Rockwell Diamonds Inc.

Consolidated Financial Statements
for the 3 months ended 31 May 2016

Index

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

The consolidated financial statements set out on pages 2 to 31, which have been prepared on the going concern basis, were approved by the board on 08 July 2016 and were signed on its behalf by:

James Campbell	**Dr Mark Bristow**
Director	**Director**

Consolidated Statements of Financial Position

Amounts in Canadian Dollars ('000)	Note(s)	As at 31 May 2016	As at 29 February 2016
Assets			
Non-current assets			
Mineral property interests	2	23 207	23 871
Investment in associates	3	475	452
Property, plant and equipment	4	24 920	25 506
Investments and deposits	5	1 414	1 344
Rehabilitation deposits	11	1 089	1 103
Total non-current assets		**51 105**	**52 276**
Current assets			
Inventories		2 858	2 100
Trade and other receivables		2 870	4 083
Cash and cash equivalents	6	478	58
Total current assets		**6 206**	**6 241**
Total assets		**57 311**	**58 517**
Equity and liabilities			
Equity			
Share capital	7	147 472	147 472
Reserves		(14 051)	(13 607)
Retained loss		(129 788)	(130 358)
Total equity		**3 633**	**3 507**
Liabilities			
Non-current liabilities			
Loans and borrowings	9	26 472	26 573
Finance lease obligation		-	430
Deferred tax	10	4 727	4 867
Rehabilitation obligation	11	7 572	7 753
Total non-current liabilities		**38 771**	**39 623**
Current liabilities			
Loans from related parties	12	1 217	1 218
Finance lease obligation		855	594
Trade and other payables		12 269	12 185
Bank overdraft	6	566	1 390
Total current liabilities		**14 907**	**15 387**
Total liabilities		**53 678**	**55 010**
Total equity and liabilities		**57 311**	**58 517**

Consolidated Statements of Financial Performance

Amounts in Canadian Dollars ('000)	Note(s)	3 months ended 31 May 2016	3 months ended 31 May 2015
Sale of diamonds	16	12 097	8 269
Beneficiation income	16	369	970
Cost of sales before amortisation and depreciation	17	(9 173)	(12 349)
Gross profit (loss) before amortization and depreciation		**3 293**	**(3 110)**
Amortization of mineral property interests	2	(273)	(109)
Depreciation of property, plant and equipment	4	(1 143)	(1 300)
Rehabilitation obligation recognized		(42)	(33)
Gross profit (loss)		**1 835**	**(4 552)**
Other income		54	372
General, administration and business development expenses		(713)	(1 604)
Loss on sale of subsidiary	13	-	(1 774)
Realized foreign exchange with sale of subsidiary		-	1 276
Profit (loss) before net finance costs	18	**1 176**	**(6 282)**
Finance income	19	18	39
Foreign exchange loss on US$ loans		65	-
Finance costs	20	(717)	(304)
Profit (loss) after net finance costs		**542**	**(6 547)**
Share of profit from equity accounted investments	3	36	33
Profit (loss) before income tax (charge) recovery		**578**	**(6 514)**
Income tax (charge) recovery	21	(8)	1 334
Profit (loss) for the period		**570**	**(5 180)**
Earnings (loss) per share			
Basic and diluted earnings (loss) per share (cents)	22	1.04	(9.43)

Consolidated Statements of Comprehensive Income

Amounts in Canadian Dollars ('000)	Note(s)	3 months ended 31 May 2016	3 months ended 31 May 2015
Profit (loss) for the period		**570**	**(5 180)**
Other comprehensive income net of taxation			
Items that are or may be reclassified to profit or loss			
Exchange differences on translating foreign operations		(453)	(1 489)
Realized foreign exchange with sale of subsidiary		-	(1 276)
Other comprehensive income for the period net of taxation		**(453)**	**(2 765)**
Total comprehensive income (loss)		**117**	**(7 945)**
Total comprehensive income attributable to:			
Owners of the Group		117	(7 975)
Non-controlling interest		-	30
Total comprehensive income for the period		**117**	**(7 945)**

Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements for the period ended 31 May 2016

