ABRIDGED ANNUAL REPORT 2016 >>

ROCKWELL
DIAMONDS INC.

ABOUT ROCKWELL

Rockwell is engaged in the business of operating and developing alluvial diamond deposits, with a goal to become a mid-tier diamond production company.

The Company is known for producing large, high quality gemstones comprising a major portion of its diamond recoveries. This is enhanced through a beneficiation joint venture that enables Rockwell to participate in the profits on the sale of the polished diamonds, and certain re-traded stones which are not beneficiated.

Rockwell has set a strategic goal to become a mid-tier diamond production company. In pursuit of this goal the Company has embarked on a strategy to grow its Middle Orange River ("MOR") operational base and minimise production and recovery volatility by setting a medium-term target to process 500 000m^3 of gravels per month from its MOR operations.

Rockwell also evaluates development and consolidation opportunities which have the potential to expand its mineral resources and production profile and to provide accretive value to the Company.

Rockwell's common shares trade on the Toronto Stock Exchange ("TSX") and the JSE Limited under the symbol "RDI".

TSX: RDI | JSE: RDI

Currency values throughout this report are presented in Canadian dollars, unless otherwise indicated.

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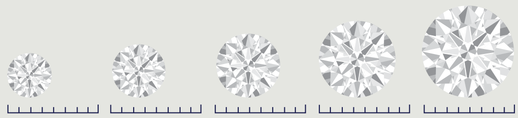
The full annual report and financial statements are available on our website www.rockwelldiamonds.com.

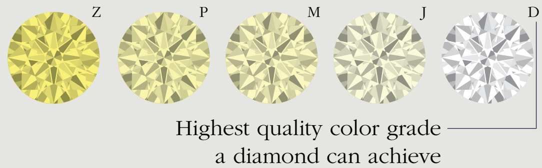
ROCKWELL LIVING BY
THE 4Cs OF DIAMOND VALUE



CARATS

Because large diamonds are rarer than smaller ones, diamond value increases with increasing carat weight. The increase in value is not proportionate to the size increase. The price per carat rises more quickly as the stone size becomes larger. Two diamonds of equal carat weight can have very different values depending on the color, clarity and cut.

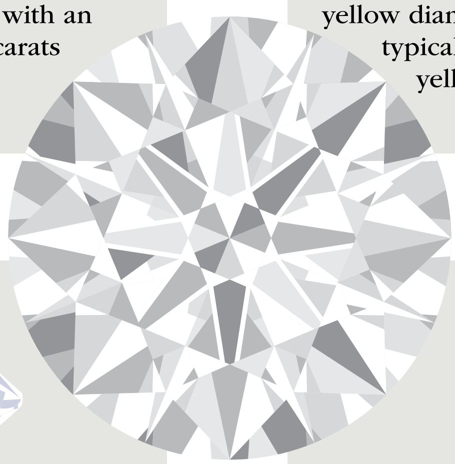
Rockwell's MOR production profile is skewed towards larger stones, with an average diamond size of 3.76 carats in fiscal 2016.

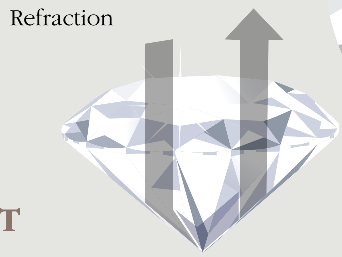


COLOR

Diamond color refers to the lack of color in a diamond. Completely colorless diamonds are the best quality and most valuable, whilst brown or yellow diamonds are the lowest quality. The whiter or more colorless the gemstone, the rarer, and the higher the price. However, exceptionally rare "fancy" colored diamonds, ranging from blue, pink, red, yellow, green and brown, can be more valuable.

Rockwell is known for producing fancy yellow diamonds with some 20% of its typical production ranging from yellow to vivid yellow diamonds.

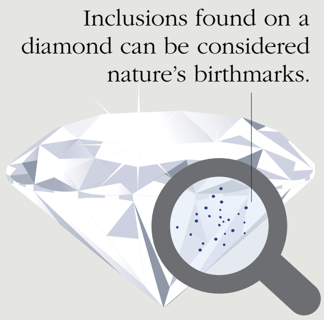




CUT

A diamond's cut grade relates to how well its facets interact with light. Cut is where the skill of the diamond cutter creates the maximum shine and sparkle from the rough stone. Cut is the only diamond property that is totally dependent on human intervention. A well-cut diamond is worth far more than a poorly cut stone of equal weight. Skilled workmanship is needed to craft a stone that maximizes the return of light in a diamond.

Rockwell has access to the skills of world renowned diamond cutters to maximize the value added to its rough diamonds through its beneficiation partnership with Diacore.



CLARITY

Most diamonds have imperfections, inside them or on their surface. The size and abundance of these imperfections affect the overall appearance, grade and price of the diamond. Clarity refers to the relative absence of imperfections. Diamonds with a higher clarity are rarer and most valuable. Flawless diamonds are very rare and therefore the most highly priced.

More than 80% of Rockwell's diamond production is gem quality.

SALIENT FEATURES OF 2016

Financial

> **$6.1 MILLION LONG-TERM DEBT REPAID**

> **$37.7 MILLION GROSS DIAMOND REVENUE**
>
> Down 34%

> **16 954 CARATS SOLD**
>
> Sales of carats from own operations up 3%

> **US$1 586 PER CARAT**
>
> Average carat value from own operations declined by 27%

> **$9.6 MILLION BENEFICIATION REVENUE***
>
> Down 13%

> **$46.6 MILLION COST OF SALES**
>
> (before amortization and depreciation)
>
> Decrease due to a reduction in payments to contractors under royalty mining arrangements for Tirisano sourced goods

> **$0.7 MILLION GROSS PROFIT**
>
> (before amortization and depreciation)
>
> Due to improved beneficiation income and operating performance

> **$0.7 MILLION IMPAIRMENTS**
>
> Mainly related to mining infrastructure at Niewejaarskraal ("NJK") and Saxendrift Hill Complex ("SHC")

> **$27.7 MILLION NET LOSS**
>
> Versus a net loss of $14.5 million in 2015

> **$4.2 MILLION CASH OUTFLOW FROM OPERATING ACTIVITIES**
>
> After deducting debt netting arrangement payments of $6.1 million

**Through the profit share agreement with Diacore*

Strategic

> **BOARD REVIEW AND OPERATIONAL RESTRUCTURING**
>
> Company-wide review encompassing improvements in operational effectiveness, renegotiation of acquisition loan agreements and reduction of overheads, including closure of Johannesburg Head Office

> **ACQUISITION OF REMHOOGTE-HOLSLOOT COMPLEX CONCLUDED**
>
> Processing and feed challenges identified at Remhoogte-Holsloot Complex ("RHC") and addressed during fiscal 2016; performance lifted

> **WOUTERSPAN RE-COMMISSIONING**
>
> Construction of a new plant and in-field screening at Wouterspan ("WPC") capable of processing 200 000m^3 per month, with planned redeployment of staff and equipment from other operations

> **NON-CORE TIRISANO PROPERTY DISPOSAL**
>
> Early settlement of deferred purchase consideration receivable. The property was disposed for a total purchase consideration of $6.4 million, which has been received

> **REVISED MINING STRATEGY**
>
> Board mandate to negotiate new mining agreement; fundamental change in Rockwell's business and operating model, with risk of earthmoving vehicle ("EMV") fleet availability transferred to a mining contractor

Operational

> **MOR VOLUMES MINED DOWN 30%**
to 3.3 million m³

> **MOR VOLUMES PROCESSED DOWN 17%**
to 3.0 million m³

> **16 822 CARATS PRODUCED**
Carats from own operations up 9%

> **SEVENTEEN +50 CT DIAMONDS RECOVERED**

> **EIGHTY +20 CT DIAMONDS RECOVERED**

> **SAXENDRIFT CLOSURE DEFERRED**
Winding down of operations synchronized with WPC ramp-up; substantial savings on anticipated closure costs

