

**Rockwell Diamonds Inc.**  
Unaudited Interim Consolidated Financial Statements  
for the period ended 31 August 2016

# Rockwell Diamonds Inc.

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

## Index

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

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The unaudited interim consolidated financial statements set out on pages 2 to 31, which have been prepared on the going concern basis, were approved by the board on 15 October 2016 and were signed on its behalf by:

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**James Campbell**

**Director**

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**Dr Mark Bristow**

**Director**

# Rockwell Diamonds Inc.

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

## Consolidated Statements of Financial Position

Amounts in Canadian Dollars ('000)	Note(s)	As at 31 August 2016	As at 28 February 2016
<b>Assets</b>			
<b>Non-current assets</b>			
Mineral property interests	2	23 428	23 871
Investment in associates	3	539	452
Property, plant and equipment	4	27 723	25 506
Investments and deposits	5	1 441	1 344
Rehabilitation deposits	11	1 167	1 103
<b>Total non-current assets</b>		<b>54 298</b>	<b>52 276</b>
<b>Current assets</b>			
Inventories		2 616	2 100
Trade and other receivables		3 369	4 083
Cash and cash equivalents	6	23	58
<b>Total current assets</b>		<b>6 008</b>	<b>6 241</b>
<b>Total assets</b>		<b>60 306</b>	<b>58 517</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	7	147 472	147 472
Reserves		(13 742)	(13 607)
Retained loss		(130 376)	(130 358)
<b>Total equity</b>		<b>3 354</b>	<b>3 507</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Loans and borrowings	9	25 649	26 573
Finance lease obligation		-	430
Deferred tax	10	4 867	4 867
Rehabilitation obligation	11	8 628	7 753
<b>Total non-current liabilities</b>		<b>39 144</b>	<b>39 623</b>
<b>Current liabilities</b>			
Loans from related parties	12	1 182	1 218
Finance lease obligation		765	594
Trade and other payables		15 301	12 185
Bank overdraft	6	560	1 390
<b>Total current liabilities</b>		<b>17 808</b>	<b>15 387</b>
<b>Total liabilities</b>		<b>56 952</b>	<b>55 010</b>
<b>Total equity and liabilities</b>		<b>60 306</b>	<b>58 517</b>

# Rockwell Diamonds Inc.

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

## Consolidated Statements of Financial Performance

Amounts in Canadian Dollars ('000)	Note(s)	3 months ended 31 August 2016	6 months ended 31 August 2016	3 months ended 31 August 2015	6 months ended 31 August 2015
Sale of diamonds	17	10 576	22 673	12 277	20 546
Beneficiation income	17	2 839	3 208	8 689	9 659
Cost of sales before amortization and depreciation	18	(11 717)	(20 890)	(11 791)	(24 140)
<b>Gross profit before amortization and depreciation</b>		<b>1 698</b>	<b>4 991</b>	<b>9 175</b>	<b>6 065</b>
Amortization of mineral property interests		(659)	(932)	(747)	(856)
Depreciation of property, plant and equipment		(1 152)	(2 295)	(1 559)	(2 859)
Rehabilitation obligation recognized		(514)	(556)	(32)	(65)
<b>Gross (loss) profit</b>		<b>(627)</b>	<b>1 208</b>	<b>6 837</b>	<b>2 285</b>
Other income		216	270	143	515
General, administration and business development expenses		(995)	(1 708)	(1 658)	(3 262)
Loss on sale of subsidiary		-	-	-	(1 774)
Realized foreign exchange with sale of subsidiary		-	-	-	1 276
<b>(Loss) profit before net finance costs</b>	19	<b>(1 406)</b>	<b>(230)</b>	<b>5 322</b>	<b>(960)</b>
Finance income	20	1	19	10	49
Foreign exchange profit (loss) on US\$ loans		1 567	1 632	(2 823)	(2 823)
Finance costs	21	(791)	(1 508)	(1 037)	(1 341)
<b>(Loss) profit after net finance costs</b>		<b>(629)</b>	<b>(87)</b>	<b>1 472</b>	<b>(5 075)</b>
Share of profit from equity accounted investment	3	33	69	58	91
<b>(Loss) profit before taxation</b>		<b>(596)</b>	<b>(18)</b>	<b>1 530</b>	<b>(4 984)</b>
Taxation	22	8	-	(384)	950
<b>(Loss) profit for the period</b>		<b>(588)</b>	<b>(18)</b>	<b>1 146</b>	<b>(4 034)</b>
<b>(Loss) profit attributable to :</b>					
Owners of the parent		(588)	(18)	1 195	(3 951)
Non-controlling interest		-	-	(49)	(83)
		<b>(588)</b>	<b>(18)</b>	<b>1 146</b>	<b>(4 034)</b>
<b>(Loss) earnings per share</b>					
Basic and diluted (loss) earnings per share (cents)	23	(1.07)	(0.03)	2.19	(7.24)