Consolidated Statements of Changes in Equity

Amounts in Canadian Dollars ('000)	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
Balance at 01 March 2015	**147 435**	**(17 605)**	**9 030**	**(8 575)**	**(102 076)**	**36 784**	**(2 369)**	**34 415**
Total comprehensive income for the period								
Loss for the period	-	-	-	-	(5 146)	(5 146)	(34)	(5 180)
Other comprehensive income	-	(2 829)	-	(2 829)	-	(2 829)	64	(2 765)
Total comprehensive income for the period	-	(2 829)	-	(2 829)	(5 146)	(7 975)	30	(7 945)
Share-based payment expense	-	-	32	32	-	32	-	32
Sale of subsidiary (note 13)	-	-	-	-	-	-	1 678	1 678
Total changes	-	(2 829)	32	(2 797)	(5 146)	(7 943)	1 708	(6 235)
Balance at 31 May 2015	**147 435**	**(20 434)**	**9 062**	**(11 372)**	**(107 222)**	**28 841**	**(661)**	**28 180**
Balance at 01 March 2016	**147 472**	**(22 706)**	**9 099**	**(13 607)**	**(130 358)**	**3 507**	**-**	**3 507**
Total comprehensive income for the period								
Income for the period	-	-	-	-	570	570	-	570
Other comprehensive income	-	(453)	-	(453)	-	(453)	-	(453)
Total comprehensive income for the period	-	(453)	-	(453)	570	117	-	117
Share-based payment expense	-	-	9	9	-	9	-	9
Total changes	-	(453)	9	(444)	570	126	-	126
Balance at 31 May 2016	**147 472**	**(23 159)**	**9 108**	**(14 051)**	**(129 788)**	**3 633**	**-**	**3 633**
Note(s)	7		8					

* Currency translation differences arising on the conversion of the results and financial position of foreign operations from their functional currency to the Group'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.

Consolidated Statements of Cash Flows

Amounts in Canadian Dollars ('000)	Note(s)	3 months ended 31 May 2016	3 months ended 31 May 2015
Cash flows from operating activities			
Cash receipts from customers	14	11 838	8 862
Cash paid to suppliers and employees		(9 779)	(13 882)
Cash generated from (used in) operations	14	2 059	(5 020)
Finance income		18	39
Finance costs		(692)	(111)
Net cash inflow (outflow) from operating activities		**1 385**	**(5 092)**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(1 737)	(260)
Proceeds from sale of property, plant and equipment		215	-
Sale of mineral property interests	2	-	515
Acquisition of subsidiary	13	-	(1 708)
Proceeds from sale of subsidiary	13	-	2 266
Advances from related party loans		35	20
Increase in investments and deposits		(112)	(71)
Increase in rehabilitation deposits		(18)	(34)
Repayment of loan from buyers of subsidiary	13	1 712	-
Net cash inflow from investing activities		**95**	**728**
Cash flows from financing activities			
Advances from loans and borrowings		1 296	1 921
Repayment of loans and borrowings		(1 362)	-
Repayment of finance lease obligations		(170)	(208)
Net cash (outflow) inflow from financing activities		**(236)**	**1 713**
Net movement in cash and cash equivalents for the period		**1 244**	**(2 651)**
Cash and cash equivalents at the beginning of the period		(1 332)	576
Cash and cash equivalents included in assets held for sale		-	776
Total cash and cash equivalents at end of the period	6	**(88)**	**(1 299)**

Accounting Policies

The accompanying notes are an integral part of these 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 consolidated financial statements of the Company as at 31 May 2016 and 29 February 2016 and for the three month periods ended 31 May 2016 and 2015, 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 in Canada under the British Columbia Business Corporations Act. Rockwell is primarily listed on the Toronto Stock Exchange (TSX) with a secondary listing on the Johannesburg Stock Exchange (JSE).

1.2 Continuance of operations and basis of presentation

The Group earned a total comprehensive income of $0.1 million (2015: incurred a loss of $8.0 million) for the period ended 31 May 2016. As of this date its current liabilities exceed its current assets by $8.7 million (2015: $29.7 million). The directors have considered the ability of the Group to continue as a going concern and note there to be a number of factors, strategies, and assumptions which may have an impact on the going concern assumption. Certain uncertainties as at 29 February 2016, were disclosed as follows:

- Geological assessment on (Remhoogte and Holsloot) RHC has concluded in 43:101 filings that the drilling results at RHC indicate significantly less rooikoppie, but potentially significantly more paleo than previously thought and further work is underway to refine the fluvial alluvial estimates whilst the mine plan for the next six months at RHC has been amended to accommodate these findings. Indicated and inferred resources at Wouterspan (WP) indicate a mine life in excess of seven years at the expected level of volumes to be processed. Inferred and indicated resources are not 'reserves' and are subject to significant assumptions including expected grade and operating costs as detailed in the 43:101 technical reports. Updates to these will be filed by the end of F 2017;

- In the prior year Rockwell repositioned itself fundamentally by selling Etruscan (which owned Tirisano) outright, bringing Saxendrift closer to formal closure with little cost, and acquiring two new mines with a third in construction;

- Processing and feed challenges have been addressed at the two new mines (Remhoogte and Holsloot), have been identified (mining capability and screening) and in the case of screening, also been addressed with a new in-field screen;

- Processing challenges in the past, specifically the impact of throughput efficiency with various types of ore, have now been identified and are being addressed by the Company, with some operational progress to date;

- Saxendrift has essentially exhausted its ore body, and has been under a closing process during the year, and undergone a section 189 (formal employee reduction) process in tandem with the operational wind down. It is expected that final closure will take place in mid 2016, and operations have continued at operational cash breakeven over the last five months;