> **IN-FIELD SCREENING FACILITIES CONSTRUCTED AT RHC**
Benefits beginning to show early in fiscal 2017, with production stabilizing

> **NEW ROYALTY MINING CONTRACTS**
Royalty income and reduction in Saxendrift rehabilitation liabilities through mining contractors' activities

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For further information on Mineral Resources

Strategic objectives

> **OPTIMIZING PRODUCING MINES** to deliver better returns by driving down costs and improving metallurgical processes

> **LEVERAGING PRODUCTION PROFILE** through further development of assets with a focus on minimizing the dilution of existing shareholders

> **ADDING VALUE DOWN-STREAM** from the Company's exceptional gemstone diamond production through strategic beneficiation partnerships

> **CREATING SCALE AND CRITICAL MASS** to smooth and increase Rockwell's production and revenue profile through active management of the portfolio of properties, by acquiring select diamond projects or recycling non-productive and lossmaking assets

> **CONDUCTING GEOLOGICAL INVESTIGATIONS,** including drilling and bulk sampling on new project areas adjacent to the existing operations

SUSTAINABILITY HIGHLIGHTS

Safety

SAXENDRIFT SAFETY HIGHLIGHTS:

Saxendrift Mine recorded 580,000 lost time injury free hours ("LTIFH") in May 2015

NIEWEJAARSKRAAL SAFETY HIGHLIGHTS:

NJK was put under care and maintenance in May 2015; by that time it had achieved over 2.0 million LTIFH

REMHOOGTE-HOLSLOOT SAFETY HIGHLIGHTS:

On September 2, 2015 a fatality occurred on Remhoogte No 2 plant. RHC recorded 200 000 LTIFH in February 2016

Environmental

387.1 HECTARES OF LAND REHABILITATED ACROSS ROCKWELL'S PROPERTIES:

Increased eight-fold since last year

11.2 MILLION KWH OF ENERGY USED:

Down 27% from last year

96 101 LITRES OF WASTE OIL RECYCLED:

Down 18% from last year

2.2 MILLION M³ OF WATER CONSUMED:

Down 21% from last year

Workforce

COMPANYWIDE RESTRUCTURING:

Section 189 restructuring process initiated during fourth quarter, in consultation with the National Union of Mineworkers ("NUM") and employee representatives. Talent retained despite economic downturn and industry-wide massive layoffs

TALENT, TRAINING AND DIVERSITY INITIATIVES:

- New skills audit and training initiatives driving Company and individual objectives in line with transformation strategy
- Long service awards, re-launch of Coaching and Mentoring Program, recommitment to Rockwell's values, CEO Braai with young professionals
- Diversity workshops relaunched following the Section 189 restructuring

Community

INTERNET ACCESS SPONSORSHIP IN LOCAL COMMUNITIES:

Two internet cafés set up in partnership with local technology service provider PC World Douglas; these will be handed over to the local community to be managed through the Mayor's office

ONGOING SUPPORT OF CHILDREN'S HOME IN BARKLY WEST:

Jannie Roux Home providing place of safety for more than 80 children

WAGE AGREEMENT:

The two-year wage negotiation agreement with NUM is coming to an end in July 2016. Renewed wage negotiations will get underway in the second quarter of fiscal 2017

INVESTMENT HIGHLIGHTS: OUR SPECIAL POSITIONING

People

- Experienced leadership team
- ±150 years' combined diamond experience
- Engaged board of directors

Product

- High quality diamonds with average values of over US$1 500/ct
- Ten +100ct high value diamonds recovered in MOR since 2013
- Renewed production profile following acquisition of RHC

Properties

- Properties/licences span majority of MOR alluvial diamonds fields
  - Existing properties
  - Acquisition of RHC
  - New rights spanning >50 000ha

Production

- Project pipeline to achieve mid-term volume target of 500 000m^3 per month for lower revenue volatility
- Potential to grow production target materially above current level
- Diamond value management

Partnerships

- Beneficiation partnership with Diacore: 50% profit share in sale of polished diamonds
- ±20% upside on annual revenues
- Includes production from all current and future projects

Potential

- Improving performance through strategic repositioning
- Continuous improvement of performance at RHC
- Re-commissioning of WPC
- Prospecting and mining rights in MOR
- Additional consolidation opportunities under evaluation

Prospects

- Demand growth projected over next 10 years
- Strong demand for investment diamonds
- Supply deficit anticipated in medium term

ROCKWELL
AT A GLANCE

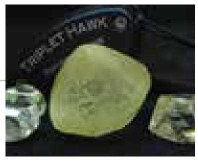
The map below depicts the position of Rockwell's properties relative to the preliminary palaeo-river interpretation of the MOR.

152 carats

Wouterspan Project

Evaluation:	Updating 2013 preliminary economic assessment
Description:	7 409 hectares, located on a portion of the Lanyonvale 376 farm
Grade:	0.62 carats per 100m^3
Processing rate:	Phased implementation
Carat value:	US$2 300 per carat
Effective date:	May 15, 2013

135.8 carats



Saxendrift Hill Complex Project

Short-term project commissioned in February 2013

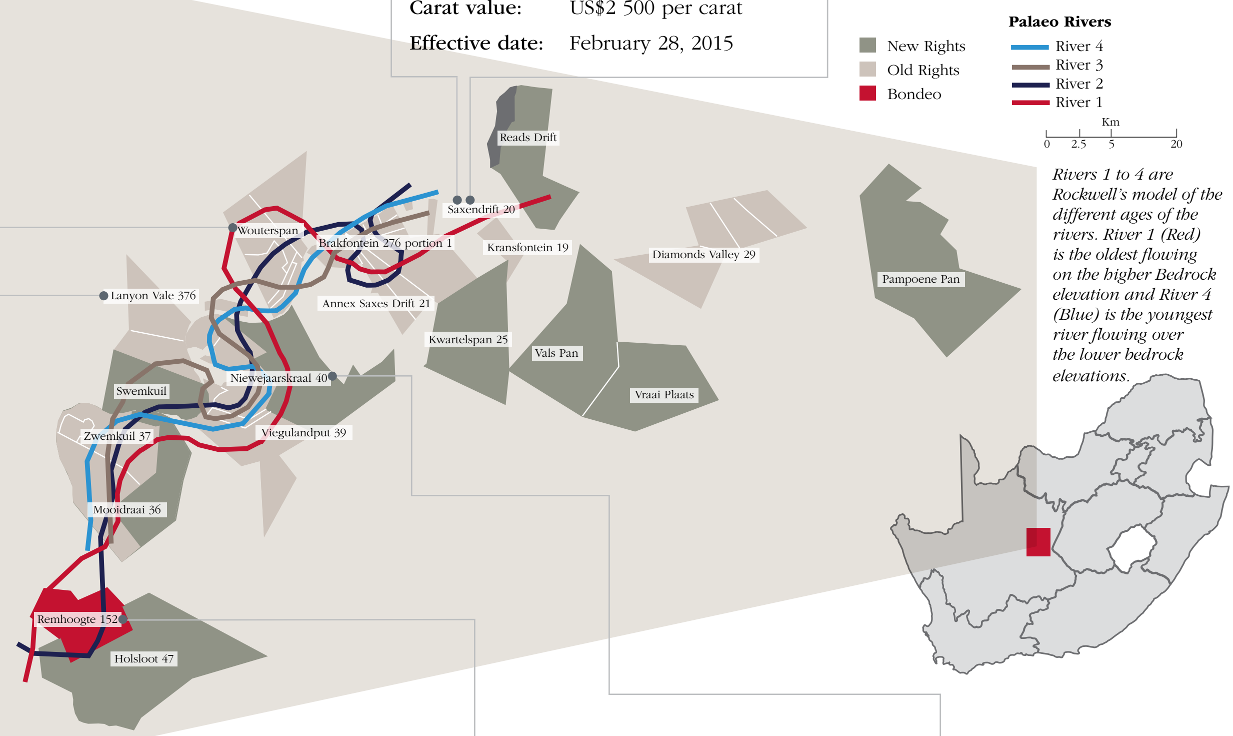
Description:	Placed on care and maintenance in December 2014
Grade:	0.37 – 0.40 carats per 100m^3
Processing rate:	Processing remaining gravels at Saxendrift
Carat value:	US$2 500 per carat
Effective date:	February 28, 2015