# Rockwell Diamonds Inc.

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

## Consolidated Statements of Comprehensive Income

Amounts in Canadian Dollars ('000)	Note(s)	3 months ended 31 August 2016	6 months ended 31 August 2016	3 months ended 31 August 2015	6 months ended 31 August 2015
<b>(Loss) profit for the period</b>		<b>(588)</b>	<b>(18)</b>	<b>1 146</b>	<b>(4 034)</b>
<b>Other comprehensive income net of taxation</b>					
<i>Items that are or may be reclassified to profit or loss</i>					
Exchange differences on translating foreign operations		302	(151)	(971)	(1 185)
Realized foreign exchange differences with sale of subsidiary		-	-	-	(1 276)
<b>Other comprehensive income for the period net of taxation</b>		<b>302</b>	<b>(151)</b>	<b>(971)</b>	<b>(2 461)</b>
<b>Total comprehensive income for the period</b>		<b>(286)</b>	<b>(169)</b>	<b>175</b>	<b>(6 495)</b>
<b>Total comprehensive income attributable to:</b>					
Owners of the Group		(286)	(169)	205	(6 495)
Non-controlling interest		-	-	(30)	-
<b>Total comprehensive income for the period</b>		<b>(286)</b>	<b>(169)</b>	<b>175</b>	<b>(6 495)</b>

## Rockwell Diamonds Inc.

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

### Consolidated Statements of Changes in Equity

	Share capital	Foreign currency translation reserve *	Share-based payment reserve **	Total net reserves	Retained loss	Total equity attributable to equity holders of the Group	Non-controlling interest	Total equity
Amounts in Canadian Dollars ('000)								
<b>Balance at 01 March 2015</b>	<b>147 435</b>	<b>(17 605)</b>	<b>9 030</b>	<b>(8 575)</b>	<b>(102 076)</b>	<b>36 784</b>	<b>(2 369)</b>	<b>34 415</b>
<i>Total comprehensive income for the period</i>								
Loss for the period	-	-	-	-	(3 951)	(3 951)	(83)	(4 034)
Other comprehensive income	-	(2 511)	-	(2 511)	-	(2 511)	83	(2 428)
Total comprehensive income for the period	-	(2 511)	-	(2 511)	(3 951)	(6 462)	-	(6 462)
Share-based payment expense	-	-	50	50	-	50	-	50
Sale of subsidiary	-	(1 276)	-	(1 276)	-	(1 276)	-	(1 276)
Total changes	-	(3 787)	50	(3 737)	(3 951)	(7 688)	1 678	(6 010)
<b>Balance as at 31 August 2015</b>	<b>147 435</b>	<b>(21 392)</b>	<b>9 080</b>	<b>(12 312)</b>	<b>(106 027)</b>	<b>29 096</b>	<b>(691)</b>	<b>28 405</b>
	-	-	-	-	-	-	-	-
<b>Balance at 01 March 2016</b>	<b>147 472</b>	<b>(22 706)</b>	<b>9 099</b>	<b>(13 607)</b>	<b>(130 358)</b>	<b>3 507</b>	<b>-</b>	<b>3 507</b>
<i>Total comprehensive income for the period</i>								
Loss for the period	-	-	-	-	(18)	(18)	-	(18)
Other comprehensive income	-	(151)	-	(151)	-	(151)	-	(151)
Total comprehensive income for the period	-	(151)	-	(151)	(18)	(169)	-	(169)
Share-based payment expense	-	-	16	16	-	16	-	16
Total changes	-	(151)	16	(135)	(18)	(153)	-	(153)
<b>Balance at 31 August 2016</b>	<b>147 472</b>	<b>(22 857)</b>	<b>9 115</b>	<b>(13 742)</b>	<b>(130 376)</b>	<b>3 354</b>	<b>-</b>	<b>3 354</b>
Note(s)	7		8					

