the Company is located at Level 1, Wilds View, Isle of Houghton, Corner Carse O’Gowrie and Boundary Road, Houghton Estate, Johannesburg 2198. The Canadian legal registered office of Rockwell is located

in care of its attorneys, Fasken Martineau DuMoulin LLP, at 2900-550 Burrard Street, Vancouver, British Columbia V6C 0A3.

The following chart illustrates, as of the date hereof, the Company's significant subsidiaries, including their respective jurisdiction of incorporation and the percentage of voting securities in each that are held by the Company either directly or indirectly and the material properties of the Company.



The following chart illustrates, upon completion of the Acquisition, the Company's significant subsidiaries, including their respective jurisdiction of incorporation and the percentage of voting securities in each that are held by the Company either directly or indirectly and the material properties of the Company.



Pursuant to the BEE Agreement (as defined herein), Rockwell RSA has agreed to sell 30% of the shares in, Saxendrift Mine (Pty) Ltd., HC Van Wyk Diamonds Ltd. and Jasper Mining (Pty) Ltd. to Siyancuma Capital (Pty)

Ltd. The BEE Agreement is currently subject to the fulfilment of certain suspensive conditions (including approval by the Company's shareholders). Please see "The Remhoogte and Holsloot Properties - BEE Compliance".

Description of the Business

The Company is engaged in the business of operating and developing alluvial diamond deposits in South Africa. The Company is focused on producing diamonds, developing its pipeline of advanced alluvial diamond projects, and acquiring additional operating diamond properties or projects that have near term potential for alluvial diamond production with a goal of becoming a mid-tier diamond production company.

The Company is a rough diamond producer, mining alluvial properties that the Company owns or has the right to mine. Diamonds recovered are transferred to Flawless Diamond Trading House for marketing through regular tenders. The Company has a beneficiation joint venture agreement with Diacore Diamond Group ("**Diacore**"), a leader in the polishing and marketing of investment diamonds. The Company provides the joint venture with rough diamonds and the Company and Diacore participate equally in the profits generated by the joint venture from the sale of polished stones derived from such rough diamonds.

The Company's Middle Orange River operations comprise the Saxendrift property, which is in production, and the Nieuwejaarskraal property, with a recently built processing plant, where bulk sampling is in progress. Rockwell also has a development project and a pipeline of earlier stage properties with future development potential. The operations are based on a strategy of low cost high volume throughput processing and recovery technology. Rockwell continuously strives to be one of the lowest cost producers in the industry.

Alluvial Diamond Production

Alluvial diamond mining is the moving of diamondiferous gravel to a processing plant, screening and removing oversize material, while washing and scrubbing the material to size fractions of material that could potentially yield diamonds. Diamonds are recovered through X-Ray technology and final hand-sort in a glove-box under secure conditions.

The operation is mechanical by nature but it does require skilled and experienced resources in the engineering disciplines, materials handling and processing in the diamond environment, geology and metallurgy. Although the Company's operations are located in desolate areas removed from the major cities and urban development, it has successfully recruited and retained the above resources.

Rockwell's operations have historically produced large gem quality diamonds with some regularity, which comprise a material proportion of its historic production profile. It is management's belief that the diamonds recovered from Rockwell's mines are frequently acquired for investment purposes and driven by customer demand and liquidity.

The Acquisition

On January 5, 2015, a wholly-owned subsidiary of the Company, Rockwell Resources RSA Proprietary Limited ("**Rockwell RSA**"), entered into a sale agreement (the "**Agreement**") with Steyn Diamante CC ("**Steyn Diamante**"), Bondeo 140 CC ("**Bondeo**"), Schalk Willem Wessel Jakobus Steyn ("**Schalk**") and Celeste Steyn ("**Celeste**" and collectively with Steyn Diamante, Bondeo and Schalk, the "**Vendors**"), pursuant to which Rockwell RSA agreed to purchase from the Vendors, and the Vendors agreed to sell to Rockwell RSA, the Acquired Business which consists of the diamond prospecting, mining, recovery, sorting and processing business carried on by the Vendors, including the mineral properties, equipment and infrastructure, earth moving equipment, processing plants and other assets owned by the Vendors as well as the assumption of environmental rehabilitation obligations and employment obligations in respect of employees of the Acquired Business operated on and in relation to the properties located at: (i) Remhoogte 152 in the administrative district of Prieska, Northern Cape (the "**Remhoogte Property**"); (ii) Holsloot 47 in the administrative district of Prieska, Northern Cape Province (the "**Holsloot Property**"); and (iii) Riets Drift Number 18 in the administrative district of Hopetown (the "**Bo-Karoo Property**", collectively with the Remhoogte Property and the Holsloot Property, the "**Properties**") (collectively, the "**Acquisition**").

Under the Agreement, Rockwell RSA has agreed to pay the Vendors ZAR 284.2 million (approximately \$30.9 million) as follows: (i) ZAR 120 million (approximately \$13 million) for certain mineral rights and three processing

plants payable on the closing date of the Acquisition which is expected to occur no later than the Acquisition Closing Date, such ZAR 120 million to be paid using the proceeds of the Offering; and (ii) the remaining ZAR 164 million (approximately \$17.8 million) allocated to the earth moving fleet and other associated equipment, will, in the event the Maximum Offering isn't achieved or pursued, be satisfied as follows: (A) ZAR 125.4 million (approximately \$13.6 million) which is payable on the Acquisition Closing Date is expected to be financed by the Company by way of the Additional Financing Transactions; and (B) the Company will make the Deferred Payments which are comprised of payments in an aggregate amount of ZAR 38.6 million (approximately \$4.2 million) plus interest accruing at 6% (nominal annual interest compounded monthly) to the Vendors payable in equal monthly installments over a 10 month period after the Acquisition Closing Date. The Company anticipates that the Deferred Payments will be funded by the Company from its ongoing cash flow from operations, including anticipated revenues derived from the Acquired Business or from the proceeds from any asset dispositions such as the possible sale of the Tirisano property. Rockwell RSA will register a special notarial bond over certain of the equipment acquired in terms of the Acquisition in favour of the Vendors as security for the payment by Rockwell RSA of the Deferred Payments which may be subordinated to the interests of the finance parties under the Additional Financing Transactions.

The Agreement is subject to a number of conditions precedent (the “**Conditions**”) including: (a) Rockwell RSA providing evidence to the Vendors on or before March 31, 2015 that it has available not less than ZAR 120.0 million (approximately \$13 million) for the sole purpose of the Acquisition; (b) Rockwell RSA providing a guarantee in favour of the Vendors from a Tier 1 South African financial institution pertaining to the payment of the purchase price for the Acquisition (other than the Deferred Payments and amounts set out in (a) above); (c) the board of directors of the Rockwell RSA approving the Acquisition; (d) the Vendors obtaining the required approvals from its members for the sale of the Acquired Business pursuant to the Agreement; (e) Rockwell RSA successfully completing its due diligence of the Acquired Business; (f) the receipt of all regulatory approvals for the Acquisition, including approval from the TSX and JSE and approval from the Competition Commission in South Africa; (g) the vendors receiving consent to assign key contracts comprising the Acquired Business to Rockwell RSA; (h) the successful completion of financing arrangements (which may include the Offering) necessary to pay the ZAR 245 million required to be paid by the Company on the Acquisition Closing Date; and (i) receipt of approval under section 11 of the *Mineral and Petroleum Resources Development Act*. If the Conditions are not satisfied by April 30, 2015 (such date may be extended to May 31, 2015 on written notice provided by Rockwell RSA to the Vendors), then the Agreement will be of no force and effect. Rockwell RSA and the Vendors may collectively waive certain of the Conditions. The Acquisition Closing Date will occur on the day that is two business days after the date on which the last of the Conditions has been fulfilled or waived (or such other date as Rockwell RSA and the Vendors may agree.

Pursuant to the Agreement and subject to certain exceptions, Rockwell RSA has agreed to assume liability for the liabilities pertaining to the Acquired Business as at the Acquisition Closing Date, including the applicable environmental rehabilitation obligations and to indemnify the Vendors against certain tax liabilities arising out of the Acquired Business arising after the Acquisition Closing Date and against any demand, claim, action or other legal proceedings made or instituted against the Vendors in respect of such liabilities and against all costs incurred by the Vendors in respect of any such demand, claim, action or other legal proceedings.

On the Acquisition Closing Date, the Vendors have agreed to assign certain environmental rehabilitation guarantees, supported by deposits or letters of credit, as applicable, related to the Remhoogte Property and the Bo-Karoo Property to Rockwell RSA. Rockwell RSA will be liable for any required increases in such guarantees or any additional environmental rehabilitation guarantees related to the Acquired Business. In addition to the assignment of such guarantees, Rockwell RSA has agreed to use all reasonable efforts to procure the release of the Vendors, as of the Acquisition Closing Date, from any obligations arising out of any other guarantee given by the Vendors for any obligation relating to the Acquired Business. Rockwell RSA will indemnify the Vendors against any claim arising out of any such guarantee.

The Vendors have agreed to indemnify Rockwell RSA against, among other things, certain liabilities relating to the Acquired Business as at the Acquisition Closing Date, including liabilities relating to: (a) outstanding loans to the Vendors in respect of the Acquired Business; (b) taxes owing in connection with the Acquired Business or the completion of the Acquisition, subject to certain exceptions; (c) amounts owing by the Vendors to trade creditors arising from the supply of goods or services to the Acquired Business, and (d) any contracts entered into by the Vendors in connection with the Acquired Business prior to the Acquisition Closing Date pursuant to which a third

party may or might have an ongoing actual or contingent right, including without limitation, warranty claims or product liability claims.

Pursuant to the Agreement, the Vendors have agreed to grant a right of first refusal to the Company, for a period of two years after the Acquisition Closing Date, in relation to the sale by the Vendors (or any one of them) of any ownership interest in any diamond exploration, mining and/or processing projects located within 50 kilometres (“km”) of the Middle Orange River. If the Company rejects such an offer, the Vendors (or any of them) may sell such ownership interest but only on terms that are no more favourable to the purchaser than those that were offered to the Company.

A copy of the Agreement has been filed with the applicable regulatory authorities and has been posted on SEDAR at www.sedar.com.

The Additional Financing Transactions

The Additional Financing Transactions are under advanced discussion with a number of financial parties and may involve additional debt instruments to be entered into on or prior to the Acquisition Closing Date if less than the Maximum Offering is obtained or pursued or for working capital. In particular they may involve the moveable plant and equipment that forms part of the Acquired Business. In connection with the Additional Financing Transactions, the Company may be providing a security interest on the various assets being leased or on other assets owned by the Company. As a result, certain of the Company’s assets and those being acquired through the Acquisition may be encumbered by such security interests. The Company may pursue less than the Maximum Offering if the Additional Financing Transactions are more favourable.

Deferred Payments

The Company anticipates that the Deferred Payments will be funded by the Company from its ongoing cash flow from operations, including anticipated revenues derived from the Acquired Business or from the proceeds from any asset dispositions such as the possible sale of the Tirisano property.

Plans for Acquired Business

The increase in scale of the Company’s operations in the Middle Orange River region as a result of the Acquisition will offer the Company an opportunity for efficiencies in the short term through more efficient allocation of resources across a broader asset base. At the Properties, operations will be standardized to the Company’s operational template in operation at the Company’s other existing Middle Orange River sites. The Company will also apply its geological and technical skill in operating in the Middle Orange River region to the Properties. The Company’s optimization plans could include integration of the plants on the Properties. The current employees from the Remhoogte Property will also be transferred to the Company to ensure continuous production, in accordance with the terms of Section 197 of the *Labour Relations Act*. After the Acquisition Closing Date, the Company intends to launch a formal exploration programme at the Properties to define a Mineral Resource (as defined herein) by the end of February 2016. The Company also anticipates commencing exploration at the Bo-Karoo Property, to evaluate its potential as a possible replacement for the Saxendrift property which is now in the second half of its mine life.

Pro Forma Effects of the Acquisition

Management expects the Acquisition to strengthen the Company’s asset base by: (i) enhancing the Company’s alluvial diamond land package and potentially its carat inventory; (ii) increasing its processing capability through the addition of new processing plants and other heavy earth moving equipment; (iii) improving its exploration land package and future growth potential; (iv) providing a synergistic operational platform that is close in geographic proximity and reliant upon similar processing equipment that is anticipated to be capable of being leveraged to produce efficiencies upon integration. In addition, the Acquisition is expected to enhance cash flow.

The Acquisition constitutes a significant proposed acquisition for the Company within the meaning of Part 8 of National Instrument 51-102 -Continuous Disclosure Obligations. See “The Acquisition Financial Statements” in Appendix A and the “Pro Forma Financial Statements” in Appendix B, attached hereto for copies of the required financial statements.

Recent Developments

Appointment of John Shelton as Chief Financial Officer

On July 21, 2014, John Shelton was appointed as the Chief Financial Officer of the Company replacing Gerhard Jacobs who retired. Mr. Shelton is a Zimbabwean chartered accountant with 25 years of financial experience in the African diamond sector.

2014 Debenture Offering

On November 19, 2014 the Company announced that it had completed an offering of two-year term unsecured convertible debentures in an aggregate principal amount of \$3.775 million (the “**Debentures**”) and demand loans in the aggregate principal amount of \$325,000 (the “**Demand Debentures**”) with two insiders of the Company, namely the Company’s principal shareholder Daboll Consultants Ltd., as to \$2.764 million principal amount of Debentures and \$236,000 principal amount of Demand Debentures and Emerald Holdings Ltd., a company in which Mark Bristow, the Company’s non-executive Chairman as to \$1.011 million principal amount of Debentures and \$89,000 principal amount of Demand Debentures. The offering was conducted to finance current and proposed work programs on the Company’s diamond projects and for general working capital purposes.

The Debentures bear interest at a rate of 5% per annum and will become convertible, subject to the prior approval of the disinterested shareholders, into equity securities of the Company. Subject to such approval, if within the first 12 months after the Debentures were issued, the Company completes an equity financing of: (i) at least \$10,000,000, the Debentures will automatically convert into the same securities as issued under the financing; or (ii) less than \$10,000,000, the holders of the Debentures will have the option to convert the Debentures into the same securities as issued under the financing, exercisable for a period of 30 days after such holders receive notice of the financing. In either case, the conversion price will be the lesser of: (i) a 10% discount to the equity financing price; and (ii) a 20% discount to the five day volume weighted average trading price (“**VWAP**”) of the Common Shares on the TSX immediately prior to the date of the announcement of, or the date the Company provides a formal notice to the TSX in connection with, the financing (the “**Market Price**”). In no event will the conversion price be at a discount greater than: (i) 25% to the Market Price if the Market Price is equal to or less than \$0.50; (ii) 20% to the Market Price if the Market Price is greater than \$0.50 and less than or equal to \$2.00; and (iii) 15% to the Market Price if the Market Price is greater than \$2.00. If no equity financing is completed within 12 months after the Debentures were issued, then Debentures may be converted into Common Shares at the option of the holder at a conversion price equal to the five day VWAP of the Common Shares immediately prior to the date on which a notice of conversion is given. Unless earlier converted into equity securities or redeemed, the Debentures will be due and payable on the second anniversary of the date they were issued.

The Company expects it will seek disinterested shareholder approval at the Meeting (as defined herein) in connection with the conversion rights under the Debentures.

New Prospecting / Mining Rights

On February 5, 2015, the Company announced that it was recently granted prospecting / mining rights across an area measuring more than 50,000 hectares in the Middle Orange River region (which rights are still to be executed). The Company believes that the granting of this extensive package of ground may provide the Company with upside potential beyond the life of its current assets. This, together with the assets and rights to be acquired as part of the Acquisition effectively gives the Company access over the majority of the Orange River alluvial diamond fields lying between Prieska and Douglas in the Northern Cape, potentially increasing its inventory of in situ diamonds by a material amount.

Proposed Sale of Tirisano Property

The Company is considering a sale of its interest in the Tirisano property and is currently evaluating several offers received for the property. Strategically, the Tirisano property is not aligned with the Company’s Middle Orange focus and is considered a non-core asset. The Company run operations of the Tirisano property were placed on care and maintenance during December 2012. Currently, five independent royalty mining contractors continue to mine

the resource on the property with 12.5% of the gross revenue from such carat sales going to the Company. The net proceeds of any such sale of the Company's interest in the Tirisano property would be used for general corporate purposes, exploration expenditures and ongoing operational expenses.

Proposed Upgrades to Niewejaarskraal Property Processing Plant Capacity

The Company plans on upgrading the processing plant capacity at its Niewejaarskraal property in order to be able to expand processing capacity to over 180,000 m³ of processed quality gravel. The Company's management believes that this level of processing capacity would enhance the economies of the project. In order to complete the upgrade safely, the Company will have to temporarily shut down the processing plant at the Niewejaarskraal property during such expansion. The shut down of the processing plant at the Niewejaarskraal property is not expected to have a material adverse effect on the results of operations of the Company as this property is currently operating at a loss. The Company anticipates that the upgrade will cost approximately ZAR 25 million (approximately \$2.7 million), which would be funded through cash flow from ongoing operations or sales of other assets such as the Tirisano property, and thus would be subject to availability of such funding and the Company's then current diamond recovery profile.

THE REMHOOGTE AND HOLSLOOT PROPERTIES

On February 27, 2015, the Company filed a National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* (“**NI 43-101**”) technical report in respect of the Remhoogte Property and Holsloot Property entitled “Technical Report on the Remhoogte / Holsloot Alluvial Diamond Prospect, Hay District, Republic of South Africa for Rockwell Diamonds Inc.” dated January 30, 2015 (the “**Remhoogte/Holsloot Technical Report**”) prepared by Tania R. Marshall, Pr. Sci. Nat. from Explorations Unlimited, who is an independent “Qualified Persons” as defined by NI 43-101 and by Glenn A. Norton Pr. Sci. Nat, the Company's Technical Manager.

The below summary is based on the Remhoogte/Holsloot Technical Report. The below summary is subject to all the assumptions, qualifications and procedures set out in the Remhoogte/Holsloot Technical Report. The Remhoogte/Holsloot Technical Report was prepared in accordance with NI 43-101. For full technical details of the report, reference should be made to the complete text of the Remhoogte/Holsloot Technical Report, which has been filed with the applicable regulatory authorities and has been posted on SEDAR at www.sedar.com.

Property Description and Location

Property Description and Location

The Remhoogte Property and Holsloot Property (collectively, the “**Remhoogte/Holsloot Project**”) is located along the south bank of the Middle Orange River between Douglas and Prieska in the Northern Cape Province of South Africa, which area has been the site of intense alluvial diamond activity since the 19th century. The Middle Orange River and, particularly, the stretch between Douglas and Prieska, has had historically important diamond mining centres, with alluvial deposits having been mined there for over 100 years.

The Remhoogte/Holsloot Project is situated approximately 85km southwest of Douglas which, in turn, lies 110km southwest of Kimberley, the administrative capital of the Northern Cape Province and the historic centre of the South African diamond mining industry. The property is bounded by the co-ordinates identified as A-J in the figure and table below and constitutes 1,585.36 hectares. The area held by these permits includes sufficient space for (current and future) mine offices and out-buildings, processing and final recovery facilities, as well as for the necessary, fines disposal (tailings) ponds, transitory coarse dumps and more permanent water supply dams.

Figure A - Location of the Remhoogte/Holsloot Project

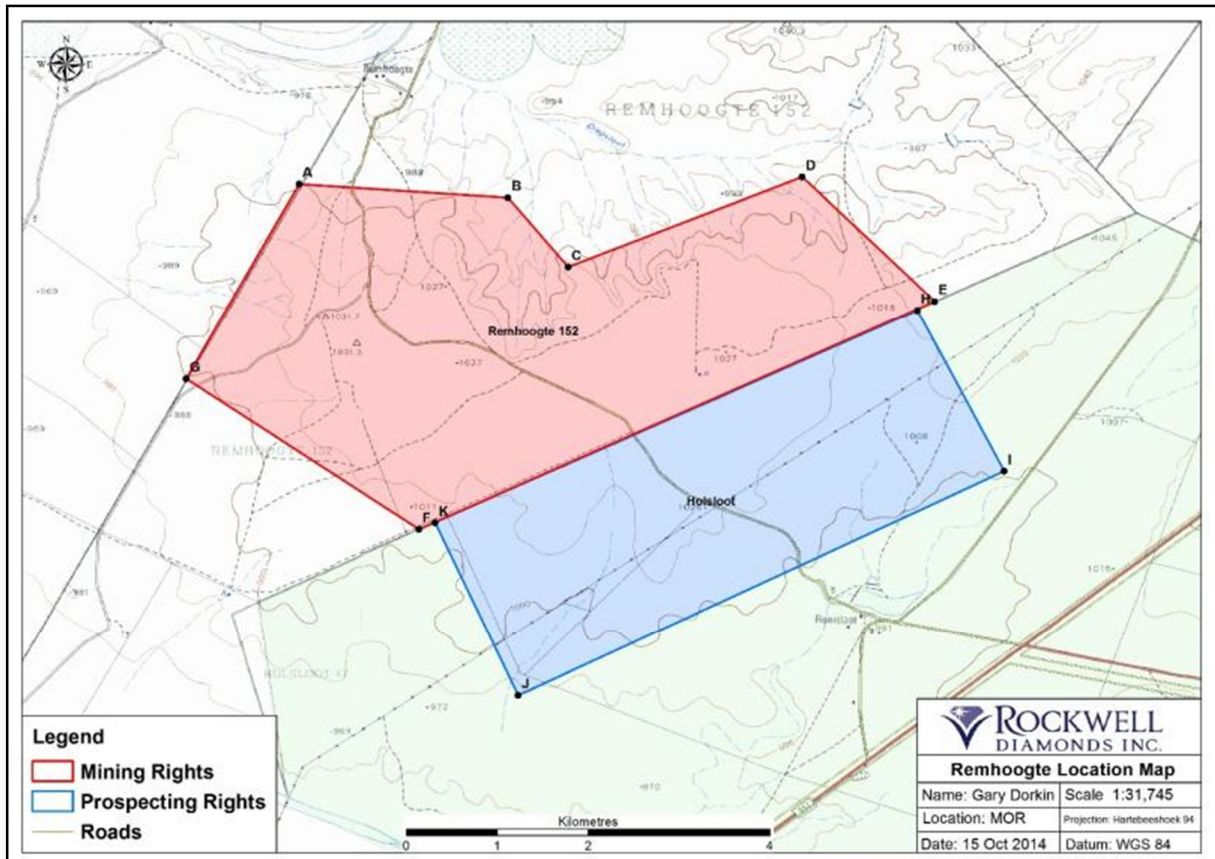


Table 1 - UTM Co-ordinates of the Remhoogte/Holsloot Project

<u>POINT</u>	<u>UTM Y</u>	<u>UTM X</u>
A	6729991	693145.6
B	6729808	695146.3
C	6729037	695712.1
D	6729987	697975.7
E	6728596	699223.5
F	6726174	694227.9
G	6727866	692022.1
H	6728498	699053.6
I	6726714	699858
J	6724326	695149.8
K	6726244	694385.7

Mineral Rights

Pursuant to the Agreement, Rockwell RSA will acquire all of the issued share capital of Pioneer Metals (Pty) Ltd. (“Pioneer”). Pioneer holds the mining rights in respect of the Remhoogte Property (Mining Right NC 0291MR). Pursuant to the Agreement, Rockwell RSA will also acquire the mineral rights for the Holsloot Property (Prospecting Right 735/2006pr) and the Bo-Karoo Property (DMR file number 112/MRC).