287 carats

Saxendrift Mine

In production

Description:	5 142 hectares, located on south bank of the MOR
Grade:	0.4 carats per 100m^3
Processing rate:	160 000m^3 per month
Carat value:	US$2 700 to US$2 800 per carat
Effective date:	February 28, 2015



Lanyonvale Project

Exploration:	Geological mapping in progress to inform bulk sampling program
Description:	Exploration agreement with rights holder of 2 300 hectare property Contiguous to Wouterspan and Niewejaarskraal Extensive pitting during Q1 has identified widespread colluvial/Rooikoppie gravels

Remhoogte Holsloot Complex Project

In production:	Three processing plants
Description:	2 634 hectares, located 195km southwest of Kimberley
Grade:	0.90 carats per 100m^3
Processing rate:	90 000m^3 per month
Carat value:	US$1 500 per carat
Effective date:	February 29, 2016

Niewejaarskraal Project

Production suspended:	Further review of geology and mine plan underway
Description:	3 086 hectares, located 124km southwest of Kimberley
Grade:	0.4 carats per 100m^3
Carat value:	US$1 850 per carat
Effective date:	February 28, 2015

All of the resource/reserve data is based on current Technical Reports compiled in compliance with NI43-101 and which can be accessed on SEDAR

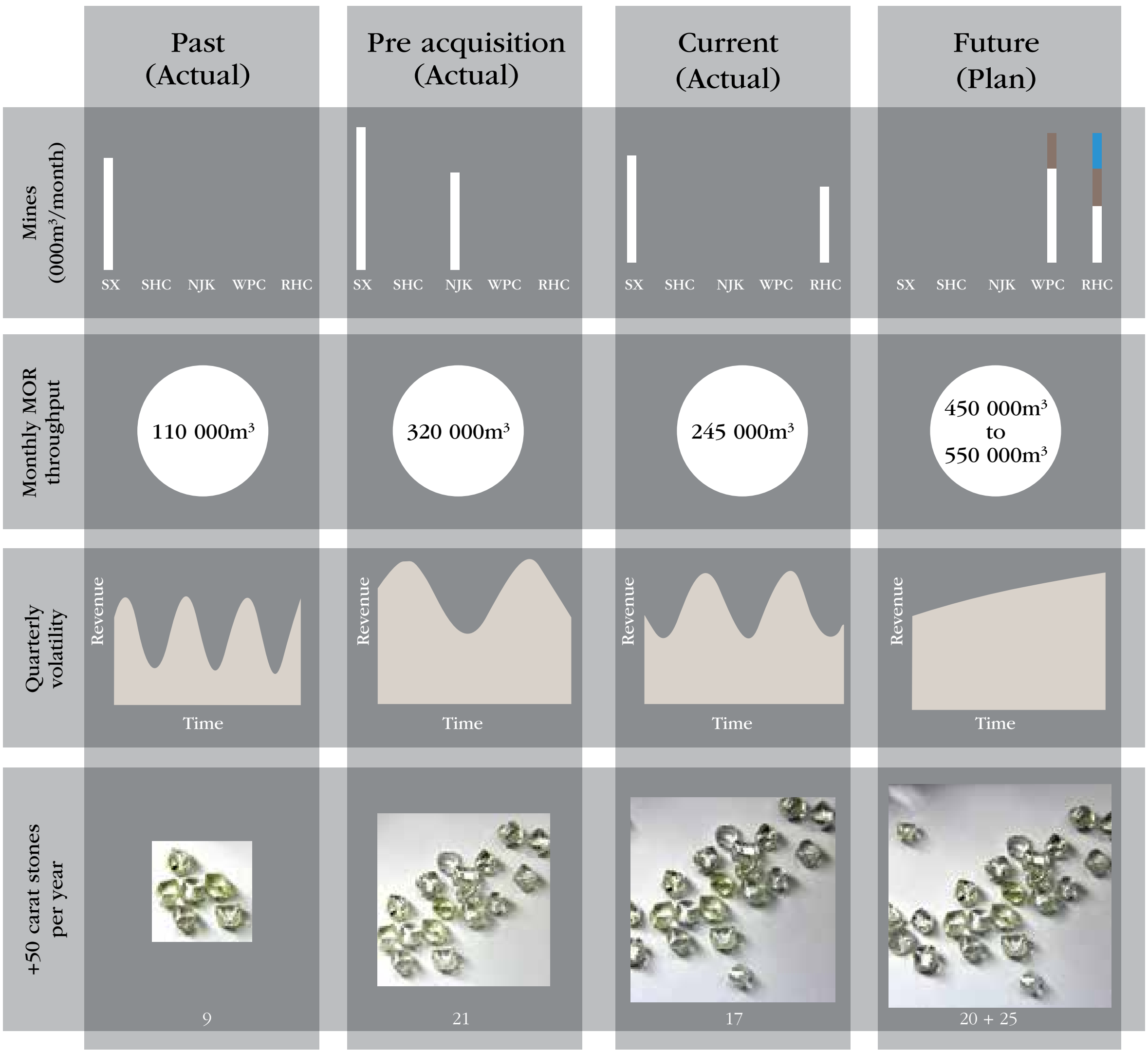
Rockwell's medium-term growth strategy is focused on the MOR properties where it has a good track record of profitably producing large, high valued diamonds.

Objective: To increase volumes of quality gravels processed from MOR operations to 500 000m³ per month.

Rationale underlying our strategy: An analysis of the threshold throughput volumes required from Rockwell's MOR operations to achieve lower volatility of quarterly revenue streams was carried out.

Assumptions: A grade of 0.5 cphm³ and a diamond value of $2 200/ct (typical MOR diamond assortment and diamond size frequency distribution), with a unit cost of $10/m³ mined.

Results: Quarterly volumes processed of 1.5 million m³ enables acceptable and stable quarterly earnings profile. This is due to higher probability of stable, consistent recovery of large high value diamonds at these volumes of gravels processed.



BOARD OF DIRECTORS

1.

Dr Mark Bristow
Chairman
PhD (Geology)

More than 20 years' experience in exploration, development, project and corporate finance and management in the mining sector in Africa. CEO of Randgold Resources Limited since 1995. Acting CEO of Rockwell Diamonds from December 2010 to end of May 2011. A fellow of the Geological Society of South Africa.

2.

James Campbell
Chief Executive Officer
BSc (Hons), ARSM, MBA (Dunelm)

Seasoned diamond executive with a career spanning over 30 years, the majority of them at De Beers, and including four years as managing director of African Diamonds plc.

FSAIMM, CEng, CSci and PrSciNat.

3.

Dr Willem Jacobs
Director
BPL (Hons), DCom

Over 25 years' experience in the engineering, mining and investment sectors, including 20 years at executive and board level positions of private and public companies. Experience in strategy, corporate finance, company turnarounds and mergers and acquisitions.

4.

Richard J Linnell
Director
Geologist

Active in the resources and metals fields for over 40 years. Significant global experience in the development and marketing of resources and commodities. Originator of the Bakubang Initiative, a forum designed to revive the South African mining industry and which led to the establishment of the New Africa Mining Fund.

5.

Stephen Dietrich
Director
CA(SA)

A CA(SA) and stalwart of the diamond industry with more than 20 years of financial experience, gained in various positions at De Beers. Retired from De Beers in 2009 at which time he held the position of finance director.

6.

Johan van't Hof
Director
CPA, CA, MBA

A qualified CA based in Canada holding an MBA with wide-ranging experience in the listed company environment, including regulatory affairs, financing, mergers and acquisitions and corporate finance.

7.

