

**Rockwell Diamonds Inc.**  
Unaudited Interim Consolidated Financial Statements  
for the period ended 31 August 2014

# Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

## Index

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

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The unaudited interim consolidated financial statements set out on pages 3 to 30, were approved by the board on 08 October 2014 and were signed on its behalf by:

**James Campbell**

**Director**

**Dr Mark Bristow**

**Director**

## **Notice of no Auditor Review of Interim Consolidated Financial Statements**

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

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management, and have not been reviewed by an auditor.

# Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

## Consolidated Statements of Financial Position

| Amounts in Canadian Dollars ('000)                           | Note(s) | As at<br>31 August<br>2014 | As at<br>28 February<br>2014 |
|--|---------|----------------------------|------------------------------|
| <b>Assets</b>  |         |                            |                              |
| <b>Non-current assets</b>                                    |         |                            |                              |
| Mineral property interests                                   | 2       | 26 594                     | 26 642                       |
| Investment in associates and joint ventures                  | 3       | 415                        | 233                          |
| Property, plant and equipment                                | 4       | 28 335                     | 30 719                       |
| Investments and deposits                                     | 5       | 6 014                      | 5 386                        |
| Rehabilitation deposits                                      | 14      | 1 193                      | 1 701                        |
| <b>Total non-current assets</b>                              |         | <b>62 551</b>              | <b>64 681</b>                |
| <b>Current assets</b>  |         |                            |                              |
| Inventories  | 6       | 10 227                     | 4 608                        |
| Loans to related parties                                     | 16      | 335                        | 186                          |
| Current tax receivable                                       |         | 35                         | 36                           |
| Trade and other receivables                                  | 7       | 5 219                      | 8 501                        |
| Cash and cash equivalents                                    | 8       | 2 197                      | 1 325                        |
| <b>Total current assets</b>                                  |         | <b>18 013</b>              | <b>14 656</b>                |
| <b>Total assets</b>  |         | <b>80 564</b>              | <b>79 337</b>                |
| <b>Equity and liabilities</b>                                |         |                            |                              |
| <b>Equity</b>  |         |                            |                              |
| Share capital  | 9       | 147 073                    | 147 073                      |
| Reserves   |         | (10 391)                   | (10 009)                     |
| Retained loss  |         | (89 082)                   | (88 096)                     |
| Total equity attributable to the equity holders of the Group |         | 47 600                     | 48 968                       |
| Non-controlling interest                                     |         | (1 865)                    | (1 737)                      |
| <b>Total equity</b>  |         | <b>45 735</b>              | <b>47 231</b>                |
| <b>Liabilities</b>   |         |                            |                              |
| <b>Non-current liabilities</b>                               |         |                            |                              |
| Loans and borrowings   | 11      | 3 390                      | 3 241                        |
| Finance lease obligation                                     | 12      | 75                         | 110                          |
| Deferred tax   | 13      | 6 075                      | 5 926                        |
| Rehabilitation obligation                                    | 14      | 6 617                      | 6 459                        |
| <b>Total non-current liabilities</b>                         |         | <b>16 157</b>              | <b>15 736</b>                |
| <b>Current liabilities</b>                                   |         |                            |                              |
| Loans from related parties                                   | 16      | 4                          | 4                            |
| Loans and borrowings   | 11      | 1 929                      | 1 954                        |
| Finance lease obligation                                     | 12      | 66                         | 165                          |
| Trade and other payables                                     | 15      | 13 513                     | 11 162                       |
| Bank overdraft   | 8       | 3 160                      | 3 085                        |
| <b>Total current liabilities</b>                             |         | <b>18 672</b>              | <b>16 370</b>                |
| <b>Total liabilities</b>                                     |         | <b>34 829</b>              | <b>32 106</b>                |
| <b>Total equity and liabilities</b>                          |         | <b>80 564</b>              | <b>79 337</b>                |

# Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

## Consolidated Statements of Financial Performance

| Amounts in Canadian Dollars ('000)                           | Note(s) | 3 months<br>ended<br>31 August<br>2014 | 6 months<br>ended<br>31 August<br>2014 | 3 months<br>ended<br>31 August<br>2013 | 6 months<br>ended<br>31 August<br>2013 |
|--|---------|--|--|--|--|
| Sale of diamonds   | 21      | 14 222                                 | 23 931                                 | 8 614                                  | 16 437                                 |
| Beneficiation income   | 21      | 2 660                                  | 8 088                                  | 1 255                                  | 2 472                                  |
| Cash cost of sales   | 22      | (15 689)                               | (26 563)                               | (7 336)                                | (15 301)                               |
| <b>Operating profit before amortization and depreciation</b> |         | <b>1 193</b>                           | <b>5 456</b>                           | <b>2 533</b>                           | <b>3 608</b>                           |
| Amortization of mineral property interests                   |         | (169)                                  | (406)                                  | (188)                                  | (381)                                  |
| Depreciation of property, plant and equipment                |         | (1 558)                                | (2 977)                                | (1 103)                                | (2 171)                                |
| Rehabilitation obligation recognized                         |         | (121)                                  | (241)                                  | (1 158)                                | (1 230)                                |
| <b>Gross (loss) profit</b>                                   |         | <b>(655)</b>                           | <b>1 832</b>                           | <b>84</b>                              | <b>(174)</b>                           |
| Other income   |         | 193                                    | 125                                    | 153                                    | 279                                    |
| General and administration expenses                          |         | (1 347)                                | (2 844)                                | (1 016)                                | (2 286)                                |
| <b>Loss before net finance costs</b>                         | 23      | <b>(1 809)</b>                         | <b>(887)</b>                           | <b>(779)</b>                           | <b>(2 181)</b>                         |
| Finance income   | 24      | 137                                    | 266                                    | 86                                     | 254                                    |
| Finance costs  | 25      | (200)                                  | (387)                                  | (197)                                  | (398)                                  |
| <b>Loss after net finance costs</b>                          |         | <b>(1 872)</b>                         | <b>(1 008)</b>                         | <b>(890)</b>                           | <b>(2 325)</b>                         |
| Share of profit from equity accounted investment             | 3       | 51                                     | 85                                     | 24                                     | 56                                     |
| <b>Loss before taxation</b>                                  |         | <b>(1 821)</b>                         | <b>(923)</b>                           | <b>(866)</b>                           | <b>(2 269)</b>                         |
| Taxation   | 26      | 339                                    | (214)                                  | (578)                                  | (341)                                  |
| <b>Loss for the period</b>                                   |         | <b>(1 482)</b>                         | <b>(1 137)</b>                         | <b>(1 444)</b>                         | <b>(2 610)</b>                         |
| <b>Loss attributable to :</b>                                |         |  |  |  |  |
| Owners of the parent   |         | (1 391)                                | (986)                                  | (1 376)                                | (2 554)                                |
| Non-controlling interest                                     |         | (91)                                   | (151)                                  | (68)                                   | (56)                                   |
|  |         | <b>(1 482)</b>                         | <b>(1 137)</b>                         | <b>(1 444)</b>                         | <b>(2 610)</b>                         |

# Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

## Consolidated Statements of Comprehensive Income

| Amounts in Canadian Dollars ('000)                               | Note(s) | 3 months<br>ended<br>31 August<br>2014 | 6 months<br>ended<br>31 August<br>2014 | 3 months<br>ended<br>31 August<br>2013 | 6 months<br>ended<br>31 August<br>2013 |
|--|---------|--|--|--|--|
| <b>Loss for the period</b>                                       |         | <b>(1 482)</b>                         | <b>(1 137)</b>                         | <b>(1 444)</b>                         | <b>(2 610)</b>                         |
| <b>Other comprehensive income net of taxation</b>                |         |  |  |  |  |
| <i>Items that are or may be reclassified to profit or loss</i>   |         |  |  |  |  |
| Exchange differences on translating foreign operations           |         | (277)                                  | (530)                                  | 118                                    | (5 521)                                |
| <b>Other comprehensive income for the period net of taxation</b> |         | <b>(277)</b>                           | <b>(530)</b>                           | <b>118</b>                             | <b>(5 521)</b>                         |
| <b>Total comprehensive income for the period</b>                 |         | <b>(1 759)</b>                         | <b>(1 667)</b>                         | <b>(1 326)</b>                         | <b>(8 131)</b>                         |
| <b>Total comprehensive income attributable to:</b>               |         |  |  |  |  |
| Owners of the Group  |         | (1 680)                                | (1 539)                                | (1 258)                                | (8 295)                                |
| Non-controlling interest   |         | (79)                                   | (128)                                  | (68)                                   | 164                                    |
| <b>Total comprehensive income for the period</b>                 |         | <b>(1 759)</b>                         | <b>(1 667)</b>                         | <b>(1 326)</b>                         | <b>(8 131)</b>                         |
| <b>Loss per share</b>  |         |  |  |  |  |
| <b>Per share information</b>                                     |         |  |  |  |  |
| Basic and diluted loss per share (cents)                         | 27      | (2.60)                                 | (1.84)                                 | (2.81)                                 | (5.22)                                 |

## Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

### Consolidated Statements of Changes in Equity

|  | Share capital  | Foreign currency translation reserve * | Share-based payment reserve ** | Total net reserves | Retained loss   | Total equity attributable to equity holders of the Group | Non-controlling interest | Total equity  |
|--|----------------|--|--------------------------------|--------------------|-----------------|--|--------------------------|---------------|
| Amounts in Canadian Dollars ('000)               |                |  |                                |                    |                 |  |                          |               |
| <b>Balance at 01 March 2013</b>                  | <b>146 862</b> | <b>(20 039)</b>                        | <b>8 164</b>                   | <b>(11 875)</b>    | <b>(77 478)</b> | <b>57 509</b>  | <b>(2 137)</b>           | <b>55 372</b> |
| <i>Total comprehensive income for the period</i> |                |  |                                |                    |                 |  |                          |               |
| Loss for the period                              | -              | -                                      | -                              | -                  | (2 554)         | (2 554)  | (56)                     | (2 610)       |
| Other comprehensive income                       | -              | (5 741)                                | -                              | (5 741)            | -               | (5 741)  | 220                      | (5 521)       |
| Total comprehensive income for the period        | -              | (5 741)                                | -                              | (5 741)            | (2 554)         | (8 295)  | 164                      | (8 131)       |
| Share-based payment transactions                 | -              | -                                      | 130                            | 130                | -               | 130  | -                        | 130           |
| Disposal of subsidiary (note 20)                 | -              | -                                      | -                              | -                  | 321             | 321  | -                        | 321           |
| Share issue costs                                | (5)            | -                                      | -                              | -                  | -               | (5)  | -                        | (5)           |
| Total changes                                    | (5)            | (5 741)                                | 130                            | (5 611)            | (2 233)         | (7 849)  | 164                      | (7 685)       |
| <b>Balance as at 31 August 2013</b>              | <b>146 857</b> | <b>(25 780)</b>                        | <b>8 294</b>                   | <b>(17 486)</b>    | <b>(79 711)</b> | <b>49 660</b>  | <b>(1 973)</b>           | <b>47 687</b> |
| <b>Balance at 1 March 2014</b>                   | <b>147 073</b> | <b>(18 799)</b>                        | <b>8 790</b>                   | <b>(10 009)</b>    | <b>(88 096)</b> | <b>48 968</b>  | <b>(1 737)</b>           | <b>47 231</b> |
| <i>Total comprehensive income for the period</i> |                |  |                                |                    |                 |  |                          |               |
| Loss for the period                              | -              | -                                      | -                              | -                  | (986)           | (986)  | (151)                    | (1 137)       |
| Other comprehensive income                       | -              | (553)                                  | -                              | (553)              | -               | (553)  | 23                       | (530)         |
| Total comprehensive income for the period        | -              | (553)                                  | -                              | (553)              | (986)           | (1 539)  | (128)                    | (1 667)       |
| Share-based payment transactions                 | -              | -                                      | 171                            | 171                | -               | 171  | -                        | 171           |
| Total changes                                    | -              | (553)                                  | 171                            | (382)              | (986)           | (1 368)  | (128)                    | (1 496)       |
| <b>Balance at 31 August 2014</b>                 | <b>147 073</b> | <b>(19 352)</b>                        | <b>8 961</b>                   | <b>(10 391)</b>    | <b>(89 082)</b> | <b>47 600</b>  | <b>(1 865)</b>           | <b>45 735</b> |

\* Currency translation differences arising on the conversion of the net investment in foreign operations from the functional currency to the Company's presentation currency are accumulated in the foreign currency translation reserve.

\*\* Equity settled share-based payment transactions are accumulated in the share-based payment reserve.

# Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

## Consolidated Statements of Cash Flows

| Amounts in Canadian Dollars ('000)                              | Note(s) | 3 months<br>ended<br>31 August<br>2014 | 6 months<br>ended<br>31 August<br>2014 | 3 months<br>ended<br>31 August<br>2013 | 6 months<br>ended<br>31 August<br>2013 |
|---|---------|--|--|--|--|
| <b>Cash flows from operating activities</b>                     |         |  |  |  |  |
| Cash receipts from customers                                    |         | 18 017                                 | 35 195                                 | 10 574                                 | 18 036                                 |
| Cash paid to suppliers and employees                            |         | (16 344)                               | (32 400)                               | (6 977)                                | (17 424)                               |
| Cash generated from operations                                  | 18      | 1 673                                  | 2 795                                  | 3 597                                  | 612                                    |
| Finance income  |         | 295                                    | 266                                    | 86                                     | 254                                    |
| Finance costs   |         | -                                      | -                                      | (52)                                   | (347)                                  |
| <b>Net cash inflow from operating activities</b>                |         | <b>1 968</b>                           | <b>3 061</b>                           | <b>3 631</b>                           | <b>519</b>                             |
| <b>Cash flows from investing activities</b>                     |         |  |  |  |  |
| Purchase of property, plant and equipment                       | 4       | (1 064)                                | (1 553)                                | (3 424)                                | (5 044)                                |
| Proceeds from sale of property, plant and equipment             | 4       | (18)                                   | 338                                    | -                                      | 41                                     |
| Purchase of mineral property interests                          | 2       | (300)                                  | (583)                                  | (7)                                    | (7)                                    |
| Proceeds from sale of subsidiary                                | 20      | -                                      | -                                      | -                                      | 2 556                                  |
| Investment in joint venture                                     | 3       | -                                      | (103)                                  | -                                      | -                                      |
| Net movement in related party loans                             |         | (281)                                  | (206)                                  | 11                                     | (56)                                   |
| Net movement in other financial assets                          |         | (176)                                  | (500)                                  | (168)                                  | (324)                                  |
| Decrease (increase) in rehabilitation deposits                  |         | 424                                    | 487                                    | (15)                                   | (32)                                   |
| <b>Net cash outflow from investing activities</b>               |         | <b>(1 415)</b>                         | <b>(2 120)</b>                         | <b>(3 603)</b>                         | <b>(2 866)</b>                         |
| <b>Cash flows from financing activities</b>                     |         |  |  |  |  |
| Share issue costs   | 9       | -                                      | -                                      | -                                      | (5)                                    |
| Repayment of convertible loan                                   |         | (2)                                    | (5)                                    | (5)                                    | (5)                                    |
| Repayment of finance lease obligations                          |         | (61)                                   | (139)                                  | (79)                                   | (127)                                  |
| <b>Net cash outflow from financing activities</b>               |         | <b>(63)</b>                            | <b>(144)</b>                           | <b>(84)</b>                            | <b>(137)</b>                           |
| <b>Net movement in cash and cash equivalents for the period</b> |         | <b>490</b>                             | <b>797</b>                             | <b>(56)</b>                            | <b>(2 484)</b>                         |
| Cash and cash equivalents at the beginning of the period        |         | (1 453)                                | (1 760)                                | 303                                    | 2 731                                  |
| <b>Total net cash and cash equivalents at end of the period</b> | 8       | <b>(963)</b>                           | <b>(963)</b>                           | <b>247</b>                             | <b>247</b>                             |



# Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

## Accounting Policies

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

### 1.1 Nature of operations

Rockwell Diamonds Inc. ("Rockwell" or the "Company") is engaged in the business of diamond production and the acquisition and exploration of natural resource properties. The unaudited interim consolidated financial statements of the Company as at and for the period ended 31 August 2014 and the year ended 28 February 2014 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates. The Group's mineral property interests are located in South Africa. Rockwell is incorporated under British Columbia Business Corporations Act.