State Royalty Payments

As with all mining properties in South Africa, the Remhoogte/Holsloot Project is subject to a state royalty. The minimum and maximum rates for diamonds (unrefined minerals) are 0.5% and 9.0%, respectively. The Acquired Business's average royalty rate payable was 5.1% for the nine months ended November 30, 2014.

Surface Ownership / Land Use Rights

In respect of the remaining extent of Portion 3 of the farm Holsloot 47, a land use agreement has been concluded between the surface owner, Mrs. C.M. Muller and Saxendrift Mine (Pty) Ltd. ("**Saxendrift**"), a subsidiary of the Company, whereby Saxendrift will pay an amount of ZAR 60,000/month (approximately \$6,516) while mining operations are carried out on the property (this amount reduces to ZAR 25,000/month (approximately \$2,715) if the property is placed on care and maintenance). The monthly payments escalate annually at 10%.

In August 2013, Bondeo concluded an agreement with Mrs. A.J. de Villiers, the surface rights owner of the Remhoogte Property, to acquire access for the purposes of mining operations. The rights under this agreement will be ceded to Rockwell upon completion of the Acquisition.

To the extent relevant to this Remhoogte/Holsloot Project, the extent of the surface rights is considered sufficient for (current and future) mine offices and out-buildings, processing and final recovery facilities, as well as for the necessary, fines disposal (tailings) ponds, transitory coarse dumps and more permanent water supply dams.

BEE Compliance

In October 2014, Rockwell RSA and others concluded a consolidated sale of shares agreement with Siyancuma Capital (Pty) Ltd ("**Siyancuma**") in terms of which Rockwell RSA agreed to sell 30% of the shares in Saxendrift Mine (Pty) Ltd., HC Van Wyk Diamonds Ltd. and Jasper Mining (Pty) Ltd. to Siyancuma (the "**BEE Agreement**").

Mr Richard Mhlonto (currently Group HR/Industrial Relations Manager for Rockwell RSA) and Mr Oupa Sekhukhune are currently the ultimate shareholders in Siyancuma. In due course, a trust established for the benefit of Rockwell RSA employees will acquire 30% of the shares in Siyancuma.

The BEE Agreement is currently subject to the fulfilment of certain suspensive conditions (including approval from the Company's shareholders due to Siyancuma being a related party to the Company) but will, on its implementation, satisfy the equity ownership requirements of the Broad-Based Socio-Economic Empowerment Charter for the South African Mining Industry. The Department of Mineral Resources ("**DMR**") is aware and has been kept informed of these developments.

Environmental

The Remhoogte Property has posted rehabilitation guarantees in the form of deposits totalling ZAR 5,724,067 (approximately \$621,633) and ZAR 770,000 (approximately \$83,622) and the Holsloot Property has a rehabilitation guarantee in the form of deposits posted in the amount of ZAR 270,000 (approximately \$29,322). Pursuant to the Acquisition, the Company will assume the rights and obligations under the rehabilitation guarantees.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Topography, Elevation and Vegetation

The Remhoogte/Holsloot Project is situated in a region of gently undulating hills on the edge of the Karoo, an area of sparse, arid semi desert that occupies much of central South Africa. The area comprises elevated palaeo-river terraces up to some 90 metres ("**m**") above the present Orange River. The terraces are cut by a number of small ephemeral streams that flow towards the Orange River. The surrounding terrain is a flat semi-desert environment with sparse grass and occasional shrubs, thorn bushes and succulents in a sandy soil. Bigger trees line the banks of the Orange River. Since no exploration or mining activities will be undertaken in the present river channel, bank-full

discharge conditions will have no effect on operations. Even during floods, the effect on the mining pits will be insignificant, since the narrow, modern-day floodplains are not exploration targets.

There are an estimated 5,400 plant species in the Northern Cape Province. The largest part of the province falls within the Nama-Karoo biome, the third largest biome in South Africa, covering about 20.5% of the country or more than 260,000 square km. It stretches across the vast central plateau of the western half of the country.

The dominant vegetation is a grassy, dwarf shrubland. Grasses tend to be more common in depressions and on sandy soils, and less abundant on clayey soils. Grazing rapidly increases the relative abundance of shrubs. Most of the grasses are of the C4 type and, like the shrubs, are deciduous in response to rainfall events. Sweet Thorn Acacia karoo occurs in many places along the banks of the Orange River.

The amount and nature of the fuel load is insufficient to carry fires which are rare within the biome. The large historical herds of Springbok and other game no longer exist. Like the many bird species in the area - mainly larks - the game was probably nomadic between patches of rainfall events within the biome. The Brown Locust and Karoo Caterpillar exhibit eruptions under similarly favourable, local rainfall events, and attract large numbers of bird and mammal predators. Common animals include the Bat-Eared Fox, Ostrich, Spring Hare, and tortoises. The Riverine Rabbit is a threatened species found in the Nama Karoo.

Less than 1% of the biome is conserved in formal areas. The Prickly Pear *Opuntia aurantiaca* and Mesquite *Prosopis glandulosa* are the major alien invader species. Urbanization and agriculture are minimal, and irrigation is confined to the Orange River valley and some pans. Most of the land is used for grazing, by sheep (for mutton, wool and pelts) and goats, which can be commensurate with conservation. However, under conditions of overgrazing, many indigenous species may proliferate, including Threethorn *Rhigozum trichotomum*, Bitterbos *Chrysocoma ciliata* and Sweet Thorn Acacia karoo, and many grasses and other palatable species may be lost. There are very few rare or Red Data Book plant species in the Nama Karoo Biome, however, the Shepherd's Bush (*Boscia albutrunca*) is a protected species that occurs widely.

Access

The Remhoogte/Holsloot Project is easily accessed via a network of regional tarred and gravel roads, as well as farm tracks within the mine property.

Proximity to Population Centres and Nature of Transport

The project is situated some 200km from Kimberley and Barkly West via route R357 from Douglas to Prieska, south along the Orange River. Douglas and Prieska are some 80km and 50km distant from the Remhoogte/Holsloot Project, respectively. Kimberley is some 570km from Johannesburg and can be accessed by national road as well as by scheduled rail and air services.

Climate

The Northern Cape climate is mainly semi desert – this is a large dry region of fluctuating temperatures and varying topographies. The annual rainfall is sparse, ranging from only 50 to 400 millimetres (“**mm**”) per annum. The average is 256mm, mostly in the form of spectacular summer thunderstorms. The average annual evaporation rate is measured at 2,524mm. The low rainfall and high evaporation rates result in extremely dry conditions. Daytime temperatures can be extreme and vary from lows of around -5°C in winter to highs of around 42°C in summer. Average temperatures, however, are in the range between a winter minimum of 3°C to a summer maximum of 33°C.

In summer (December to February), temperatures in the Northern Cape usually reach between 33°C and 42°C. During winter (June to August), daytime temperatures are cold to mild (-5°C to 22°C), and often drop below 0°C at night.

The project has a year-round operating season and prevailing climatic conditions do not impact on the mining operation to any significant degree. Disruptions, however, do occur due to poor road conditions following heavy rains and three-to-four hour down-time may occur when soaked gravel stockpiles are too wet to process efficiently. During years of exceptional rainfall flooding may occur, resulting in significant disruptions to production, as well as damage to infrastructure (municipal as well as on-mine).

Frosts occur in winter and hail can occur in summer. Strong winds may be experienced on occasions. The prevailing winds are from the east (June to October) and the southwest (October to January) but the strongest winds are from the northwest. The average monthly wind speeds are generally below 6.3 meters per second.

Infrastructure

Once bulk-sampling operations have commenced and Mineral Resources (as defined in NI-43-101) are identified, technical studies will be initiated to determine the detailed infrastructural requirements. However, to the extent relevant, surface rights are sufficient for mining operations and any related infrastructure to be erected.

The Remhoogte Property is connected to the national Electricity Supply Commission (ESKOM) electricity grid, with the necessary transformers and supply lines in place. The Holsloot Property does not have a separate power supply, and obtains electricity from a 750kVA line from the Company's Nieuwejaarskraal project, via a sub-station on Rockwell's Mooidraai property. To deal with power outages, maintenance is scheduled during power outages and a 2 megawatt generator was acquired by the Company to run certain of its plants. A backup generator is retained at the administration centre in Barkly West.

Water for the Remhoogte/Holsloot Project is pumped from the Orange River. No process water will be withdrawn from groundwater sources. Treated water will be used for drinking and domestic purposes.

The Remhoogte/Holsloot Project area is accessed via tarred route R357 from Douglas to Prieska. This is a national road that is suitable for the transport of heavy earth-moving machinery by low-bed transporter trucks. A well-maintained network of high-speed gravel roads and farm tracks provides access to all areas of the prospecting areas. An unpaved airstrip is situated on the farm Saxendrift 20, some 40km to the east. A helipad is located on both Saxendrift and the adjacent Wouterspan. Kimberley Airport services the region with regular, scheduled daily flights to/from Johannesburg and Cape Town.

All services and facilities are available in Kimberley, including the regional office of the Department of Mineral Resources. However, most essential services can be obtained at Douglas, some 95km from the Remhoogte/Holsloot Project. Communication is available on the Remhoogte/Holsloot Project through three cellular telephone networks.

In the initial stage of the project, all administrative issues, including staff and labour accommodation as well as security will be managed from the nearby Saxendrift Mine, where the Company has well-established facilities.

History and Previous Exploration and Development

History

The first alluvial diamond discovery in South Africa was on the farm De Kalk on the banks of the Upper Orange River, some 55km upstream from Saxendrift in 1866. Recoveries of several large (+100 carat ("ct")) diamonds led to initial enthusiastic mining of shallow "Rooikoppie" gravels by artisanal diggers who flocked to the area.

Since the late 1800's, numerous properties along the Middle Orange River have been prospected/mined for alluvial diamonds, the majority of which have been derived from high level terraces. The Middle Orange River has not seen the intense prospecting and mining activities more typical of the Vaal and Lower Orange Rivers, because large areas are covered by a very hard layer of calcrete, 0.5m to 3m thick, which limited easy historic access to the underlying gravel horizons. In addition, the gravels in many areas contain a high percentage of banded ironstone clasts, which make the treatment and concentration of the gravels technically difficult, from a metallurgical perspective, unless magnetic separators are used.

Through the application of modern treatment methods and equipment, recoveries have improved to the extent that these deposits can now be mined efficiently. The mining problems have been solved by the use of blasting and heavy earthmoving equipment to rip and remove the hard calcrete-silcrete layer. This new technology resulted in the area being effectively explored for the first time.

Previous Exploration and Development

During the years 1926-1937, the farm Remhoogte was a proclaimed diggings, from which 6,087.00ct were recovered. In this time a number of large stones were reported, viz. 133ct, 74ct, 62ct, 45ct, 38ct, 31ct, 30ct, and 18ct.

In 1983, a Mr. Edwards of Cape Town investigated the Remhoogte deposit in conjunction with an Australian junior company. One trench and several pits were dug. Although details are unknown it is apparent that diamond recoveries were negligible or absent. It is suspected that the low diamond recoveries were due to the abundance of banded iron formation causing the diamonds to be lost with the heavy concentrate. Also, a cursory examination of the trench some years later indicates that the gravels in this location are not concentrated into channel bars but represent finer inter-channel sedimentation associated with slower flowing tributaries of a braided river system.

Pioneer

From August-December 1999, Pioneer processed an unknown amount of Rooikoppie gravel (estimated around 28,000 tonnes and recovered 158.83cts with an average size of 1.91carats per stone (“ct/st”) and US\$647/ct. In addition some 2,950 tonnes of primary gravel (calcreted gravel) were processed to recover 10.57cts (15 stones) for a sample grade of 0.36 carats per hundred tonnes (“cpht”). Total diamond recoveries for the 1999 sampling programme were 169.4ct at 1.81ct/st and US\$522/ct. (it is uncertain how accurately these results reflect the deposit types: on a visit to the site by the Qualified Persons, in 2000, inefficient excavation of the Rooikoppie gravels was noted, and it was unclear whether the washed primary gravel represents channel bars with efficient diamond concentration mechanisms or less inefficient inter-channel material).

In addition, three small areas were selected and drilled by Pioneer on a 100m by 100m grid to indicate the presence and thickness of Rooikoppie gravels and the underlying primary gravels. The gravels lie on a plateau some 65-80m above the present Orange River. The sequence consists of a variably calcreted braided alluvial deposit (“**Fluvial-alluvial Gravel**”) which is overlain by an extensive Rooikoppie gravel (the Rooikoppie gravel in this instance is predominantly an eluvial deposit, with minor colluvial occurrences). The bedrock to the Remhoogte deposit is soft Dwyka shale and minor Dwyka tillite. A number of linear features have been indicated in the geological mapping.

Reconnaissance work (aerial photographic interpretation and very limited drilling) completed by Pioneer suggested that some 13 million tonnes of Rooikoppie gravel and 30-40 million tonnes of Primary gravel may exist on the two properties making up the Remhoogte Property. Average grades (for the Rooikoppie gravel) were estimated at some 0.9ct/100m³ (0.43cpht) – based on average recoveries from surrounding properties. These figures represent the results of reconnaissance sampling data and the Qualified Persons do not consider them to be Mineral Resources.

Trans Hex

During the tenure of Trans Hex (Pty) Ltd. (“**Trans Hex**”), only the high terrace was drilled and no bulk-sampling was completed, although six such samples were planned. RC drilling on the Remhoogte/Holsloot Project included 1,606 boreholes to a total of 13,021m. Drilling was undertaken in 2002 on a 200m by 100m grid and, in 2003, infilled on the north-eastern area of the terrace to achieve a 50m by 50m grid spacing.

Steyn Diamante

Steyn Diamante has been operating on the Remhoogte/Holsloot Project since March 2014, where mainly colluvial Rooikoppie gravels have been sampled. The majority of these gravels sampled by Steyn Diamante are located on the Holsloot portion of the property. In addition, a limited sample of fluvial-alluvial gravels has been taken on the Remhoogte portion of the property.

No reliable, verifiable grades are available for either Rooikoppie or fluvial-alluvial gravels as not all of the volumes were surveyed. Limited survey data from Pioneer on the Remhoogte Property indicates that over 900,000m³ of gravel was mined during the period from May to October, 2014. The diamond register indicates that some 7,307ct were recovered from the Remhoogte/Holsloot Project during 2014. During the same period, 5,289.38ct (2,557.89ct from the Remhoogte Property and 2,731.49ct from the Holsloot Property) were sold on the open market for an average of US\$3,200/ct. Due to the way these diamond sales were recorded, it has not been possible to differentiate between Rooikoppie and fluvial-alluvial sales values. However, the sale of over 5,000ct of diamonds from the Remhoogte/Holsloot Project by Steyn Diamante does allow for an estimate of value at an increased level of

confidence. The lack of surveyed volumes, however, does not allow for the estimation of Mineral Resources, although the anticipated grades of the Steyn Diamante programme are projected to fall within the range expected along the Middle Orange River. The Remhoogte Property is subject to a marketing agreement with Trans Hex for a fee of 4% of the gross sales. This arrangement can be terminated upon completion of the Acquisition. The Holsloot Property is not subject to any marketing agreement.

Geological Setting

Regional Geology

The geology of South Africa is extremely varied and spans a period of about 4 billion years. The northeast portion of the country is dominated by the granitic rocks and belts of volcanic and sedimentary rocks forming the Archaean Kaapvaal Craton. Much of the rest of the country is covered by Phanerozoic sediments.

The earliest clusters of diamondiferous kimberlites, namely Kuruman and Cullinan, intruded into South Africa during the Proterozoic era. The main kimberlitic (both diamondiferous and barren) intrusive event, however, took place in the late Mesozoic. All the kimberlites that host economic deposits occur on the Kalahari Archon (Kaapvaal and Zimbabwe Cratons), while those occurring in the surrounding Proterozoic basement are non-diamondiferous. Over 2,000 kimberlite pipes, blows and fissures have been recorded across South Africa, Lesotho, Swaziland, Botswana and Zimbabwe, spanning emplacement age range of approximately 1,700 – 40 Million years ago (“**Ma**”), with peaks at 1,700Ma, 1,200Ma, 600-500Ma, 240Ma, and 200-80Ma. Kimberlite emplacement was followed by the liberation and entrainment of diamonds and the subsequent deposition of terraces on the ancient Vaal and Orange Rivers.

Two prolonged periods of exposure and erosion, firstly, between the Archaean eruption of the Ventersdorp lavas and initial Karoo sedimentation at about 300Ma and later between the end of the major Karoo event at 150 Ma and the Vaal River sedimentation at 5Ma, would have substantially re-shaped the surface across which the palaeo-Vaal and its tributaries flowed. Added to this, the super-continental scale Dwyka glacial event that marked the onset of Karoo sedimentation would, itself, have exerted a transformational effect on the post-Ventersdorp surface. The surface over which the palaeo-Vaal and Orange Rivers flowed and on which the diamondiferous gravels were subsequently deposited, would have been irregular, affording high potential for diamond traps.

Later, river evolution was strongly influenced by the two periods of uplift known to have affected the eastern part of the interior of southern Africa. The first uplift of 200-300m occurred at about 18.6 Ma, which was followed at 2.5 Ma by an event of by 900m uplift. This uplift would have triggered a period of accelerated river incision and simultaneous lowering and peneplanation of the land surfaces, accompanied by the supply of detritus, which included minute proportions of diamonds.

The present drainage of the region consists of the Vaal-Harts River from the northeast, and the Orange River from the southeast. There is, however, strong evidence that a major drainage, flowing along the eastern face of the Ghaap Plateau, entered the approximately 20km downstream from the Vaal-Orange confluence, during the Miocene-Pliocene. It is suggested that this substantial river may have had as much as four times the discharge of the Orange River and that it had the upper Zambezi, Okavango and Kwando rivers as tributaries. The upper Limpopo may also have flowed into the system during the Miocene-Pliocene.

The alluvial diamonds of the Middle Orange, thus, have several probable primary source areas: (i) the diamondiferous kimberlites of Lesotho, eroded by the present Orange River; (ii) diamonds from the same source as the Lichtenburg - Western Transvaal diamond-fields, eroded by the Vaal-Harts system; (iii) diamonds derived from the kimberlites of the Kimberley area; and (iv) diamonds from Botswana and the Postmasburg fields, including the Finsch kimberlite, eroded by the palaeo-drainage noted above.

Local Geology

The bedrock of the Orange River valley between the confluence of the Vaal and Orange Rivers at Douglas and Prieska is dominated by flat-lying Dwyka tillite and siltstone of the Karoo Supergroup. The Dwyka, typically, comprises matrix-supported diamictite with both local and transported pebbles and boulders as drop-stones in a

rock-flour matrix. Underlying the Dwyka are lavas of the Ventersdorp Supergroup, which are overlain (in places) by sediments of the Griqualand West Supergroup, comprising shales, quartzites and dolomites. The bedrock is cut by faults and dolerite dykes, which are rarely exposed.

The surface on which the Dwyka was deposited was irregular with several topographic highs. Owing to the irregularity of the pre-Dwyka surface, several reaches of the river are superimposed on pre-Dwyka topographic highs, which may give rise to more rugged topography. In these instances the Orange River is often confined to gorges with increased river gradients. In contrast, the more easily eroded Dwyka has been dissected by minor tributaries of the Orange River, giving rise to a trellis-type drainage pattern.

Remnants of Kalahari sands (Hutton Sands) are found in many places along the Middle Orange. In addition, the area is relatively arid, with sparse vegetation except for a narrow riparian fringe along the river. The prevailing north-westerly wind has blown the finer river sands inland, this process being particularly pronounced on north-south oriented reaches of the river, where the eastern bank may have a blanket of sand extending for several km inland. Aeolian action has tended to mix this sand with the remnants of Kalahari. The sand cover thickens southwards from the river and may blanket the underlying lithologies with several metre-thick cover.

Property Geology

The bedrock on both Remhoogte and Holsloot is Dwyka shales. The gravel terrace has been described as a high-level "A" terrace. Both colluvial and fluvial-alluvial gravel units are known to exist on the Remhoogte Property and Holsloot Property. Little is known currently regarding the composition of the gravel units or their distribution patterns.

Exploration

The lower lying terraces along the Middle Orange River are farmed extensively by means of centre-pivot irrigation systems. In addition, much of the area is blanketed by younger Kalahari sands which support scattered vegetation. As a result, aerial photographs and satellite images are of limited use for delineating potential gravel target areas.

Some use has been made of magnetic surveys in an attempt to delineate channels which have high BIF content. However, the resolution of the available (regional) airborne is insufficient to delineate individual channels and the cost of ground surveys does not justify their use when more accurate and detailed information can be obtained from drilling/pitting. Further, the mostly shale bedrock, combined with extensive post-depositional calcretisation of the gravels makes it difficult to identify bedrock channels on the terraces using other geophysical surveys. Consequently geophysics is not used extensively as a primary exploration tool along the Middle Orange River.

Notwithstanding, the Middle Orange River gravels have a high content of BIF clasts and these are strongly magnetic, generating a distinctive magnetic signature. In the upper terraces, the dominant contributor to this signature is the Rooikoppie Gravel, which tends to mask the response of the underlying primary gravels. A high resolution magnetic survey, incorporating magnetic, radiometric, and 3-D positioning measurements, was conducted for THO over portions of the Middle Orange River projects in December 2002 by the Council for Geoscience. Rockwell has only obtained the raw data from THO for this survey in the first quarter of 2014. During 2015 and 2016, this data will be re-gridded and re-processed in an attempt to identify structural and stratigraphic features that may be of use in the prioritising of additional drilling/sampling targets.

Due to the distinctive nature of alluvial diamond deposits, samples are not taken for assay as would be normal for precious or base metal prospects. Instead, bulk-samples of gravels are processed through an on-site plant to determine average sample grades and the recovered diamonds are, subsequently, sold on the open market for a determination of realised value. No bulk-sampling on Remhoogte/Holsloot Project has been undertaken by the Company.

Mineralization

Mineralisation in the Middle Orange River is, typically, confined to alluvial fills preserved on perched terraces. A terrace is formed by the deposition and subsequent erosion of as an alluvial-fill package of sediments, leaving them perched above current river level. Where incision takes place in the centre of the valley-fill, terraces may be developed on both banks of the river. If incision is accompanied by lateral migration, as is often the case, the terrace

is restricted to one bank only. The term “terrace” is, therefore, simply a morphological term, and any number of typical stream features can be displayed on the terrace - such as splays, chute bars, point bars, channels, and sand banks. The terrace initially preserves the morphology of the braided river deposits, but later erosion can dissect or totally remove the terrace. On a regional scale, terraces tend to have an elongated sheet-like shape, with an overall gentle gradient downstream, but this gradient can be stepped at barriers across the river valley, such as lithological changes in bedrock, cross dykes, etc. Consequently, contemporaneous terraces can be deposited at differing elevations, and, conversely, terraces at the same elevation were not necessarily deposited during the same cycle, at the same time.

Geological Controls

In the Northern Cape numerous kimberlite pipes and fissures are known to exist. Grades of these kimberlitic intrusions vary dramatically from barren to highly economical. Erosion of these primary kimberlites as well as of older alluvial and colluvial/eluvial deposits has resulted in hundreds of thousands of carats being eroded into surrounding alluvial gravels. As the diamonds entered the alluvial system, a natural attrition process resulted in the destruction of poorer quality stones. These diamonds were deposited along the course of the river in favourable trap sites either in bedrock-traps or in point-bar complexes and within-channel bars, particularly in meanders, scour pools and areas of divergent flow.