Richard Peter Menell
Director
MSc (Mineral Exploration and Management), MA (Cantab) – Natural Sciences (Geology)

A 35 year career in mining, heading Anglovaal Mining and Teal Exploration & Mining up to 2008. Served as President of the South African Chamber of Mines and other boards. A non-executive director of Gold Fields Limited, Sibanye Gold Limited, Weir Group plc, Senior Advisor to Credit Suisse investment bank and a Council Member of Business Leadership South Africa.

Compensation committee
Richard J Linnell
Johan van't Hof

Nominating and governance committee
Dr Willem Jacobs
Richard J Linnell

Audit committee
Dr Willem Jacobs
Johan van't Hof
Stephen Dietrich

CHAIRMAN'S REPORT

Change has been a constant throughout Rockwell's existence. The Company's resilience and agility have seen it through another challenging year, from which it has emerged stronger and renewed.

Dr Mark Bristow *Chairman*

2016 marks the tenth year of Rockwell as an integrated diamond mining and exploration company. Our journey so far has been a challenging one, however as with every journey it is always about whether there is a clear destination and if that destination is achievable.

Rockwell transformed itself into a diamond business in 2006 and as part of this transformation it acquired HC van Wyk Diamonds, comprising the Klipdam and Holpan alluvial diamond mining projects on the Vaal River, and a portion of WPC property. At the same time, the Company acquired a large package of ground in the MOR from Trans Hex, which added to our portfolio of mineral rights around WPC.

WPC was subsequently developed and mined but as a result of the of the global financial crisis in September 2008, it was placed into care and maintenance until our very recent decision to redevelop the project. Following 2008, Rockwell's focus and mainstay has been Saxendrift, where operating costs have been much lower.

Saxendrift, which has been in operation in various forms since the 1940s, is only now being transitioned to care and maintenance as the remaining resources prove sub-economic under the current market conditions. In 2011 Rockwell also acquired the Tirisano Mine in the North West Province, from Etruscan Diamonds, but this was sold in March last year after a period of unsuccessful attempts to scale it up to a profitable operation; Klipdam and Holpan were also sold as part of a portfolio rationalisation.

We have also over the 2013 – 2014 period successfully mined the Saxendrift Extension and SHC which were acquired as part of a deal with our previous black economic empowerment ("BEE") partners. Simultaneously our attempt to bring NJK into production (also acquired as part of the Trans Hex package) failed to deliver a sustainably profitable operation on the back of weak diamond prices and the project was placed on care and maintenance in early 2015. Our plan is to re-evaluate this project in future when we have a more robust balance sheet and once the diamond market has strengthened.

More recently, we added RHC to our portfolio; this acquisition – concluded in May 2015 – was funded by core shareholders following two unsuccessful capital raises. Although the operation has delivered two +100-ct stones recently, it has disappointed with lower than planned volumes and lower than projected diamond values, mainly due to the ongoing softness of the diamond market. An additional challenge is the fast depleting Rooikoppie resource, although this could be offset by what looks to be a larger Paleo gravel resource. The results of an ongoing exploration and resource definition project are still awaited and therefore as a fall back the team have also been fast-tracking selected alternate opportunities within our project pipeline.

So what of the future? As with any resource company, the value lies in developing the resource base to ensure operational flexibility and the opportunity to deliver value through organic growth rather than through expensive mergers and acquisitions ("M&A").

WPC is about to commence re-commissioning and, with the large resource on the property, this is forecast to be our flagship operation in the medium term. The plant is 82% complete and is technologically fit-for-purpose, having been designed to achieve large throughput and high overall plant utilization ("OPU") throughout the life of the mine. I am encouraged by current plans to synchronize the ramp-up of WPC with the closure of Saxendrift, which will facilitate the seamless transfer of people and equipment from Saxendrift.

Key to our growth is that we have other projects in the pipeline to complement the WPC project and the RHC Palaeo gravel opportunity. With a focus on our strategic "gap", in the past three years the green and brownfields portfolio has also been enhanced through the successful application and granting of a number of mining and prospecting rights in our area of focus along the MOR region. We are also working

Saxendrift large stone production

Dr Mark Bristow with the Rockwell team at Saxendrift

on some exciting kimberlite opportunities, and are positioning ourselves to be a partner of choice in the inevitable consolidation of companies in the junior diamond mining sector.

It is a key strategic imperative that we remain focused on replacing the resources being depleted through mining activities and maintain a dynamic pipeline of viable projects to support sustainable growth in the future. We also plan to continue to assess our alluvial deposits in light of new knowledge and understanding of the palaeo-environment in which they were formed. Alongside this, we will actively consider and assess, against a set of rigorous filters, value accretive consolidation opportunities that might supplement our growth prospects, in both alluvial and kimberlite mining opportunities which could elevate Rockwell towards a mid-tier, high value diamond producer.

During the past year Rockwell's Board of Directors instituted a Company-wide strategic review, which has led to a fundamental restructuring of the company. With guidance from the board, Rockwell's management team has made good progress in implementing the required changes. This has resulted in additions to the team as well as some restructuring; whilst the latter is largely complete, it is expected that there might still be a few more adjustments to ensure we have the right people in the right places. In spite of the necessary Section 189 process that resulted from this review, we have been able to retain key talent because of our commitment to the training and development of young previously disadvantaged South Africans, as well as their mentoring and coaching, all of which are critical to the future sustainability of our business.

Despite the financial challenges we have had to face, we have also kept our commitment to working with and supporting the local communities that surround our operations, with a particular focus on projects that offer tangible and lasting impacts.

Looking ahead, although challenging, Rockwell's strategic objective of becoming a sustainably profitable mid-size diamond producer is unchanged.

In support of this objective, our management team remains committed to achieving its target of processing 500 000m^3 of economically viable gravels in the MOR per month. Whilst the Company still has some way to go in the pursuit of this target, significant steps have been taken in terms of renewing our operational profile and building a pipeline of future options to ensure that we have a firm foundation to build on.

The past year has been challenging in many respects and Rockwell has again emerged stronger and renewed. I am encouraged by the unified effort of the board of directors and management team and the remedial actions that have been taken, and remain of the view that whilst Rockwell faces significant challenges, it also is faced with opportunities to capture and deliver real value for its various stakeholders over time.

On the global diamond market, it is our view that the fundamentals of our industry remain positive, with demand outpacing supply growth in the medium term and that following a realignment of polished and rough inventories, indications are that profitability will return to the midstream in the short term. With limited new sources of rough diamond supply coming on stream, growth will require some degree of consolidation in the upstream sector of the industry. Seizing growth opportunities will demand a mix of expertise, agility and innovation, which I believe our Company has demonstrated.

In closing, I wish to thank my fellow directors for their continued support and guidance given to the Company and Rockwell's management. I also extend my appreciation to Diacore and Rockwell's other key shareholders, partners and stakeholders for their support during this period of repositioning the Company. Finally, I wish to express my appreciation for the commitment and dedication of each member of the Rockwell family, and particularly to James Campbell and his management team for their hard work and dedication and I look forward to meeting and beating the challenges we face ahead.

CHIEF EXECUTIVE OFFICER'S REPORT

A strategic and operational review of our business led to fundamental restructuring during fiscal 2016. We are now beginning to see the benefits.

James Campbell *Chief Executive Officer*

Overview

The 2016 fiscal year saw Rockwell repositioning itself fundamentally by selling the non-core Tirisano property, completing the closure of NJK and acquiring two new operations Remhoogte-Holsloot in the first quarter; initiating the re-commissioning of WPC in the second quarter; winding down operations at Saxendrift and reducing overhead costs by streamlining our reporting structures and closing the Johannesburg Head Office.

Notwithstanding the substantial restructuring that we underwent in fiscal 2016, we remain focused on the MOR region of South Africa, where we have a track record for the recovery of large, high value alluvial diamonds. Our purchase of the RHC and our decision to re-commission WPC to replace Saxendrift's depleting resources are in line with our strategy to grow our MOR operational base and minimize production and recovery volatility.

Our mid-term growth objective of processing 500 000m^3 of quality gravels in the MOR remains unchanged, in spite of the challenges that we are experiencing in its pursuit.