- The new plant at Wouterspan is scheduled for commissioning during Q2 2016. The design of WSP has now incorporated additional processing redundancies and back up capacity to provide reasonable assurance of design level throughput performance under varying operating conditions;

- A new mining strategy was approved by the board, and consists of outsourcing all mining, for a fixed per cubic meter rate, reducing risk, staffing, suppliers, and equipment financing or capital requirements and the Company is implementing this strategy in fiscal 2017;

- Current plants have been operating at 55%-65% of name plate capacity due to processing issues, but have been cash flow positive at a gross margin level. Recent sampling results of the ore reserve at Remhoogte indicates towards a significant reduction of immediately available gravels requiring a change in mining methodology such that the plants will be operating on day-shift basis only at lower levels of throughput. Desktop evaluations indicate positive yields using this methodology due to higher grades and diamond values associated with the nature of the gravels. Drilling is taking place on the extensive fluvial alluvial deposit at Remhoogte to determine its economic potential;

- The working capital deficiency was principally caused by the temporary closure of one of the Company's operations due to a fatality, the contractual debt repayments through an acquisition debt sweep structure which proved unaffordable and the commencement of construction of the new Wouterspan plant using working capital financing reduced revenues and cash flows. The temporarily closed plant reopened in late November 2015, the restructuring of the Diacore agreement sweep structure to amend this structure was completed in November 2015, and the financing for the Wouterspan plant was, started in January 2016, was finalized and funds have been received in the current period; and

Accounting Policies

1.2 Continuance of operations and basis of presentation (continued)

- Company prepared forecasts reflecting these elements and strategic impacts indicate that the Company will be cash flow positive in fiscal 2017.

Accordingly it is the Company's judgment that the going concern principle remains appropriate for these financial statements. The Company believes that key to this assessment is the view that the two remaining material risks, namely effectiveness of the new mining contracting strategy and the timely and effective commissioning of Wouterspan are likely mitigated. Failure of either material risk to be effectively mitigated, or the lack of receipt of further capital to fund such impact, may cause this assessment to change. Therefore, based on the business plans, strategies and assumptions outlined above, the directors believe that the going concern assumption remains an appropriate basis for the preparation of these financial statements. In the event that these plans are not achieved and given the current liquidity position of the Company, a material uncertainty exists which may cast a significant doubt on the Group's ability to continue as a going concern and discharge its liabilities in the normal course of business. Should the going concern assumption not remain appropriate, adjustments may have to be made to reduce the value of the Group's assets to their realizable value and the adjustments could be material.

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 29 February 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

1.3.2 Basis of measurement

The unaudited interim 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, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except as otherwise indicated.

1.3.4 Use of estimates and judgements

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts represented in the 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.

IInformation about critical estimates and judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes to the consolidated financial statements for the year ended 29 February 2016:

- Note 2 – Mineral property interests
- Note 4 – Property, plant and equipment
- Note 6 – Inventories
- Note 11 – Share-based payments
- Note 14 – Deferred tax
- Note 15 – Rehabilitation obligation

Accounting Policies

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 29 February 2016.

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

Certain new standards, amendments and interpretations to existing standards have been published that apply to the Group's accounting periods beginning on 1 June 2016 or later periods but have not been adopted early by the Group. Management is currently reviewing the impact of these standards on the Group.

These standards, amendments and interpretations are:

Standard(s) Amendment(s) Interpretation(s)	Details of amendment	Effective date #
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 1	Disclosure Initiative	1 January 2016
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to 4 standards	Improvements to IFRSs 2012-2014 Cycle	1 January 2016
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Leases	1 January 2019

Effective date refers to annual period beginning on or after said date.

Notes to the Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

2. Mineral property interests

	As at 31 May 2016			As at 29 February 2016		
	Cost	**Accumulated amortization and impairment losses**	**Carrying value**	**Cost**	**Accumulated amortization and impairment losses**	**Carrying value**
Mineral property interests	28 568	(5 361)	23 207	28 568	(4 697)	23 871

Reconciliation of mineral property interests - 31 May 2016

	Opening balance	**Foreign exchange movements**	**Amortization**	**Closing balance**
Mineral property interests	23 871	(391)	(273)	23 207

Reconciliation of mineral property interests - 29 February 2016

	Opening balance	**Additions**	**Business combinations (Note 13)**	**Disposals**	**Foreign exchange movements**	**Amortization**	**Closing balance**
Mineral property interests	16 518	9	13 130	(352)	(3 639)	(1 795)	23 871

Details of the Group's mineral property interests are disclosed in its annual consolidated financial statements as at and for the year ended 29 February 2016.