### 1.2 Continuance of operations

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. Future events beyond the Group's control may change the Group's ability to continue as a going concern. If the going concern concept was no longer appropriate, significant adjustments may be required to the carrying value of assets and liabilities and would be recorded at that time.

### 1.3 Basis of preparation

#### 1.3.1 Statement of compliance

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with IAS 34: *Interim Financial Reporting*. The accounting policies applied in the unaudited interim consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended 28 February 2014, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

#### 1.3.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except where otherwise stated, as set out in the accounting policies below.

#### 1.3.3 Presentation currency

These unaudited interim consolidated financial statements are presented in Canadian dollars. All financial information presented in Canadian dollars has been rounded to the nearest dollar, except as otherwise indicated.

#### 1.3.4 Use of estimates and judgements

In preparing the unaudited interim consolidated financial statements, management is required to make estimates and assumptions that affect the amounts represented in the unaudited interim consolidated financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical estimates and judgements in applying accounting policies that have the most significant effect on the amounts recognized in the unaudited interim consolidated financial statements is included in the following notes:

- Note 2 – Mineral property interests
- Note 4 – Property, plant and equipment
- Note 6 – Inventories
- Note 10 – Share-based payments
- Note 13 – Deferred tax
- Note 14 – Rehabilitation obligation

# Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

## Accounting Policies

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### 1.4 Significant accounting policies

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its annual consolidated financial statements as at and for the year ended 28 February 2014, except for the following standards and interpretations adopted in the current financial year:

- Investment Entities (Amendments to IFRS 10, IFRS 12, and IAS 27)
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)
- IFRIC 21 Levies

These changes have had no significant impact on the measurement of the Group's assets and liabilities.

### 1.5. Standards, interpretations and amendments to published standards which are not yet effective

Standards and interpretations issued but not yet effective:

#### Effective for the financial year commencing 1 April 2015

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

#### Effective for the financial year commencing 1 April 2016

- IFRS 14 Regulatory Deferral Accounts

#### Effective for financial year commencing 1 January 2017

- IFRS 15 Revenue from Contracts with Customers

#### To be decided

- IFRS 9 Financial Instruments

All standards and Interpretations will be adopted at their effective date. Management is currently in the process of assessing the applicability and impact of the above-mentioned, if any.

## Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

### Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

#### 2. Mineral property interests

|                            | As at<br>31 August<br>2014 |   |                | As at<br>28 February<br>2014 |   |                |
|----------------------------|----------------------------|---|----------------|------------------------------|---|----------------|
|                            | Cost                       | Accumulated<br>amortization<br>and impairment<br>losses | Carrying value | Cost                         | Accumulated<br>amortization<br>and impairment<br>losses | Carrying value |
| Mineral property interests | 30 494                     | (3 900)   | 26 594         | 30 171                       | (3 529)   | 26 642         |

#### Reconciliation of mineral property interests - 31 August 2014

|                            | Opening<br>balance | Additions | Disposals<br>(Note 20) | Foreign<br>exchange<br>movements | Amortization | Closing<br>balance |
|----------------------------|--------------------|-----------|------------------------|----------------------------------|--------------|--------------------|
| Mineral property interests | 26 642             | 583       | -                      | (225)                            | (406)        | 26 594             |

#### Reconciliation of mineral property interests - 28 February 2014

|                            |        |     |         |         |       |        |
|----------------------------|--------|-----|---------|---------|-------|--------|
| Mineral property interests | 31 405 | 199 | (1 617) | (2 417) | (928) | 26 642 |
|----------------------------|--------|-----|---------|---------|-------|--------|

## Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

### Notes to the Unaudited Interim Consolidated Financial Statements

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Amounts in Canadian Dollars ('000)

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#### 2. Mineral property interests (continued)

The Group's mineral property interests consist of the following:

##### Wouterspan (including Farhom, Okapi and Kanonloop)

The Wouterspan property is located in the Herbert district of the Northern Cape Province of South Africa approximately 145km southwest of Kimberley. The operation is located on the farm Lanyonvale (various portions), Farhom, Okapi and Kanonloop, with an aggregate area of 2,579.8 hectare.

The operation has not been operational since December 2008.

The following significant judgements and estimates were used by the independent expert in determining the recoverable amount of the Wouterspan mineral properties:

|                         |            |
|-------------------------|------------|
| USD selling price       | 2 029      |
| Grade (ct/100m3)        | 0.7        |
| Inflation - Sales       | 4.40%      |
| - Cost                  | 7.00%      |
| Volumes per year (M3)   | 4 320 000  |
| Available resource (M3) | 42 811 200 |
| Discount rate           | 26%        |

Included in the discounted cash flow model was the estimated cost of construction and commissioning a high volume plant. Management considered the adverse impact of any subsequent to 2011 changes in the expert's assumptions used in the cash flow model and considered these in their conclusion on the carrying value of \$12,459 (28 February 2014: \$12,566) relating to this mineral property.

During fiscal 2014 a preliminary economic assessment was performed and management concluded that no impairment is required.

##### Holpan/Klipdam

The Holpan property and mineral property was sold in fiscal 2014 and was fully depleted at date of sale. The Klipdam mineral right was sold in Q1 of fiscal 2014, refer to note 20 for additional information.

##### Saxendrift

The 5,142 hectare Saxendrift mine property which is located on the south bank of the Middle Orange River is currently being mined. Carrying value of this mineral property at 31 August 2014 amounted to \$2,293 (28 February 2014: \$2,490).

## Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

### Notes to the Unaudited Interim Consolidated Financial Statements

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Amounts in Canadian Dollars ('000)

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#### 2. Mineral property interests (continued)

##### Niewejaarskraal

Niewejaarskraal is located in the Hay district of the Northern Cape Province of South Africa approximately 124km southwest of Kimberley. The operations are located on Niewejaarskraal 40 and Viegulands Put 39 (total of 3,085.695ha) and is actively being mined. Carrying value of this mineral property at 31 August 2014 amounted to \$946 (28 February 2014: \$390).

##### Windsorton Erf 2004

The Windsorton Erf 2004 mineral right was sold during Q1 2014 as part of the Klipdam sale.

##### Tirisano

The Tirisano mine, totalling 10,805.57 hectares is located some 35 kilometres due north of Ventersdorp, in the North West Province and approximately 150 kilometres west of Johannesburg. Operations at Tirisano mine were placed on care and maintenance in December 2012.

The following significant judgements and estimates were used by the independent expert in determining the recoverable amount of the Tirisano mineral property:

|                         |                |
|-------------------------|----------------|
| USD selling price       | 607            |
| Grade (ct/100m3)        | 2.37           |
| Inflation - Sales       | 4.40%          |
| - Cost                  | 7.00%          |
| Volumes per year (M3)   | 2 160 000      |
| Available resource (M3) | 25 279 900     |
| Discount rate           | 25.6% - 28.96% |

Management considered the adverse impact of any subsequent changes in the expert assumptions used in the cash flow model and considered these in their conclusion of the carrying value of \$10,441 (28 February 2014: \$10,647) relating to this mineral property. Management concluded that no impairment is required.