Locally, bedrock geology and structural features play an important role in diamond concentration of the basal alluvial deposits. As has been described above, the bedrock is comprised primarily of Dwyka tillite. This is a friable, flat-lying sedimentary rock that does not, generally, form extensive trapsites and the ensuing deposits are typical of the Remhoogte/Holsloot Project. However, local bedrock structures and regional bedrock textures contribute to heavy mineral concentrations within the middle Orange River. Similar controls are expected to have been in place during the Cainozoic, resulting in localised enrichment of diamonds.

Post-Miocene faults, as observed in numerous localities along the Middle Orange River, are probably a reflection of crustal adjustments and space problems generated by Cainozoic crustal warping (Neotectonic activity). These structures are known to affect present-day drainage patterns and the general geomorphological development of southern Africa.

In a few instances, small dolerite intrusions may be associated with these features which often have a displacement in the order of 1m to 3m (both normal and reverse displacements have been noted). In some places, slices of Dwyka sediments have even been thrust over the gravel. With a dip of less than 30°, these are classified as lag faults. A prolonged life is indicated for these lineaments, by the fact that they were old enough to offer accommodation sites for intrusive dolerite at c. 182 Ma. and young enough to have displaced Miocene-aged gravel.

Drilling

The historical drilling on the Remhoogte/Holsloot Project has been discussed above under the heading “*History and Previous Exploration and Development*”. The drilling results are not considered reliable. The Company’s prospecting programme for the 2015/2016 period is planned to include re-drilling of some 10% of the Trans Hex holes on the Remhoogte/Holsloot Project.

Sampling and Analysis and Security of Samples

Although various companies have been operating on the Remhoogte/Holsloot Project since 2001, no reliable or verifiable historical sampling results have been obtained. The Company has yet to sample on these properties.

Diamond recovery is dependent on mechanical recovery through the application of physical properties of both diamond and gravel – density and size variation (to concentrate the heavy mineral portion from the bulk gravel) and fluorescence and hydrophobic properties of the diamond during final recovery. The processing and recovery plants are affected by various issues such as the nature and amount of calcrete in the gravels as well as the amount of sand in the matrix.

Due to the nature of alluvial diamond deposits, samples are not taken for assay as is normal practice in exploration for precious or base metal prospects. Further, the diamond distribution pattern (grade) of alluvial deposits is such

that there is no repeatability of sample results, even from adjacent samples of tens of thousand cubic metres in size. Consequently “check-samples” such as are standard in the precious and base metal industries, are not possible.

A number of issues peculiar to alluvial diamond sampling have been identified which impact on the size of the samples and the complexity of statistical estimations.

Low grades

The grade of a diamond deposit is the estimated number of carats contained in one hundred tonnes (cpht) or one hundred cubic metres (ct/100m³) of gravel and, typically, averages \leq 1cpht (roughly equivalent to 0.001 - 0.0001ppm) for inland South African alluvial deposits.

Large individual diamond size

Diamonds constitute discrete units of varying size (weight). In all of the inland alluvial deposits of South Africa, average diamond sizes are in the range of 0.2-2.0ct/st. Consequently, they form discrete particle deposits as opposed to disseminated particle deposits. Often the size and value distribution from stone to stone is erratic and it is possible that the majority of the value of a parcel is attributed to a single stone.

Grade variation

In a single gravel unit (or even within a few metres), diamond grades may vary from barren to over 100cpht, due to the development of localized trap-sites under favourable bedrock conditions, or hydraulic fractionation within a channel or bar. Consequently, the diamond distribution pattern (grade) of alluvial deposits is such that there is no repeatability of sample results, even from adjacent samples.

Depositional environments

Alluvial streams are highly transient environments. The braided channels are unstable through time and gravel bars are formed and destroyed continuously. Shifting bars and channels cause wide variations in local flow conditions resulting in varied depositional assemblages. Common features in braided stream deposits include irregular bed thicknesses, restricted lateral and vertical variations within the sediments, and abundant evidence of erosion and re-deposition. On a broad scale, most deposits are complex with units of no great lateral extent. Locally, bedrock features play an important role in diamond concentration of the alluvial deposits, with diamonds occurring preferentially in natural traps such as gullies, potholes and gravel bars and, typically, reworked through one or more post-depositional colluvial or eluvial.

Lack of associated minerals or geochemical signature

In contrast to kimberlite deposits, alluvial diamond deposits are not characterized by any standard (or deposit-specific) satellite/indicator mineral assemblage that may occur in higher, more easily measureable, concentrations than the diamonds. Neither do the deposits have any associated geochemical signatures that can vary according to diamond grade (or any other geological characteristic).

Low homogeneity of diamond distribution

Individual diamonds are not evenly or uniformly distributed throughout an alluvial deposit; neither are they randomly distributed. Rather, their distribution has been described as a random distribution of clusters of points, where the clusters are both randomly distributed in space, and the point density of each cluster is also random.

In order to account for all of these characteristics, alluvial diamond deposits can only be sampled through bulk-samples comprising tens-hundreds of thousands of cubic metres of gravel. Bulk-sampling is completed in much the same manner as the production mining would be, except on a smaller scale. With positive results, bulk-sampling naturally progresses to trial-mining, during which all of the modifying parameters are determined to allow a decision of whether to proceed to full production.

Mineral Resource and Mineral Reserve Estimates

There are no current Mineral Resource estimates for the Remhoogte/Holsloot Project.

Exploration and Development

The Company is contemplating a sampling programme that will start with the Rooikoppie gravels on the Holsloot Property and proceed to the fluvial-alluvial deposits on the Remhoogte Property once the gravels have been verified by drilling (re-drilling) and pitting. The prospecting programme is planned to estimate the Mineral Resources that may exist on the Remhoogte/Holsloot Project. The Company will initiate technical and economic studies which, if successful, may culminate in the completion of a preliminary economic assessment by the end of the 2016 fiscal year. Advancement to any subsequent exploration phase is contingent on positive results in the initial drilling and sampling programme.

The Company anticipates the cost for the fiscal year ending February 28, 2016 of (A) the exploration drilling programme on Remhoogte/Holsloot Project will be approximately ZAR 5 million (approximately \$0.5 million), and (B) the Rooikoppie sampling exercise will be ZAR 13 million (approximately \$1.4 million) per month, with a planned increase to some ZAR 15 million (approximately \$1.6 million) per month when the fluvial-alluvial sampling is initiated. It is expected that the bulk sampling operations on the Remhoogte/Holsloot Project following completion of the Acquisition will be sufficient to fund these work programmes.

SHAREHOLDER APPROVAL

The Company intends to convene a special meeting of shareholders to be held on ● (the “**Meeting**”), at which the Company will be seeking the approval of at least a majority of the outstanding Common Shares, voted in respect of the size of the Offering, in compliance with the rules of the TSX and applicable securities laws (collectively, the “**Shareholder Approval**”). As at February 26, 2015, the last trading day on the TSX prior to the date of this short form prospectus, the Company’s issued and outstanding share capital consisted of 54,558,244 Common Shares, fully paid and non-assessable, and no preference shares. Assuming the completion of the Offering and the receipt of Shareholder Approval (including the full exercise of the Over-Allotment Option), upon satisfaction of the Release Conditions, the Company would issue ● Units to holders of Subscription Receipts, 200,000 Work Fee Shares to the Underwriter and ● Common Shares to the holders of the Debentures assuming full conversion of the aggregate principal amount and interest accrued and outstanding thereupon.

The rules of the TSX require that shareholder approval be obtained for financings that result in significant economic dilution to existing shareholders. The rules of the TSX also require that disinterested shareholder approval be obtained in connection with the conversion of the Debentures pursuant to their terms and in connection with the Offering. The Company will be seeking the shareholder approvals at the Meeting in connection with the conversion of the Debentures.

Accordingly, pursuant to the rules of the TSX, Shareholder Approval will be required to be obtained prior to the satisfaction of the Release Conditions.

At the Meeting, the Company will also seek shareholder approval for the BEE Agreement. Shareholder approval is required for the BEE Agreement because Siyancuma is a related party to the Company.

It is expected that an information circular in respect of the Company’s special shareholder meeting will be mailed to the Company’s shareholders prior to the closing of the Offering and that the shareholder meeting will be held on ●.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company: (i) as at November 30, 2014 before giving effect to the Offering; (ii) as at November 30, 2014 after giving effect to the Offering (both Minimum Offering and Maximum Offering), and (iii) as at November 30, 2014 after giving effect to the Offering (both Minimum Offering and Maximum Offering) and the conversion of the Debentures. This table should be read in conjunction with the Interim Financial Statements and associated Interim MD&A.

Description of Securities	As at November 30, 2014 Before Giving Effect to the Offering \$000's	As at November 30, 2014 After Giving Effect to the Minimum Offering ⁽¹⁾⁽⁴⁾ \$000's	As at November 30, 2014 After Giving Effect to the Maximum Offering ⁽¹⁾⁽²⁾⁽⁴⁾ \$000's	As at November 30, 2014	As at November 30, 2014
				After Giving Effect to the Minimum Offering and the conversion of the Debentures ⁽⁴⁾ \$000's	After Giving Effect to the Maximum Offering and the conversion of the Debentures ⁽⁴⁾ \$000's
Share Capital..... (Number of Common Shares)	54,558,244	●	●	●	●
Cash and Cash Equivalents.....	(519)	●	●	●	●
Debt:	9,737	●	●	●	●
Total Debt	10,256 ⁽⁵⁾	●	●	●	●
Total Equity	41,788	● ⁽³⁾	● ⁽³⁾	● ⁽³⁾	● ⁽³⁾
Total Capitalization	52,044	●	●	●	●

- (1) Prior to the exercise of the Over-Allotment Option and after deducting all the anticipated fees, commissions and expenses in connection with the Offering and includes the issuance of the Work Fee Shares.
- (2) If the Over-Allotment Option is exercised in full, cash and cash equivalents will be \$●, debt will be \$●, total equity will be \$●.
- (3) Includes the effect of the conversion of the Subscription Receipts to Units for a value, net of share issuance costs, of \$● million as part of the Offering, and without giving effect to the exercise of the Warrants. The Company expects to assign a value of \$● to the Warrants.
- (4) Does not give effect to any Additional Financing Transactions.
- (5) Since November 30, 2014, the Company has received payment of approximately \$1,800,000 in respect of the Debentures and the Demand Debentures.

USE OF PROCEEDS

Upon closing of the Offering, the Escrowed Proceeds will be held by the Escrow Agent and invested in short-term obligations of, or guaranteed by, the Government of Canada (and other approved investments), pending satisfaction of the Release Conditions. If the Release Conditions are not satisfied by the Release Deadline, and are otherwise not extended, the Escrow Agent will return to holders of Subscription Receipts, on the Termination Date, an amount equal to the Escrowed Proceeds held by them and their *pro rata* share of interest earned on the Escrowed Proceeds. See "Description of Securities Being Distributed".

There will be no closing of this Offering unless the Minimum Offering is completed. The net proceeds to be received by the Company from the Minimum Offering is \$●, after deducting the Underwriter's Commission of approximately \$● (assuming no Subscription Receipts are sold to persons or entities on the President's List) and the estimated expenses of the Minimum Offering of \$●, which will be paid out of the proceeds of the Minimum Offering, assuming no exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the additional net proceeds to the Company of the Minimum Offering will be \$●, after deducting the Underwriter's Commission of approximately \$● and the estimated expenses of the Minimum Offering in respect of the Over-Allotment Option of \$●, which will be paid out of the proceeds of the Over-Allotment Option. The net proceeds to be received by the Company from the Maximum Offering is \$●, after deducting the Underwriter's Commission of approximately \$● and the estimated expenses of the Maximum Offering of \$●, which will be paid out of the proceeds of the Maximum Offering, assuming no exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the additional net proceeds to the Company of the Maximum Offering will be \$●, after deducting the Underwriter's Commission of approximately \$● and the estimated expenses of the Maximum Offering in respect of the Over-Allotment Option of \$●, which will be paid out of the proceeds of the Over-Allotment Option.

Upon satisfaction of the Release Conditions on or prior to the Release Deadline, the Escrowed Funds (other than the applicable balance of the Underwriter's Commission) will be released from escrow to the Company, who will use \$● million of the net proceeds of the Minimum Offering towards funding the ZAR 120 million (approximately \$13 million) portion of the purchase price payable on the closing of the Acquisition. See "The Company - The Acquisition" and "The Remhoogte and Holsloot Properties" for a description of the Acquired Business and the Acquisition, including the underlying mineral properties, assets and allocation of purchase price. The remaining net

proceeds of the Minimum Offering will be used by the Company to cover additional costs related to the Acquisition and for general working capital purposes.

The remaining ZAR 125.4 million (approximately \$13.6 million) payable upon closing of the Acquisition is intended to be financed by the Company by way of the Additional Financing Transactions. See “Additional Financing Transactions”.

The Company will make the Deferred Payments which are comprised of payments in an aggregate amount of ZAR 38.6 million (approximately \$4.2 million) plus interest accruing at 6% (nominal annual interest compounded monthly) to the Vendors payable in equal monthly installments over a 10 month period after the Acquisition Closing Date. The Deferred Payments are anticipated to be funded by the Company from its ongoing cash flow from operations, including anticipated revenues derived from the Acquired Business, or from the proceeds from any asset dispositions such as the possible sale of the Tirisano property. See “Deferred Payments”.

The assets being acquired as part of the Acquisition include shares of Pioneer, immovable property, mineral rights, contracts related to the Acquired Business, processing plants and earth moving and other equipment. To finance the acquisition of the earth-moving and other equipment, the Company is expected to enter into the Additional Financing Transactions, which may involve the Company granting a security interest over certain assets. See “Risk Factors”.

In the event that the Maximum Offering is completed, the Company will satisfy the entire portion of the purchase price payable at the Acquisition Closing Date from the net proceeds of the Maximum Offering and would not proceed with the Additional Financing Transactions. In the event that the Maximum Offering is completed, the Deferred Payments may also be partially funded through the net proceeds of the Maximum Offering. The Company may elect to not proceed with the Maximum Offering if the terms of the Additional Financing Transactions are more favourable.

In the event the Warrants are exercised following the exchange of the Subscription Receipts into Units upon the satisfaction of the Release Conditions, the Company will use the net proceeds for general corporate purposes.

There may be circumstances where, for sound business reasons, the Company reallocates the use of proceeds such that actual expenditures may differ from the above amounts and allocations. Any unallocated funds from the net proceeds of the Offering may be added to the general working capital of the Company and be expended at the discretion of management. See “Risk Factors”.

The Company’s ability to complete the Additional Financing Transactions on acceptable terms or at all will depend on a number of factors beyond the Company’s control, including general conditions affecting the equipment financing markets from time to time and, accordingly, there can be no assurance that any such transactions will be completed. The Company’s ability to continue to generate cash flows from the Acquired Business in a manner consistent with historical cash flows is dependent on a variety of factors, including management’s ability to generate synergies from the consolidation of the Acquired Business with its existing operations and the general demand for and pricing of diamonds. There can be no assurance that sufficient funding will be available from the Acquired Business to complete any exploration programs on the Remhoogte/Holsloot Project. See “Risk Factors”.

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, the Company has agreed to sell, and the Underwriter has agreed to purchase, as principal, ● Subscription Receipts (such amount not to be less than the Minimum Offering and not more than the Maximum Offering and the exercise of the Over-Allotment Option) at the Offering Price for aggregate gross proceeds of \$●, payable in cash to the Escrow Agent, less the expenses of the Underwriter in connection with the Offering and 1/3rd of the Underwriter’s Commission, against delivery of the Subscription Receipts, subject to compliance with all necessary regulatory and legal requirements and the terms and conditions of the Underwriting Agreement. The Offering Price was determined by arm’s length negotiation between the Company and the Underwriter with reference to prevailing market prices. The obligations of the Underwriter under the Underwriting Agreement may be terminated on the basis of “disaster out”, “regulatory out”, “due diligence out”,

“material adverse change out” and “breach out” provisions in the Underwriting Agreement and may also be terminated upon the occurrence of certain other stated events.

In consideration for the services provided by the Underwriter in connection with the Offering and pursuant to the terms of the Underwriting Agreement, the Company has agreed to pay the Underwriter’s Commission consisting of: (i) a cash fee equal to 6.0% of the gross proceeds of the Offering (including upon exercise of the Over-Allotment Option, if any), provided that the amount of the cash fee payable in connection with gross proceeds received from persons or entities on the President’s List is equal to 3.0%; and (ii) that number of Compensation Warrants equal to 6% of the number of Subscription Receipts sold pursuant to the Offering (including upon exercise of the Over-Allotment Option, if any), provided that the number of Compensation Warrants payable in connection with Subscription Receipts sold to persons or entities on the President’s List is equal to 3.0% of the number of Subscription Receipts sold to such persons. The maximum number of Subscription Receipts that can be sold to persons on the President’s List under the Offering is limited to 25% of the Offering. No commission is payable by the Company with respect to the conversion of the Debentures. Each Compensation Warrant is exercisable into one Compensation Unit at the Offering Price for a period of 18 months. Each Compensation Unit will be comprised of one Compensation Share and ● of one Compensation Unit Warrant. Each Compensation Unit Warrant will entitle the holder thereof to acquire one Compensation Warrant Share at a price of \$● for a period of ● months. The Underwriter’s Commission is payable as to 1/3rd on the Closing Date and 2/3rds upon satisfaction of the Release Conditions on or before the Release Deadline. If the Release Conditions are not satisfied on or before the Release Deadline, then the Underwriter’s Commission will be limited to the 1/3rd paid on the Closing Date. The Company has also agreed to issue the Work Fee Shares to the Underwriter at the Closing Date as a work fee in connection with services provided pursuant to their engagement and the Offering. The distribution of the Work Fee Shares and the Compensation Warrants to the Underwriter will be qualified by this short form prospectus. The Company will pay certain expenses incurred by the Underwriter in connection with the Offering as set forth in the Underwriting Agreement at the time of Closing. The Company has also agreed pursuant to the terms of the Underwriting Agreement to indemnify the Underwriter, its affiliates and its partners, directors, officers and employees against certain liabilities and expenses and to contribute to payments that the Underwriter may be required to make in respect thereof.

The Underwriter proposes to offer the Subscription Receipts to the public in all of the provinces of Canada other than the Province of Québec initially at the Offering Price. The Underwriter may decrease the Offering Price of the Subscription Receipts which it sells under this short form prospectus after it has made a reasonable effort to sell all such Subscription Receipts at the Offering Price. The sale by the Underwriter of Subscription Receipts at a price of less than the Offering Price will have the effect of reducing the compensation realized by the Underwriter by the amount that the aggregate price paid by the purchasers for the Subscription Receipts is less than the gross proceeds paid by the Underwriter to the Escrow Agent for the Subscription Receipts. The Underwriter will inform the Company if the Offering Price is decreased.

Pursuant to the requirements of the TSX, the shareholders of the Company must approve the issuance of the Subscription Receipts and the Units. Such approval will be sought at the Meeting to be held on ●. At the Meeting, the Company also expects it will seek disinterested shareholder approval for the conversion rights of the Debentures as well as shareholder approval for the BEE Agreement.

The Underwriting Agreement provides that the closing of the Offering will occur on ● or such later date as the Company and the Underwriter may agree, but in any event not later than ●. There will be no closing of this Offering unless the Minimum Offering is completed.

On closing of the Offering, the Escrowed Proceeds will be deposited with and held by the Escrow Agent and invested in short-term obligations of, or guaranteed by, the Government of Canada (and other approved investments) pending satisfaction of the Release Conditions. The Net Escrow Proceeds shall be released from escrow to the Company upon: (i) the completion, satisfaction or waiver of all material Conditions to the Acquisition, other than payment of the purchase price due in connection with the Acquisition; (ii) the receipt of all required approvals including, without limitation, the approval of shareholders of the Company of the Offering pursuant to the requirements of the TSX, the conditional approval of the TSX and JSE for the Offering and the conditional approval of the TSX and JSE for the listing of the Unit Shares, the Warrant Shares, the Compensation Shares, the Compensation Warrant Shares and the Work Fee Shares; (iii) the Company having cash available (inclusive of the

Net Escrow Proceeds) to pay the purchase price payable to the Vendors on the Acquisition Closing Date; and (iv) the Company and the Underwriter (on their own behalf) having delivered a joint notice to the Escrow Agent confirming that the conditions set forth in (i) and (ii) above have been met or waived (collectively, the “**Release Conditions**”). As a condition precedent to the execution by the Underwriter of the notice referred to in (iv) above, the Chief Executive Officer and Chief Financial Officer of the Company (or such other officers as may be acceptable to the Underwriter, acting reasonably) shall certify to the Underwriter that the Release Conditions (other than that set out in (iv) above) have been satisfied. See “The Company - The Acquisition” and “Shareholder Approval”.

Upon satisfaction of the Release Conditions, the Subscription Receipts will automatically be converted into Units, without payment of additional consideration or further action on the part of the holders.

In the event that: (i) the Release Conditions are not satisfied on or prior to the Release Deadline; or (ii) prior to the Release Deadline, the Company advises the Underwriter or announces to the public that (A) it does not intend to satisfy the Release Conditions or (B) the Release Conditions are incapable of being satisfied by the Release Deadline, then the Escrow Agent will return to holders of Subscription Receipts, on the Termination Date, an amount equal to the Escrowed Proceeds held by them and their *pro rata* share of interest earned on the Escrowed Proceeds. The Company will be responsible and liable to such holders of the Subscription Receipts for the amount that is equal to Closing Commission Value (being the expenses of the Underwriter in connection with the Offering and 1/3rd of the Underwriter’s Commission, including interest thereon).

The Company has applied to list the following securities on the TSX and the JSE: (i) the Unit Shares; (ii) the Warrant Shares; (iii) the Compensation Shares; (iv) the Compensation Warrant Shares; and (v) the Work Fee Shares. Listing will be subject to the Company fulfilling all of the listing requirements of the TSX. Neither the Subscription Receipts nor the Warrants will be listed on any exchange. The JSE will defer to the TSX as the primary regulator of the Company concerning the specific requirements of listing of the Unit Shares, the Warrant Shares, the Compensation Shares, the Compensation Warrant Shares and the Work Fee Shares. **There is currently no market through which the Subscription Receipts or the Warrants may be sold and purchasers may not be able to resell the Subscription Receipts purchased under this short form prospectus or the underlying Warrants. This may affect the pricing of the Subscription Receipts and the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. See “Risk Factors”.**

The Company has granted to the Underwriter the Over-Allotment Option, exercisable in whole or in part at any time not later than the earlier of (i) the 30th day following the Closing Date, and (ii) the occurrence of a Termination Event, to purchase up to an additional ● Subscription Receipts at a price of \$● per Subscription Receipt on the same terms and conditions as under the Offering, solely for market stabilization purposes and to cover over-allotments, if any. In the event the Over-Allotment Option is exercised following the satisfaction or waiver of the Release Conditions, the Company shall issue the same number of Units in lieu of Subscription Receipts. This short form prospectus qualifies the distribution of the Subscription Receipts or Units, as applicable, issuable on the exercise of the Over-Allotment Option. A purchaser who acquires Subscription Receipts or Units, as applicable, forming part of the Underwriter’s over-allocation position acquires such Subscription Receipts or Units, as applicable, under this short form prospectus regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

In connection with this Offering, the Underwriter may, subject to applicable laws, effect transactions which stabilize or maintain the market price of the Subscription Receipts at levels other than that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Pursuant to the rules and policy statements of certain Canadian securities regulators, the Underwriter may not, at any time during the period ending on the date the selling process for the Subscription Receipts ends and all stabilization arrangements relating to the Subscription Receipts are terminated, bid for or purchase securities of the Company for their own account or for accounts over which they exercise control or direction. The foregoing restrictions are subject to certain exceptions including a bid for or purchase of securities of the Company: (i) if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules of the Investment Industry Regulatory Organization of Canada; (ii) made for or on behalf of a client, other than certain prescribed

clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation occurred before the commencement of a prescribed restricted period; and (iii) to cover a short position entered into prior to the commencement of a prescribed restricted period. The Underwriter may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of securities of the Company is for the purpose of maintaining a fair and orderly market in such securities of the Company, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Subscription Receipts will be offered in all of the provinces of Canada, other than the Province of Québec, through the Underwriter or its broker-dealer affiliates or agents who are duly registered in such jurisdictions, as applicable.