Notes to the Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	As at 31 May 2016	As at 29 February 2016

3. Investment in associates

Associates

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

On 21 April 2010 the Group acquired a 20% shareholding in Flawless Diamonds Trading House Proprietary Limited ("Flawless") incorporated in the Republic of South Africa for ZAR0.7 million ($0.1 million) cash. Flawless is a registered diamond broker which provides specialist diamond valuation, marketing and tender sales services to the Group.

As the Group has significant influence over Flawless' operations it accounts for the investment using the equity method.

Carrying amount		
Opening balance	452	396
Equity share of profit	36	152
Foreign exchange movements	(13)	(96)
Closing balance	**475**	**452**

The associate had no other comprehensive income for the 3 months ended 31 May 2016 (3 months ended 31 May 2015: $Nil).

Summarised financial information of associate - (100% interest)

Current assets	3 782	9 459
Non-current assets	57	57
Total assets	3 839	9 516
Current liabilities	1 282	6 656
Non-current liabilities	-	-
Total liabilities	1 282	6 656
Net assets	2 557	2 860
Revenue	31 179	109 001
Total comprehensive income for the year	181	758
Capital commitments and contingent liabilities of associate	-	-

Reconciliation of carrying value to the 20% interest in net assets

Net assets at 20%	511	572
Other adjustments	(23)	(24)
Foreign exchange movements	(13)	(96)
Carrying value	**475**	**452**

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. The Group acquired a 49% shareholding in the same year. Since the incorporation date the Group's portion of the losses from Banzi Trade 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. The Group's carrying value of its investment in Banzi Trade is Nil.

Notes to the Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

4. Property, plant and equipment

	As at 31 May 2016			As at 29 February 2016		
	Cost	**Accumulated depreciation and impairment losses**	**Carrying value**	**Cost**	**Accumulated depreciation and impairment losses**	**Carrying value**
Land and buildings	3 643	(1 050)	2 593	3 643	(936)	2 707
Plant and machinery	45 734	(26 885)	18 849	46 044	(25 028)	21 016
Motor vehicles	917	(689)	228	917	(669)	248
Office equipment	997	(802)	195	997	(780)	217
Construction in progress	3 055	-	3 055	1 318	-	1 318
	54 346	**(29 426)**	**24 920**	**52 919**	**(27 413)**	**25 506**

Reconciliation of property, plant and equipment - 31 May 2016

	Opening balance	**Additions**	**Disposals**	**Foreign exchange movements**	**Depreciation**	**Closing balance**
Property, plant and equipment	25 506	1 737	(15)	(1 165)	(1 143)	24 920

Notes to the Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 29 February 2016

	Opening balance	Additions	Business combination (Note 13)	Disposals	Foreign exchange movements	Depreciation	Impairment loss	Closing balance
Property, plant and equipment	27 001	2 057	13 385	(120)	(5 979)	(10 169)	(669)	25 506

The impairment loss represents

	3 months ended 31 May 2016	Year ended 29 February 2016
Earthmoving vehicles	-	669
	-	**669**

Impairments for the year ended 29 February 2016 were determined on the estimated market value less cost to sell on certain items of equipment no longer in use.

Refer note 6 and note 9 for the security charge over property, plant and equipment.

Notes to the Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	As at 31 May 2016	As at 29 February 2016

5. Investments and deposits

At fair value through profit or loss

Investments	1 362	1 291

The Group invests in investment policies with endowment benefits on maturity of the policies in order to provide funding for the rehabilitation obligations. Premiums are invested on an initial lump sum and/or monthly annuity premium basis with the insurers and invested in specific investment plans. Policy investment value at any one time represents the value of premiums and growth after deduction of administration and investment fees. Withdrawals could be made against the policies before endowment against the deduction of penalties, which is lower than the investment value. To surrender the policy prior to maturity date will similarly attract penalties at a lower rate, and represents the value accessible at any one stage. Fair value at any one stage represents the surrender value of the investments. These policies are encumbered by the guarantees issued by Standard Bank on behalf of the Group (refer note 11).

At amortized cost

Deposits	52	53

Deposits paid to the South African national electricity supplier.

Total investments and deposits	**1 414**	**1 344**
Non-current assets		
At fair value through profit or loss	1 362	1 291
At amortized cost	52	53
	1 414	**1 344**

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1	1
Bank balances	468	55
Short-term cash deposits	9	2
	478	58
Bank overdraft	(566)	(1 390)
	(88)	**(1 332)**
Current assets	478	58
Current liabilities	(566)	(1 390)
	(88)	**(1 332)**

The Group has an overdraft facility in the amount of ZAR15.0 million ($1.3 million) available for its operations of which $0.6 million has been utilized. This facility has an interest cost of prime (currently 10.5% per annum) plus 4.0%. The security for the ZAR15.0 million overdraft facility consists of joint suretyship limited to ZAR28.0 million (2015: ZAR28.0 million), by Rockwell Resources RSA Proprietary Limited and HC van Wyk Diamonds Limited, the cession of an investment policy and a notarial covering bond over property, plant and equipement of ZAR40.0 million ($3.6 million) and a cession over trade receivables. The overdraft facility expires on 31 August 2016 and, at the time of signing these financial statements this facility was drawn down to $0.6 million (ZAR7.4 million) and renewal of the facility was in the process of negotiation.