Regrettably, and in spite of our continued drive for zero harm across our operations, we suffered a fatality at Remhoogte during the second quarter of fiscal 2016. The consequences for our Company, from both a human and operational perspective, were severe, and the performance of the operation was negatively affected.

RHC has not yet performed in line with our expectations. Throughput has been underachieved due mainly to poor availability of the EMV fleet, as well as the shutdown resulting from the fatality and the resulting Department of Mineral Resources ("DMR") investigation in the third quarter.

Saxendrift operated continuously throughout the fiscal year. The operation has however reached the end of its economic life from a Rockwell perspective and placing the mine on care and maintenance is now imminent. The deferred closure of Saxendrift has translated into a substantial saving on the anticipated care and maintenance costs and a reduction in the rehabilitation liability. It is also allowing us to synchronize the redeployment of staff and equipment with the ramp-up of Wouterspan.

The disposal of Tirisano impacted our diamond sales negatively, resulting in a 34% decrease in rough diamond revenue year-on-year. Beneficiation revenue decreased by 13%. The average value per carat increased by 13%, to US$1 513.

Our average cash operating costs continued to trend down during fiscal 2016, contributing to a reduction in our operating losses in the last quarter.

Rockwell continuously strives to be one of the lowest cost producers in the industry. Our average cash operating costs continued to trend down during fiscal 2016.

Saxendrift has been the longest operating mine in the Rockwell family and is still in production

Working capital was negatively impacted by the NJK closure, the reducing economics of Saxendrift, the construction of the WPC plant and the under-performance of RHC during the 2016 fiscal year.

Cash flows continued to be tight through the 2016 fiscal year, however they stabilized towards the end of the year, following a number of interventions, and working capital has improved.

Our ability to invest more aggressively in exploration and development projects was limited by the liquidity constraints experienced during the fiscal year. A more favorable debt repayment mechanism negotiated for the RHC acquisition loan will improve our liquidity and ability to invest in the months ahead.

In spite of the constraints experienced, we were able to construct and commission two IFS units at RHC, which have reduced applicable EMV requirements.

We remain firmly committed to our exploration strategy, which is key to delivering new value accretive operations from our existing property portfolio.

Towards the end of the fiscal year, we reached the conclusion that the EMV strategy that we had adopted in fiscal 2015 had not proved to be successful, due primarily to under-delivery on fleet availability. As a result, a new mining contract which will transfer the EMV fleet availability risk to the service provider is being negotiated at the time of issuing this report.

Production and sales review

Volume and carat production for total Company-owned properties to February 29, 2016 was as follows:

	Year ended February 29, 2016			Year ended February 28, 2015			Change		
Production	**Volume ($000m^3$)**	**Carats**	**Production costs ($000s)**	**Volume ($000m^3$)**	**Carats**	**Production costs ($000s)**	**Volume**	**Carats**	**Production costs**
Total: Own operations	**2 951**	**16 822**	**45 734**	3 543	15 420	53 968	(17%)	9%	(15%)
Contractors' mining	**263**	**2 162**	**864**	1 840	20 297	14 860	(86%)	(89%)	(94%)
Total	**3 214**	**18 984**	**46 598**	5 383	35 717	68 828	(40%)	(47%)	(32%)

Processed gravel volumes from Company properties decreased 40% to 3.2 million m^3 comprising 2.9 million m^3 from Rockwell's own operations, and the remainder processed by the royalty mining contractors. Total carat production declined by 47%, due a substantial drop in carats from contractors (following the sale of Tirisano), while carats from own operations increased by 9%.

Diamond sales for total Company-owned properties to February 29, 2016 were as follows:

Sales, revenue and inventory	Year ended February 29, 2016				Year ended February 28, 2015				Change			
	Sales (carats)	Value of sales (US$)	Average Value (US$/ carat)	Inventory (carats)	Sales (carats)	Value of sales (US$)	Average Value (US$/ carat)	Inventory (carats)	Sales	Value of sales	Average value	Inventory
Total: Own operations	**16 954**	**26 883**	**1 586**	**368**	16 484	35 693	2 165	562	3%	(25%)	(27%)	(35%)
Contractors' mining	**2 022**	**1 830**	**905**	**120**	21 285	15 105	710	693	(91%)	(88%)	27%	(83%)
Total	**18 976**	**28 713**	**1 513**	**488**	37 769	50 798	1 345	1 255	(50%)	(43%)	12%	(61%)

Carat sales from own operations improved marginally to 16 954 carats, while royalty mining contractors' sales dropped by 91% (again, due to the Tirisano sale), resulting in a 50% decrease in carat sales from Company-owned properties. The value of sales from own operations was down 25% to US$26.8 million, and the average carat value declined by 27% to US$1 586. The value of sales from Company-owned properties decreased 43% to US$28.7 million.

Results of operations

Saxendrift Complex

	Unit	F2016	F2015	Change
Production				
Volumes mined	$000m^3$	**2 249**	3 228	(30%)
Volumes processed	$000m^3$	**1 980**	2 558	(23%)
Average grade	$cts/100m^3$	**0.42**	0.41	3%
Carats recovered	Carats	**8 335**	10 442	(20%)
Sales				
Value of sales	US$m	**14.4**	27.2	(47%)
Carats sold	Carats	**8 478**	11 526	(26%)
Average price per carat	US$	**1 703**	2 362	(28%)
Average cash operating costs				
Per carat sold	US$	**1 920**	2 099	(9%)
Per m^3 processed	US$	**8.45**	9.5	(11%)
Inventory	Carats	**103**	245	(82%)

[1] *Material from the SHC resource was processed at the Saxendrift Plant from January 2015.*

Volumes of gravel mined and processed at the Saxendrift Plant decreased by 30% and 23% respectively year-on-year, reflecting the winding down of the operation as it approaches the end of its economic life.

The life of the operation has been extended successfully for more than a year, with the mine processing the upper portion of the terrace "middlings", which had been discarded by the previous operator. A particular effort was made to ensure that costs were kept as low as possible while processing the lower grade material; this resulted in the operation's cost per cubic metre improving by 12% on the previous year, and reaching an all-time low in the fourth quarter.

Whilst grade remained fairly consistent (0.42 cphm^3 compared to 0.41 cphm^3 in the prior year), the substantial drop in volumes processed resulted in carat production declining 20% to 8 335 carats.

Diamond sales declined 47% to US$14.4 million from the sale of 8 478 carats (down 26% on previous year). With mine life diminishing through the year, the quality of stones recovered declined. This resulted in a 28% decrease in the average price per carat, to US$1 703.

Niewejaarskraal Project

	Unit	F2016	F2015	Change
Production				
Volumes mined	000m^3	**104**	1 499	(93%)
Volumes processed	000m^3	**63**	984	(94%)
Average grade	cts/100m^3	**0.69**	0.51	35%
Carats recovered	Carats	**431**	4 978	(91%)
Sales				
Value of sales	US$m	**1.1**	8.5	(87%)
Carats sold	Carats	**685**	4 958	(86%)
Average price per carat	US$	**1 619**	1 706	(5%)
Average cash operating costs				
Per carat sold	US$	**2 842**	3 171	(10%)
Per m^3 processed	US$	**29.8**	16.0	86%
Inventory	**Carats**	**–**	**254**	

The NJK processing plant was commissioned in mid-2013, with a monthly capacity of 100 000m^3. Plant capacity was later increased to 120 000m^3 through an in-field screen and Bulk X-ray system.