The Subscription Receipts and the Units have not been and will not be registered under the U.S. Securities Act or any state securities laws and, subject to certain exemptions therefrom, may not be offered, sold, transferred, delivered or otherwise disposed of, directly or indirectly, within the United States or to, or for the account or benefit of, any "U.S. Person" as such term is defined in Rule 902(k) of Regulation S under the U.S. Securities Act. The Underwriter has agreed that, except as permitted under the Underwriting Agreement, it will not offer, sell, transfer, deliver or otherwise dispose of, directly or indirectly, the Subscription Receipts at any time within the United States or to, or for the account or benefit of, any U.S. Person, except in transactions exempt from the registration requirements under the U.S. Securities Act.

The Company has agreed in the Underwriting Agreement not to, directly or indirectly, issue, sell, offer, grant an option or right in respect of, or otherwise dispose of, or agree to or announce any intention to, issue, sell, offer, grant an option or right in respect of, or otherwise dispose of, any additional Common Shares or any securities convertible or exchangeable into Common Shares, other than pursuant to: (i) the Offering; (ii) the grant or exercise of stock options and other similar issuances pursuant to any stock option plan or similar share compensation arrangements; or (iii) the issuance of Common Shares upon the exercise of convertible securities, warrants, options, or any other commitment or agreement outstanding, for a period of 120 days from the Closing Date, without the prior written consent of the Underwriter, such consent not to be unreasonably withheld.

The Company has also agreed to use its best efforts to cause certain directors and officers of the Company to enter into lock up agreements in favour of the Underwriter evidencing its agreement not to sell, transfer, assign, pledge or otherwise dispose of any securities of the Company owned, directly or indirectly, by such directors or officers for a period of 120 days following the Closing Date, other than those securities contemplated in the Offering, without the prior written consent of the Underwriter.

The Subscription Receipts are anticipated to be delivered under the book based system through CDS or its nominee and deposited in electronic form with CDS on the Closing Date, or such other date as may be agreed upon by the Company and the Underwriter but in any event no later than 42 days after the date of the final receipt for the short form prospectus. A purchaser of Subscription Receipts will receive only a customer confirmation from the registered dealer through which the Subscription Receipts are purchased.

DESCRIPTION OF SECURITIES BEING DISTRIBUTED

The Offering consists of • Subscription Receipts (such amount not to be less than the Minimum Offering and not more than the Maximum Offering and the exercise of the Over-Allotment Option). Each Subscription Receipt will entitle the holders thereof to receive, subject to adjustment and without payment of additional consideration or further action on the part of the holders thereof, one Unit upon satisfaction of the Release Conditions.

Subscription Receipts

The following summary of the material attributes and characteristics of the Subscription Receipts does not include a description of all of the terms of the Subscription Receipts, and reference should be made to the Subscription Receipt Agreement (as defined herein) for a complete description of the terms of the Subscription Receipts.

The Subscription Receipts will be issued on the Closing Date pursuant to a subscription receipt agreement to be entered into on the Closing Date among the Company, the Underwriter and the Escrow Agent (the "**Subscription**

Receipt Agreement”). The Escrowed Proceeds will be delivered to and held by the Escrow Agent and invested in short-term obligations of, or guaranteed by, the Government of Canada (and other approved investments) pending satisfaction of the Release Conditions.

In connection with the satisfaction of the Release Conditions, the Escrow Agent will release the Net Escrow Proceeds upon receipt of a joint notice from the Company and the Underwriter addressed to the Escrow Agent confirming that the Release Conditions have been satisfied. As a condition precedent to the execution by the Underwriter of the joint notice referred to above, the Chief Executive Officer and Chief Financial Officer of the Company (or such other officers as may be acceptable to the Underwriter, acting reasonably) shall certify to the Underwriter that the Release Conditions (other than delivery of the aforementioned joint notice) have been satisfied. The Subscription Receipt Agreement will contain a covenant of the Company to use commercially reasonable efforts to satisfy the Release Conditions to be satisfied by it by the Release Deadline.

The Units will be issued to holders of record of Subscription Receipts upon an irrevocable direction given by the Company addressed to Computershare Investor Services Inc. (as Canadian registrar and transfer agent of the Common Shares) that the Release Conditions have been satisfied.

Each Unit will be comprised of one Unit Share and ● of one Warrant. Each Warrant will entitle the holder thereof to acquire one Warrant Share at a price of \$● for a period of ● months following the Closing Date (as defined herein).

In the event that: (i) the Release Conditions are not satisfied on or prior to the Release Deadline; or (ii) prior to the Release Deadline, the Company advises the Underwriter or announces to the public that (A) it does not intend to satisfy the Release Conditions or (B) the Release Conditions are incapable of being satisfied by the Release Deadline, then the Escrow Agent will return to holders of Subscription Receipts, on the Termination Date, an amount equal to the Escrowed Proceeds held by them and their *pro rata* share of interest earned on the Escrowed Proceeds. The Company will be responsible and liable to such holders of the Subscription Receipts for the amount that is equal to Closing Commission Value (being certain expenses of the Underwriter in connection with the Offering and 1/3rd of the Underwriter’s Commission, including interest thereon). Holders of Subscription Receipts will not have any voting or other rights as shareholders of the Company and will not be entitled to receive any dividends or other distributions of the Company in respect of such Subscription Receipts prior to the issuance of the Unit Shares.

The Subscription Receipt Agreement will provide for, and contain provisions for, adjustments to the amount and kind of securities or other properties issuable upon conversion of the Subscription Receipts upon the occurrence of certain events, including: (i) any subdivision, consolidation or change of the Common Shares; (ii) the issuance or distribution, to all or substantially all shareholders, of securities other than Common Shares, rights, options or warrants, evidences of indebtedness or any other assets as a special distribution; (iii) the issuance of rights, options or warrants to all or substantially all shareholders entitling them to acquire Common Shares or convertible securities within 45 days at a price of less than 95% of the “current market price”; or (iv) any consolidation, amalgamation, arrangement or other business combination of the Company with or into another entity, including a transaction whereby all or substantially all of the Company’s undertaking and assets become the property of any other entity, pursuant to which each holder of a Subscription Receipt which is thereafter converted shall receive, in lieu of Common Shares, the kind and number or amount of other securities or property which such holder would have been entitled to receive as a result of such event if such Subscription Receipt had been converted prior to the event.

From time to time while the Subscription Receipts are outstanding, the Company and the Escrow Agent, without the consent of the holders of the Subscription Receipts, may amend or supplement the Subscription Receipt Agreement for certain purposes, including making any change that, in the opinion of the Escrow Agent, does not prejudice the rights of the holders of the Subscription Receipts, as a group. The Subscription Receipt Agreement will provide for other modifications and alterations thereto and to the Subscription Receipts issued thereunder by way of a resolution approved by more than two-thirds of the votes cast in person or by proxy by Subscription Receipt holders.

The Subscription Receipts do not entitle the holders to any rights as a shareholder of the Company and accordingly such holders of Subscription Receipts shall not be considered shareholders of the Company.

Common Shares

The Company is authorized to issue an unlimited number of Common Shares without nominal or par value of which 54,558,244 Common Shares are issued and outstanding as of the date hereof.

The holders of Common Shares are entitled to receive notice of and attend all meetings of shareholders with each Common Share held entitling the holder to one vote on any resolution to be passed at such shareholder meetings. The holders of Common Shares are entitled to dividends if, as and when declared by the board of directors of the Company. The Common Shares are entitled, upon liquidation, dissolution or winding up of the Company, to receive the remaining assets of the Company available for distribution to shareholders.

Warrants

The Warrants will be issued pursuant to a warrant indenture (the “**Warrant Indenture**”) dated as of the Closing Date between the Company and ● (the “**Warrant Agent**”), as agent for the holders of the Warrants, a copy of which will be filed on SEDAR. The following is a summary of the material attributes and characteristics of the Warrants. This summary does not purport to be complete and is subject to, and qualified in its entirety by, reference to the terms of the Warrant Indenture.

Each whole Warrant will entitle the holder thereof to purchase, subject to adjustment as summarized below, one Warrant Share at a price of \$● for a period of ● months following the Closing Date.

The Warrant Indenture will provide that the share ratio and exercise price of the Warrants will be subject to adjustment in the event of a subdivision or consolidation of the Common Shares. The Warrant Indenture will also provide that if there is (a) any reclassification or change of the Common Shares, (b) any consolidation, amalgamation, arrangement or other business combination of the Company resulting in any reclassification or change of the Common Shares into other shares, or (c) any sale, lease, exchange or transfer of the assets of the Company as an entirety or substantially as an entirety to another entity, then each holder of a Warrant which is thereafter exercised shall receive, in lieu of Warrant Shares, the kind and number or amount of other securities or property which such holder would have been entitled to receive as a result of such event if such holder had exercised the Warrants prior to the event.

The Company will also covenant in the Warrant Indenture that, during the period in which the Warrants are exercisable, it will give notice to holders of Warrants of certain stated events, including events that would result in an adjustment to the exercise price of the Warrants or the number of Warrant Shares issuable upon exercise of the Warrants, at least 14 days prior to the record date or effective date, as the case may be, of such events.

No fractional Warrant Shares will be issuable upon the exercise of any Warrants, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Warrants will not have any voting or pre-emptive rights or any other rights which a holder of Common Shares would have.

From time to time, the Company and the Warrant Agent, without the consent of the holders of Warrants, may amend or supplement the Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Warrants. Any amendment or supplement to the Warrant Indenture that adversely affects the interests of the holders of the Warrants may only be made by “extraordinary resolution”, which will be defined in the Warrant Indenture as a resolution approved by the votes cast in person or by proxy by holders of Warrants entitled to purchase in the aggregate at least $\frac{66}{100}$ % of the aggregate number of Warrant Shares which may be purchased pursuant to all Warrants held by holders of Warrants voting on such resolution.

PRIOR SALES

For the 12-month period before the date of this short form prospectus the Company issued the following Common Shares and securities convertible into Common Shares:

Date of Issuance	Number of Securities Issued	Security Issued	Issue/Exercise Price Per Security
September 10, 2014	960,000	Common Shares	ZAR 3.61 ⁽¹⁾
October 13, 2014	75,000	Common Shares	\$0.21 ⁽²⁾
November 19, 2014	\$3,775,000	Debentures	See note 3 below

(1) Issued to employees pursuant to a share-based payment plan.

(2) Issued pursuant to the exercise of options.

(3) Convertible into Common Shares as described above under the heading “Recent Developments - 2014 Debenture Offering”.

TRADING PRICE AND VOLUME

The Common Shares trade on the TSX under the symbol “RDI”. The following table sets out the high and low sale prices and the volume of trading of the Common Shares on the TSX for the months indicated.

Month, Year	Price Range (\$)		Total Volume
	High	Low	
February 1 - 26, 2015	0.25	0.22	676541
January, 2015	0.275	0.22	429012
December, 2014	0.35	0.24	491491
November, 2014	0.34	0.26	146842
October, 2014	0.34	0.26	118422
September, 2014	0.38	0.325	152586
August, 2014	0.425	0.375	327247
July, 2014	0.44	0.305	693655
June, 2014	0.33	0.24	1093456
May, 2014	0.295	0.25	152057
April, 2014	0.34	0.27	393152
March, 2014	0.35	0.30	221052

The Common Shares also trade on the JSE under the symbol “RDI”. The following table sets out the high and low sale prices and the volume of trading of the Common Shares on the JSE for the months indicated.

Month, Year	Price Range (ZAR)		Total Volume
	High	Low	
February 1 - 26, 2015	245	220	11820
January, 2015	250	245	63418
December, 2014	300	250	35054
November, 2014	334	257	47751
October, 2014	330	320	1694
September, 2014	361	320	100488
August, 2014	445	361	28420
July, 2014	450	300	97985
June, 2014	330	277	34307

May, 2014	330	329	3204
April, 2014	340	326	35441
March, 2014	398	326	17108

RISK FACTORS

An investment in the Subscription Receipts is subject to a number of risks. Purchasers of the Subscription Receipts should carefully consider all the information contained in this short form prospectus, including all documents incorporated by reference, which may be accessed at www.sedar.com, and in particular, should give consideration to the risk factors applicable to the business of the Company as described in the Annual Information Form, which is incorporated by reference herein.

Risks Related to the Offering

Release Conditions

There can be no assurance that the Release Conditions will be satisfied by the Release Deadline or that another Termination Event will not occur. If the Release Conditions are not satisfied by the Release Deadline or another Termination Event occurs, the Escrow Agent and the Company must repay to holders of Subscription Receipts an amount equal to the Offering Price thereof plus a *pro rata* share of the interest earned on the Escrowed Proceeds. The Company is responsible and liable for any shortfall between the Escrowed Funds and the amount due to be paid to the holders of the Subscription Receipts (such amount being the expenses or any losses as a result of the investment of those funds pending the satisfaction of the Release Conditions). There is no assurance that the Company will have sufficient funds to pay the shortfall, or even if the Company has such funds, such shortfall will be paid in a timely manner. See “Need for Additional Financing” below.

Use of Proceeds

The Company currently intends to allocate the net proceeds received from the Offering as described under “Use of Proceeds”. However, management will have discretion in the actual application of the net proceeds, and may elect to allocate net proceeds differently from that described under “Use of Proceeds” if they believe it would be in the Company’s best interests to do so. Accordingly, although such allocations are based on the current expectation of management of the Company, there may be circumstances where for sound business reasons, a reallocation of funds may be necessary. Shareholders may not agree with the manner in which management chooses to allocate and spend the net proceeds. The failure by management to apply these funds effectively could have a material adverse effect on the Company’s business.

No Market for the Subscription Receipts or the Warrants

Neither the Subscription Receipts nor the Warrants will be listed on any exchange. There is currently no market through which the Subscription Receipts or the Warrants may be sold and purchasers may not be able to resell the Subscription Receipts or the underlying Warrants distributed under this short form prospectus. This may affect the pricing of the Subscription Receipts and the Warrants in the secondary market, the transparency and the availability of trading prices, the liquidity of these securities and the extent of the issuer regulation.

Loss of Entire Investment

An investment in the Units is speculative and may result in the loss of an investor’s entire investment. Only potential investors who are experienced in high risk investments and who can afford to lose their entire investment should consider an investment in the Company.

Dilution

The Company may sell or issue additional Common Shares or other securities in the future, including pursuant to the conversion of the Debentures, to finance future activities, including to make the Deferred Payments, to complete the upgrade of the processing plant capacity at the Nieuwejaarskraal property, to pay the remainder of the purchase price

for the Acquisition and to fund the Company's growth strategy and exploration and development activities. The Company cannot predict the size of future issuances of securities or the effect, if any, that future issuances and sales of securities will have on the market price of the Common Shares. Issuances of substantial numbers of Common Shares, or the perception that such issuances could occur, may adversely affect prevailing market prices of the Common Shares. With any additional issuance of Common Shares (including the issuance of the Units upon conversion of the Subscription Receipts), investors will suffer dilution to their voting power and the Company may experience dilution in its earnings per share.

Need for Additional Financing or Capital

The Company may require additional financing or other sources of capital (including but not limited to the possible sale of the Tirisano property) in order to make the Deferred Payments, to complete the upgrade of the processing plant capacity at the Nieuwejaarskraal property, to pay the remainder of the purchase price for the Acquisition or continue the Company's exploration, development and production activities. If needed, there can be no assurance that the Company will be able to obtain the necessary financing or other source of capital in a timely manner or on acceptable terms, if at all. In particular, the Company may require significant additional capital in order to develop and place its properties into commercial production and to fund its ongoing operating and/or expansion costs. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing or other source of capital could result in delay or indefinite postponement of further expansion, exploration and development of the Company's properties and thus have a material adverse effect on the Company's financial condition, results of operations and liquidity.

Price Volatility

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Factors unrelated to the financial performance or prospects of the Company include macroeconomic developments in North America, Europe, South America, Africa and globally, and market perceptions of the attractiveness of particular industries. There can be no assurance that continued fluctuations in commodity prices will not occur. As a result of any of these factors, the market price of the securities of the Company at any given point in time may not accurately reflect the long term value of the Company.

Growth Strategy

The Company evaluates growth opportunities and continues to consider the acquisition and disposition of exploration and development properties and mineral assets to achieve its strategy. The Company, from time to time, is engaged in discussions in respect of both acquisitions and dispositions, and other business opportunities, but there can be no assurance that any such discussions will result in a successfully completed transaction, including the possible sale of the Tirisano property on favourable terms.

Risks Related to the Acquisition

Additional Financing Transactions

There are certain factors beyond the Company's control which may jeopardize the proposed Acquisition.

The proposed Additional Financing Transactions have not yet been finalized and there is no guarantee that they will be finalized. The Company may need to seek other funding which may not be available, or if available, such funding may be on terms that could be dilutive. The Company's ability to complete the Acquisition on acceptable terms or at all will depend on a number of factors beyond the Company's control, including general economic conditions from time to time and, accordingly, there can be no assurance that any such transaction will be completed. See "The Company - Additional Financing Transactions".

Deferred Payments

The successful completion of the Acquisition will depend on the Company's ability to make the Deferred Payments and there is no guarantee that the Company will have sufficient funds or that the Acquired Business will generate sufficient revenue to make the Deferred Payments. The Company may need to seek other funding which may not be available, or if available, such funding may be on unfavourable terms or on terms that could be dilutive.

Cash Flows from Acquired Business May Vary

The Acquired Business has a limited history of production and cash flows, and as such, historical cash flows do not have a significant history to be reliable. The cash flows derived from the Acquired Business after the completion of the Acquisition may not be consistent with historical cash flows generated from such assets and the Company may require additional financing in order to meet its exploration and development programs, the Deferred Payments and on-going operational expenditures. There can be no assurance that historical cash flows from the Acquired Business will be maintained at their current levels, if at all, or that they will be indicative of future performance.

The completion of the Acquisition may be delayed as a result of the time required to obtain necessary Shareholder Approval, other regulatory approvals and the satisfaction of the Release Conditions

The closing of the Offering will occur before the completion, effectiveness, availability or funding of the Additional Financing Transactions as well as the satisfaction of the Release Conditions, which includes, among other things, receipt of Shareholder Approval. There is no certainty, nor can the Company provide any assurance, that these conditions will be satisfied or, if satisfied, when they will be satisfied. A substantial delay in obtaining Shareholder Approval, regulatory approvals or the imposition of unfavourable terms or conditions in the approvals or the inability to enter into Additional Financing Transactions on favourable terms could have a material adverse effect on the Company's ability to complete the Acquisition or on the satisfaction of the Release Conditions and on the Company's business, financial condition or results of operations.

Integration of the Acquired Business

Integrating the Acquired Business with the Company's existing business will be a complex, time-consuming and costly process. Failure to integrate the Acquired Business successfully in a timely manner may have a material adverse effect on the Company's business, results of operations, cash flows and financial position. The changes associated with integrating the Acquired Business include, among other things:

- operating a larger organization;
- integrating corporate, technological and administrative functions; and
- diverting management's attention from other business concerns.

The process of integration could cause a temporary interruption of, or a slowdown in, the activities of the Company's business. Although members of the management team may be required to devote considerable amounts of time to this integration process, there is sufficient executive and operational management capacity to oversee the integration. If the management is not able to effectively manage the integration process, or if any business activities are interrupted as a result of the integration process, the Company's business could suffer.

Realization of the Benefits of the Acquisition

The Company is proposing to complete the Acquisition to, among other things:

- increase its regional footprint and scale;
- increase cash flow and earnings per share; and
- solidify its competitive long-term cash position.

Achieving the benefits of the Acquisition depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as the Company's ability to realize the anticipated growth opportunities from integrating the Acquired Business into its existing business. For the reasons set out above and below, and for other reasons not described in this short form prospectus, the Company may fail to realize any of the anticipated benefits of the Acquisition.

Foreign Exchange Risk

The Company must pay for the Acquisition in South African Rand, while funds raised under the Offering, which will constitute a significant portion of the total purchase price for the Acquisition, are denominated in Canadian dollars. In addition, the majority of the Company's expenses at the present time are denominated in South African Rand, including the anticipated exploration and development expenditures required to advance the Remhoogte/Holsloot Project. See "The Remhoogte and Holsloot Properties".

From time to time, there may be a time lag in converting funds from Canadian dollars to South African Rand. The Company's currency exposure relates to expenses and obligations incurred by it in South African Rand. The appreciation of the South African Rand against the Canadian dollar, therefore, will increase the amount of the Company's Canadian dollar liabilities relative to the total funds the Company will receive under the Offering.

No Confirmed Mineral Resources or Mineral Reserves on Remhoogte Property, Holsloot Property and the Bo-Karoo Property

There are currently no estimated mineral resources or mineral reserves on the mineral properties to be acquired pursuant to the Acquisition and there is no guarantee that the Company will be able to estimate any mineral resources or mineral reserves on such properties. Previous diamond production from such properties may not be indicative of future results.

Undisclosed Liabilities Associated with the Acquisition

In connection with the Acquisition, there may be liabilities that the Company failed to discover or was unable to quantify in its due diligence (which it conducted prior to the execution of the Agreement). The representations, warranties and indemnities contained in the Agreement are limited and the Company's ability to seek remedies for breach of such provisions following completion of the Acquisition may be limited.

Acquisitions require geologic, metallurgic, engineering, title, environmental, economic, financial and other assessments that may be materially incorrect and may not produce as expected.

Acquisitions of mining properties or mining companies are based in large part on geologic, metallurgic, engineering, title, environmental, economic and financial assessments made by the acquirer and its personnel as well as independent consultants and advisors it may hire. These assessments include a series of assumptions regarding such factors as the grades, recoverability, regulatory and environmental restrictions, future prices of diamonds and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the properties. Many of these factors are subject to change and are beyond the Company's control. All such assessments involve a measure of geologic, metallurgic, engineering, environmental, regulatory, political, economic and financial uncertainty that could result in lower production and lower mineral reserves and mineral resources or higher operating or capital expenditures than anticipated or unanticipated difficulty in obtaining required permits or complying with regulatory or environmental requirements. In addition, while the Company will receive opinions on title, title and rights of access to the Acquired Business can never be guaranteed. Failure to obtain satisfactory title to the Acquired Business may adversely affect economic returns from production at the Acquired Business and the Company's ability in the future to increase production and mineral reserves and mineral resources.

Future Business and Operations

Because the Acquisition is dependent upon satisfaction of certain conditions, its completion is subject to uncertainty. In response to this uncertainty, customers and suppliers may delay or defer decisions concerning the Acquired Business. Similarly, personnel employed at the Acquired Business may leave their employment because of the

uncertainty associated with a new owner. Any delay or deferral of those decisions by customers and suppliers or loss of personnel could have an adverse effect on the business and operations of the Acquired Business.