Amounts in Canadian Dollars ('000) | As at 31 May 2016 | As at 29 February 2016

7. Share capital

Reconciliation of number of shares issued:

	Number of shares	Number of shares
Beginning of period	54 983 244	54 558 244
Shares issued to employees ^	-	425 000
End of period	**54 983 244**	**54 983 244**

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 following shares are reserved for issue:

- Employee share options	3,084,011
- Daboll/Emerald loans - credit facilities (note 9)	21,215,240

^ Shares issued to consultants and employees amounted to:

	As at 31 May 2016		**As at 29 February 2016**	
	Quantity	**Share price at grant date**	**Quantity**	**Share price at grant date**
Consultants	Nil	-	Nil	-
Employees	Nil	-	425,000	0.10
			425,000	

The number of shares issued was calculated as the bonus/consulting expense divided by the volume weighted average trading share price at grant date.

Notes to the Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

8. 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 Group 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 require inputs such as expected volatility, expected life to exercise, and interest rates. Changes in any of these inputs could cause a significant change in the share-based payment expense charged in a period.

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

There were no share options issued to directors, employees or consultants during the period.

Share-based payment expenses

	3 months ended 31 May 2016	**3 months ended 31 May 2015**
Share options granted in prior periods	9	32
Total share-based payment cost expensed to operations, with the offset credited to share-based payment reserve	**9**	**32**

Amounts in Canadian Dollars ('000)	As at 31 May 2016	As at 29 February 2016

9. Loans and borrowings

Held at amortized cost		
Credit facilities	26 472	26 573

Bridging loans, to fund the Bondeo acquisition, were obtained from Diacore (via Ascot Diamonds Proprietary Limited) ($20.4 million) and Mark Bristow ($1.8 million) in order to meet the transaction financing requirements for the acquisition of Bondeo 140 cc.

The total loans amounted to US$16.5 million plus ZAR16 million, of which US$1.5 million was advanced by Mark Bristow and US$15.0 plus ZAR16 million advanced by Diacore.

The initial term of the two loans were for a period of three months (“first period”), extendable for a further month if the Company called a shareholder meeting to approve any required amendments to the loan; Interest was payable at 1.25% per month for the first period of three months. There were no broker’s or similar fees associated with these two transactions.

The Company renegotiated these loans during Q2 2016, and upon shareholders' approval on 23 September 2015, two new loans, including the convertible debentures of November 2014, commencing on 1 October 2015, were issued, each with the following terms:

- A term of 24 months from 1 October 2015
- Interest payable every 6 months at US - 6 month Libor rate plus a margin of 1 000 basis points
- To be repaid through a sweep mechanism linked to sales revenues (currently up to 7.5% on diamond sales and up to 50% on beneficiation income),

paid prorata to Diacore and Emerald in proportion to the ratio of the original two loan principal balances.

- The issue of three year share warrants to Ascot (18,863,402) and Emerald (2,351,838) at a strike price of 20 cents per share.

The loans are classified as non-current based on the legal substance of the contracts. Sales to Diacore brings the sweep mechanism into effect.

The total loan amounts are secured by a first security charge over movable assets, including those acquired in note 13.2, and cession of shares in subsidiary companies.

Refer note 12 for a breakdown per lendor for the loans and borrowings.

Non-current liabilities		
At amortized cost	26 472	26 573

Amounts in Canadian Dollars ('000)	As at 31 May 2016	As at 29 February 2016

10. Deferred tax

Deferred tax liability

Mineral property interests	(4 727)	(4 867)
	(4 727)	(4 867)

Reconciliation of net deferred tax liability

At beginning of the period / year	(4 867)	(2 995)
Foreign exchange movement	140	867
Recognized in profit or loss	-	629
Business combination	-	(3 368)
	(4 727)	**(4 867)**

Estimates and judgements

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.

Amounts in Canadian Dollars ('000)

11. Rehabilitation obligation

Reconciliation of obligation - 31 May 2016

	Opening balance	Rehabilitation obligation recognised / (revised)	Foreign exchange movements	Closing balance
Rehabilitation obligation	7 753	42	(223)	7 572

Reconciliation of obligation - 29 February 2016

	Opening balance	Rehabilitation obligation recognised / (revised)	Foreign exchange movements	Business combination (Note 13.2)	Unwinding	Closing balance
Rehabilitation obligation	5 987	1 555	(1 604)	994	821	7 753
	5 987	**1 555**	**(1 604)**	**994**	**821**	**7 753**

Amounts in Canadian Dollars ('000)

11. 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 monthly and adjusted as appropriate for agreed changes in legislation, technology or other circumstances.