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

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

# Rockwell Diamonds Inc.

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

## Consolidated Statements of Cash Flows

Amounts in Canadian Dollars ('000)	Note(s)	3 months ended 31 August 2016	6 months ended 31 August 2016	3 months ended 31 August 2015	6 months ended 31 August 2015
<b>Cash flows from operating activities</b>					
Cash receipts from customers	15	14 910	26 748	17 478	26 340
Cash paid to suppliers and employees		(10 906)	(20 685)	(13 756)	(27 638)
Cash generated from (utilised by) operations	15	4 004	6 063	3 722	(1 298)
Finance income		1	19	53	92
Finance costs		(768)	(1 460)	(112)	(223)
<b>Net cash inflow (outflow) from operating activities</b>		<b>3 237</b>	<b>4 622</b>	<b>3 663</b>	<b>(1 429)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	4	(2 102)	(3 839)	(647)	(907)
Proceeds from sale of property, plant and equipment		5	220	89	89
Purchase of mineral property interests	2	(21)	(21)	-	-
Proceeds from sale of mineral property interests		-	-	-	515
Proceeds from sale of subsidiary		-	-	601	2 867
Acquisition of subsidiary and business combination	14	-	-	-	(1 708)
Advances from related party loans		-	-	8	28
Repayment of related party loans		(71)	(36)	-	-
Increase in investments and deposits		(1 082)	(1 194)	(13)	(84)
Decrease in rehabilitation deposits		1 151	1 133	316	282
Repayment of loan from buyers of subsidiary		-	1 712	-	-
<b>Net cash (outflow) inflow from investing activities</b>		<b>(2 120)</b>	<b>(2 025)</b>	<b>354</b>	<b>1 082</b>
<b>Cash flows from financing activities</b>					
Advances from loans and borrowings		215	1 511	(4 898)	(2 977)
Repayment of loans and borrowings		(1 606)	(2 968)	-	-
Repayment of finance lease obligations		(175)	(345)	(201)	(409)
<b>Net cash outflow from financing activities</b>		<b>(1 566)</b>	<b>(1 802)</b>	<b>(5 099)</b>	<b>(3 386)</b>
<b>Net movement in cash and cash equivalents for the period</b>		<b>(449)</b>	<b>795</b>	<b>(1 082)</b>	<b>(3 733)</b>
Cash and cash equivalents at the beginning of the period		(88)	(1 332)	(1 299)	576
Cash and cash equivalents released from assets held for sale		-	-	-	776
<b>Total net cash and cash equivalents at end of the period</b>	6	<b>(537)</b>	<b>(537)</b>	<b>(2 381)</b>	<b>(2 381)</b>

# Rockwell Diamonds Inc.

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

## Accounting Policies

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

### 1.1 Nature of operations

Rockwell Diamonds Inc. ("Rockwell" or the "Company") is engaged in the business of diamond production and the acquisition and exploration of natural resource properties. The unaudited interim consolidated financial statements of the Company as at 31 August 2016 and 29 February 2016 and for the six months ended 31 August 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

The Group incurred a total comprehensive loss of \$0.2 million for the period ended 31 August 2016 (2015: incurred a loss of \$6.5 million). As of this date its current liabilities exceed its current assets by \$11.8 million (2015: \$9.1 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. Relevant facts and uncertainties as at 31 August 2016, continue as follows:

- Geological assessment on Remhoogte and Holsloot has concluded in 43:101 filings that the drilling results at RHC indicate significantly less rooikoppie, but potentially more paleo than previously thought. Further work is underway to refine the fluvial alluvial estimates although initial analysis indicates more overburden than expected and these may not be fully economic. The mine plan for the next six months at RHC has been amended to accommodate these findings. Updates to these reports will be filed by the end of F 2017;
- Saxendrift has now exhausted its economic ore body, and has been under a closing process during the year. It has undergone a section 189 (formal employee reduction) process in tandem with the operational wind down. Final closure took place after the period end although operations continued at operational cash breakeven over the last five months. The Company is now evaluating royalty contract mining or outright sale of the licence in order to generate further value;
- The new wet plant at Wouterspan with four lines started commissioning during Q2 2016 and is scheduled for completion in November, 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. The Company has implemented the strategy during the period with the execution of a contract mining agreement and is forecasting the full implementation of this strategy;
- Current plants have been operating at 55%-65% of name plate capacity due to mining and processing issues, but have been cash flow positive at a gross margin level. Recent sampling results of the ore reserve at Remhoogte indicates a significant reduction of immediately available gravels requiring a change in mining methodology such that the plants may be operating on day-shift basis only, or at lower levels of throughput;
- The working capital deficiency was principally caused by the temporary closure of one of the Company's operations due to a fatality in September 2015, the contractual debt repayments through an acquisition debt sweep structure which proved unaffordable, the underperformance of RHC to plan in terms of grade, price and volumes, and the late delivery and construction of the new Wouterspan plant, now six months behind schedule. These outcomes used working capital financing and further strained liquidity, due in part to reduced revenues and cash flows; and
- Certain shareholders have advanced further funds, the beneficiation pipeline was sold again in July, 2016 and certain assets may be sold.

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



# Rockwell Diamonds Inc.

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

## Accounting Policies

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### 1.2 Continuance of operations (continued)

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 mitigated effectively, 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.

#### 1.3.2 Basis of measurement

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

#### 1.3.3 Presentation currency

These unaudited interim consolidated financial statements are presented in Canadian dollars, 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.

Information 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

# Rockwell Diamonds Inc.

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

## Accounting Policies

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### 1.4 Significant accounting policies

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its annual consolidated financial statements as at and for the year ended 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:

<b>Standard(s) Amendment(s) Interpretation(s)</b>	<b>Details of amendment</b>	<b>Effective date #</b>
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.

## Rockwell Diamonds Inc.

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

### Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

#### 2. Mineral property interests

	As at 31 August 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	(5 140)	23 428	28 568	(4 697)	23 871

#### Reconciliation of mineral property interests - 31 August 2016

	Opening balance	Additions	Disposals	Foreign exchange movements	Amortization	Closing balance
Mineral property interests	23 871	21	-	467	(931)	23 428

#### Reconciliation of mineral property interests - 28 February 2016

	Opening balance	Additions	Business combinations	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.

# Rockwell Diamonds Inc.

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

## Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	As at 31 August 2016	As at 29 February 2016
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### 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	69	152
Foreign exchange movements	18	(96)
<b>Closing balance</b>	<b>539</b>	<b>452</b>

The associate had no other comprehensive income for the 6 months ended 31 August 2016 (6 months ended 31 August 2015: \$Nil).

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

Current assets	4 156	9 459
Non-current assets	59	57
Total assets	4 215	9 516
Current liabilities	1 650	6 656
Total liabilities	1 650	6 656
Net assets	2 565	2 860
Revenue	2 187	109 001
Total comprehensive income for the year	343	758
Capital commitments and contingent liabilities of associate	-	-

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

Net assets at 20%	513	572
Other adjustments	8	(24)
Foreign exchange movements	18	(96)
	<b>539</b>	<b>452</b>

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

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

## Rockwell Diamonds Inc.

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

### Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

#### 4. Property, plant and equipment

	As at 31 August 2016			As at 29 February 2016		
	Cost	Accumulated depreciation and impairment charges	Net carrying value	Cost	Accumulated depreciation and impairment charges	Net carrying value
Land and buildings	3 643	(927)	2 716	3 643	(936)	2 707
Plant and machinery	45 734	(26 308)	19 426	46 044	(25 028)	21 016
Motor vehicles	917	(685)	232	917	(669)	248
Office equipment	997	(805)	192	997	(780)	217
Construction in progress	5 157	-	5 157	1 318	-	1 318
	<b>56 448</b>	<b>(28 725)</b>	<b>27 723</b>	<b>52 919</b>	<b>(27 413)</b>	<b>25 506</b>