Environmental Hazards and Reclamation Obligations

All phases of the Acquired Business's operations are, like the Company's, subject to environmental regulation, which mandates such things as air and water quality standards, land reclamation, site restoration and site closure requirements. Environmental legislation is evolving in a manner which will likely require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes to environmental regulation, if any, will not adversely affect the Acquired Business or operations thereon. Environmental hazards may exist on the Acquired Business that are currently unknown and may have been caused by previous owners or operators of the properties. Such hazards could result in loss or liability or regulatory or legal action that could have a material adverse effect on the Company. The Company calculated its estimates of the ultimate reclamation liability with respect to the Acquired Business based on current laws and regulations and the expected future costs to be incurred in reclaiming, restoring and closing the mine sites. It is possible that the Company's estimate of the ultimate reclamation liability could change in the near term due to changes in laws and regulations and changes in cost estimates or discount rates.

There are a variety of other general risks associated with shared ownership, which could result in a material adverse effect on our future growth, results of operations, cash flows and financial position.

Security Over Assets

In connection with the Additional Financing Transactions, the Company may be providing a security interest on the various assets being leased or on other assets owned by the Company. As a result, certain of the Company's assets and those being acquired through the Acquisition may be encumbered by such security interests.

Risks Related to the Business of the Company

In addition to the risk factors set forth below, reference should be made to all of the risk factors relating to the business of the Company contained in the Annual Information Form which is incorporated by reference in this short form prospectus.

The Company's financial performance is highly dependent on the price of diamonds. Volatility in diamond prices, as well as factors that lead to decreased demand for diamonds, may have an adverse impact on the Company's financial position and performance

The Company derives its revenues and a significant proportion of its operating cash flow from the production, processing and sale of diamonds. The value of the Company's mineral resource properties is dependent on the price and the outlook of diamonds. Diamond demand and prices fluctuate and are affected by numerous factors beyond the control of the Company, including worldwide economic trends, worldwide levels of diamond discovery and production, and the level of demand for and discretionary spending on, luxury goods such as diamonds and jewellery. Low or negative growth in the worldwide economy, prolonged credit market disruptions or activities creating disruptions in economic growth could result in decreased demand for diamonds, thereby negatively affecting the price of diamonds. Similarly, a substantial increase in the worldwide level of diamond production could also negatively affect the price of diamonds. In each case, such developments could materially adversely affect the Company's results of operations. The profitability of the Company's operations is highly correlated to the market price of diamonds. If diamond prices decline for a prolonged period below the cost of production of the Company's operating mines, it may not be economically feasible to continue production.

Diamond Exploration and Development

Diamond exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover diamond deposits

but also from finding diamond deposits that, though present, are insufficient in terms of tonnage, grade or diamond value to return a profit from production.

Market for Diamonds

The mining industry, in general, is intensely competitive and there is no assurance that, even if the Company's projects are developed and produce commercial quantities of diamonds, a profitable market will exist for the sale of the diamonds produced. Factors beyond the control of the Company may affect the marketability of any diamonds or other minerals discovered. Pricing is affected by numerous factors beyond the Company's control such as international economic and political trends, global or regional consumption and demand patterns, increased production and the influence of other diamond producers, especially due to the small concentration of producers and sellers within the market. There is no assurance that the price of diamonds recovered from any diamond deposit will be such that they can be mined at a profit.

Risks Associated with Operations in South Africa

The Company's properties are located in South Africa, and mineral exploration and mining activities in this country may be affected in varying degrees by political stability and economic uncertainties. Operations also may be affected in varying degrees by government regulations with respect to restrictions on production, repatriation of profits, price controls, export controls, income royalty taxes, expropriations or property, environmental legislation and mine safety. The Company could further be exposed to various risks such as potential renegotiation, nullification or forced modification of existing contracts, expropriation or nationalism strategies by government, foreign exchange controls, changes in local laws, regulations and policies, political instability, local beneficiation requirements bribery, extortion, acts of war and guerilla activities.

Disputes with local communities where the Company operates may arise from time to time. In some instances, the Company's operations are located on or near lands owned and used by indigenous people or other groups of stakeholders. Disagreements or disruptions with local groups could cause delays or interruptions to the Company's mining operations.

The Company's operations depend on authorizations and concessions from governmental regulatory in South Africa. Apart from mining rights, the Company will also need to obtain various authorizations, licences and permits from governmental or regulatory bodies in connection with the planning maintenance and operation of the mines and related logistics infrastructure. There is no assurance that these authorizations or future renewals thereof will be granted as a matter of course and on a timely basis.

Electricity supply interruptions and increases in electricity costs in South Africa could adversely affect the Company's business, operating results, cash flows, financial condition and future growth

Certain of the Company's current and proposed South African operations are dependent on power generated by the state-owned utility, Eskom. South Africa is experiencing significant electricity supply interruptions owing to a shortage in generating capacity and increased demand, and management believes that the current electricity supply is, and will be for the near future, constrained. Although Eskom has announced a number of short- and long-term mitigation plans, there can be no assurance that the Company will not experience power supply interruptions which could have material adverse effects on the Company's business, operating results, cash flows, financial condition and future growth. In addition, South Africa is experiencing electricity price increases that are higher than historically experienced. Although the Company has taken steps to mitigate this risk through the installation of on-site back-up generators, any sharp increase in electricity costs may have material adverse effects on the Company's business, operating costs, operating results, cash flows and financial condition and may hamper the growth and development of any new projects and affect their financial viability. There is no assurance that the Company's 2 megawatt generator is sufficient to cover all of the Company's electricity needs in the case of a long-term power outage.

The Company's existing South African mining rights are subject to termination if it does not comply with its obligations under the provisions of the MPRDA or the Mining Charter.

The mining industry in South Africa is subject to extensive regulation and the Company's mining operations are dependent upon the timely granting of appropriate licences, permits and regulatory consents. One of the requirements that must be met before the DMR will issue a mining right is that the applicant must show that the granting of the mining right will further the objects of section 2(d) and section 2(f) of the *Mineral and Petroleum Resources Development Act* (the "MPRDA"). Currently, holders of mining rights must have at least 26% of the economic interest of the company held by historically disadvantaged South Africans ("HDSA").

If the DMR determines that the Company has breached any material condition attaching to a mining right, including that of HDSA participation or ownership, or submitted any inaccurate, incorrect or misleading information, having notified and granted the Company a reasonable opportunity to rectify the alleged breach, it would be entitled to suspend or cancel the relevant mining right under section 47 of the MPRDA.

The Minister of Mineral Resources (the "Minister") has the discretion to cancel or suspend mining rights under section 47(1) of the MPRDA as a consequence of the Company's non-compliance with the terms of the applicable mining right. The section 47 process involves multiple, successive stages which include granting the Company a reasonable opportunity to show why its rights should not be cancelled or suspended. The Minister must properly consider the Company's submissions under the prescripts of lawfulness, reasonableness and procedural fairness and can direct the Company to take remedial measures. If such remedial measures are not taken, the Minister is then required to give the Company a reasonable opportunity to make representations as to why such remedial measures were not taken by it. The Minister is then required to properly consider the Company's further representations and only after such consideration is the Minister entitled to cancel or suspend the Company's mining right.

A failure by the Company to meet its obligations in relation to its mining rights in terms of the MPRDA could lead to the suspension or cancellation of such rights and the suspension or need to dispose of some or all of the Company's operations in South Africa, which would have an adverse effect on the Company's business, financial condition and results of operations.

The Company's application in terms of section 11 of the MPRDA may be delayed or refused

In South Africa, when a mining company or a shareholder(s) who hold(s) a direct or indirect controlling interest in a mining company wish to transfer a prospecting or mining right or a controlling interest in a mining company, an application in terms of section 11 of the MPRDA must be lodged with the Minister for his consent to such a transfer.

The applicant in terms of section 11 of the MPRDA needs to show that the proposed holder of either the rights itself or a controlling interest in such a holder (i) will be capable of carrying out and complying with the obligations and the terms and conditions of the right in question; and (ii) must satisfy the requirements set out in section 17 (in the case of prospecting rights) and/or section 23 (in the case of mining rights) of the MPRDA.

Section 23 requires the applicant or proposed mining right holder to demonstrate that it will be capable of carrying out and complying with the obligations and the terms and conditions of the right in question and that (i) it will be able to mine the mineral optimally in accordance with the mine works programme; (ii) it has access to financial resources and has the technical ability to conduct the proposed mining operation optimally; (iii) the financing plan is compatible with the intended mining operation and the duration of these operations; (iv) the mining will not result in any unacceptable pollution, ecological degradation or damage to the environment; (v) it is able to provide financially and otherwise for the prescribed social and labour plan; (vi) it will be capable of complying with the Mine Health & Safety Act; (vii) it is not in contravention of any provision of the MPRDA; and (viii) the granting of such rights will further the BEE objectives of the MPRDA & the Mining Charter.

Section 11 of the MPRDA is not discretionary in that, if an applicant in terms of the section complies with the requirements contemplated in section 11(2) of the MPRDA (as detailed above); the Minister must grant the application.

In the past delays have been encountered with the DMR in the processing of section 11 applications. In certain circumstances, the DMR will agree to the parties entering into a contract mining agreement for the interim period, in other words, whilst the parties await the completion of the section 11 process and acceptance or rejection of the application. Section 101 of the MPRDA makes provision for the appointment of a contractor by a holder of a

mining right to perform any work within the boundaries of the mining area. The section, however, provides that the holder of such mining right shall at all times remain responsible for the compliance with all the provisions of the MPRDA as well as the terms and conditions of such a right.

Characteristics of and changes in the tax systems applicable to the Company could materially adversely affect the Company's business, financial condition and results of operations

The Company pays different types of governmental taxes in South Africa including corporation tax, payroll tax, value added tax (VAT), state royalties, various forms of duties and withholding tax. The tax regimes applicable to the Company are subject to change which may result in the Company being subject to higher levels of taxation in general, or new forms of taxation or royalties applicable to all corporations or to the mining industry specifically. Accordingly, it is possible that the Company could become subject to taxation that is not currently anticipated, which could have an adverse effect on its business, financial condition and results of operations.

Regulatory uncertainty could materially adversely affect the Company's business, financial condition and results of operations

The value of the natural mineral endowment of South Africa and policies of resource nationalism have been and are currently subject to debate in deciding how best to advance the empowerment of South Africa's historically disadvantaged individuals, groups and communities. Although wholesale nationalisation was rejected by the African National Congress, the resolution on nationalism calls for state intervention in the economy, including "state ownership".

Mining activities and processing create and increase the risk of environmental hazards and the Company is subject to strict environmental regulations and enforcement as well as rehabilitation requirements

The Company's mining operations are subject to compliance with strict environmental legislation and regulation. As environmental laws and regulations are becoming more complex and stringent, the Company's environmental management plans and/or programmes may be the subject of increasingly strict interpretation or enforcement or become more comprehensive, and could result in increased operating expenditures, financial or other penalties, and/or the suspension or loss of the Company's mining rights.

For example, the Company is required to post adequate financial assurance (making use of a combination of financial guarantees and insurance) to ensure the availability of funds to perform future closure and rehabilitation estimated at rates and on a basis of calculation prescribed by the DMR, which impact the Company's financial liquidity and costs at the affected operations. Should the Company be required to post other collateral, cash or cash equivalents directly in support of its financial assurance obligations in relation to rehabilitation and remediation, it would have to carry the cost of servicing these additional guarantees and the willingness of each of the banks providing such guarantees to make further debt financing available to the Company in the future may be reduced, thereby limiting the Company's future access to additional facilities or further guarantees from such banks, which could adversely impact the Company's business, financial condition and results of operations.

The Company's operations generate a number of waste materials and by-products, which give rise to the risk of pollution of water sources and air quality or land degradation which could harm the environment or the public and give rise to rehabilitation obligations. In particular, the Company's operations have resulted and may result in various environmental impacts.

The Company may be liable for losses associated with environmental hazards or pollution; have obligations to notify relevant authorities; undertake investigations regarding any environmental hazards or pollution; have licences and permits withdrawn or suspended or may be forced to undertake extensive remedial clean-up action or pay for government-ordered remedial clean-up actions. This may be the position in certain circumstances even in cases where such hazards have arisen despite the Company's compliance with applicable environmental legislation or have been caused by any previous or subsequent owners or operators of the property, by any past or present owners of adjacent properties or by acts of vandalism by trespassers.

The Company's operations are dependent on access to sufficient water

The Company is dependent on the availability of water in its areas of operations and in particular on the ability to be provided with a sufficient allocation of water to enable it to conduct its business. If the Company cannot be supplied with sufficient water it could suffer from a reduction in its operating capacity. Any increase in water prices may contribute to higher operating costs for the Company leading to lower operating profits and cash flows, and may hamper growth and development of new projects and affect the Company's financial viability.

Water use in South Africa is regulated and water may only be used in accordance with a licence or permit. The Company currently has the necessary water permits; however, if it is unable to renew a water use licence or permit for any of its properties or if a water use licence or permit granted to the Company is subsequently revoked for any reason, this could affect the Company's ability to continue or commence operations at the affected property.

The Company's workforce is unionized and its operations may in the future be materially adversely affected by protracted industrial relations unrest and work stoppages

The majority of the Company's employees belong to the National Union of Mineworkers. Trade unions could have a significant impact on the Company's labour relations as well as on social and political reforms. There is a risk that strikes or other types of conflict with unions or employees may occur at any of the Company's operations, particularly where the labour force is unionized. Any strikes, work slowdowns, stoppages, disputes with employee unions or other labour related developments or disputes could contribute to a significant decrease in production levels and adverse publicity.

Safety issues, related regulations and mandated Section 54 work stoppages could have an adverse effect on the Company's business, financial condition and results of operations

The risks inherent in the Company's mining, processing and refining operations are such that the Company's activities are highly regulated by occupational safety laws. As regulatory standards and expectations are constantly developing, the Company may be subject to increased regulatory scrutiny and compliance costs in order to maintain its licenses and operations.

In South Africa, under the *Mine Health and Safety Amendment Act* No. 74 of 2008 which came into operation on March 30, 2009, a conviction for an offence under the *Mine Health and Safety Act* No. 29 of 1996 could result in the withdrawal or suspension of the Company's mining licences and fines of up to ZAR 3 million.

DMR continues to address aggressively the issue of safety in South Africa's mines and an increase in Section 54 safety reviews and stoppages by the DMR has been experienced across the mining industry in South Africa. In particular, in cases where there have been injuries or fatalities, the DMR has taken a very firm approach and has, in certain instances with other companies, shut down operations. The occurrence of any significant safety-related production delays to any area of the Company's operations may contribute to delays and additional costs in other areas of its operations not directly involved in the incident. As a result, the Company could experience significant production shortfalls, reduced revenues and increased unit costs, which could have an adverse effect on its business, financial condition and results of operations.

Enforcement of Legal Rights

The majority of the Company's assets are located outside of Canada. Accordingly, it may be difficult for investors to enforce within Canada any judgments obtained against the Company, including judgments predicated upon the civil liability provisions of applicable Canadian securities laws. Consequently, investors may be effectively prevented from pursuing remedies against the Company under Canadian securities laws or otherwise. Given that the Company's material assets and certain of the Company's directors and officers, including the Chairman, reside outside of Canada, it may not be possible for shareholders to effect service of process against such individuals who are not resident in Canada. In the event a judgment is obtained in a Canadian court against one or more of the Company's directors or officers for violations of Canadian securities laws or otherwise, it may not be possible to enforce such judgment against those directors or officers not resident in Canada. Additionally, it may be difficult for an investor, or any other person or entity, to assert Canadian securities laws claims or otherwise in original actions instituted in foreign jurisdictions. Courts of foreign jurisdictions may refuse to hear a claim based on a violation of Canadian securities laws or otherwise on the grounds that such jurisdiction is not the most appropriate forum to

bring such a claim. Even if a foreign court agrees to hear a claim, it may determine that the local law, and not Canadian law, is applicable to the claim. If Canadian law is found to be applicable, the context of applicable Canadian law must be proven as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by foreign law.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Fasken Martineau DuMoulin LLP, counsel to the Company, and McMillan LLP, counsel to the Underwriter (collectively, “**Counsel**”), the following is, as of the date of this short form prospectus, a general summary of the principal Canadian federal income tax considerations under the Tax Act that generally apply to persons who acquire Subscription Receipts and the Unit Shares and Warrants issuable pursuant to the Subscription Receipts (collectively, the “**Securities**”) pursuant to this Offering. This summary applies to a holder who, for the purposes of the Tax Act and the Regulations, holds the Securities as capital property, deals at arm’s length with and is not affiliated with the Company, the Underwriter and any subsequent purchaser of the Securities (a “**Holder**”). The Securities will generally be considered to be capital property to a Holder unless either the Holder holds the Securities in the course of carrying on a business or the Holder has acquired the Securities in a transaction or transactions considered to be an adventure or concern in the nature of trade.

This summary does not apply to a Holder: (i) that is a “financial institution” for the purposes of the “mark-to-market” rules in the Tax Act; (ii) that is a “specified financial institution” as defined in the Tax Act; (iii) an investment in which would constitute a “tax shelter investment” as defined in subsection 143.2(1) of the Tax Act; or (iv) who reports income in a currency other than Canadian currency. Such Holders should consult their own tax advisors. This summary does not address the deductibility of interest by a Holder who borrows money to acquire the Securities.

Additional considerations, not discussed in this summary, may apply to a Holder that is a corporation resident in Canada, and is, or becomes as part of a transaction or event or series of transactions or events that includes the acquisition of the units, controlled by a non-resident corporation for purposes of the “foreign affiliate dumping” rules in section 212.3 of the Tax Act. Such Holders should consult their tax advisors with respect to the consequences of acquiring Securities.

This summary is based upon the current provisions of the Tax Act, the Regulations, Counsel’s understanding of the current publicly available published administrative and assessing practices and policies of the Canada Revenue Agency (the “**CRA**”) and the proposed amendments to the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the “**Proposed Amendments**”). This summary assumes that the Proposed Amendments will be enacted as proposed but does not take into account or anticipate any other changes in law, whether by way of judicial, legislative or governmental decision or action, nor does it take into account provincial, territorial or foreign income tax considerations. No assurances can be given that the Proposed Amendments will be enacted as proposed, or at all, or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

The Canadian federal income tax consequences to a prospective investor will vary depending on a number of factors, including the province or territory where a prospective investor resides, carries on business or has a permanent establishment. The following discussion of the income tax consequences is, therefore, of a general nature only and is not exhaustive of all the income tax consequences and is not intended to be, nor should it be construed to be legal or tax advice to any prospective investor. Accordingly, prospective investors should obtain independent advice from a knowledgeable tax advisor as to the income tax considerations applicable to investing in Securities based on the prospective investor’s particular circumstance.

Acquisition of Unit Shares and Warrants Pursuant to Subscription Receipts

No gain or loss will be realized by a Holder on the issuance of a Unit Share and a Warrant pursuant to a Subscription Receipt. This opinion is based upon the interpretation of Counsel that a Subscription Receipt is an agreement to acquire a Unit on the satisfaction of certain conditions. No advance income tax ruling in respect of the Offering has been sought from the CRA and Counsel is not aware of any judicial considerations of this interpretation.

The total purchase price of a Subscription Receipt to a Holder must be allocated on a reasonable basis between the Unit Share and the Warrant to determine the cost of each for purposes of the Tax Act. For its purposes, the Company intends to allocate \$● of the issue price of each Subscription Receipt as consideration for the issue of each Unit Share and \$● of the issue price of each Subscription Receipt as consideration for the issue of each Warrant. Such allocation is not binding on the CRA or on a Holder and counsel express no view on the reasonableness of the allocation. The Holder's adjusted cost base of the Unit Shares and Warrants will be determined by averaging the cost allocated to such Unit Shares and Warrants with the adjusted cost base to the Holder (determined immediately before the acquisition) of all Common Shares and Warrants, respectively, held by such Holder as capital property at that time.

Residents of Canada

The following section of this summary applies to Holders (“**Canadian Holders**”) who, for purposes of the Tax Act and any applicable income tax treaty or convention, are or are deemed to be resident in Canada at all relevant times. Certain Canadian Holders who might not otherwise be considered to hold their Unit Shares as capital property may, in certain circumstances, be entitled to make an irrevocable election permitted by subsection 39(4) of the Tax Act to have the Unit Shares and every other “Canadian security” (as defined in the Tax Act), owned by such Holder in the taxation year of the election and in all subsequent taxation years deemed to be capital property. This election does not apply to the Subscription Receipts or the Warrants. Holders should consult their own tax advisors for advice with respect to whether an election under subsection 39(4) of the Tax Act is available or advisable in their particular circumstances.

Termination of Subscription Receipts

In the event that the Release Conditions are not satisfied by the Release Deadline or prior to such time the Company advises the Underwriter or announces to the public that it does not intend to proceed with satisfying the Release Conditions, Canadian Holders of Subscription Receipts will be required to include their proportionate share of interest on the Escrowed Funds in computing their income for the purposes of the Tax Act.

Disposition of Subscription Receipts

Generally, on a disposition or deemed disposition of a Subscription Receipt, other than on an acquisition of Unit Shares and Warrants, a Canadian Holder will realize a capital gain (or capital loss) equal to the amount, if any, by which the proceeds of disposition (which does not include any interest received on the termination of Subscription Receipts), net of any reasonable costs of disposition, are greater (or are less) than the adjusted cost base to the Canadian Holder of the Subscription Receipt immediately before the disposition or deemed disposition. The taxation of capital gains and capital losses is described below under the heading “Capital Gains and Capital Losses”.

Exercise of Warrants

No gain or loss will be realized by a Canadian Holder upon the exercise of a Warrant to acquire a Warrant Share. When a Warrant is exercised, the Canadian Holder's cost of the Warrant Share acquired thereby will be the aggregate of the Canadian Holder's adjusted cost base of such Warrant and the exercise price paid for the Warrant Share. The Canadian Holder's adjusted cost base of the Warrant Share so acquired will be determined by averaging such cost with the adjusted cost base to the Canadian Holder of all Common Shares held by the Canadian Holder as capital property immediately prior to such acquisition.

Expiry of Warrants

The expiry of an unexercised Warrant will generally result in a capital loss to the Canadian Holder equal to the Canadian Holder's adjusted cost base of such Warrant immediately before its expiry. The tax treatment of capital gains and capital losses is discussed in greater detail below under the subheading “Capital Gains and Capital Losses”.

Disposition of Unit Shares and Warrants

A disposition or deemed disposition by a Canadian Holder of Unit Shares (other than to the Company unless purchased by the Company in the open market in the manner in which shares are normally purchased by any member of the public in the open market) or Warrants (other than a disposition arising on the exercise or expiry of a Warrant) will generally give rise to a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, are greater (or less) than such Canadian Holder's adjusted cost base of such Unit Shares or Warrants, as the case may be, to the Canadian Holder immediately before the disposition. The tax treatment of capital gains and capital losses is discussed in greater detail below under the subheading "Capital Gains and Capital Losses".

Capital Gains and Capital Losses

Generally, one-half of any capital gain realized by a Canadian Holder on a disposition of Securities, as described above, must be included in income as a taxable capital gain and one-half of any capital loss so realized may normally be deducted as an allowable capital loss against taxable capital gains realized in the year of disposition. Any unused allowable capital losses may be applied to reduce net taxable capital gains realized in the three preceding taxation years or any subsequent taxation year, subject to the provisions of the Tax Act in that regard.