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

The ultimate rehabilitation will be financed from existing funds and policies invested for this purpose, ongoing contributions as well as the proceeds on sale of assets and metal from plant clean-up at the time of the mine closure. The expected timing of the cash flows in respect of the provisions is dependent on the mineral property award and/or the Life of Mine. Rehabilitation of disturbed areas, at the operating Northern Cape mines, is generally 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:	5 years on current mining operations (End of life of mine)
South African discount rate:	9%
South African inflation rate:	6%

As required by regulatory authorities, at 31 May 2016, the Group had cash rehabilitation deposits totaling $1.1 million (29 February 2016 – $1.1 million) comprised of $1.1 million (29 February 2016 – $1.1 million) for the Saxendrift, Wouterspan and Remhoogte operations. 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).

A guarantee in respect of Remhoogte is held by the regulatory authorities which is secured by a rehabilitation deposit held by Bondeo 140 CC in respect of the Steyn transaction and acquisition of Remhoogte.

Notes to the Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	As at 31 May 2016	As at 29 February 2016
12. Related parties		
Related party balances		
Balances payable		
Banzi Trade (c)	1 178	1 178
Seven Bridges Trading (a)	4	4
Gump Mining (g)	35	36
Current balances payable	1 217	1 218
Loans from related parties	1 217	3 366

Certain of the above named loans are unsecured, interest free and have no fixed terms of repayment and are therefore disclosed as current.

Loans and borrowings include the following amounts due to related parties (note 9)		
Emerald (h) - long term acquisition credit facilities	4 068	3 349
Diacore (f) - long term acquisition credit facilities	22 404	23 224
Total	26 472	26 573
Receivables from related party included under trade and other receivables		
Diacore (f)	1 615	1 454
Flawless Diamonds Trading House (b)	934	-

Notes to the Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	As at 31 May 2016	As at 29 February 2016

12. Related parties (continued)

Related party transactions for the 3 months ended 31 May 2016 (3 months ended 31 May 2015)

Services rendered and expenses reimbursed:		
Seven Bridges Trading (a)	-	12
Mogopa Minerals (d)	-	12
Flawless Diamonds Trading House (b)	89	95
Sales rendered to:		
Sale of diamonds - Diacore (f)	12 097	6 655
Beneficiation income - Diacore (f)	369	970
Finance cost include the following amounts accrued to related parties		
Daboll (e)	-	63
Emerald (h)	84	27
Diacore (f)	502	25

All related party transactions are at arm's length basis in the normal course of business, except where noted below:

(a) Seven Bridges Trading 14 Proprietary Limited ("Seven Bridges Trading") is a wholly-owned subsidiary of Randgold Resources Limited, a public company where Dr. D 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 an associated company. 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 in South Africa as part of the Company’s Social and Labour Plan commitments in terms of the South African 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. This relationship terminated with the sale of Etruscan in March 2015.

(e) Daboll Consultants Limited ("Daboll") owns 19% of the shares in the Company and is considered a related party. Daboll has credit facility agreements 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) Gump Mining Proprietary Limited ("Gump Mining") owns a 50% interest in Gumrock Mining Proprietary Limited, a subsidiary company.

(h) Emerald Holdings Limited ("Emerald") is an investment company in which Dr. D M Bristow, a director of the Company, has a financial interest.

Notes to the Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 May 2016	3 months ended 31 May 2015

13. Sale and acquisition of subsidiaries

13.1 Sale of subsidiary

An acquisition consortium assumed control of Tirisano on March 28, 2015, and therefore the Group accounted for the sale as of that date. The cash consideration was to be settled by way of two initial payments totaling ZAR20 million ($1.8 million), followed by 20 equal monthly instalments of ZAR2 million ($0.17 million), of which 12 have been received to date. Therefore as at 29 February 2016, ZAR22 million ($1.8 million) was outstanding on the sale price. This was received after year-end. Agreement has been concluded after 29 February 2016 for early settlement of the remaining balance in the amount of ZAR20 million after a ZAR2 million settlement discount.

Carrying value of assets sold	
Property, plant and equipment	1 417
Mineral property interests	8 000
Rehabilitation obligation	(2 072)
Rehabilitation deposits	1 739
Trade and other receivables	1 142
Trade and other payables	(238)
Loans and borrowings	(3 720)
Loan to related party	8
Outside shareholders	1 678
Total net assets sold	7 954
Net assets sold	7 954
Loss on sale of subsidiary	1 774
	6 180

Consideration	
Cash received	2 098
Deferred consideration - outstanding at year end	2 770
Deferred consideration - received since acquisition	1 312
	6 180

Notes to the Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 May 2016	3 months ended 31 May 2015

13. Sale and acquisition of subsidiaries (continued)

13.2. Business combination

On May 25, 2015, Rockwell announced the closing of the Bondeo 140 cc acquisition ("Steyn Transaction"), and assumed control on May 28, 2015. All required approvals and long term acquisition credit facilities were secured.