#### Reconciliation of property, plant and equipment - 31 August 2016

	Opening balance	Additions	Disposals	Foreign exchange movements	Depreciation	Closing balance
Property, plant and equipment	25 506	3 839	(16)	690	(2 296)	27 723



## Rockwell Diamonds Inc.

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

### Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	As at 31 August 2016	As at 29 February 2016
<b>5. Investments and deposits</b>		
<b>At fair value through profit or loss</b>		
Investments	1 386	1 291
<p>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).</p>		
<b>At amortized cost</b>		
Deposits	55	53
Deposits paid to the South African national electricity supplier.		
<b>Total investments and deposits</b>	<b>1 441</b>	<b>1 344</b>
<b>Non-current assets</b>		
At fair value through profit or loss	1 386	1 291
At amortized cost	55	53
	<b>1 441</b>	<b>1 344</b>
<b>6. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	-	1
Bank balances	13	55
Short-term cash deposits	10	2
	23	58
Bank overdraft	(560)	(1 390)
	<b>(537)</b>	<b>(1 332)</b>
Current assets	23	58
Current liabilities	(560)	(1 390)
	<b>(537)</b>	<b>(1 332)</b>

The Group has an overdraft facility in the amount of ZAR13.0 million (\$1.16 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 ZAR13.0 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 equipment 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.

# Rockwell Diamonds Inc.

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

## Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	As at 31 August 2016	As at 29 February 2016
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### 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
<b>End of period</b>	<b>54 983 244</b>	<b>54 983 244</b>

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

Share capital is shown net of share issuance cost.

The 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 August 2016		As at 29 February 2016	
	Quantity	Share price at grant date	Quantity	Share price at grant date
Consultants	Nil	-	Nil	-
Employees	Nil	-	<u>425,000</u>	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.



# Rockwell Diamonds Inc.

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## Notes to the Unaudited Interim 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 requires inputs such as expected volatility, expected life to exercise, and interest rates. Changes in any of these inputs could cause a significant change in the share-based payment expense charged in a period.

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

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

#### Share-based payment expenses:

	3 months ended 31 August 2016	6 months ended 31 August 2016	3 months ended 31 August 2015	6 months ended 31 August 2015
Share options granted in prior years	7	16	18	50
Share options granted in current year	-	-	-	-
<b>Total share-based payment cost expensed to operations, with the offset credited to share-based payment reserve</b>	<b>7</b>	<b>16</b>	<b>18</b>	<b>50</b>

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Amounts in Canadian Dollars ('000)

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### 9. Loans and borrowings

#### Held at amortized cost

Credit facilities	25 649	26 573
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Bridging loans, for the funding of the acquisition of Remhoogte, 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 effective repayment of 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 initiates the sweep mechanism and thus is repayable only with production.

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 lender for the loans and borrowings.

#### Non-current liabilities

At amortized cost	25 649	26 573
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# Rockwell Diamonds Inc.

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## Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	As at 31 August 2016	As at 29 February 2016
<b>10. Deferred tax</b>		
<b>Deferred tax liability</b>		
Mineral property interests	(4 867)	(4 867)
	<b>(4 867)</b>	<b>(4 867)</b>
<b>Reconciliation of net deferred tax liability</b>		
At beginning of the period	(4 867)	(2 995)
Foreign exchange movement	-	867
Recognized in profit or loss	-	629
Business combination	-	(3 368)
	<b>(4 867)</b>	<b>(4 867)</b>

### 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.

## Rockwell Diamonds Inc.

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

### Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

#### 11. Rehabilitation obligation

##### Reconciliation of obligation - 31 August 2016

	Opening balance	Rehabilitation obligation recognised / (revised)	Foreign exchange movements	Closing balance
Rehabilitation obligation	7 753	556	319	8 628
	<b>7 753</b>	<b>556</b>	<b>319</b>	<b>8 628</b>

##### Reconciliation of obligation - 29 February 2016

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

## Rockwell Diamonds Inc.

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

### Notes to the Unaudited Interim Consolidated Financial Statements

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Amounts in Canadian Dollars ('000)

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#### 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 included its best estimate of these obligations in its rehabilitation provision based on professional surveys of the environmental disturbance.