The amount of any capital loss realized on the disposition or deemed disposition of Unit Shares by a Canadian Holder that is a corporation may be reduced by the amount of dividends received or deemed to have been received by it on such shares or shares substituted for such shares to the extent and in the circumstances described by the Tax Act. Similar rules may apply where a Canadian Holder that is a corporation is a member of a partnership or beneficiary of a trust that owns such shares, or that is itself a member of a partnership or a beneficiary of a trust that owns Unit Shares. A Canadian Holder that is throughout the relevant taxation year a "Canadian-controlled private corporation" (as defined in the Tax Act) also may be liable to pay an additional refundable tax of 6^{2/3}% on its "aggregate investment income" for the year which will include taxable capital gains.

Dividends

Dividends received or deemed to be received on the Unit Shares will be included in computing the Holder's income for the purposes of the Tax Act. In the case of an individual Canadian Holder (other than certain trusts) such dividends will be subject to the gross-up and dividend tax credit rules that apply in respect of taxable dividends received from taxable Canadian corporations (as defined in the Tax Act). A dividend will be eligible for the enhanced gross-up and dividend tax credit if the recipient is notified in writing by the Company designating the dividend as an eligible dividend. There may be limitations on the ability of the Company to designate dividends as eligible dividends. Dividends received or deemed to be received on Unit Shares by a Canadian Holder that is a corporation must be included in computing its income but generally will be deductible in computing its taxable income.

Canadian Holders that are private corporations (as defined in the Tax Act) or certain other corporations controlled by or for the benefit of an individual (other than a trust) or related group of individuals (other than trusts) generally will be liable to pay a 33^{1/3}% refundable tax under Part IV of the Tax Act on dividends received (or deemed to be received) on the Unit Shares to the extent such dividends are deductible in computing taxable income. This refundable tax generally will be refunded to a corporate Holder at the rate of \$1 for every \$3 of taxable dividends paid while it is a private corporation.

Alternative Minimum Tax

Capital gains realized and dividends received by a Canadian Holder that is an individual or a trust, other than certain specified trusts, may give rise to alternative minimum tax under the Tax Act. Prospective investors should consult with their tax advisors to determine the impact of the alternative minimum tax.

Non-Residents of Canada

The following section of this summary generally only applies to a Holder who, for the purposes of the Tax Act and at all relevant times is not and is not deemed to be, resident in Canada and does not use or hold (and will not be deemed to use or hold) the Securities in carrying on a business in Canada (a “**Non-Resident Holder**”). Special rules, which are not discussed in this summary, may apply to a Non-Resident Holder that is an insurer carrying on business in Canada and elsewhere. Such Non-Resident Holders should consult their own tax advisers.

Termination of Subscription Receipts

If the Escrowed Funds are returned to Holders, a Non-Resident Holder will not be subject to Canadian withholding tax under the Tax Act on interest paid or credited to the Non-Resident Holder.

Dispositions of Subscription Receipts, Unit Shares and Warrants

Generally, a Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized on the disposition of a Security unless the Security, as the case may be, constitutes, or is deemed to constitute, “taxable Canadian property” to the Non-Resident Holder for purposes of the Tax Act and the gain is not exempt from tax under the Tax Act pursuant to the terms of an applicable income tax convention between Canada and the country in which the Non-Resident Holder is resident.

Provided the Unit Shares are listed on a “designated stock exchange,” as defined in the Tax Act (which currently includes the TSX and JSE), at the time of disposition, the Securities generally will not constitute taxable Canadian property of a Non-Resident Holder at that time, unless at any time during the 60-month period immediately preceding the disposition the following two conditions are met concurrently:

- (i) the Non-Resident Holder, persons with whom the Non-Resident Holder did not deal at arm’s length, and partnerships in which the Non-Resident Holder or such non-arm’s length person holds a membership interest (either directly or indirectly through one or more partnerships), or the Non-Resident Holder together with all such persons, owned 25% or more of the issued shares of any class or series of shares of the Company; and
- (ii) more than 50% of the fair market value of the common shares of the Company was derived directly or indirectly from one or any combination of real or immovable property situated in Canada, “Canadian resource properties” (as defined in the Tax Act), “timber resource properties” (as defined in the Tax Act) or an option, an interest or right in such property, whether or not such property exists.

Even if a Security is taxable Canadian property to a Non-Resident Holder, any capital gain realized upon the disposition of such Security may not be subject to tax under the Tax Act if such capital gain is exempt from Canadian tax pursuant to the provisions of an applicable income tax convention.

A Non-Resident Holder’s capital gain (or capital loss) in respect of a Security that constitutes or is deemed to constitute taxable Canadian property and is not exempt from tax pursuant to the terms of an applicable income tax convention between Canada and the country in which the Non-Resident Holder is resident will generally be computed in the manner described above under the headings “Residents of Canada”, “Dispositions of Subscription Receipts”, “Dispositions of Unit Shares and Warrants” and “Capital Gains and Capital Losses”.

Non-Resident Holders whose Securities may constitute taxable Canadian property should consult their own tax advisers with respect to their Canadian income tax obligations on a disposition of Securities.

Dividends

Dividends paid or credited or deemed to be paid or credited to a Non-Resident Holder on the Unit Shares will generally be subject to Canadian withholding tax at the rate of 25%, subject to reduction under the provisions of an applicable income tax treaty or convention between Canada and the country in which the Non-Resident Holder is resident.

MATERIAL CONTRACTS

The following are the material contracts entered into by the Company or its subsidiaries since the date of its Annual Information Form:

1. The Sale Purchase Agreement referred to under “The Company – The Acquisition”.

INTEREST OF EXPERTS

The Qualified Persons as defined by NI 43-101 who have supervised the preparation of the Company’s mineral reserve and mineral resource estimates or authored portions of the technical reports disclosed in this short form prospectus and documents incorporated by reference are as follows:

- Tania R. Marshall; and
- Glenn A. Norton.

As applicable, the above noted qualified persons have reviewed and approved the summaries of the properties for which they have been involved and approve the related scientific and technical disclosure in this short form prospectus, including the documents incorporated by reference.

KPMG Inc. have advised the Company that they are independent in accordance with the rules of professional conduct of the Chartered Professional Accountants of Ontario.

No person or company named or referred to under this section beneficially owns, directly or indirectly, 1% or more of any class of the Company’s outstanding securities.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditor of the Company is KPMG Inc., at its offices located at 85 Empire Road, Parktown, South Africa. The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc. at its principal offices in Toronto, Ontario.

LEGAL MATTERS

Certain legal matters in connection with this Offering will be passed upon by Fasken Martineau DuMoulin LLP, on behalf of the Company, and by McMillan LLP, on behalf of the Underwriter. As at the date hereof, the designated professionals of Fasken Martineau DuMoulin LLP, as a group, and the designated professionals of McMillan LLP, as a group, each beneficially own, directly or indirectly, less than one percent of the outstanding Common Shares.

PURCHASERS’ STATUTORY AND CONTRACTUAL RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the short form prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal adviser.

Original purchasers of Subscription Receipts will have a contractual right of rescission against the Company following the conversion of the Subscription Receipts in the event that this short form prospectus or any amendment hereto contains a misrepresentation. The contractual right of rescission will entitle such original purchasers to receive from the Company, upon surrender of the Units, the amount paid for such Subscription Receipts, provided that the right of rescission is exercised within 180 days from the Closing Date.

APPENDIX A
THE ACQUISITION FINANCIAL STATEMENTS

Independent Auditor's Report to the Directors of Rockwell Diamonds Inc.

We have audited the accompanying combined carve-out financial statements of Bo Karoo and Remhoogte, which comprise the combined carve-out statement of financial position as at 28 February 2014, and the combined carve-out statements of profit or loss and other comprehensive income, changes in invested equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on page 3 to 32.

Management's Responsibility for the Combined Carve-out Financial Statements

Management of Rockwell Diamonds Inc. is responsible for the preparation and fair presentation of these combined carve-out financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determine is necessary to enable the preparation of combined carve-out financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined carve-out financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined carve-out financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined carve-out financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined carve-out financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the combined carve-out financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined carve-out financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined carve-out financial statements present fairly, in all material respects, the combined carve-out financial position of Bo Karoo and Remhoogte as at 28 February 2014, and its combined carve-out financial performance and combined carve-out cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Notes 1 and 2 to the combined carve-out financial statements which explain the basis of preparation, including the approach to and the purpose for preparing them. The combined carve-out financial statements are prepared for inclusion in a prospectus to be filed in Canada by Rockwell Diamonds Inc.

Other matter

The combined carve-out financial statements as at 28 February 2013 and for the one month then ended are presented as comparative information for the audited combined carve-out financial statements as at and for the year ended 28 February 2014. In addition, the combined carve-out financial statements as at 30 November 2014 and 30 November 2013 and for the nine month periods then ended are presented as subsequent information in accordance with the filing requirements in Canada. We are not required to audit this comparative or subsequent information and, accordingly, we do not express an opinion thereon.

KPMG Inc
Registered Auditors

Bloemfontein, South Africa

* March 2015

Bo Karoo and Remhoogte

Combined Carve-out financial statements

for the 1 month ended 28 February 2013 (unaudited), for the year ended 28 February 2014 (audited) and for the 9 months ended 30 November 2013 (unaudited) and 30 November 2014 (unaudited)

Bo Karoo and Remhoogte
Combined Carve-out financial statements

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Bo Karoo and Remhoogte
Combined carve-out statements of profit or loss and other comprehensive income

	<i>Notes</i>	Nine months ended 30 November 2014 (Unaudited) ZAR 000	Nine months ended 30 November 2013 (Unaudited) ZAR 000	Year ended 28 February 2014 (Audited) ZAR 000	One month ended 28 February 2013 (Unaudited) ZAR 000
Sales of diamonds		174 440	64 425	111 942	5 891
Production cost	5	(80 503)	(84 628)	(113 318)	(4 062)
Gross profit / (loss)		93 937	(20 203)	(1 376)	1 829
Depreciation and amortisation		(36 904)	(33 320)	(45 222)	(2 819)
Amortisation of mineral properties	9	(3 303)	(9 128)	(12 622)	(408)
Depreciation of property, plant and equipment	10	(33 601)	(24 192)	(32 600)	(2 411)
Profit on sale of property, plant and equipment		7 602	1 765	1 921	-
Rehabilitation obligation expense	14	(2 748)	(3 331)	(4 456)	-
Operating profit / (loss)		61 887	(55 089)	(49 133)	(990)
Other income	6	631	2 087	2 508	-
Profit / (loss) before finance cost and taxation		62 518	(53 002)	(46 625)	(990)
Finance cost	7	(5 795)	(1 620)	(2 237)	(189)
Profit / (loss) before taxation		56 723	(54 622)	(48 862)	(1 179)
Income taxes	8	(6 759)	-	-	-
Profit / (loss) and other comprehensive income		49 964	(54 622)	(48 862)	(1 179)

Bo Karoo and Remhoogte
Combined carve-out statements of financial position

	<i>Notes</i>	As at 30 November 2014 (Unaudited) ZAR 000	As at 28 February 2014 (Audited) ZAR 000	As at 28 February 2013 (Unaudited) ZAR 000
ASSETS				
Non-current assets				
Mineral properties	9	17 667	970	13 592
Property, plant and equipment	10	185 531	121 090	116 747
Deposits	11	7 058	564	481
Total non-current assets		210 256	122 624	130 820
Current assets				
Deposits	11	35 000	-	-
Inventory	12	21 079	-	-
Other receivables	13	40	994	502
Total current assets		56 119	994	502
Total assets		266 375	123 618	131 322
EQUITY AND LIABILITIES				
Invested equity		112 879	74 567	99 908
Non-current liabilities				
Rehabilitation obligation	14	7 204	4 456	-
Finance lease obligation	15	81 507	29 121	18 203
Deferred tax liability	16	6 759	-	-
Total non-current liabilities		95 470	33 577	18 203
Current liabilities				
Trade and other payables	17	16 557	873	442
Finance lease obligation	15	41 469	14 601	12 769
Total current liabilities		58 026	15 474	13 211
Total equity & liabilities		266 375	123 618	131 322

Bo Karoo and Remhoogte
Combined carve-out statements of changes in invested equity

	Invested equity ZAR '000
Balance at 1 February 2013	87 041
Loss for the period	(1 179)
Other comprehensive income	-
Total comprehensive income	(1 179)
Equity transactions with Steyn Diamante CC	14 046
Balance at 28 February 2013 (unaudited)	99 908
Total loss for the year	(48 862)
Loss for the 9 month period ending 30 November 2013	(54 622)
Profit for the 3 month period ending 28 February 2014	5 760
Other comprehensive income	-
Total comprehensive income	(48 862)
Total equity transactions with Steyn Diamante CC and Bondeo 140 CC	23 521
Equity transactions with Steyn Diamante CC and Bondeo 140 CC for the 9 month period ending 30 November 2013	27 703
Equity transactions with Steyn Diamante CC and Bondeo 140 CC for the 3 month period ending 28 February 2014	(4 182)
Balance at 28 February 2014 (audited)	74 567
Profit for the period	49 964
Other comprehensive income	-
Total comprehensive income	49 964
Equity transactions with Steyn Diamante CC and Bondeo 140 CC	(11 652)
Balance at 30 November 2014 (unaudited)	112 879

Bo Karoo and Remhoogte
Combined carve-out statements of cash flows

	Notes	Nine months ended 30 November 2014 (Unaudited) ZAR 000	Nine months ended 30 November 2013 (Unaudited) ZAR 000	Year ended 28 February 2014 (Audited) ZAR 000	One month ended 28 February 2013 (Unaudited) ZAR 000
Cash flow from operating activities					
Profit / (loss) before taxation		56 723	(54 622)	(48 862)	(1 179)
<i>Non-cash items:</i>					
Depreciation and amortisation		36 904	33 320	45 222	2 819
Rehabilitation obligation expense		2 748	3 331	4 456	-
Profit on disposal of property, plant and equipment		(7 602)	(1 765)	(1 921)	-
Finance cost	7	5 795	1 620	2 237	189
		94 568	(18 116)	1 132	1 829
<i>Working capital movement</i>					
(Increase) in inventory		(21 079)	-	-	-
Decrease / (increase) in other receivables		954	-	(492)	(502)
Increase in trade and other payables		15 684	-	431	442
		90 127	(18 116)	1 071	1 769
Finance cost	7	(5 795)	(1 620)	(2 237)	(189)
Net cash flow from / (used) in operating activities		84 332	(19 736)	(1 166)	1 580
Cash flows from investing activities					
Purchase of property, plant and equipment		(115 050)	(24 889)	(51 899)	(615)
Mineral property purchase		(20 000)	-	-	-
Proceeds from the sale of property, plant and equipment		24 610	15 924	16 877	-
Deposits made		(35 000)	-	-	-
Net cash flows used in investing activities		(145 440)	(8 965)	(35 022)	(615)

Bo Karoo and Remhoogte
Combined carve-out statements of cash flows
(continued)

	Notes	Nine months ended 30 November 2014 (Unaudited) ZAR 000	Nine months ended 30 November 2013 (Unaudited) ZAR 000	Year ended 28 February 2014 (Audited) ZAR 000	One month ended 28 February 2013 (Unaudited) ZAR 000
Cash flows from financing activities					
Finance leases raised		96 492	18 282	33 657	-
Finance leases repaid		(17 238)	(17 294)	(20 907)	(529)
Equity financing with Steyn Diamante CC and Bondeo 140 CC		(18 146)	27 713	23 438	(436)
Net cash flows used in financing activities		61 108	28 701	36 188	(965)
Change in cash		-	-	-	-
Cash at the beginning and end of period	2	-	-	-	-

Bo Karoo and Remhoogte

Notes to the combined carve-out financial statements

1. Background

These financial statements reflect the financial results of the below mentioned entities for the period 1 February 2013 to 30 November 2014, referred to as the combined carved-out accounts.

Rockwell Diamonds Inc. (“RDI”), wants to acquire the Bo Karoo, Holsloot and Remhoogte properties, as well as the associated plant and equipment from Bondeo 140 CC and Steyn Diamante CC. Herein after referred to as:

- Bondeo 140 CC (“Bondeo”);
- Steyn Diamante CC (“SD”); and
- Holsloot and Remhoogte (collectively referred to as “Remhoogte”)

Bondeo and Pioneer Minerals (Pty) Ltd own the rights and assets to mine an early life alluvial diamond deposit in the Northern Cape in South Africa, situated on the “Holsloot” and “Remhoogte” properties. Bondeo also own the rights to mine a deposit situated on the Bo Karoo property (“Bo Karoo”). Rockwell Diamonds Inc (“RDI”) intends to acquire these rights, as well as associated plant and equipment owned by SD, which currently mines the properties under a contractual mining arrangement. The planned transaction will be executed through the acquisition of the Holsloot and Bo Karoo mineral rights and 100% of the share capital in Pioneer Minerals (Pty) Ltd, which owns the Remhoogte Mineral Rights, from Bondeo.

Bondeo 140 CC entered into a contract with Transhex (Pty) Ltd to acquire 100% of the share capital of Pioneer Minerals (Pty) Ltd (owner of the “Remhoogte” mineral property). The contract was signed on 14 June 2014. Bondeo mined the mineral property, in terms of a separate agreement with Transhex, at a commission payable to Transhex amounting to 30% of the sales value up until the conclusion of the original sales transaction. The sales transaction was concluded on 11 December 2014.

Bondeo mined Bo Karoo from February 2013 to July 2014, and Remhoogte from April 2014 to present. The financial information contained in these carve-out financial statements covers the above periods and present the financial position, profit or loss and other comprehensive income, invested equity and cash flows for these properties or businesses on a combined basis. Historically, Bo Karoo and Remhoogte spanned two entities (SD and Bondeo) under common control, and collectively their results are presented by way of a carve-out financial statements prepared in accordance with the basis of preparation and accounting policies set out below.

The combined carve-out financial statements of Bo Karoo and Remhoogte have been prepared for the inclusion in a prospectus to be issued by RDI in connection with the planned transaction and capital raise associated with the transaction.

Basis of preparation

These combined carve-out financial statements for the month ended 28 February 2013, the year ended 28 February 2014 and nine months ended 30 November 2013 and 30 November 2014 have been prepared on a “carve-out” basis from SD and Bondeo’s financial information using the historical cost method. These carve-out financial statements have been authorized for issue by the RDI Board of Directors on * **February 2015**.

The combined carve-out financial statements may not be indicative of Bo Karoo and Remhoogte’s future performance and do not necessarily reflect what their combined results of operations, financial position and cash flows would have been, had the properties operated as an independent company or had they presented stand-alone financial information during the periods presented.

The combined carve-out financial statements of Bo Karoo and Remhoogte have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under consideration of the principles for determining which assets and liabilities, income and expenses as well as cash flows are to be assigned to them as described under “Basis of accounting” below.

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements

1. Background *(continued)*

IFRS does not provide specific guidance on the preparation of combined carve-out financial statements, and accordingly in preparing these statements certain accounting conventions commonly used for the inclusion in a prospectus as required by Canadian regulatory requirements have been applied.

The application of these conventions have been described under “Basis of accounting” below.

The combined carve-out financial statements are presented in thousands in South African Rand (ZAR ‘000) except where otherwise indicated. The following section describes how the combined carve-out financial statements for Bo Karoo and Remhoogte have been prepared.

2. Basis of accounting

Structure of the combined carve-out financial statements

The combined carve-out financial information from SD and Bondeo reflects income, expenses, cash flows, and statement of financial position items attributable to Bo Karoo and Remhoogte, as well as the allocated finance and tax items.

Principles applied in preparing the combined carve-out financial statements

The following summarizes the accounting and other principles applied in preparing the combined carve-out financial statements. Management considers that the allocations described below have been made on a reasonable basis, but are not necessarily indicative of the costs that would have been incurred had Bo Karoo and Remhoogte been a stand-alone entity.

- The combined carve-out financial statements include the transactions and account balances of Bo Karoo and Remhoogte. Intercompany balances and transactions between SD and Bondeo have been eliminated.
- SD sold the first diamond produced from Bo Karoo on the 22 February 2013. Mining commenced prior to the sale of the first diamond. Management estimated the commencement of the production of diamonds on 1 February 2013 as the first diamond was sold in February 2013.
- As Bo Karoo and Remhoogte have not in the past formed a separate legal entity nor presented any stand-alone financial statements, the net assets of Bo Karoo and Remhoogte is represented by capital invested in Bo Karoo and Remhoogte and shown as “Invested equity”. Changes in net assets allocated to Bo Karoo and Remhoogte are presented separately in the combined statement of change in invested equity through “Equity transactions with SD and Bondeo”, as well as in the combined carve-out statement of cash flows through “Equity financing with SD and Bondeo”. These items reflect the internal financing between Bo Karoo and Remhoogte and SD and Bondeo.
- It has been assumed that all free cash generated by Bo Karoo and Remhoogte was distributed to Bondeo and SD and that they provided funding where deficits occurred. As a result, no cash is presented on the statement of financial position, and the statement of cash flows discloses cash as nil for all periods.
- Historically, financing has been made available to Bo Karoo and Remhoogte via intercompany loans and by local banks, principally through lease purchase arrangements. The cost of financing included in the combined carve-out financial statements may not reflect what this cost would have been had Bo Karoo and Remhoogte historically obtained financing on a stand-alone basis.

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

2. Basis of accounting *(continued)*

- Third party debt and related interest expenses directly assumed by Bo Karoo and Remhoogte have been included in the combined carve-out financial statements.
- SD has historically provided services such as sourcing, IT, HR, legal services and general management services centrally. These costs and licensing fees have not historically been allocated to Bo Karoo and Remhoogte nor is it considered to be material and therefore have not been included in the combined carve-out financial statements.
- Tax charges in this combined carve-out financial statements have been determined as if Bo Karoo and Remhoogte was a separate taxpayer in the jurisdiction of primary operations. The current tax is the amount of tax payable or refundable based on Bo Karoo and Remhoogte's hypothetical current-year separate return. After computing its current tax payable or refund, Bo Karoo and Remhoogte has provided deferred taxes on its temporary differences and on any carry forwards that it could claim on its hypothetical return. Deferred taxes on temporary differences are recognized where such temporary differences exist.
- Expenses and revenues have been allocated as identified to the properties concerned, supported by relevant diamond registers. Costs have been allocated based on the ratio of tons mined at Bo Karoo and Remhoogte, to the total tons mined on all the SD, Bondeo and Pioneer Minerals (Pty) Ltd properties.
- The cash flows were based on cash generated and presented in the financial statements as Bo Karoo and Remhoogte do not have their own bank accounts. It has been assumed that any cash deficits are funded by the equity holders, and similarly any free cash indicated is distributed in full.
- Equipment, of SD, as at 1 February 2013 have been allocated based on the ratio of tons mined on the Bo Karoo and Remhoogte properties to the total tons mined on all the SD, Bondeo and Pioneer Minerals (Pty) Ltd properties. Lease liabilities related to these assets have been included by applying the same principle. As at 1 October 2014 the Bo Karoo and Remhoogte properties were the only properties being mined by SD and Bondeo. All the equipment and the related lease liabilities, of SD, were thus accounted for in these combined carve-out financial statements as at 1 October 2014. Buildings are not depreciated as it is not considered to be material to the combined carve-out financial statements.
- Activity on the Bo Karoo mineral property commenced during the course of February 2013, and resulted in sales totalling approximately R6 million. Mining activity for the month of February 2013 was therefore very limited. The related rehabilitation obligation as at 28 February 2013 was not considered to be material.
- Assumptions used in the rehabilitation obligation provision calculation (i.e. discount- and inflation rate) have not been considered to be material, therefore not disclosed.
- No key employee remuneration is disclosed in the combined carve-out financial statements, as the directors of Rockwell Diamonds Inc. do not consider the non-disclosure of the remuneration to be material to the overall presentation of the combined carve-out financial statements.