##### Jasper

The Jasper Mining property, consisting of Portion 1 of the farm Brakfontein No. 276, is contiguous to Rockwell's Saxendrift Mine and is actively being mined at the Saxendrift operations. Carrying value of this mineral property at 31 August 2014 amounted to \$455 (28 February 2014: \$572).

##### Holsloot, Mooidraai, Thorngrove and Farhom

Mineral property interest relating to Holsloot, Mooidraai, Thorngrove and Farhom was sold during fiscal 2014 through the transfer of the mineral right at an amount of \$2,098. A profit of \$482 was realized on the disposal.

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## **Rockwell Diamonds Inc.**

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

### **Notes to the Unaudited Interim Consolidated Financial Statements**

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#### **2. Mineral property interests (continued)**

##### **Estimations**

Carats available at the mineral property interests (excluding Jasper) have been estimated by a qualified geologist employed by the Group and were reviewed by an independent qualified geologist. These resource estimates include inferred resources which have a great amount of uncertainty as to their existence, and economic and legal feasibility. The estimated carats have been published as required by National Instrument 43-101. The carats included in the 43-101 is used in the calculation of the amortization for the period (refer accounting policy). The carats available at Jasper have been assessed as management's best estimates of expected carats to be obtained. Currently samples are being evaluated to compile the 43-101 for Jasper.

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|------------------------------------|----------------------------|------------------------------|
|------------------------------------|----------------------------|------------------------------|

### 3. Investment in associates and joint ventures

#### Associates

#### 3.1. Flawless Diamonds Trading House Proprietary Limited - (20% shareholding)

##### Carrying amount

|  |            |            |
|--|------------|------------|
| Opening balance                                  | 233        | 208        |
| Share of profit from equity accounted investment | 85         | 59         |
| Foreign exchange movements                       | (6)        | (34)       |
| <b>Closing balance</b>                           | <b>312</b> | <b>233</b> |

The associate had no other comprehensive income (6 months ended 31 August 2013: \$Nil).

#### Summarised financial information of associate - (100% interest)

|   |        |        |
|---|--------|--------|
| Total assets  | 7 711  | 10 413 |
| Total liabilities   | 6 514  | 9 322  |
| Net assets  | 1 197  | 1 091  |
| Revenue   | 55 651 | 83 643 |
| Total comprehensive income for the period                   | 423    | 295    |
| Capital commitments and contingent liabilities of associate | -      | -      |

The Group holds 20% of Flawless Diamonds Trading House Proprietary Limited ("Flawless") incorporated in the Republic of South Africa. Flawless is a registered diamond broker which provides specialist diamond valuation, marketing and tender sales services to the Group.

The Group has significant influence over Flawless' operations and accounts for its investment using the equity method.

#### 3.2. Banzi Trade 26 Proprietary Limited - (49% shareholding)

Banzi Trade 26 Proprietary Limited ("Banzi Trade") was incorporated in 2005 in the Republic of South Africa with nominal equity capital. The Group acquired a 49% shareholding in the same year. Since incorporation the Group's portion of the losses from Banzi Trade have exceeded its investment in the associate. The Group, in terms of its accounting policy, does not account for losses in excess of its investment in associates in the absence of guarantees. The Group's carrying value of its investment in Banzi Trade is Nil.

#### Joint venture

#### 3.3. Gumrock Proprietary Limited

Gumrock Proprietary Limited ("Gumrock") is an unlisted joint arrangement in which the Group has joint control and a 50% ownership. Gumrock mines the Kwartelspan mineral property.

Gumrock is structured as a separate vehicle in which the Group has a residual interest. Accordingly Gumrock is considered to be a joint venture, and is equity accounted.

##### Carrying amount

|              |     |   |
|--------------|-----|---|
| Initial cost | 103 | - |
|--------------|-----|---|

The joint venture did not earn a profit for the period.

#### Summarised financial information of joint venture

|  |            |            |
|--|------------|------------|
| Total assets   | 1 919      | -          |
| Total liabilities  | 1 919      | -          |
| <b>Total investment in associates and joint ventures</b> | <b>415</b> | <b>233</b> |

## Rockwell Diamonds Inc.

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#### 4. Property, plant and equipment

|                          | As at<br>31 August<br>2014 |  |                       | As at<br>28 February<br>2014 |  |                       |
|--------------------------|----------------------------|--|-----------------------|------------------------------|--|-----------------------|
|                          | Cost                       | Accumulated<br>depreciation<br>and impairment<br>charges | Net carrying<br>value | Cost                         | Accumulated<br>depreciation<br>and impairment<br>charges | Net carrying<br>value |
| Land and buildings       | 3 484                      | (893)  | 2 591                 | 3 386                        | (854)  | 2 532                 |
| Plant and machinery      | 48 228                     | (24 134)   | 24 094                | 48 175                       | (22 520)   | 25 655                |
| Motor vehicles           | 1 274                      | (841)  | 433                   | 1 356                        | (856)  | 500                   |
| Office equipment         | 939                        | (783)  | 156                   | 905                          | (740)  | 165                   |
| Construction in progress | 1 061                      | -  | 1 061                 | 1 976                        | (109)  | 1 867                 |
|                          | <b>54 986</b>              | <b>(26 651)</b>  | <b>28 335</b>         | <b>55 798</b>                | <b>(25 079)</b>  | <b>30 719</b>         |

#### Reconciliation of property, plant and equipment - 31 August 2014

|                          | Opening<br>balance | Additions    | Disposals    | Transfers | Foreign<br>exchange<br>movements | Depreciation   | Closing<br>balance |
|--------------------------|--------------------|--------------|--------------|-----------|----------------------------------|----------------|--------------------|
| Land and buildings       | 2 532              | 54           | -            | 88        | (32)                             | (51)           | 2 591              |
| Plant and machinery      | 25 655             | 1 049        | (570)        | 1 107     | (309)                            | (2 838)        | 24 094             |
| Motor vehicles           | 500                | -            | (22)         | -         | (7)                              | (38)           | 433                |
| Office equipment         | 165                | 30           | -            | 15        | (4)                              | (50)           | 156                |
| Construction in progress | 1 867              | 420          | -            | (1 210)   | (16)                             | -              | 1 061              |
|                          | <b>30 719</b>      | <b>1 553</b> | <b>(592)</b> | <b>-</b>  | <b>(368)</b>                     | <b>(2 977)</b> | <b>28 335</b>      |



## Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

### Notes to the Unaudited Interim Consolidated Financial Statements

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#### 4. Property, plant and equipment (continued)

##### Reconciliation of property, plant and equipment - 28 February 2014

|                          | Opening<br>balance | Additions    | Disposals      | Transfers | Foreign<br>exchange<br>movements | Depreciation   | Impairment<br>loss | Closing<br>balance |
|--------------------------|--------------------|--------------|----------------|-----------|----------------------------------|----------------|--------------------|--------------------|
| Land and buildings       | 4 194              | 180          | (1 361)        | -         | (377)                            | (104)          | -                  | 2 532              |
| Plant and machinery      | 25 990             | 3 088        | (1 890)        | 5 857     | (2 634)                          | (4 720)        | (36)               | 25 655             |
| Motor vehicles           | 518                | 143          | (28)           | -         | (52)                             | (81)           | -                  | 500                |
| Office equipment         | 278                | 17           | -              | -         | (26)                             | (104)          | -                  | 165                |
| Construction in progress | 2 564              | 5 445        | (37)           | (5 857)   | (248)                            | -              | -                  | 1 867              |
|                          | <b>33 544</b>      | <b>8 873</b> | <b>(3 316)</b> | <b>-</b>  | <b>(3 337)</b>                   | <b>(5 009)</b> | <b>(36)</b>        | <b>30 719</b>      |

##### The impairment loss represents

|                                | 6 months<br>ended 31<br>August 2014 | Year ended<br>28 February<br>2014 |
|--------------------------------|-------------------------------------|-----------------------------------|
| Wouterspan plant and machinery | -                                   | 36                                |
|                                | <b>-</b>                            | <b>36</b>                         |

Impairments for the year ended 28 February 2014 were done on the estimated market value less cost to sell on certain items of equipment no longer in use.