The ultimate rehabilitation will be financed from existing funds 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 August 2016, the Group had cash rehabilitation deposits totaling \$1.2 million (29 February 2016 – \$1.1 million) comprised of \$1.2 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.

# Rockwell Diamonds Inc.

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## Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

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### 12. Related party balances

#### Balances payable

Seven Bridges Trading (a)	4	4
Gump Mining (f)	-	36
Banzi Trade (c)	1 178	1 178
Current balances payable	1 182	1 218
Loans from related parties	<b>3 366</b>	<b>3 366</b>

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	4 204	3 349
Diacore (f) - long term acquisition credit facilities	21 445	23 224
Total	25 649	26 573

#### Receivables from related party included under trade and other receivables

Diacore (f)	467	1 454
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# Rockwell Diamonds Inc.

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## Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 August 2016	6 months ended 31 August 2016	3 months ended 31 August 2015	6 months ended 31 August 2015
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### 13. Related party transactions

#### Related party transactions for the 6 months and 3 months ended 31 August 2016 (6 months and 3 months ended 31 August 2015)

##### Services rendered and expenses reimbursed:

Seven Bridges Trading (a)	-	-	12	24
Mogopa Minerals (d)	-	-	-	12
Flawless Diamonds Trading House (b)	(32)	57	119	214

##### Sales rendered to:

Sale of diamonds - Diacore (f)	10 576	22 673	11 751	18 406
Beneficiation income - Diacore (f)	2 839	3 208	8 689	9 659

##### Finance costs include the following amounts paid to related parties:

Daboll (e)	151	151	62	125
Diacore (f)	472	974	738	763
Emerald (h)	120	204	59	86

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

- (a) Seven Bridges Trading 14 Proprietary Limited ("Seven Bridges Trading") is a wholly-owned subsidiary of Randgold Resources Limited, a public company where Dr. D M Bristow, a director of the Company, serves in an executive capacity. Seven Bridges Trading provided 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 0.25% 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 previous subsidiary company. Gumrock has been disposed of at the end of February 2016.
- (h) Emerald Holdings Limited ("Emerald") is an investment company in which Dr. D M Bristow, a director of the Company, has a financial interest.

# Rockwell Diamonds Inc.

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Amounts in Canadian Dollars ('000)	3 months ended 31 August 2016	6 months ended 31 August 2016	3 months ended 31 August 2015	6 months ended 31 August 2015
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### 14. Sale and acquisition of subsidiaries

#### 14.1 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 in the period under review, after agreement of an early settlement discount of ZAR 2 million.

#### 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	<u>7 954</u>
Net assets sold	7 954
Loss on sale of subsidiary	1 774
	<u><b>6 180</b></u>

#### Consideration

Cash received	2 098
Deferred consideration - outstanding at year end	2 770
Deferred consideration - received since acquisition	1 312
	<u><b>6 180</b></u>



## Rockwell Diamonds Inc.

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Amounts in Canadian Dollars ('000)	3 months ended 31 August 2016	6 months ended 31 August 2016	3 months ended 31 August 2015	6 months ended 31 August 2015
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#### 14. Sale and acquisition of subsidiaries (continued)

##### 14.2 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)
<b>Total identifiable net assets</b>	<b>22 054</b>

##### The Group financed the purchase consideration through

Cash	(513)
Bridging finance - Diacore (paid directly by vendor to seller)	(20 346)
Bridging finance - Mark Bristow	(1 195)
	<b>(22 054)</b>

##### Net cash outflow on acquisition

Cash consideration paid	(1 708)
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## Rockwell Diamonds Inc.