3. Accounting policies

a. Critical accounting estimates and assumptions

The preparation of Bo Karoo and Remhoogte's combined carve-out financial statements requires management to make judgments, estimates and assumptions that may affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may therefore differ from these estimates and assumptions.

The most significant judgments and assumptions are related, as indicated within the basis of preparation, to the carve-out adjustments and allocations made to these combined carve-out financial statements, especially in the case of equipment, financial liabilities and interest, expenses, taxes and invested equity. Information about critical estimates and judgments in applying accounting policies that have the most significant effect on the amounts recognized in the combined carve-out financial statements are included in the following notes:

- Note 9 – Mineral property interests
- Note 10 – Property, plant and equipment
- Note 12 – Inventories
- Note 14 – Rehabilitation obligation
- Note 16 – Deferred tax

b. Mineral properties

The acquisition of mineral properties are initially measured at the fair value of the consideration paid. Mineral property acquisition costs and development expenditures incurred subsequent to the determination of the feasibility of mining operations and approval of development by the entity are capitalized until the property is placed into production, sold, abandoned, or when management has determined that there has been an impairment. Such acquisition costs are amortized over the estimated life of the mine, based on the unit of production method, 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. Under the unit of production method, the yearly amortization charge is calculated by dividing the actual resources mined by the estimated total resources over the life of the mine thereafter multiply the resulting fraction by the net carrying value of the related assets. The unit of production method results in a systematic and rational allocation of the cost of the mineral property interests over the period the resources are utilized.

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.

Mineral properties are measured at costs incurred to date less accumulated amortization and impairment losses and does not necessarily reflect present or future values. Cost include the initial acquisition price as per the contract.

c. Property, plant and equipment

The cost of an item of property, plant and equipment is recognized as an asset when:

- it is probable that future economic benefits associated with the item will flow;
- the cost of the item can be measured reliably; and

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses

Cost includes costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add or replace part of it. If a replacement cost is recognized in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognized. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost can be measured reliably.

The carrying amount of the replacement part is derecognized. All other repairs and maintenance are recognized in profit or loss during the financial period in which they are incurred. Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value. The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Plant and machinery	5 – 10 years

Land is not depreciated.

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

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

The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized. The gain or loss arising from the de-recognition of an item of property, plant and equipment is the difference between the net disposal proceeds, if any, and the carrying amount of the item.

d. Impairment of non-financial assets

The carrying amounts of Bo Karoo and Remhoogte's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating units exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

e. Financial Instruments

Initial recognition and measurement

Financial instruments are recognized initially when Bo Karoo and Remhoogte become a party to the contractual provisions of the instruments. Bo Karoo and Remhoogte classify 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 initially measured at fair value.

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 recognized in profit or loss.

Subsequent measurement

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

Financial liabilities are subsequently measured at amortized cost, using the effective interest method. Financial liabilities comprise trade and other payables and finance lease liabilities.

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, Bo Karoo and Remhoogte have a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Impairment of financial assets

At each reporting date Bo Karoo and Remhoogte assess all financial assets, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the financial asset may be impaired. The allowance recognized 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.

Reversals of impairment losses are recognized in profit or loss.

f. Income taxes

Income taxes comprise current and deferred tax. Current and deferred tax are recognised in profit or loss.

Current tax

Current tax for current and prior periods is, to the extent unpaid, recognized 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 recognized as a tax receivable.

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

Deferred tax is recognized in respect of all taxable temporary differences between the carrying values of assets and liabilities for accounting purposes and the amounts used for tax purposes and any tax losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority.

Deferred tax is measured using enacted or substantively enacted rates at the reporting date that are expected to apply when the asset is realized or the liability is settled. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the deferred tax asset could be realized.

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

Tax expenses

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

- a transaction or event which is recognized, in the same or a different period, in other comprehensive income

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

g. Inventory

Rough diamond inventories are valued at the lower of average production cost and net realizable value. Production costs include the cost of consumable materials, direct labour, mine-site overhead expenses and depreciation/amortization.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

h. Rehabilitation Obligation

Estimated rehabilitation costs, which are based on Bo Karoo and Remhoogte'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 and/or other circumstances.

Provision is made for Bo Karoo and Remhoogte'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 reporting date. The provision is discounted using a market-based pre-tax discount rate and the unwinding of the discount is included in finance cost.

Based on current environmental regulations and known rehabilitation requirements, management has included its best estimate of these obligations in its rehabilitation provision.

i. Leases

Leased assets

Assets held by Bo Karoo and Remhoogte under leases that transfer to Bo Karoo and Remhoogte substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Lease payments

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

j. Revenue recognition

Revenue arising from the sale of diamonds is recognized when all the following conditions have been satisfied:

- The entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the sale transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the sale transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of value added tax.

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

k. New standards and interpretations

i. Standards, amendments and interpretations effective in 2014

The relevant Standards and Interpretations which are not yet effective and which should be disclosed for year-ends on or after February 2014, are identified in the table below, together with the dates on which these were issued by the IASB. The impact of these statements is considered to not be material.

Standard/Interpretation		Effective date Periods beginning on or after
IAS 19	<i>Defined Benefit Plans: Employee Contributions</i>	1 July 2014
IFRS 14	<i>Regulatory Deferral Accounts</i>	1 January 2016
IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016
IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016
IFRS 15	<i>Revenue from contracts with customers</i>	1 January 2017
IFRS 9	<i>Financial Instruments</i>	1 January 2018
Amendments to 4 standards	<i>Improvements to IFRSs 2012-2014 Cycle</i>	1 January 2016
IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>	1 January 2016
IAS 1	<i>Disclosure Initiative</i>	1 January 2016

4. Financial risk management

Introduction

The owners have overall responsibility for the establishment and oversight of Bo Karoo and Remhoogte's risk management framework. Bo Karoo and Remhoogte's risk management policies are established to identify and analyse the risks faced by Bo Karoo and Remhoogte, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Bo Karoo and Remhoogte's activities.

Overview

This note presents information about Bo Karoo and Remhoogte's exposure to financial instrument risks, Bo Karoo and Remhoogte's objectives, policies and processes for measuring and managing financial instrument risk and Bo Karoo and Remhoogte's management of capital. Bo Karoo and Remhoogte's overall risk management strategy seeks to reduce potential adverse effects on financial performance. Bo Karoo and Remhoogte do not use any derivative instruments to manage risk. The risks associated with financial instruments, and the policies on mitigating those risks are set out below.

This is not intended to be a comprehensive discussion of all financial instrument risks.

Carrying amount and fair values of financial instruments

The fair value of a financial instrument 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. Given the varying influencing factors, the reported fair values are only indicators of the prices that may actually be realized for these financial instruments. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

4. Financial risk management *(continued)*

The following tables show the estimated carrying- and fair values of the financial instruments:

Financial instruments	30 November 2014 Carrying- and fair value (Unaudited) ZAR '000	28 February 2014 Carrying- and fair value (Audited) ZAR '000	28 February 2013 Carrying- and fair value (Unaudited) ZAR '000
<i>Current assets</i>			
Other receivables	9	45	13
	9	45	13
<i>Current liabilities</i>			
Trade and other payables	(6 769)	-	(400)
Finance lease obligations	(41 469)	(14 601)	(12 769)
	(48 238)	(14 601)	(13 169)
<i>Non-current liabilities</i>			
Finance lease obligations	(81 507)	(29 121)	(18 203)
	(81 507)	(29 121)	(18 203)

All above values comprise level 3 inputs.

Bo Karoo and Remhoogte are potentially exposed to the following financial instrument risks as a result of operations:

- credit risk;
- foreign exchange and equity risk;
- market risk; and
- liquidity risk.

Credit Risk

Credit risk is the risk that a third party might fail to discharge its obligations under the terms of a financial contract.

Bo Karoo and Remhoogte sells diamonds for cash and are therefore not exposed to credit risk. The maximum credit risk to which Bo Karoo and Remhoogte are exposed to consists the values for other receivables. The balance of other receivables is not significant to the financial statements.

Foreign exchange rate risk and equity price risk

No significant exposure exist to foreign exchange rate and equity price risk.

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

4. Financial risk management *(continued)*

Market Risk

This is the risk that the fair values of financial instruments will fluctuate owing to changes in market prices. The significant market risks to which Bo Karoo and Remhoogte are exposed to, are:

Interest Rate Risk

Interest rate risk is the risk that the fair values of future cash flows of financial instruments will fluctuate as a result of changes in market interest rates. Bo Karoo and Remhoogte are subject to interest rate risk with respect to its finance lease obligations. Bo Karoo and Remhoogte have finance lease obligations with several financial institutions. These obligations bear interest at rates linked to the prevailing prime rate, and are subject to interest rate change risk.

Sensitivity analysis:

30 November 2014

A 100 basis point increase / decrease in the prime interest rate for the period ended November 30, 2014 would have a net loss / gain effect on profit or loss before tax of ZAR 1 229 760.

28 February 2014

A 100 basis point increase / decrease in the prime rate for the year ended February 28, 2014 would have a net loss / gain effect on profit or loss before tax of ZAR 437 220 (28 February 2013: ZAR 309 720).

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

4. Financial risk management *(continued)*

Liquidity Risk

Liquidity risk is the risk that the entity will not be able to meet its financial obligations as they fall due. After taking into account cash flows from operations, the entity believes that these sources will be sufficient to cover the likely requirements for the foreseeable future.

Financial instruments	Total contractual cash flow	Within one year	Within two to five years
	ZAR'000	ZAR'000	ZAR'000
30 November 2014 <i>(unaudited)</i>			
<i>Current liabilities</i>			
Trade and other payables	6 769	6 769	-
Finance lease obligations	41 469	41 469	-
<i>Non-current liabilities</i>			
Finance lease obligations	81 507	-	81 507
	129 745	48 238	81 507
28 February 2014 <i>(audited)</i>			
<i>Current liabilities</i>			
Trade and other payables	-	-	-
Finance lease obligations	14 601	14 601	-
<i>Non-current liabilities</i>			
Finance lease obligations	29 121	-	29 121
	43 722	14 601	29 121
28 February 2013 <i>(unaudited)</i>			
<i>Current liabilities</i>			
Trade and other payables	400	400	-
Finance lease obligations	12 769	12 769	-
<i>Non-current liabilities</i>			
Finance lease obligations	18 203	-	18 203
	31 372	13 169	18 203

It is considered that working capital at the reporting date, together with future cash flows from operations, will be sufficient to support ongoing commitments. Any shortfalls are assumed to be met by way of equity contribution.

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

4. Financial risk management *(continued)*

Capital management

Bo Karoo and Remhoogte's objectives when managing capital are:

- to safeguard its ability to continue as a going concern in order to develop and operate the current projects and pursue strategic growth initiatives; and
- to maintain a flexible capital structure which lowers the cost of capital; and to provide an adequate return to equity investors.

In assessing capital structure, Bo Karoo and Remhoogte includes in its assessment the interests of equity investors. Bo Karoo and Remhoogte expect that the current capital resources will be sufficient to support operations through the current operating period. As of the reporting date there were no externally-imposed capital requirements.

5. Production cost

	For the nine months ended 30 November 2014 (Unaudited) ZAR '000	For the nine months ended 30 November 2013 (Unaudited) ZAR '000	For the year ended 28 February 2014 (Audited) ZAR '000	For the one month ended 28 February 2013 (Unaudited) ZAR '000
Electricity and water	3 190	4 781	6 395	114
Exploration and prospecting	2 319	829	1 109	396
Fuel and oil	26 692	29 501	39 457	957
Repairs and maintenance	14 632	17 608	23 550	603
Employee benefits	11 949	8 429	11 274	303
Royalties	8 864	322	560	29
Subcontractors	2 294	7 525	10 065	785
Other	10 563	15 633	20 908	875
	80 503	84 628	113 318	4 062

Employee benefits comprises salaries and wages paid to employees. Bo Karoo and Remhoogte provide no other benefits to employees.

6. Other income

Other operating income relates to diesel rebates received.

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

7. Finance cost

	For the nine months ended 30 November 2014 (Unaudited) ZAR '000	For the nine months ended 30 November 2013 (Unaudited) ZAR '000	For the year ended 28 February 2014 (Audited) ZAR '000	For the one month ended 28 February 2013 (Unaudited) ZAR '000
<i>Finance cost</i>				
Finance leases	<u>(5 795)</u>	<u>(1 620)</u>	<u>(2 237)</u>	<u>(189)</u>

8. Income taxes

	For the nine months ended 30 November 2014 (Unaudited) ZAR '000	For the year ended 28 February 2014 (Audited) ZAR '000	For the one month ended 28 February 2013 (Unaudited) ZAR '000
Major components of tax income:			
Deferred tax			
Movement in deferred tax balance recognised through profit or loss	<u>(6 759)</u>	-	-
Reconciliation of taxation			
Reconciliation between accounting loss and taxation			
Profit / (loss) before tax	56 723	(48 862)	(1 179)
Taxation at the applicable rate of 28%	(15 882)	13 681	330
Tax effect of the adjustments on the taxable income / (loss):			
Non-deductible expenses	(925)	(3 643)	(114)
Unrecognised deferred tax asset	(10 038)	(10 038)	-
Utilization of unredeemed capital previously unrecognised	13 923	-	(216)
Utilization of assessed losses previously unrecognised	6 163	-	-
	<u>(6 759)</u>	-	-

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

9. Mineral properties

	Bo Karoo	Holsloot	Total
	ZAR'000	ZAR'000	ZAR'000
30 November 2014 <i>(unaudited)</i>			
<i>Cost</i>			
Balance as at 28 February 2014	14 000	-	14 000
Additions	-	20 000	20 000
Balance as at 30 November 2014	<u>14 000</u>	<u>20 000</u>	<u>34 000</u>
<i>Accumulated amortisation and impairment losses</i>			
Balance as at 28 February 2014	(13 030)	-	(13 030)
Amortisation	(970)	(2 333)	(3 303)
Balance as at 30 November 2014	<u>(14 000)</u>	<u>(2 333)</u>	<u>(16 333)</u>
Net carrying value	<u>-</u>	<u>17 667</u>	<u>17 667</u>
28 February 2014 <i>(audited)</i>			
<i>Cost</i>			
Balance as at 28 February 2013	14 000	-	14 000
Additions	-	-	-
Balance as at 28 February 2014	<u>14 000</u>	<u>-</u>	<u>14 000</u>
<i>Accumulated amortisation and impairment losses</i>			
Balance as at 28 February 2013	(408)	-	(408)
Amortisation	(12 622)	-	(12 622)
Balance as at 28 February 2014	<u>(13 030)</u>	<u>-</u>	<u>(13 030)</u>
Net carrying value	<u>970</u>	<u>-</u>	<u>970</u>

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

9. Mineral Properties *(continued)*

	Bo Karoo	Holsloot	Total
	ZAR'000	ZAR'000	ZAR'000
28 February 2013 <i>(unaudited)</i>			
<i>Cost</i>			
Historical cost as at 1 February 2013	14 000	-	14 000
Balance as at 28 February 2013	<u>14 000</u>	<u>-</u>	<u>14 000</u>
<i>Accumulated amortisation and impairment losses</i>			
Balance as at 1 February 2013	-	-	-
Amortisation	<u>(408)</u>	<u>-</u>	<u>(408)</u>
Balance as at 28 February 2013	<u>(408)</u>	<u>-</u>	<u>(408)</u>
Net carrying value	<u>13 592</u>	<u>-</u>	<u>13 592</u>

The Bo Karoo Mining Right was granted by the South African Department of Mineral Resources ("DMR") to Bondeo, in respect of diamonds, over a portion of the farm Riets Drift in the Northern Cape Magisterial district of Hopetown, measuring 621.8626 hectares. Current resources have been depleted but the property is believed to hold potential for further mining, subject to the results of exploration work. The Right has been amortised to realisable value in terms of a sale agreement concluded with Rockwell Diamonds Inc.

The Mineral Rights in respect of Holsloot and Remhoogte were granted by the DMR to Bondeo and Pioneer Minerals (Pty) Ltd respectively for prospecting and mining of diamonds. The properties, which are contiguous, are located in the Northern Cape town of Prieska. The net realisable value of the Rights is R65 million in terms of a sale agreement concluded with Rockwell Diamonds Inc. Details of the Rights are as follows:

Property Name	Area (ha)	Mineral Right Holder	Permit Type and Number	Renewal Date
Certain Portion of the Remainder of the farm Remhoogte 152	1,585.36	Pioneer Minerals (Pty) Ltd	New Order Mining Right NC 0291MR	14 August 2020
Portion of Portion 3 of Holsloot 47	1,049.59	Saxendrift Mine (Pty) Ltd	New Order Prospecting Right 735/2006PR	The renewal was granted but has not been executed.

The above two properties are located on the south bank of the Orange River in the Northern Cape Province, some 85km southwest of Douglas and some 200km from Kimberley.

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

10. Property, plant and equipment

	Land & Buildings	Plant & Machinery	Total
	ZAR '000	ZAR '000	ZAR '000
30 November 2014 (unaudited)			
<i>Cost</i>			
Balance as at 28 February 2014	3 034	186 050	189 084
Additions	-	115 050	115 050
Disposals	-	(31 415)	(31 415)
Balance as at 30 November 2014	<u>3 034</u>	<u>269 685</u>	<u>272 719</u>
<i>Accumulated depreciation and impairment losses</i>			
Balance as at 28 February 2014	-	(67 994)	(67 994)
Depreciation for the year	-	(33 601)	(33 601)
Disposals	-	14 407	14 407
Balance as at 30 November 2014	<u>-</u>	<u>(87 188)</u>	<u>(87 188)</u>
Net carrying value	<u>3 034</u>	<u>182 497</u>	<u>185 531</u>
28 February 2014 (Audited)			
<i>Cost</i>			
Balance as at 28 February 2013	716	163 703	164 419
Additions	2 318	49 581	51 899
Disposals	-	(27 234)	(27 234)
Balance as at 28 February 2014	<u>3 034</u>	<u>186 050</u>	<u>189 084</u>
<i>Accumulated depreciation and impairment losses</i>			
Balance as at 28 February 2013	-	(47 672)	(47 672)
Depreciation for the year	-	(32 600)	(32 600)
Disposals	-	12 278	12 278
Balance as at 28 February 2014	<u>-</u>	<u>(67 994)</u>	<u>(67 994)</u>
Net carrying value	<u>3 034</u>	<u>118 056</u>	<u>121 090</u>

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

10. Property, plant and equipment *(continued)*

	Land & Buildings	Plant & Machinery	Total
	ZAR '000	ZAR '000	ZAR '000
28 February 2013 <i>(unaudited)</i>			
<i>Cost</i>			
Historical cost as at 1 February 2013	716	163 088	163 804
Additions	-	615	615
Balance as at 28 February 2013	<u>716</u>	<u>163 703</u>	<u>164 419</u>
<i>Accumulated depreciation and impairment losses</i>			
Balance as at 1 February 2013	-	(45 261)	(45 261)
Depreciation	-	(2 411)	(2 411)
Balance as at 28 February 2013	<u>-</u>	<u>(47 672)</u>	<u>(47 672)</u>
Net carrying value	<u>716</u>	<u>116 031</u>	<u>116 747</u>

Leased plant and equipment

Bo Karoo and Remhoogte leases production equipment under a number of finance leases. The leased equipment secures the lease obligations. At 30 November 2014, the net carrying amount of leased equipment was ZAR 120 173 000 (28 February 2014: ZAR 46 127 000 and 28 February 2013: ZAR 31 838 000).

Estimates and judgments

Property, plant and equipment has been considered for impairment, and no indicators for impairment were identified. The bulk of the assets have been recently purchased and estimated recoverable amounts determined through comparisons to similar assets available in the market taking into consideration their economic lives, residual values, current condition and application in mining and recovery processes.

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

11. Deposits

Deposits relates to cash balances held as collateral given in return for guarantees issued to the South African Department of Mineral Resources, for Rehabilitation obligations, the South African electricity provider (Eskom) and Remhoogte mineral right deposit kept in Escrow.

	As at 30 November 2014 (Unaudited) ZAR' 000	As at 28 February 2014 (Audited) ZAR' 000	As at 28 February 2013 (Unaudited) ZAR' 000
Eskom deposit	564	564	481
Mineral property deposit	35 000	-	-
Rehabilitation Obligation Guarantees	6 494	-	-
	42 058	564	481
Current assets	35 000	-	-
Non-current assets	7 058	564	481
	42 058	564	481

12. Inventory

Diamond stock	21 079	-	-
	21 079	-	-

Estimates and judgments

A review of inventory was undertaken to determine if an impairment of diamond stock was required. Net realizable value was found to be in excess of carrying value.

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

13. Other receivables

	As at 30 November 2014 (Unaudited) ZAR' 000	As at 28 February 2014 (Audited) ZAR' 000	As at 28 February 2013 (Unaudited) ZAR' 000
Staff loans	9	45	13
VAT Receivable	31	949	489
	40	994	502

14. Rehabilitation obligation

Reconciliation of obligation	As at 30 November 2014 (Unaudited)			As at 28 February 2014 (Audited)		
	Opening balance ZAR'000	Additional provision raised ZAR'000	Closing balance ZAR'000	Opening balance ZAR'000	Additional provision raised ZAR'000	Closing balance ZAR'000
Bo Karoo	4 456	1 859	6 315	-	4 456	4 456
Holsloot	-	889	889	-	-	-
	4 456	2 748	7 204	-	4 456	4 456

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

Based on current environmental regulations and known rehabilitation requirements, management has included its best estimate of these obligations in its rehabilitation provision based on professional surveys of the environmental disturbance.

The ultimate rehabilitation will be financed from existing funds invested for this purpose, ongoing contributions as well as the proceeds on sale of assets and metal from plant clean-up at the time of the mine closure. The expected timing of the cash flows in respect of the provisions is dependent on the mineral property award and/or the life of mine. Rehabilitation of disturbed areas, at the operating Northern Cape mines, is performed on a continuous basis. Rehabilitation of disturbed areas where the alluvial open-cast bench mining process is followed and the non-operating Northern Cape mines will be performed when the mining operations cease. However, it is reasonably possible that the estimate of the ultimate rehabilitation liabilities could change as a result of changes in regulations or cost estimates. Owing to continuous rehabilitation being undertaken, full provision has been made for disturbance on an undiscounted basis, excluding the Holsloot property for which discounting has been applied.

As required by regulatory authorities, at November 30, 2014, cash rehabilitation deposits totalling ZAR 6 494 000 (February 28, 2014: ZAR nil February 28, 2013: ZAR nil) for the Bo Karoo and Holsloot properties were in place. These deposits have been pledged as security in favour of the guarantees issued in favour of the Department of Mineral Resources.

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

15. Finance lease obligation

	<i>As at</i> 30 November 2014 (Unaudited) ZAR' 000	<i>As at</i> 28 February 2014 (Audited) ZAR' 000	<i>As at</i> 28 February 2013 (Unaudited) ZAR' 000
Minimum lease payments			
- within one year	49 106	17 129	14 454
- between one and five years	91 641	30 973	19 242
Less: future interest charges	(17 771)	(4 380)	(2 724)
Present value of minimum lease payments due	122 976	43 722	30 972
Current liabilities due within one year	(41 469)	(14 601)	(12 769)
	81 507	29 121	18 203

These amounts relate to finance leases in respect of various pieces of plant and equipment. They are repayable in monthly instalments over periods of up to 36 months and bear interest at rates which vary between two percent below and one percent above the prevailing South African prime lending rate, which is 9.25% per annum as at 30 November 2014 (9.0% per annum as at 28 February 2014 and 9.0% per annum at 28 February 2013). There are no significant restrictions imposed as a result of the lease conditions.