Included in the year ended 28 February 2014 are disposals of property, plant and equipment relating to the Klipdam sale that amounted to:

|                     |          |              |
|---------------------|----------|--------------|
| Land and buildings  | -        | 1 218        |
| Plant and machinery | -        | 1 195        |
|                     | <b>-</b> | <b>2 413</b> |

The following assets are subject to finance lease obligations; plant and machinery with a net carrying value of \$563 (28 February 2014: \$620) and motor vehicles with a net carrying value of \$142 (28 February 2014: \$160) totalling \$817 (28 February 2014: \$780).

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### 4. Property, plant and equipment (continued)

#### Estimates and judgements

Management performs a quarterly review of the Group's property, plant and equipment to consider indicators for impairment and where indicators for impairment were identified, the recoverable amount is estimated. Comparisons are made to similar assets available in the market taking into consideration their economic lives, residual value, current condition and application in the mining and recovery processes. Impairment indicators were identified for certain items of property, plant and equipment and where no future economic benefits (value in use) will flow from the identified assets, judgement was applied to consider fair value less costs to sell. Assets identified, where the carrying value exceeds the recoverable amount, are impaired. Life of mine cash flow models form the basis against which the value in use is measured.

# Rockwell Diamonds Inc.

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| Amounts in Canadian Dollars ('000)   | As at 31<br>August<br>2014 | As at 28<br>February<br>2014 |
|--|----------------------------|------------------------------|
| <b>5. Investments and deposits</b>   |                            |                              |
| <b>At fair value through profit or loss</b>  |                            |                              |
| Investments  | 5 946                      | 5 319                        |
| <p>The Group invests in insurance policies with endowment benefits on maturity of the policies in order to provide funding for the rehabilitation obligations. Fair value represents the surrender value of these investments. These policies are encumbered by the guarantees issued on behalf of the Group to the South African Department of Mineral Resources (refer notes 14 and 28).</p> |                            |                              |
| <b>At amortized cost</b>   |                            |                              |
| Deposits   | 68                         | 67                           |
| <p>This deposit was paid to secure electricity supplies.</p>   |                            |                              |
| <b>Total investments and deposits</b>  | <b>6 014</b>               | <b>5 386</b>                 |
| <b>Non-current assets</b>  |                            |                              |
| At fair value through profit or loss   | 5 946                      | 5 319                        |
| At amortized cost  | 68                         | 67                           |
|  | <b>6 014</b>               | <b>5 386</b>                 |
| <b>6. Inventories</b>  |                            |                              |
| Rough diamonds   | 8 805                      | 3 353                        |
| Ore stockpile  | 138                        | 123                          |
| Consumable stores  | 1 284                      | 1 132                        |
|  | <b>10 227</b>              | <b>4 608</b>                 |
| <p>The net realizable value of rough diamond inventories is estimated at the average price per carat achieved for the most recent realizations taking into account the variable factors of clarity, size, shape and colour. A write-down to net realizable value of \$3,394 (31 August 2013: \$Nil) was recognized during the period.</p>  |                            |                              |
| <b>Estimates and judgements</b>  |                            |                              |
| <p>Management performs a quarterly review of inventory in order to determine the net realizable value and to identify inventory that may require a write-off. Obsolete, slow moving and damaged inventory are indicators that a write-off is required. Best judgement is applied in estimating the write-off should this be necessary.</p>   |                            |                              |
| <b>7. Trade and other receivables</b>  |                            |                              |
| Trade receivables  | 1 795                      | 3 325                        |
| Other receivables *  | 2 251                      | 2 829                        |
| Prepayments  | 420                        | 810                          |
| VAT  | 753                        | 1 537                        |
|  | <b>5 219</b>               | <b>8 501</b>                 |

\* Other receivables includes an amount of \$405 (28 February 2014: \$1,232) receivable from a mining contractor relating to the sale of earthmoving equipment, and an amount receivable from mining contractors at Tirisano relating to rehabilitation guarantees of \$1,000 (28 February 2014: \$872).

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| Amounts in Canadian Dollars ('000)    | As at 31<br>August<br>2014 | As at 28<br>February<br>2014 |
|---------------------------------------|----------------------------|------------------------------|
| <b>8. Cash and cash equivalents</b>   |                            |                              |
| Cash and cash equivalents consist of: |                            |                              |
| Cash on hand                          | 1                          | 1                            |
| Bank balances                         | 2 165                      | 888                          |
| Short-term cash deposits              | 31                         | 436                          |
|                                       | <u>2 197</u>               | <u>1 325</u>                 |
| Bank overdraft                        | (3 160)                    | (3 085)                      |
|                                       | <u>(963)</u>               | <u>(1 760)</u>               |
|                                       |                            |                              |
| Current assets                        | 2 197                      | 1 325                        |
| Current liabilities                   | (3 160)                    | (3 085)                      |
|                                       | <u>(963)</u>               | <u>(1 760)</u>               |

The Group has an overdraft facility in the amount of ZAR31.0 million (\$3.2 million) available for its operations of which ZAR29,897,345 (\$3.1million) have been utilized. This facility has an interest cost of prime (currently 9.0% per annum) plus 0.6%. The security for the ZAR31.0 million (28 February 2014: ZAR31.0 million) overdraft facility consists of joint suretyship limited to ZAR28.0 million (28 February 2014: ZAR28.0 million), by Rockwell Resources RSA Proprietary Limited and HC van Wyk Diamonds Limited.

## 9. Share capital

### Reconciliation of number of shares issued:

|                                       | Number of<br>shares | Number of<br>shares |
|---------------------------------------|---------------------|---------------------|
| Beginning of period                   | 53 523 244          | 48 409 413          |
| Payment on conversion of mining right | -                   | 533 332             |
| AVR unbundling                        | -                   | 3 466 667           |
| Shares issued to employees (note 10)  | -                   | 1 113 832           |
| <b>End of period</b>                  | <b>53 523 244</b>   | <b>53 523 244</b>   |

The Company's authorised share capital consists of an unlimited number of common shares, without par value, and an unlimited number of preference shares without par value, of which no preference shares have been issued. The directors have the authority to issue shares, up to 10% of shares currently in issue, without shareholders' approval.

Share capital is shown net of share issuance cost. The issuance cost amounted to \$251 (28 February 2014: \$23,214).

The following shares are reserved for issue:

|                          |            |
|--------------------------|------------|
| - Employee share options | 4,836,431  |
| - Daboll loan (note 11)  | 12,235,686 |
| - Employee bonus issue   | 960,000 *  |

\* These shares were issued on 10 September 2014.

# Rockwell Diamonds Inc.

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Amounts in Canadian Dollars ('000)

### 10. Share-based payments

#### Employee share-based payments

The Group has a share-based payment plan approved by the shareholders that allows the Group to grant options for up to 10% of the Company's shares in issue at any point in time, typically vesting over two years, to its directors, employees, officers, and consultants. The Company determines the exercise price using an historic volume weighted average which could differ from the closing price on the grant date. Share options have a maximum term of five years and typically terminate 90 days following the termination of the optionee's employment, except in the case of retirement or death, which terminate one year thereafter.

The Group uses the Black-Scholes option pricing model to estimate a fair value for these options at grant date. This model requires inputs such as expected volatility, expected life to exercise, and interest rates. Changes in any of these inputs could cause a significant change in the share-based payment expense charged in a period.

All options are to be settled by physical delivery of shares.

Included under share capital (note 9) are issues to employees and consultants.