The acquisition was accounted for as an acquired business in terms of IFRS 3: *Business Combinations*. It included the purchase of 100% of the issued share capital in Pioneer Minerals Proprietary Limited which owns the Remhoogte property, from Bondeo 140 cc, the Holsloot and Bo-Karoo properties and certain earthmoving equipment and plant.

The movable assets acquired have been included in a first security charge securing the two long term acquisition credit facilities from Diacore and Emerald as disclosed in note 9.

The following summarises the fair value of assets and liabilities acquired	
Mineral property interests	13 130
Property, plant and equipment	13 385
Deferred tax	(3 368)
Rehabilitation obligation	(994)
Other liabilities	(99)
Total identifiable net assets	**22 054**

The deferred tax arises under IFRS as the difference between the fair value and the tax base of the asset acquired, times the tax rate. In future years, depreciation and amortization will be greater than the tax cover on the asset, at which time the deferred tax balance will be drawn down. It does not represent a tax liability owing at present.

The Group financed the purchase consideration through	
Cash	(513)
Bridging loan - Diacore (paid directly by vendor to seller)	(20 346)
Bridging loan - Emerald	(1 195)
	(22 054)

Net cash outflow from Company, on acquisition	
Cash consideration paid	(1 708)

Notes to the Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 May 2016	3 months ended 31 May 2015
14. Cash generated from (used in) operations		
Profit (loss) before taxation	578	(6 514)
Adjustments for:		
Depreciation and amortization	1 416	1 409
Profit on disposal of property, plant and equipment	(200)	-
Loss on disposal of mineral properties	-	(165)
Loss on sale of subsidiary	-	1 774
Share of profit from equity accounted investment	(36)	(33)
Finance income	(18)	(39)
Finance costs	1 318	304
Realized foreign exchange with sale of subsidiary	-	(1 276)
Rehabilitation obligation recognized	42	33
Share-based payment expense	9	32
Write down to net realizable value of diamond inventories	-	(1 092)
Changes in working capital:		
Inventories	(846)	717
Trade and other receivables	(628)	(229)
Trade and other payables	424	59
	2 059	**(5 020)**
Cash receipts from customers		
Revenue	12 466	-
Movement in trade and other receivables	(628)	-
	11 838	**-**
15. Tax paid		
Balance at beginning of the period	-	37
Current tax for the period recognised in profit or loss	(8)	-
Exchange rate movements	-	(2)
Balance at end of the period	-	(35)
	(8)	**-**

Notes to the Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 May 2016	3 months ended 31 May 2015

16. Revenue

Sale of diamonds	12 097	8 269
Beneficiation income	369	970
	12 466	**9 239**

Beneficiation income represents profit share on value add (cut and polish) and re-trade margins on certain stones, arising through the Group's beneficiation agreement with Diacore. The Group is entitled to 50% of the profits from the sale of the polished diamonds and re-trade margins on certain stones produced by the Group and sold through this channel. The beneficiation income is recognized on the date Diacore notifies the Group of the successful sale of the diamonds to third parties.

17. Cost of sales before amortisation and depreciation

Mining	3 356	5 273
Employee cost	2 061	2 348
Processing	628	745
Contract mining	2 909	1 190
Other	547	1 339
Royalties	35	5
Production cost	**9 536**	**10 900**
Inventory movement	(363)	(843)
Royalty mining	-	932
Business restructuring	-	882
	9 173	**11 871**

18. Profit (loss) before net finance costs

Profit (loss) before net finance costs for the period is stated after accounting for the following:

Profit on disposal of property, plant and equipment and mineral properties	(200)	(165)
Loss on sale of subsidiary	-	1 774
Realized foreign exchange with sale of subsidiary *	-	(1 276)
Depreciation on property, plant and equipment	1 143	1 300
Amortization on mineral property interests	273	109
Salaries and wages	339	398
Share based payment expense	9	32
General, administration and business development expenses		
- General and administration expenses	713	1 234
- Business development expenses	-	370

* Realization of foreign currency reserve relating to the sale of Tirisano, resulting in a profit of $1.3 million. There is no cashflow effect.

Notes to the Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 May 2016	3 months ended 31 May 2015
19. Finance income		
Bank	18	39
20. Finance costs		
Loans and borrowings	648	147
Finance lease obligation	25	44
Bank	-	79
Royalties	42	-
Other	2	34
	717	**304**
21. Income tax charge (recovery)		
Current tax		
Local income tax - current period	8	-
Deferred tax		
Movement in deferred tax balance recognized through profit or loss	-	(1 334)
	8	**(1 334)**

Notes to the Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 May 2016	3 months ended 31 May 2015

22. Earnings (loss) per share

Basic and diluted earnings (loss) per share

Cents per share	1.04	(9.43)

Basic (loss) earnings per share was calculated based on a weighted average number of common shares of 54 983 244 for the 3 months ended 31 May 2016 (3 months ended 31 May 2015: 54 558 244).