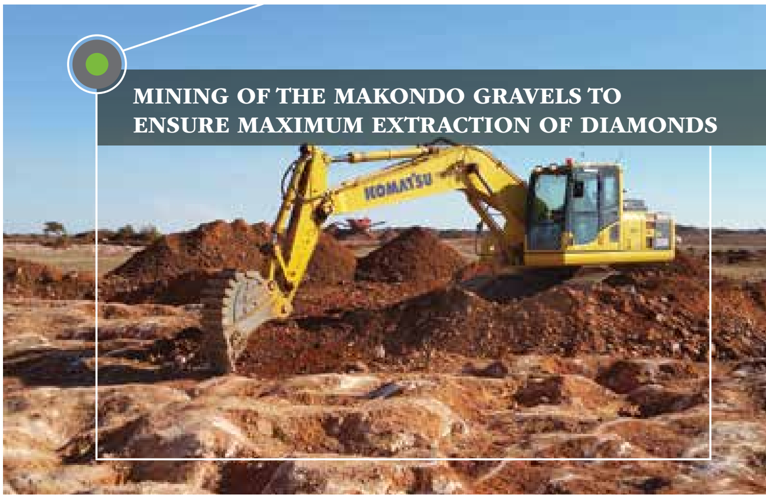
The performance of the project remained behind plan, in terms of grade and incidence of large, high value stones. High stripping ratios further compounded the issue.

Funding constraints delayed further capacity upgrades to 180 000m^3, the determined threshold for sustainable operations for the NJK resource and plant cost structure.

The Project continued to operate at a loss until production was suspended in April 2015 in order to cut the substantial operating losses incurred. NJK remains on care and maintenance.

Operations at NJK were suspended in April 2015, in order to stop the operating losses that were being incurred and allow for further work on the geological model and on plant optimization.

CHIEF EXECUTIVE OFFICER'S REPORT continued



Makondo mining at RHC

RHC has not performed to our expectations. Steps taken during the year are already showing improvement.

Remhoogte-Holsloot Complex

	Unit	F2016
Production		
Volumes mined	000m³	**943**
Volumes processed	000m³	**908**
Average grade	cts/100m³	**0.89**
Carats recovered	Carats	**8 056**
Sales		
Value of sales	US$m	**11.3**
Carats sold	Carats	**7 791**
Average price per carat	US$	**1 455**
Average cash operating costs		
Per carat sold	US$	**1 616**
Per m³ processed	US$	**14.1**
Inventory	**Carats**	**265**

The acquisition of RHC was completed on May 28, 2015.

Production from the two acquired plants commenced in late May 2015 at a monthly throughput of 90 000m³. Production was ramped up through June 2015 to 130 000m³. A new in-field screen was installed in the third quarter to replace the acquired IFS assets, with a view to gradually increase monthly throughput to 180 000m³, and ultimately to 200 000m³.

Sadly, a fatality occurred at the operation in September 2015. The shutdown of the operation following the fatality and resulting DMR investigation negatively affected its performance, with volumes declining in the third quarter.

Throughput at RHC has been further constrained by poor availability of EMV due to major breakdowns experienced. EMV availability constraints have been partially remedied during the first quarter of fiscal 2017; it is expected that these will be resolved once the new mining contract which is under negotiation is in place.

Average value per carat at RHC has remained below historical values due to a combination of the processing of sub-threshold volumes for the recovery of larger diamonds, as well as lower global diamond prices.

Drilling and bulk sampling is underway at RHC to better define the mineral resource.

Royalty mining contractors

	Unit	F2016	F2015	Change
Production				
Volumes processed	000m^3	**263**	1 840	(86%)
Average grade	cts/100m^3	**0.82**	1.08	(24%)
Carats recovered	Carats	**2 162**	20 297	(89%)
Sales				
Value of sales	US$m	**1.8**	15.1	(88%)
Carats sold	Carats	**2 022**	21 285	(91%)
Average price per carat	US$	**905**	710	27%
Inventory	**Carats**	**120**	**693**	**(83%)**

The Tirisano mining right and associated infrastructure were disposed of on March 30, 2015, when the Company sold all its interest in Etruscan Diamonds for a cash consideration of $6.4 million (ZAR60.0 million). The cash consideration was settled by way of two initial payments, followed by monthly instalments. The deferred balance of ZAR20 million was settled early on March 3, 2016.

Three new royalty mining contracts were negotiated during fiscal 2016 to process tailings at WPC and Saxendrift.

The processing of the Saxendrift tailings, when rehabilitated by the royalty mining contractor, contributes to diminishing Rockwell's environmental rehabilitation obligations.

Priorities for fiscal 2017

The construction and commissioning of the processing plant at WPC and improvement of performance at RHC are our chief priorities in the short term, as we continue to pursue our strategic target of 500 000m^3 of gravel processed per month.

Following a board decision taken in May 2016, mining will be outsourced on a fixed pay-per-volume delivered basis. The new contractual arrangement, which represents a fundamental change in our business and operating model, will transfer the volume risks related to EMV fleet availability to the mining service provider.

In the months ahead, as construction progresses at WPC and the additional IFS capability at RHC stabilises, we will continue to scrutinise our mining efficiencies and address any residual process deficiencies and bottlenecks.

The planned closure of Saxendrift with redeployment of staff and equipment to WPC is imminent, as Saxendrift's economic resources are all but depleted

By delaying the timing of Saxendrift closure, and keeping staff and equipment to good use there, we are planning to de-risk the ramp-up at WPC and fully commission that plant with the simultaneous redeployment of the Saxendrift workforce and EMV mining contract. This should minimize ramp-up cash costs.

As we remain focused on rebuilding our MOR production profile, and with improved liquidity, our exploration efforts will continue on the properties surrounding WPC to identify new value opportunities with potential to add to the Company's resources. We will also continue to evaluate new projects and value accretive consolidation opportunities.

The Tirisano mining right and associated infrastructure were disposed of on March 30, 2015. New royalty mining contracts were negotiated during fiscal 2016 to process the tailings at WPC and Saxendrift.

CHIEF FINANCIAL OFFICER'S REPORT

John Shelton *Chief Financial Officer*

A strategic and operational review of our business led to fundamental restructuring during fiscal 2016. We are now beginning to see the benefits.

Rockwell's revenue in 2016 is generated from the sale of rough diamonds recovered from its operations at Saxendrift and RHC and, to a lesser extent, contract mined goods. The Tirisano property, which was operated by royalty miners with a 12.5% royalty on the value of diamond sales, was sold during March 2015. Rockwell generates further revenue from its beneficiation partnership with Diacore, whereby the Company participates equally in the profit on the sale of beneficiated diamonds which are sold into this JV. The latter revenue stream traditionally adds to diamond sales to the extent of up to 20% of the value of diamonds sold every year.

Rockwell incurred a comprehensive loss for the year of $32.7 million. This includes the impact of substantial restructuring which has taken place on Rockwell's operations in the last twelve months, including the suspension of NJK early in the year ($3 million dollars incremental depreciation charges), and the impact of the rapid depreciation of the Rand toward the end of the year through non-cash exchange conversion costs of $10 million. On a cash basis the Group mined and sold its goods at a largely breakeven level, after deducting NJK closure costs; gross profits before depreciation and amortization amounted to $741 000 for the year.

Sales of diamonds, including Rockwell's own mined goods and those from royalty mining contractors, were $37.7 million compared with $56.9 million in 2015, representing a 34% decrease year-on-year. This was mainly due to the reduction in value of contract mined goods sourced from Tirisano which was matched by a corresponding reduction in the value of goods purchased under royalty arrangements, which declined to $1.8 million (F2015: $15.1 million).

Beneficiation revenue earned through the beneficiation JV with Diacore amounted to $9.6 million, a 13% decrease over 2015 ($11.1 million).

Total revenue was $47.3 million, a 30% decrease over the prior year ($68.0 million).

Production costs

Production costs decreased to $46.1 million (F2015: $51.1 million) as a consequence of decreased mining volumes in the year (3.3 million m^3 of material mined compared with 4.7 million m^3 in 2015).

The Group's consolidated annual average cash operating costs at its operations, was US$10.79 (F2015: US$11.41) per cubic metre processed. The average total cash cost (including rehabilitation and royalty payments) for all the operations amounted to US$12.50 per m^3 of gravel processed (F2015: US$12.58).

Profit for the year

A gross profit (before amortization and depreciation) of $0.7 million for the year was reported by the Group, compared to a loss of $0.8 million in 2015. The improvement was mainly driven by improved beneficiation income and, towards the end of the year, improved operating performance.