#### Share-based payment expenses:

|   | 3 months<br>ended<br>31 August<br>2014 | 6 months<br>ended<br>31 August<br>2014 | 3 months<br>ended<br>31 August<br>2013 | 6 months<br>ended<br>31 August<br>2013 |
|---|--|--|--|--|
| Share options granted in prior years  | 59                                     | 171                                    | 41                                     | 130                                    |
| Share options granted in current year   | -                                      | -                                      | -                                      | -                                      |
| <b>Total share-based payment cost expensed to operations,<br/>with the offset credited to share-based payment reserve</b> | <b>59</b>                              | <b>171</b>                             | <b>41</b>                              | <b>130</b>                             |

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### 11. Loans and borrowings

#### Held at amortized cost

Industrial Development Corporation of South Africa Limited

3 324

3 195

The loan was acquired by Rockwell Diamonds Inc. with the asset and liability acquisition of Etruscan Diamonds Proprietary Limited, and was entered into by Blue Gum Diamonds Proprietary Limited, a 74% owned subsidiary of Etruscan Diamonds Proprietary Limited.

The loan is repayable in 10 equal bi-annual instalments, bears interest at 1.28% above the current prime rate (9.25% p.a.) and is denominated in South African Rand.

Daboll loan

1 995

2 000

On 2 June 2011, the Group signed a Convertible Loan Agreement with Daboll Consultants Limited. It was agreed that Daboll Consultants Limited would lend the Group USD\$2,000,000.

As the loan is repayable at the election of the borrower it is disclosed as non-current.

The loan bears interest at 5% p.a. payable each calendar quarter, and unpaid interest is compounded annually.

The loan is convertible into common shares of the Company at the option of Daboll Consultants Limited during 21 calendar days prior and up to 26 June 2015, which is the maturity date.

This loan is regarded as one from a related party loan (refer note 16).

**5 319**

**5 195**

#### Non-current liabilities

At amortized cost

3 390

3 241

#### Current liabilities

At amortized cost

1 929

1 954

**5 319**

**5 195**

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### 12. Finance lease obligation

#### Minimum lease payments due

|  |            |            |
|--|------------|------------|
| - within one year                              | 75         | 171        |
| - between one and five years                   | 82         | 130        |
|  | 157        | 301        |
| less: future finance charges                   | (16)       | (26)       |
| <b>Present value of minimum lease payments</b> | <b>141</b> | <b>275</b> |

#### Present value of minimum lease payments due

|  |     |     |
|--|-----|-----|
| Current liabilities - within one year                | 66  | 165 |
| Non-current liabilities - between one and five years | 75  | 110 |
|  | 141 | 275 |

Finance lease obligations as detailed above are secured over plant and equipment and are repayable, on average, in 36 monthly instalments and are denominated in South African Rand. Interest is charged at rates of between 1.25% to 2.00% in excess of the prevailing prime rate, which is 9.25% per annum at 31 August 2014 and 9.0% at 28 February 2014. There are no significant restrictions imposed on the lessee as a result of the lease obligations.

### 13. Deferred tax

#### Deferred tax liability

|                               |         |         |
|-------------------------------|---------|---------|
| Mineral property interests    | (2 680) | (2 680) |
| Property, plant and equipment | (3 695) | (3 695) |
| Other                         | (66)    | (66)    |
|                               | (6 441) | (6 441) |

#### Deferred tax asset

|                           |                |                |
|---------------------------|----------------|----------------|
| Rehabilitation obligation | 366            | 515            |
|                           | 366            | 515            |
|                           | <b>(6 075)</b> | <b>(5 926)</b> |

#### Reconciliation of net deferred tax liability

|  |                |                |
|--|----------------|----------------|
| At beginning of the period                         | (5 926)        | (6 543)        |
| Foreign exchange movement                          | 65             | 555            |
| Recognised through statement of comprehensive loss | (214)          | 62             |
|  | <b>(6 075)</b> | <b>(5 926)</b> |

#### Judgements 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. No deferred tax assets are recognized due to the uncertainty of there being sufficient future taxable income in the Group entities against which to set these off.

## Rockwell Diamonds Inc.

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#### 14. Rehabilitation obligation

##### Reconciliation of obligation - 31 August 2014

|                           | Opening<br>balance | Rehabilitation<br>obligation<br>recognised /<br>(revised) | Foreign<br>exchange<br>movements | Closing<br>balance |
|---------------------------|--------------------|---|----------------------------------|--------------------|
| Rehabilitation obligation | 6 459              | 241   | (83)                             | 6 617              |

##### Reconciliation of obligation - 28 February 2014

|                           | Opening<br>balance | Rehabilitation<br>obligation<br>recognised /<br>(revised) | Foreign<br>exchange<br>movements | Decommis-<br>sioning asset<br>raised (note 4) | Disposal<br>(note 20) | Unwinding | Closing<br>balance |
|---------------------------|--------------------|---|----------------------------------|---|-----------------------|-----------|--------------------|
| Rehabilitation obligation | 6 993              | 743   | (699)                            | 165   | (984)                 | 241       | 6 459              |



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#### 14. Rehabilitation obligation (continued)

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

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

The ultimate rehabilitation will be financed from existing funds and policies invested for this purpose, ongoing contributions as well as the proceeds on sale of assets 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 Group's estimates of its ultimate rehabilitation liabilities could change as a result of changes in regulations or cost estimates. The following key assumptions were used in estimating the rehabilitation obligation and has been consistently applied from the prior year:

|                               |                                     |
|-------------------------------|-------------------------------------|
| Discount period:              | 2.5 - 9 years (End of life of mine) |
| South African discount rate:  | 9%                                  |
| South African inflation rate: | 7%                                  |

As required by regulatory authorities, at 31 August 2014, the Group had cash rehabilitation deposits totalling \$1,193 (28 February 2014 – \$1,701). These deposits are invested in interest bearing and money market linked investments. These investments have been pledged as security in favour of the guarantees the bank issued on behalf of the Group. Refer to note 5.

An amount of \$349 has been included in trade and other receivables (note 7) relating to rehabilitation obligations refundable from the royalty miners at Tirisano.

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|---|----------------------------|------------------------------|
| <b>15. Trade and other payables</b>   |                            |                              |
| Trade and other payables  | 9 119                      | 6 633                        |
| Royalties payable   | 3 440                      | 3 401                        |
| Payroll accruals  | 936                        | 717                          |
| VAT payable   | 18                         | 411                          |
|   | <b>13 513</b>              | <b>11 162</b>                |
| <b>16. Related parties</b>  |                            |                              |
| <b>Balances payable</b>   |                            |                              |
| Seven Bridges Trading (a)   | 4                          | 4                            |
| Current balances payable  | <b>4</b>                   | <b>4</b>                     |
| Loans from related parties  | <b>4</b>                   | <b>4</b>                     |
| <b>Balances receivable</b>  |                            |                              |
| Banzi Trade (c)   | 71                         | 178                          |
| Gumrock (g)   | 256                        | -                            |
| Mogopa Minerals (d)   | 8                          | 8                            |
| Current balances receivable   | <b>335</b>                 | <b>186</b>                   |
| Loans to related parties  | <b>335</b>                 | <b>186</b>                   |
| These loans represent working capital loans and are therefore disclosed as current. |                            |                              |
| <b>Loan from related party included under loans and borrowings</b>                  |                            |                              |
| Daboll Consultants Limited (e)  | 1 995                      | 2 000                        |
| <b>Receivables from related party included under trade and other receivables</b>    |                            |                              |
| Diacore (f)   | 2 571                      | 2 489                        |

# Rockwell Diamonds Inc.

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| Amounts in Canadian Dollars ('000) | 3 months<br>ended<br>31 August<br>2014 | 6 months<br>ended<br>31 August<br>2014 | 3 months<br>ended<br>31 August<br>2013 | 6 months<br>ended<br>31 August<br>2013 |
|------------------------------------|--|--|--|--|
|------------------------------------|--|--|--|--|

### 17. Related party transactions

#### Services rendered and expenses reimbursed:

|                                     |     |     |    |     |
|-------------------------------------|-----|-----|----|-----|
| Seven Bridges Trading (a)           | 12  | 23  | 11 | 23  |
| Banzi Trade (c)                     | -   | -   | 1  | 1   |
| Mogopa Minerals (d)                 | 26  | 54  | 25 | 52  |
| Flawless Diamonds Trading House (b) | 141 | 299 | 90 | 175 |

#### Sales rendered to:

|                                    |       |        |       |        |
|------------------------------------|-------|--------|-------|--------|
| Sale of diamonds - Diacore (f)     | 9 017 | 15 584 | 6 513 | 12 733 |
| Beneficiation income - Diacore (f) | 2 660 | 8 088  | 1 255 | 2 472  |

#### Finance costs paid to related party

|                                |    |    |    |    |
|--------------------------------|----|----|----|----|
| Daboll Consultants Limited (e) | 50 | 25 | 25 | 50 |
|--------------------------------|----|----|----|----|

All related party transactions are calculated at arm's length transaction values in the normal course of business.