Reconciliation of profit (loss) for the period to basic profit (loss)		
Profit (loss) for the period	570	(5 180)
Adjusted for:		
Loss attributable to non-controlling interest	-	34
Basic earnings (loss) attributable to owners of the Group	**570**	**(5 146)**

At 31 May 2016 the impact of share-based payment options were excluded from the weighted average number of shares, for the purpose of the diluted earnings (loss) per share calculation, as the effect would have been anti-dilutive.

Basic and diluted headline earnings (loss) per share

Cents per share	0.67	(8.82)

Reconciliation between basic profit (loss) and headline earnings (loss)		
Basic profit (loss) attributable to owners of the Group	570	(5 146)
Adjusted for:		
Profit on disposal of property, plant and equipment and mineral properties	(200)	(165)
Loss on sale of subsidiary	-	1 774
Realized foreign exchange with sale of subsidiary	-	(1 276)
Non-controlling interest portion of above adjustments	-	-
Headline profit (loss) attributable to owners of the Group	**370**	**(4 813)**

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 re-measurements.

At 31 May 2016 the impact of share-based payment options were excluded from the weighted average number of shares, for the purpose of the diluted headline (loss) earnings per share calculation, as the effect would have been anti-dilutive.

Amounts in Canadian Dollars ('000)

23. 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 palaeo 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 year ended 31 May 2016

	Northern Cape	North West	Corporate	Reconciling	Total
Total assets	48 643	-	8 668	-	57 311
Total liabilities	(30 110)	-	(23 568)	-	(53 678)
External revenue	12 466	-	411	(411)	12 466
Profit for the period	570	-	-	-	570

For the year ended 29 February 2016

	Northern Cape	North West	Corporate	Reconciling	Total
Total assets	56 394	-	4 504	(2 081)	58 817
Total liabilities	(25 523)	-	(27 406)	(2 081)	(55 010)
External revenue	(46 274)	(1 065)	-	-	(47 339)
Inter-segment revenue	-	-	-	-	-
Loss for the year	(18 350)	(4 027)	(5 304)	-	(27 681)

For the 3 months ended 31 May 2015

	Northern Cape	North West	Corporate	Reconciling	Total
Total assets	70 311	-	71 086	(57 819)	83 578
Total liabilities	83 976	-	29 241	(57 819)	55 398
External revenue	8 174	1 065	-	-	9 239
Inter-segment revenue	(1 054)	(55)	1 109	-	-
Loss for the period	(4 355)	(16)	(809)	-	(5 180)

Amounts in Canadian Dollars ('000)

24. Financial risk management

Carrying amount and fair values of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Given the varying influencing factors, the reported fair values are only indicators of the prices that may actually be realized for these financial instruments.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

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

	31 May 2016 - Carrying amount	31 May 2016 - Fair value	29 February 2016 - Carrying amount	29 February 2016 - Fair value
Assets carried at fair value through profit or loss				
Investments	1 362	1 362	1 291	1 291
Assets carried at amortized cost				
Deposits	52	52	53	53
Rehabilitation deposits	1 089	1 089	1 103	1 103
Trade and other receivables	2 270	2 270	3 884	3 884
Cash and cash equivalents	478	478	58	58
Liabilities carried at amortized cost				
Loans and borrowings	26 472	26 472	26 573	26 573
Trade and other payables	7 686	7 686	6 066	6 066
Finance lease obligations	855	855	1 024	1 024
Loans from related parties	1 217	1 217	1 218	1 218
Bank overdraft	566	566	1 390	1 390

The following table illustrates the classification of the Group's financial instruments recorded at fair value within the fair value hierarchy:

Financial assets at fair value - 31 May 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments	1 362	-	-	1 362
Financial assets at fair value - 29 February 2016				
Investments	1 291	-	-	1 291

The financial assets designated at fair value through profit or loss are investments that would otherwise be classified as available for sale. The performance of these investments are managed on a fair value basis.

25. Subsequent events

- The construction of WPC and redeployment of existing processing and mining equipment from other operations begun early in Q1 F2017 as planned. Construction work is progressing to deliver a plant and IFS capable of processing 250,000m^3 per month. A second phase, to further increase the plant throughput to 400,000 m^3, is under consideration but not yet approved.

- Management has received authority to conclude a new mining agreement which was approved by the Board on 8 July 2016. This is intended to mitigate the risks associated with availability of the Company's earthmoving fleet and arrest the uneven performance associated with the Company's mining fleet operating performance.

Management is not aware of any other matter or circumstance arising since the end of the period requiring amendment to the amounts and disclosures included in these financial statements.

26. Statement of no audit or review

The consolidated financial statements for quarter 1 of 2017 have not been audited or reviewed by the auditors.