General, administration and business development costs decreased in line with reduced spend on consulting fees and transaction costs associated with business development.

Impairments were recognized of $0.7 million related mainly to mining infrastructure at NJK and SHC.

Standard Saxendrift production including a 135.8 carat gem quality stone

The Group recorded a net loss for the year of $27.7 million, in comparison to a loss of $14.5 million in the 2015 fiscal year after deducting non-cash charges for depreciation and amortization and foreign differences, as well as financing costs and general and administration costs.

Operating cash flow

The Group recorded a $4.2 million cash outflow from operating activities (which includes debt servicing payments amounting to $6.1 million), compared with $0.5 million inflow in 2015.

Net debt

The Group remains financed by two shareholders to the extent of $26.5 million, and by its bankers ($1.3 million). Whilst the Group largely broke even before financing, debt was repaid amounting to $6.1 million which has placed pressure on working capital and is a main driver in the deficit of working capital of $9.1 million. Working capital has been further impacted by the construction of the Wouterspan Plant, which started in January 2016, but this has been ameliorated with ZAR15 million in shareholder funding on the same terms as those applicable to current facilities, received after the year end.

Net cash position

At February 29, 2016 the Group had net cash and cash equivalents of ($1.3) million overdraft (F2015: $0.6 million in cash), having recorded a net reduction of $1.9 million associated with the servicing and repayment of long-term debt. The Group has repaid $6.1 million of long-term debt over the period. Its overdraft facility has been reduced by $1.0 million over the same period.

Capital expenditure

The Group incurred capital expenditure of $2.1 million (F2015: $4.1 million), excluding the value of the acquisition of the RHC operation for $22.1 million.

Outlook

Rockwell remains committed to its MOR medium-term strategic goal of processing 500 000m^3 of gravels per month. The acquisition of the RHC in the first quarter of fiscal 2016, and the decision to re-commission WPC to replace Saxendrift's depleting resources reinforce this commitment.

Going forward, productivity has been enhanced on our operations with the result of improved diamond recoveries and values. We anticipate further improvement in our results following with the imminent implementation of a new mining strategy through outsourcing and the timely and effective commissioning of WPC.

EXPERIENCED LEADERSHIP

EXCO

James Campbell
Chief Executive Officer
BSc (Hons), ARSM, MBA (Dunelm)

Seasoned diamond executive with a career spanning some 30 years, the majority of them at De Beers, and including four years as managing director of African Diamonds plc. FIMMM, FSAIMM, CEng, CSci and PrSciNat.

John Shelton
Chief Financial Officer
CA (Z)

Chartered Accountant with 27 years' experience in the diamond sector with De Beers, culminating as Group Accountant. Served on various boards during his tenure with De Beers.

Glenn Norton
Group Technical Manager
BSc (Hons) Geology

Fifteen years of geological, mineral resource management, technical and production experience in alluvial diamond deposits, diamond and coal exploration. Qualified person and PrSciNat.

Richard Mhlontlo
Group Human Resources/ Industrial Relations Manager
Nat Dip (HR Management and Development)

Extensive HR and industrial relations management experience, including organizational and structural design initiatives as well as strategy development and implementation.

Jeffrey Brenner
Diamond Marketing and Sales Manager

A leading international diamantaire and specialist in valuation, marketing and sales of rough diamond production from alluvial deposits.

Senior operational management

Frans Bezuidenhout
General Manager: MOR

Career in mining spanning 45 years, including the last four years in diamond mining. Involved in mining projects in Papua New Guinea, Fiji and Ghana in Mine Manager and Project Manager capacity.

Wikus de Winnaar
Mine Manager: RHC

Active in the mining industry for 19 years, serving as Mine Manager for several projects, including WPC and Mine Manager in Saxendrift.

Attie Benson
Group Risk Manager

Extensive experience in crime prevention and investigation including nine years in diamond risk management.

Shristi Shrestha
HR Manager: Operations
BCom (Hons) Industrial Psychology

Thirteen years' experience in Human Resources in diamond mining and other industries. Has established HR systems and policies, processes and practices to streamline the Rockwell business.

George Stevens
Mine Manager: Saxendrift
BSc (Hons) Geology, SACNASP

Ten years' experience in alluvial diamond mining in roles including geology and mine management having started his career at Etruscan Diamonds in 2006. Has also been Mine Manager at RHC and Saxendrift.

Dr Kurt Petersen
Consulting Metallurgist
PhD (Metallurgical Science)

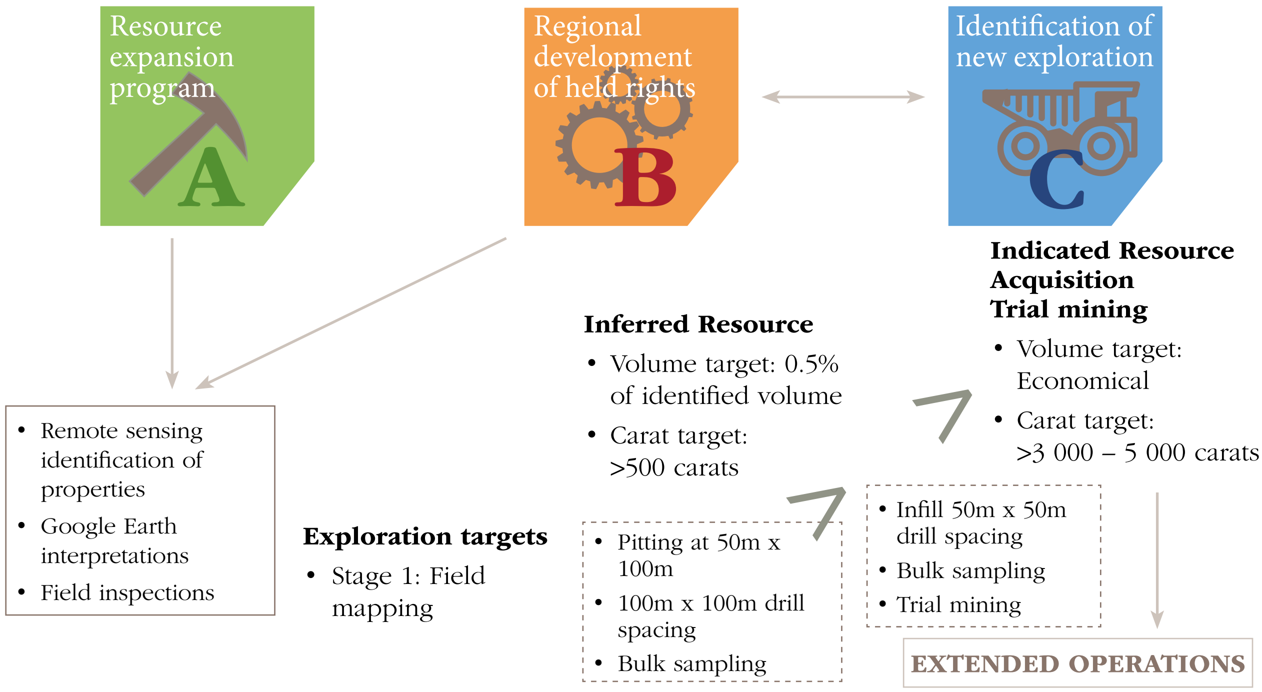
More than 15 years' experience in diamond metallurgy of both kimberlites and alluvial. Expert in plant design, diamond liberation and process performance and simulation.

ROCKWELL'S STRATEGIC
REGIONAL EXPLORATION PROGRAM FOR THE MOR

Rockwell has formalized its exploration program in the MOR with a budget of $0.23 million (ZAR2.4 million) for fiscal 2017. It comprises field mapping and geological delineation; Rooikoppie pitting and fluvial-alluvial drilling across Remhoogte, Swemkuil and Wouterspan properties.

The objective is to fully understand the potential of these properties in support of Rockwell's medium-term target of processing 500 000m³ per month of quality gravels in the MOR.