- (a) Seven Bridges Trading 14 Proprietary Limited ("Seven Bridges Trading") is a wholly-owned subsidiary of Randgold Resources Limited, a public company where Dr. M Bristow, a director of the Company, serves in an executive capacity. Seven Bridges Trading provides administrative and management services.
- (b) Flawless Diamonds Trading House Proprietary Limited ("Flawless Diamonds Trading House") is a private company where an officer of the Group, namely, Mr J.B. Brenner is a shareholder. Flawless is a registered diamond broker which provides specialist diamond valuation, marketing and tender sales services to the Group for a fixed fee of 1% of turnover which is below the market rate charged by similar tender houses.
- (c) Banzi Trade 26 Proprietary Limited ("Banzi Trade") is 49% owned by HC van Wyk Diamonds Limited (note 3) and 51% by Bokomoso Trust. Banzi Trade is an empowered private company established to provide projects to local communities as part of the Company's Social and Labour Plan which is required in terms of the Minerals and Petroleum Resources Development Act ("MPRDA"). Banzi provides the Group with building materials at market rates.
- (d) The Bakwena Ba Mogopa Trust is the beneficial owner of 26% in the Tirisano Mine operation resident in Blue Gum Diamonds Proprietary Limited. This interest is held by Magopa Minerals Proprietary Limited through Magopa Blue Gum Proprietary Limited. As the landowner, surface rentals are paid to the Trust, while business and support services are paid to Magopa Minerals for shareholder relations and related services.
- (e) Daboll Consultants Limited ("Daboll") owns 21% shares in the Company and is considered a related party. Daboll has a convertible loan agreement with the Company at market related terms.
- (f) Diacore Diamond Group ("Diacore") is the holding company of Daboll and is the Company's strategic beneficiation partner, with plus 2,8 carat sized diamonds being acquired by Diacore through the diamond trading house for beneficiation. The Group and Diacore participate equally in the retail profit from the sale of its stones, after polishing and finishing.
- (g) Gumrock Proprietary Limited ("Gumrock") is a private company in which the Group has a 50% interest and joint control. Gumrock was established together with a private mining contractor to mine the Group's Kwartelspan mineral property. Operations were established in Q1 2015.

# Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

## Notes to the Unaudited Interim Consolidated Financial Statements

| Amounts in Canadian Dollars ('000)                     | 3 months<br>ended<br>31 August<br>2014 | 6 months<br>ended<br>31 August<br>2014 | 3 months<br>ended<br>31 August<br>2013 | 6 months<br>ended<br>31 August<br>2013 |
|--|--|--|--|--|
| <b>18. Cash generated from operations</b>              |  |  |  |  |
| Loss before taxation                                   | (1 821)                                | (923)                                  | (866)                                  | (2 269)                                |
| <b>Adjustments for:</b>                                |  |  |  |  |
| Depreciation and amortisation                          | 1 727                                  | 3 383                                  | 1 291                                  | 2 552                                  |
| Loss (profit) on sale of property, plant and equipment | 27                                     | 254                                    | 1                                      | (16)                                   |
| Share of profit from equity accounted investment       | (52)                                   | (85)                                   | (24)                                   | (56)                                   |
| Finance income   | (295)                                  | (266)                                  | (86)                                   | (254)                                  |
| Finance costs  | 8                                      | 37                                     | 197                                    | 398                                    |
| Impairment loss  | -                                      | -                                      | 71                                     | 71                                     |
| Net rehabilitation obligation                          | 121                                    | 241                                    | 1 158                                  | 1 230                                  |
| Share-based payment expense                            | 59                                     | 171                                    | 41                                     | 130                                    |
| <b>Changes in working capital:</b>                     |  |  |  |  |
| Inventories  | (1 429)                                | (5 726)                                | (1 378)                                | (1 770)                                |
| Trade and other receivables                            | 1 135                                  | 3 176                                  | 705                                    | (873)                                  |
| Trade and other payables                               | 2 193                                  | 2 533                                  | 2 487                                  | 1 469                                  |
|  | <b>1 673</b>                           | <b>2 795</b>                           | <b>3 597</b>                           | <b>612</b>                             |

### 19. Tax paid

|                                    |      |      |      |      |
|------------------------------------|------|------|------|------|
| Balance at beginning of the period | 35   | 36   | 36   | 40   |
| Foreign exchange movement          | -    | (1)  | -    | (4)  |
| Balance at end of the period       | (35) | (35) | (36) | (36) |
|                                    | -    | -    | -    | -    |

### 20. Sale of subsidiary

On 27 March 2013 ("Effective date") the Rockwell Diamonds Inc. Group disposed of a 100% shareholding in Klipdam Diamond Mining Company Proprietary Limited, which formed part of the Northern Cape operations. The entity was sold for an amount of \$2,556 of which an amount of \$734 is receivable only on transfer of the mineral right to the purchaser. The assets and liabilities sold amounted to:

#### Carrying value of assets sold

Property, plant and equipment (2 556)

#### Consideration received

|   |              |
|---|--------------|
| Cash and cash equivalents                                       | 1 822        |
| Deferred consideration - included in other receivables (note 7) | 734          |
|   | <b>2 556</b> |

# Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

## Notes to the Unaudited Interim Consolidated Financial Statements

| Amounts in Canadian Dollars ('000) | 3 months<br>ended<br>31 August<br>2014 | 6 months<br>ended<br>31 August<br>2014 | 3 months<br>ended<br>31 August<br>2013 | 6 months<br>ended<br>31 August<br>2013 |
|------------------------------------|--|--|--|--|
|------------------------------------|--|--|--|--|

### 21. Revenue

|                      |               |               |              |               |
|----------------------|---------------|---------------|--------------|---------------|
| Sale of diamonds     | 14 222        | 23 931        | 8 614        | 16 437        |
| Beneficiation income | 2 660         | 8 088         | 1 255        | 2 472         |
|                      | <b>16 882</b> | <b>32 019</b> | <b>9 869</b> | <b>18 909</b> |

Beneficiation income represents a profit share on the beneficiation value add through cutting and polishing, arising through the Group's agreement with Diacore. The Group is entitled to 50% of the profits from the sale of the polished diamonds produced by the Group and sold through this channel. The beneficiation income is recognized on the date Diacore notifies the Group of the sale of beneficiated diamonds to third parties.