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

16. Deferred tax liability

	As at 30 November 2014 (Unaudited) ZAR' 000	As at 28 February 2014 (Audited) ZAR' 000	As at 28 February 2013 (Unaudited) ZAR' 000
Deferred tax liability			
Property, plant and equipment	(43 210)	(9 615)	(8 719)
Environmental rehabilitation obligation	2 017	1 248	-
Finance lease obligation	34 434	12 242	8 719
Estimated tax losses	-	6 163	-
Unrecognised deferred taxation	-	(10 038)	-
	(6 759)	-	-
Reconciliation of net deferred tax liability			
Opening balance	-	-	-
Prior year unrecognised deferred tax asset recognised in current year	10 038	-	-
Timing differences	(16 797)	-	-
Property, plant and equipment	(33 595)	(895)	(8 719)
Environmental rehabilitation obligation	769	1 248	-
Finance lease obligation	22 192	3 522	8 719
Estimated tax losses	(6 163)	6 163	-
Deferred tax asset (unrecognised)	-	(10 038)	-
Deferred tax liability	(6 759)	-	-

Judgments and estimates used in recognition of deferred tax asset

Deferred tax assets are raised only to the extent that future taxable income will be available against which the deferred tax asset can be set off. Management estimates future taxable income using forecasts based on the best available current information.

Bo Karoo and Remhoogte
Notes to the combined carve-out financial statements
(continued)

17. Trade and other payables

	As at 30 November 2014 (Unaudited) ZAR' 000	As at 28 February 2014 (Audited) ZAR' 000	As at 28 February 2013 (Unaudited) ZAR' 000
Payroll provisions	308	284	12
Trade payables	6 796	-	400
Accruals	9 453	589	30
	16 557	873	442

18. Transactions with related parties

Identity of related parties

Schalk and Celeste Steyn are members of the following entities:

- Steyn Diamante Close Corporation; and
- Bondeo 140 Close Corporation.

RM Nene is a member of the following entities:

- Steyn Diamante Close Corporation; and
- Bondeo 140 Close Corporation.

There were no significant transactions and balances between related parties.

SD mines the properties of Bondeo and invoice Bondeo for the cost incurred. These transactions are eliminated as Bo Karoo and Remhoogte are seen as one operation.

Refer to notes 1 and 2 for more detail on the relationship between SD, Bondeo and Bo Karoo / Remhoogte.

19. Commitments and contingent liabilities

There were no significant commitments and contingent liabilities at the reporting date.

20. Subsequent events after the reporting date

There have been no material subsequent events to report since the reporting date.

**Bo Karoo and Remhoogte
Approval of the financial statements**

Signatures for the combined carve-out financial statements for one month ended 28 February 2013, for the year ended 28 February 2014 and 9 months ended 30 November 2013 and 30 November 2014.

Rockwell Diamonds Inc.

Board of Directors



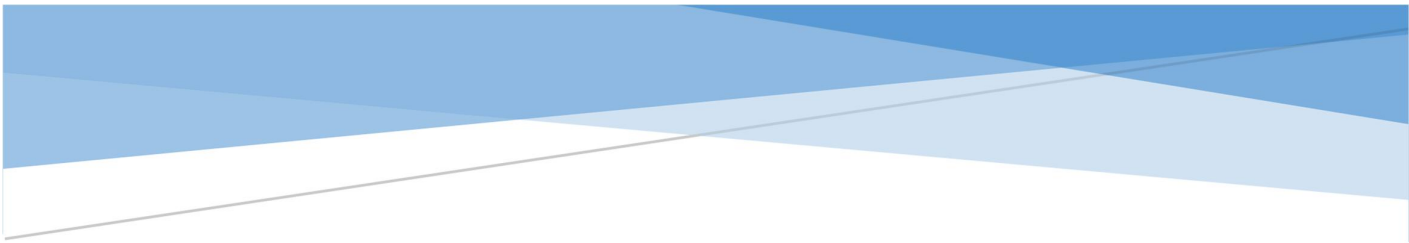
Mark Bristow
Chairman



James Campbell
President, Chief Executive Officer

Insert date signed here

APPENDIX B
THE PRO FORMA FINANCIAL STATEMENTS



ROCKWELL DIAMONDS INC.

Unaudited Pro Forma Combined Financial
Statements as at November 30, 2014, for the year
ended February 28, 2014 and for nine- month
period ended November 30, 2014

Rockwell Diamonds Inc.
Pro Forma Combined Statement of Financial Position as at November 30, 2014
(Unaudited)

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2. Basis of presentation
3. Unaudited Pro Forma Combined Statement of
Financial Position of Rockwell as at November 30, 2014
4. Unaudited Pro Forma Combined Statements of Financial
Performance of Rockwell for the year ended February 28, 2014
and For Nine-Months Ended November 30, 2014

**Pro Forma Combined Statement of Financial Position as at
November 30, 2014**

Amounts in Canadian Dollars ('000)	Rockwell Historical	Carved Out Operations Historical	Note 3	Pro Forma Adjustments	Rockwell Pro Forma Combined
Assets					
Non-current assets					
Mineral property interests	26 622	1 825	(c)	10 163	38 610
Investment in associates and joint ventures	351	-			351
Property, plant and equipment	28 748	19 165	(a), (c)	1 410	49 323
Investments and deposits	2 898	-			2 898
Rehabilitation deposits	3 373	729			4 102
Total non-current assets	61 992	21 719		11 573	95 284
Current assets					
Inventories	6 146	2 177	(a)	(2 177)	6 146
Deposits		3 616	(a)	(3 616)	-
Current tax receivable	36	-			36
Trade and other receivables	7 763	4	(a)	(4)	7 763
Cash and cash equivalents	1 337	-	(c)	[•]	[•]
Total current assets	15 282	5 797		[•]	[•]
Total assets	77 274	27 516		[•]	[•]
Equity and liabilities					
Equity					
Share capital	147 452	-	(b), (c)	[•]	[•]
Invested equity (Carved Out Operations net equity)	-	11 660	(g)	(11 660)	-
Reserves	(9 942)	-			(9 942)
Retained loss	(93 907)	-			(93 907)
Total equity attributable to the equity holders of the Group	43 603	11 660		[•]	[•]
Non-controlling interest	(1 815)	-			(1 815)
Total equity	41 788	11 660		[•]	[•]
Liabilities					
Non-current liabilities					
Loans and borrowings	5 709	-	(c), (f)	[•]	[•]
Finance lease obligation	1 404	8 420	(a), (c), (e)	[•]	[•]
Deferred tax	4 509	698	(a), (c)	2 509	7 716
Rehabilitation obligation	6 808	744			7 552
Total non-current liabilities	18 430	9 862		[•]	[•]
Current liabilities					
Loans and borrowings	1 954	-	(c), (d)	3 982	5 936
Finance lease obligation	670	4 284	(a), (c), (e)	[•]	[•]
Trade and other payables	12 576	1 710	(a)	(1 710)	12 576
Bank overdraft	1 856	-		-	1 856
Total current liabilities	17 056	5 994		[•]	[•]
Total liabilities	35 486	15 856		[•]	[•]
Total equity and liabilities	77 274	27 516		[•]	[•]

Rockwell Diamonds Inc.
**Pro Forma Combined Statement of Financial Performance for the
nine-months ended November 30, 2014**

Amounts in Canadian Dollars ('000)	Rockwell Historical	Carved Out Operations Historical	Note 4	Pro Forma Adjustments	Rockwell Pro Forma Combined
Sale of diamonds	41 361	17 845			59 206
Beneficiation income	9 515	-			9 515
Production costs	(48 655)	(8 235)			(56 890)
Operating (loss) profit before amortization and depreciation	2 221	9 610		-	11 831
Amortization of mineral property interests	(631)	(338)			(969)
Depreciation of property, plant and equipment	(4 334)	(3 437)	(a)	214	(7 557)
Gross profit (loss)	(2 744)	5 835		214	3 305
Other income	563	842			1 405
General and administration expenses	(4 349)	-			(4 349)
Rehabilitation obligation (recognized) revised	(340)	(281)			(621)
Loss before net finance costs	(6 870)	6 396		214	(260)
Finance income	274	-			274
Finance costs	(610)	(593)	(b)	[•]	[•]
Loss after net finance costs	(7 206)	5 803		[•]	[•]
Share of (loss) profit from equity accounted investment	(88)	-			(88)
Loss before taxation	(7 294)	5 803		-	[•]
Taxation	1 407	(691)	(c)	[•]	[•]
Loss for the period	(5 887)	5 112		[•]	[•]
Loss attributable to :					
Owners of the parent	(5 811)	5 112		[•]	[•]
Non-controlling interest	(76)	-			(76)
Loss for the period	(5 887)	5 112		[•]	[•]
Loss per share					
Per share information					
Basic and diluted profit (loss) per share (cents)	(8.96)				[•]
Weighted average number of ordinary shares	53 819 099		(d)	[•]	[•]

Rockwell Diamonds Inc
**Pro Forma Combined Statement of Financial Performance for the
year ended February 28, 2014**

Amounts in Canadian Dollars ('000)	Rockwell Historical	Carved Out Operations Historical	Note 4	Pro Forma Adjustments	Rockwell Pro Forma Combined
Sale of diamonds	41 106	11 743			52 849
Beneficiation income	4 063	-			4 063
Production costs	(39 200)	(11 887)			(51 087)
Operating (loss) profit before amortization and depreciation	5 969	(144)		-	5 825
Amortization of mineral property interests	(928)	(1 324)			(2 252)
Depreciation of property, plant and equipment	(5 008)	(3 420)	(a)	285	(8 143)
Gross profit (loss)	33	(4 888)		285	(4 570)
Other income	1 703	465			2 168
General and administration expenses	(4 440)	-			(4 440)
Rehabilitation obligation (recognized) revised	(743)	(467)			(1 210)
Realised foreign exchange with sale of subsidiary	(6 609)	-			(6 609)
Impairments	(55)	-			(55)
Loss before net finance costs	(10 111)	(4 890)		285	(14 716)
Finance income	699	-			699
Finance costs	(1 137)	(235)	(b)	[•]	[•]
Loss after net finance costs	(10 549)	(5 125)		[•]	[•]
Share of (loss) profit from equity accounted investment	59	-		-	59
Loss before taxation	(10 490)	(5 125)		[•]	[•]
Taxation	63	-	(c)	[•]	[•]
Loss for the year	(10 427)	(5 125)		[•]	[•]
Loss attributable to :					
Owners of the parent	(10 618)	(5 125)		[•]	[•]
Non-controlling interest	191	-			191
Loss for the year	(10 427)	(5 125)		[•]	[•]
Loss per share					
Per share information					
Basic and diluted profit (loss) per share (cents)	(21.30)				[•]
Weighted average number of ordinary shares	49 839 859		(d)	[•]	[•]

Rockwell Diamonds Inc.**Notes to the Pro Forma Combined Financial Statements**

As at November 30, 2014, for the year ended February 28, 2014 and for nine- month period ended November 30, 2014
(Unaudited)

1. ROCKWELL DIAMONDS INC AND ACQUISITION TRANSACTION

Rockwell Diamonds Inc. (“Rockwell” or the “Company”) is engaged in the business of diamond production and the acquisition and exploration of natural resource properties. Rockwell’s mineral property interests are located in South Africa. Rockwell is incorporated under the British Columbia Business Corporations Act. Rockwell is primarily listed on the Toronto Stock Exchange (“TSX”) with a secondary listing on the Johannesburg Stock Exchange (“JSE”).

The Bo Karoo, Holsoot and Remhoogte mineral properties and related plant and equipment are in process of being acquired from Steyn Diamante CC and Bondeo 140 CC (the carved out operations being acquired together referred to as the “Carved Out Operations”) as a going concern (the “Acquisition”) under an acquisition agreement dated January 5, 2015 (the “Acquisition Agreement”) for a total cash consideration of ZAR284.2 million (\$29.5 million), subject to certain suspensive conditions. These Carved Out Operations are registered and operating in South Africa and under common control of a South African private shareholder and engaged in the exploration and production of diamond properties.

In conjunction with the Acquisition and as one of the suspensive conditions to the Acquisition, Rockwell is to raise the funding required to complete the Acquisition including providing evidence to the vendors on or before March 31, 2015 that Rockwell has available not less than ZAR 120.0 million for the sole purpose of the Acquisition. To raise the a portion of the required funding and meet this condition by March 31, 2015, Rockwell is completing a public offering of subscription receipts of the corporation (the “Subscription Receipts) for minimum proceeds of \$[•] million and maximum proceeds of \$[•] million, net of share issue costs, for the purposes of financing the Acquisition. Each Subscription Receipt will entitle the holder thereof to receive, without payment of additional consideration or further action, upon satisfaction of certain release conditions, one unit of the Company (a “Unit”). Each Unit will be comprised of one common share of the Company and [•] of one common share purchase warrant. In addition, the Acquisition and issuance of subscription receipts exchangeable for Units will be conditioned on the ability of Rockwell to obtain additional financing of approximately \$[•] million necessary to complete the Acquisition as disclosed in note 3 below.

2. BASIS OF PRESENTATION

The accompanying unaudited pro forma combined statement of financial position as at November 30, 2014 and unaudited pro forma combined statements of financial performance of Rockwell for the year and nine-months ended February 28, 2014 and November 30, 2014 (collectively the “unaudited pro forma combined financial statements”) have been prepared by the management of Rockwell to give effect to the Acquisition and the public offering of Units. In the judgement of management, the unaudited pro forma combined financial statements include all adjustments necessary for the fair presentation of the transaction in accordance with International Financial Reporting Standards (“IFRS”) in accordance with the assumptions outlined below.

The unaudited pro forma combined financial statements may not be indicative of the financial position and results of operations that would have occurred if the transactions had taken place on the dates indicated or of the financial position or operating results which may be obtained in the future. The unaudited pro forma combined financial statements are not a forecast or projection of future results. The actual financial position and results of operations of Rockwell for any period following the closing of the transactions will vary from the amounts set forth in the unaudited pro forma combined financial statements and such variation may be material. The unaudited pro forma combined financial statements does not reflect any special items such as integration costs or operating

Rockwell Diamonds Inc.**Notes to the Pro Forma Combined Financial Statements**

As at November 30, 2014, for the year ended February 28, 2014 and for nine- month period ended November 30, 2014
(Unaudited)

synergies that may be realised as a result of the Acquisition including the reduction in commission costs due to the elimination of the 30% marketing arrangement as disclosed in the prospectus.

The unaudited pro forma combined financial statements should be read in conjunction with the audited consolidated financial statements of Rockwell for the year ended February 28, 2014, the unaudited interim consolidated financial statements of Rockwell for the nine-months ended November 30, 2014, audited carve-out financial statements of Bo Karoo and the Remhoogte Project for the year ended February 28, 2014 and the unaudited carve-out financial statements of Bo Karoo and the Remhoogte Project for the nine-months ended November 30, 2014.

The unaudited pro forma combined statement of financial position of Rockwell as at November 30, 2014 has been prepared using information derived from the unaudited consolidated statement of financial position of Rockwell as at November 30, 2014, the unaudited carve-out financial statements of Bo Karoo and the Remhoogte Project as at November 30, 2014, and the adjustments and assumptions outlined below.

The unaudited pro forma combined statement of financial performance of Rockwell for the nine-months ended November 30, 2014 has been prepared using information derived from the unaudited interim consolidated financial statements of Rockwell for the nine-months ended November 30, 2014, the unaudited carve-out financial statements of Bo Karoo and the Remhoogte Project for the nine-months ended November 30, 2014, and the adjustments and assumptions outlined below.

The unaudited pro forma combined statement of financial performance of Rockwell for the year ended February 28, 2014 has been prepared using information derived from the audited consolidated financial statements of Rockwell for the year ended February 28, 2014, the audited carve-out financial statements of Bo Karoo and the Remhoogte Project for the year ended February 28, 2014, and the adjustments and assumptions outlined below.

The pro forma adjustments are based on estimates of the fair values of assets acquired and liabilities assumed. The final determination of the fair values and the related allocation will be completed after asset and liability identification and valuations are finalised. Changes to these adjustments may affect the allocation of values to the assets and liabilities acquired.

The significant accounting policies used in preparing the unaudited pro forma combined financial statements are set out in Rockwell's consolidated financial statements for the year ended February 28, 2014.

The unaudited pro forma combined financial statements are presented in Canadian dollars ("C\$"), which is the reporting currency of Rockwell. Accordingly, financial information of the Carved Out Operations used to prepare the unaudited pro forma combined financial statements was translated from South African Rand ("ZAR") to C\$ using the following exchange rates:

- Statement of financial position at November 30, 2014: Closing at November 30, 2014: ZAR9.6805 = C\$1 for all financial position accounts.
- Statement of profit or loss and other comprehensive income for the nine-months ended November 30, 2014: Average for the period ZAR9.7752 = C\$1 for all accounts.
- Statement of profit or loss and other comprehensive income for the year ended February 28, 2014: Average for the period ZAR9.5329 = C\$1 for all accounts.

Rockwell Diamonds Inc.**Notes to the Pro Forma Combined Financial Statements**

As at November 30, 2014, for the year ended February 28, 2014 and for nine- month period ended November 30, 2014
(Unaudited)

3. UNAUDITED PRO FORMA COMBINED STATEMENT OF FINANCIAL POSITION OF ROCKWELL AS AT NOVEMBER 30, 2014

The following assumptions and adjustments have been made to reflect the transactions referred to in Note 2 as if the transactions had occurred on November 30, 2014:

- (a) Adjustments to assets and liabilities of the Carved Out Operations representing assets and liabilities not being acquired or assumed by Rockwell;
- (b) The pro forma value of the Rockwell subscription receipts amounting to C\$[•] million as described in the short form prospectus dated, [date], which is net of estimated qualifying costs of C\$[•] million attributable to this equity transaction;
- (c) Purchase accounting – Acquisition

The Acquisition has been accounted for using the purchase method with Saxendrift Mine Proprietary Limited, an indirect wholly owned subsidiary of Rockwell, identified as the acquirer and the business assets acquired recorded at estimated fair value. For the purposes of the unaudited pro forma combined financial statements, it has been assumed that any excess of the purchase price over the estimated fair value of net assets (excluding mineral properties) of the Carved Out Operations is attributable to the mineral properties being acquired. A preliminary allocation of the purchase price to the assets acquired and liabilities assumed is as presented below.

Preliminary allocation of purchase price:	C\$ (‘000)
Property, plant and equipment	20 575
Mineral properties	11 988
Rehabilitation deposits	729
Deferred tax liability	(3 207)
Rehabilitation obligation	(744)
Net purchase consideration/ estimated fair value of net assets acquired	<u>29 341</u>

Consideration funded by:

Net cash from subscription receipts per 3 (b) above less \$[•] million of cash retained for working capital purposes	[•]
Loan from Vendor per 3 (d) below	3 982
Finance lease obligations per 3 (e) below (refinancing 70% of the acquired property, plant and equipment at [•]% interest) (2)	[•]
Additional vendor financing per 3 (f) below at [•]% interest repayable after [•] months (3)	[•]
	<u>29 341</u>

Rockwell Diamonds Inc.

Notes to the Pro Forma Combined Financial Statements

As at November 30, 2014, for the year ended February 28, 2014 and for nine- month period ended November 30, 2014
(Unaudited)

The estimated fair value of assets acquired and the resulting allocation of that value to specific assets and liabilities is based on preliminary estimates. The final allocation of the purchase price will be based on the assets acquired and liabilities assumed at the date of the Acquisition based upon an independent asset valuation and the completion of post-closing adjustments; therefore, there may be material adjustments to this preliminary allocation once this process is complete.

Notes

- (1) The application for Section 11 transfers of the mining rights in terms of the South African Mineral and Petroleum Resources Development Act of 2002 have been submitted to the Department of Mineral Resources on the basis of a minority participation in terms of the Black Economic Empowerment (“BEE”) requirements in South Africa. The Section 11 transfer of the mining rights is a suspensive condition to the conclusion of the Acquisition. BEE participation is anticipated to be 30% and will require Rockwell shareholders’ approval prior to implementation. Once implemented this will entitle the BEE partner to effectively a 30% non-controlling interest in the properties. The effect of this earnings dilution has not been incorporated as a pro forma adjustment as the terms of this arrangement have not been confirmed nor approved by the shareholders of Rockwell, and the concurrent investment not reflected, as the transaction is not sufficiently concluded.
- (2) The Seller is providing a loan to Rockwell as part of the Acquisition of ZAR38 550 000 (C\$3.982 million) repayable in 10 monthly instalments at 6% interest.
- (3) Equipment financing with a number of financial institutions to refinance 70% of the moveable plant and equipment to be acquired with the Acquisition. The equipment financing of ZAR[•] (C\$[•] million) is repayable in [•] monthly instalments at [•] interest rate.
- (d) A credit facility with a number of financial institutions to fund the shortfall of the Acquisition consideration. Initial drawing on the credit facility is approximately ZAR[•] (C\$[•] million). The credit facility is repayable on demand and has an interest rate of [•] %.
- (e) Elimination of Shareholders' Equity of the Carved Out Operations not being acquired or assumed by Rockwell.

(4) UNAUDITED PRO FORMA COMBINED STATEMENTS OF FINANCIAL PERFORMANCE OF ROCKWELL FOR THE YEAR ENDED FEBRUARY 28, 2014 AND FOR NINE-MONTHS ENDED NOVEMBER 30, 2014

The unaudited pro forma combined statements of financial performance of Rockwell have been prepared assuming that the combined entity was in operation during the year ended February 28, 2014 and the nine-month period ended November 30, 2014 and as if the proposed transactions described in Note 3 had been completed on March 1, 2013. The unaudited pro forma combined statements of financial performance of Rockwell reflect the following assumptions and adjustments to the revenues and expenses of Rockwell:

- (a) This adjustment reflects a decreased depreciation expense of property, plant and equipment based on its allocated estimated fair value and revised estimated useful life;
- (b) Net incremental finance costs of C\$[•] million for the year ended February 28, 2014 and C\$[•] for the nine-months ended November 30, 2014 resulting from the additional vendor financing of working capital, partially offset by the saving on finance lease obligations not being acquired by Rockwell;

Rockwell Diamonds Inc.

Notes to the Pro Forma Combined Financial Statements

As at November 30, 2014, for the year ended February 28, 2014 and for nine- month period ended November 30, 2014

(Unaudited)

- (c) This adjustment reflects the estimated tax consequence of the pro forma adjustments; and
- (d) This adjustment reflects the number of ordinary shares issued in terms of this prospectus to partially fund the acquisition.

CERTIFICATE OF THE COMPANY

Dated: February 27, 2015

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada, other than the Province of Québec.

(Signed) James Campbell
Chief Executive Officer

(Signed) John Shelton
Chief Financial Officer

On Behalf of the Board of Directors

(Signed) Johan van't Hof
Director

(Signed) Stephen Dietrich
Director

CERTIFICATE OF THE UNDERWRITER

Dated: February 27, 2015

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada, other than the Province of Québec.

DUNDEE SECURITIES LTD.

By: (Signed) Aaron Unger