MOR exploration strategy



Rockwell has adopted a three-pronged exploration strategy in the MOR, namely "on mine" expansion; regional development of held rights and regional development or identification of new targets.

Lanyonvale 376

Rockwell has an exploration agreement covering the Lanyonvale property which is considered to have significant potential to add to the Company's resources and mining flexibility. This agreement with the prospecting and surface rights holder spans the 2 300ha property.

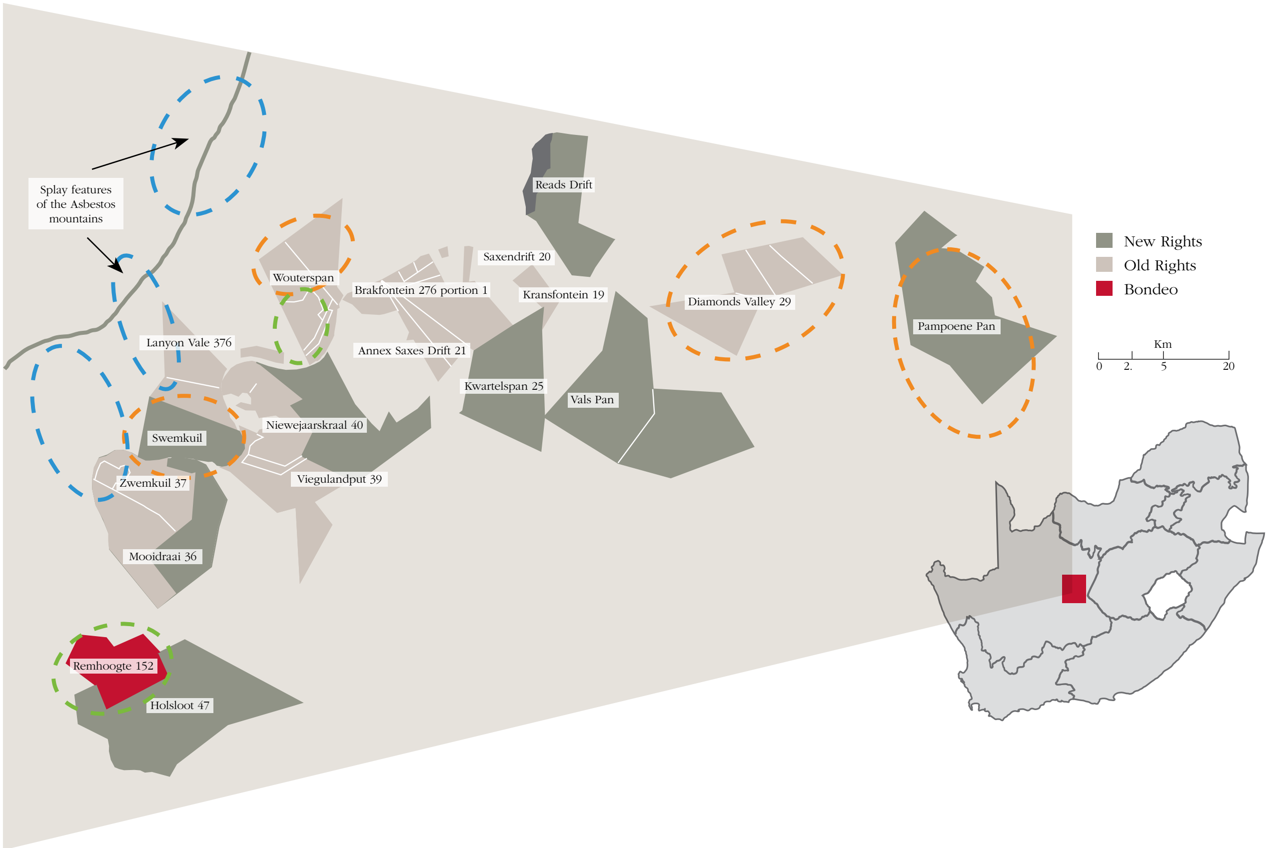
Exploration has identified potentially extensive Rooikoppie and Fluvial-Alluvial gravels and the property has been rated as highly prospective. Initial exploration work has commenced on the Lanyonvale farm and will focus on the evaluation of both the Rooikoppie and the Fluvial-Alluvial exploration targets. Completion is targeted for the end of October 2016.

Wouterspan

At Wouterspan, further pitting of the Rooikoppie gravels at a tighter grid spacing is planned with the intention of converting the initial estimates to Indicated Resources. Pitting of the southern portion of WPC has been completed and has shown positive correlation with the preliminary drilling conducted in 2007, This will inform an update of the preliminary economic assessment (completed in April 2013).

The initial mine plan is expected to focus on Rooikoppie mining which is economical at lower volumes. Detailed work has been completed on the regional geological model and updating the diamond value estimates as well as re-modelling the Rooikoppie resource. A provisional mine plan is being developed in order to establish conceptual economics and carry out sensitivity studies.

Exploration plan



Three-pronged roll-out

A areas: Resource expansion program

- Field mapping, pitting and infill drilling will be conducted on these areas surrounding a current operation
- The goal is to identify additional gravel volume and to increase the confidence in the resource estimate, with the objective of estimating mineable reserves

B areas: Regional development of held rights

- Field mapping to identify potential gravel occurrences and exploration targets
- With approval to then initiate:
  - pitting plan on identified targets to generate a volume (Rooikoppie)
  - exploration drilling plan to identify the expanse of underlying Fluvial-Alluvial gravels
  - bulk sampling to bring exploration target into Inferred Resource (500 carats recovered and sold and 0.5% volume of intended declared resource sampled)
  - further bulk sampling and drilling/pitting to upgrade to Indicated Resource (3 000 – 5 000 carats recovered and sold and 5% volume intended declared resource sampled)
- The goal is to identify exploration targets and upgrade into resources of ±6 million m^3 per annum to align with Rockwell's mid-term strategy to process 500 000m^3 per month
  - WPC, Swemkuil, Bo-Karoo, Diamond Valley, Mooidraai, Zwemkuil and Pampoene Pan

C areas: Regional development

- Use of remote sensing to identify new potential properties
- Splay features, Sanddrift, Hospital, Magoras, Lovedale, Tweefontein

MINERAL RESOURCE SUMMARY

Inferred Mineral Resources on Niewejaarskraal Project (as at February 28, 2015)

Terrace complex	Resource block	Geological domain	Volume m^3	Grade* ct/100m^3	Value* US$/ct
A Terrace	Block 1	BIF-rich brown gravels	6 286 000	0.5	1 850
	Block 2	BIF-poor brown gravels	3 420 000	0.3	1 850
	Colluvial gravels		1 820 000	0.5	1 850
Total Inferred Mineral Resource			**11 524 000**	**0.4**	**1 850**

* *As per the NI43-101 Technical Report on the NJK Alluvial Diamond Project (February 28, 2015).*
* *Bcos = 6 mm.*
* *Both grade and diamond value of total Inferred Mineral Resource is a weighted average.*
* *The diamond value is a two-year trailing average.*
* *All values/grades are rounded off to reflect the low level of confidence in the estimate.*

Inferred Mineral Resources on Remhoogte Project (as at February 29, 2016)

Terrace complex	Resource block	Volume m^3	Grade* ct/100m^3	Value* USD/ct
Remhoogte	Remhoogte/Holsloot Rooikoppie gravel	1 300 000	0.9	1 500
Total Inferred Mineral Resource		**1 300 000**	**0.9**	**1 500**

* *As per the NI43-101 Technical Report on the Holsloot/Remhoogte Alluvial Diamond Project (February 29, 2016).*
* *Bcos = 5mm.*

Resource estimation on Wouterspan (as at February 28, 2013)*

Terrace complex	Resource classification	Volume m^3	Grade* ct/100m^3	Value* USD/ct
Wouterspan	Indicated Resource	5 025 500	0.64	2 400
	Inferred Resource	37 774 000	0.64	2 400

* *Bcos = 5mm.*
* *As per the NI43-101 Technical Report on the Wouterspan Alluvial Diamond Project (February 28, 2013).*