### 22. Cash cost of sales

|                    |               |               |              |               |
|--------------------|---------------|---------------|--------------|---------------|
| Mining             | 4 626         | 8 840         | 3 133        | 5 915         |
| Employee cost      | 2 249         | 4 609         | 1 562        | 3 451         |
| Processing         | 1 240         | 2 331         | 771          | 1 430         |
| Royalty mining     | 3 899         | 6 255         | 2 210        | 3 091         |
| Contract mining    | 1 753         | 3 660         | -            | 985           |
| Other              | 2 353         | 4 079         | 1 130        | 2 247         |
|                    | <b>16 120</b> | <b>29 774</b> | <b>8 806</b> | <b>17 119</b> |
| Inventory movement | (431)         | (3 211)       | (1 470)      | (1 818)       |
|                    | <b>15 689</b> | <b>26 563</b> | <b>7 336</b> | <b>15 301</b> |

### 23. Loss before net finance costs

Loss before net finance costs for the period is stated after accounting for the following:

|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Loss (profit) on sale of property, plant and equipment | 27    | 254   | 1     | (16)  |
| Depreciation on property, plant and equipment          | 1 558 | 2 977 | 1 103 | 2 171 |
| Amortisation on mineral property interests             | 169   | 406   | 188   | 381   |
| Salaries and wages                                     | 575   | 941   | 357   | 733   |
| Share-based payment expense                            | 59    | 171   | 41    | 130   |

### 24. Finance income

|  |            |            |           |            |
|--|------------|------------|-----------|------------|
| Bank   | 28         | 69         | 61        | 134        |
| Fair value adjustments on other financial assets | 109        | 197        | 25        | 120        |
|  | <b>137</b> | <b>266</b> | <b>86</b> | <b>254</b> |

### 25. Finance costs

|                           |            |            |            |            |
|---------------------------|------------|------------|------------|------------|
| Capital leases obligation | 4          | 9          | 12         | 33         |
| Bank                      | 196        | 378        | 185        | 365        |
|                           | <b>200</b> | <b>387</b> | <b>197</b> | <b>398</b> |

# Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

## Notes to the Unaudited Interim Consolidated Financial Statements

| Amounts in Canadian Dollars ('000) | 3 months<br>ended<br>31 August<br>2014 | 6 months<br>ended<br>31 August<br>2014 | 3 months<br>ended<br>31 August<br>2013 | 6 months<br>ended<br>31 August<br>2013 |
|------------------------------------|--|--|--|--|
|------------------------------------|--|--|--|--|

### 26. Tax expense

#### Major components of the tax expense

##### Deferred tax

|   |       |     |     |     |
|---|-------|-----|-----|-----|
| Movement in deferred tax balance recognised through profit and loss | (339) | 214 | 578 | 341 |
|---|-------|-----|-----|-----|

### 27. Loss per share

#### Basic and diluted loss per share

##### Basic loss per share

|                 |        |        |        |        |
|-----------------|--------|--------|--------|--------|
| Cents per share | (2.60) | (1.84) | (2.81) | (5.22) |
|-----------------|--------|--------|--------|--------|

Basic loss per share was calculated based on a weighted average number of ordinary shares of 53 523 244 for the 3 months ended 31 August 2014 (3 months ended 31 August 2013: 48 942 745) and 53 523 244 for the 6 months ended 31 August 2014 (6 months ended 31 August 2013: 48 887 673).

##### Reconciliation of loss for the period to basic loss

|   |                |              |                |                |
|---|----------------|--------------|----------------|----------------|
| Loss for the period                                   | (1 482)        | (1 137)      | (1 444)        | (2 610)        |
| <b>Adjusted for:</b>                                  |                |              |                |                |
| Loss attributable to non-controlling interest         | 91             | 151          | 68             | 56             |
| <b>Basic loss attributable to owners of the Group</b> | <b>(1 391)</b> | <b>(986)</b> | <b>(1 376)</b> | <b>(2 554)</b> |

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

At 31 August 2014 and 31 August 2013 the impact of share-based payment options were excluded from the weighted average number of shares as the effect would have been anti-dilutive.

#### Basic and diluted headline loss per share

|                                 |        |        |        |        |
|---------------------------------|--------|--------|--------|--------|
| Headline loss per share (cents) | (2.64) | (1.53) | (2.86) | (5.37) |
|---------------------------------|--------|--------|--------|--------|

##### Reconciliation between basic loss and headline loss

|  |                |              |                |                |
|--|----------------|--------------|----------------|----------------|
| Basic loss attributable to owners of the Group           | (1 391)        | (986)        | (1 376)        | (2 554)        |
| <b>Adjusted for:</b>                                     |                |              |                |                |
| Loss (profit) on sale of property, plant and equipment   | 27             | 254          | 1              | (16)           |
| Share of profit from equity accounted investment *       | (51)           | (85)         | (24)           | (56)           |
| <b>Headline loss attributable to owners of the Group</b> | <b>(1 415)</b> | <b>(817)</b> | <b>(1 399)</b> | <b>(2 626)</b> |

The basic and diluted headline earnings (loss) per share disclosure is provided based on the listing requirements of the Johannesburg Stock Exchange (Group's secondary listing). The disclosure of basic and diluted headline earnings (loss) per share is provided in accordance with Circular 2/2013 as issued by the South African Institute of Chartered Accountants. Headline earnings (loss) represents the basic earnings (loss) attributable to the owners of the Group excluding certain remeasurements.

At 31 August 2014 and 31 August 2013 the impact of share-based payment options were excluded from the weighted average number of shares, for the purpose of the diluted headline earnings (loss) per share calculation, as the effect would have been anti-dilutive.

\* 31 August 2013 restated due to Circular 2/2013 which is the new requirement applicable for financial statements issued after 30 April 2013.

# Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 August 2014

## Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

### 28. Contingent liabilities

HC van Wyk Diamonds Limited, Saxendrift Mine Proprietary Limited, Etruscan Diamonds Proprietary Limited and Blue Gum Diamonds Proprietary Limited held guarantees in favour of Eskom (Electricity Provider) of ZAR5,615 (\$577) and the Department of Minerals and Energy (DME) of ZAR45,367 (\$4,659) towards rehabilitation expenses.

### 29. Subsequent events

The Group announces that the BEE agreement with African Renaissance Holdings ("ARH") to acquire a 30% equity stake in its MOR operations lapsed due to the conditions precedent not having been fulfilled.

Rockwell announces that it has entered into a new vendor-financed BEE partnership with a BEE SPV comprising MIH Newco (70% holding in SPV) and an employee trust to be established for the benefit of the BEE employees of Rockwell RSA (30% holding in SPV). The transaction is based on similar terms as the previous transaction with ARH. MIH will acquire 30% of Rockwell's MOR operations for a total acquisition consideration of ZAR72.7 million (\$7.2 million). This transaction is subject to shareholder approval.

### 30. Segmental information

The Group has three reportable operating segments, as described below, which are the Group's operating divisions. These divisions offer different diamond product characteristics, qualities, geological characteristics, processes and services, and are managed separately because they require different technology and profit or cost strategies. For each of the divisions the Group executive committee (chief operating decision making body) reviews internally managed reports on at least a monthly basis. The following describes the operations in each of the Group's reportable segments:

- Northern Cape operation is associated with the mining of Paleo Channels and Rooikoppie gravels and the recovery of high value and larger carat size diamonds;
- North West operation is associated with the mining of potholes and the recovery of lower value and smaller carat size diamonds; and
- Corporate represents the corporate management and administrative function of the Group.

The reconciliation column represents the inter group transactions eliminated on consolidation. All reportable segments are located in the same geographical jurisdiction. Information regarding the results of each of the reportable segments is included below.

#### For the 6 months ended 31 August 2014

|                     | Northern<br>Cape | North West | Corporate | Reconciling | Total   |
|---------------------|------------------|------------|-----------|-------------|---------|
| Total assets        | 54 646           | 18 779     | 71 751    | (64 612)    | 80 564  |
| Total liabilities   | 71 275           | 25 688     | 2 478     | (64 612)    | 34 829  |
| External revenue    | 24 702           | 7 317      | -         | -           | 32 019  |
| Loss for the period | (44)             | (639)      | (454)     | -           | (1 137) |

#### For the 6 months ended 31 August 2013

|                     | Northern<br>Cape | North West | Corporate | Reconciling | Total   |
|---------------------|------------------|------------|-----------|-------------|---------|
| Total assets        | 49 750           | 16 200     | 65 646    | (54 351)    | 77 245  |
| Total liabilities   | 58 229           | 23 246     | 2 435     | (54 351)    | 29 559  |
| External revenue    | 15 801           | 3 108      | -         | -           | 18 909  |
| Loss for the period | (2 091)          | (191)      | (328)     | -           | (2 610) |