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### Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 August 2016	6 months ended 31 August 2016	3 months ended 31 August 2015	6 months ended 31 August 2015
<b>15. Cash generated from (utilised by) operations</b>				
(Loss) profit before taxation	(596)	(18)	1 530	(4 984)
<b>Adjustments for:</b>				
Depreciation and amortization	1 811	3 227	2 306	3 715
(Profit) loss on disposal of property, plant and equipment	(4)	(204)	-	(165)
Profit on disposal of mineral property interests	-	-	(11)	(11)
Reclamation obligation recognized	514	556	32	65
Share of profit from equity accounted investment	(33)	(69)	(58)	(91)
Finance income	(1)	(19)	(10)	(49)
Finance costs	190	1 508	1 037	1 341
Loss on sale of subsidiary	-	-	-	1 774
Share-based payment expense	7	16	18	50
Foreign exchange (profit) loss	-	-	2 823	2 823
Realized foreign exchange with sale of subsidiary	-	-	-	(1 276)
Write down to net realizable value of diamond inventories	-	-	(244)	(1 336)
<b>Changes in working capital:</b>				
Inventories	421	(425)	(1 042)	(325)
Trade and other receivables	(217)	(845)	(3 920)	(4 149)
Trade and other payables	1 912	2 336	1 261	1 320
	<b>4 004</b>	<b>6 063</b>	<b>3 722</b>	<b>(1 298)</b>
<b>Cash receipts from customers</b>				
Revenue	13 415	25 881	-	-
Movement in trade and other receivables	1 495	867	-	-
	<b>14 910</b>	<b>26 748</b>	<b>-</b>	<b>-</b>
<b>16. Tax paid</b>				
Balance at beginning of the period	-	-	35	37
Current tax for the period recognised in profit or loss	8	-	-	-
Foreign exchange movement	-	-	-	(2)
Balance at end of the period	-	-	(35)	(35)
	<b>8</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Rockwell Diamonds Inc.

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## Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 August 2016	6 months ended 31 August 2016	3 months ended 31 August 2015	6 months ended 31 August 2015
<b>17. Revenue</b>				
Sale of diamonds	10 576	22 673	12 277	20 546
Beneficiation income	2 839	3 208	8 689	9 659
	<b>13 415</b>	<b>25 881</b>	<b>20 966</b>	<b>30 205</b>
Beneficiation income represents a profit share on the beneficiation value add through cutting and polishing, arising through the Group's agreement with Diacore. The Group is entitled to 50% of the profits from the sale of the polished diamonds produced by the Group and sold through this channel. The beneficiation income is recognized on the date Diacore notifies the Group of the sale of beneficiated diamonds to third parties.				
<b>18. Cost of sales before amortization and depreciation</b>				
Mining	3 586	6 942	6 629	11 902
Employee cost	2 798	4 859	2 452	4 964
Processing	902	1 530	824	1 569
Contract mining	3 215	6 124	242	2 150
Other	699	1 246	2 258	3 597
Royalties	46	81	98	103
<b>Production cost</b>	<b>11 246</b>	<b>20 782</b>	<b>12 503</b>	<b>24 285</b>
Royalty mining	574	574	12	944
Inventory movement	(103)	(466)	(724)	(1 089)
	<b>471</b>	<b>108</b>	<b>(712)</b>	<b>(145)</b>
	<b>11 717</b>	<b>20 890</b>	<b>11 791</b>	<b>24 140</b>
<b>19. (Loss) profit before net finance costs</b>				
(Loss) profit before net finance costs for the period is stated after accounting for the following:				
(Profit) loss on sale of property, plant and equipment	(4)	(204)	11	11
Loss on sale of mineral property interests	-	-	-	165
Depreciation on property, plant and equipment	1 152	2 295	1 559	2 859
Amortisation on mineral property interests	659	932	747	856
Salaries and wages	1 372	1 770	1 372	1 770
Share-based payment expense	7	16	18	50
General, administration and business development expenses	-	-	-	-
- General and administration expenses	995	1 708	1 084	2 318
- Business development expenses	-	-	574	944
<b>20. Finance income</b>				
Bank	1	19	53	92
Fair value adjustments on other financial assets	-	-	(43)	(43)
	<b>1</b>	<b>19</b>	<b>10</b>	<b>49</b>
<b>21. Finance costs</b>				
Loans and borrowings	681	1 329	886	1 033
Finance lease obligation	23	48	39	83
Bank	58	58	68	147
Other	29	73	44	78
	<b>791</b>	<b>1 508</b>	<b>1 037</b>	<b>1 341</b>

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Amounts in Canadian Dollars ('000)	3 months ended 31 August 2016	6 months ended 31 August 2016	3 months ended 31 August 2015	6 months ended 31 August 2015
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#### 22. Tax expense

##### Major components of the tax expense

###### Current tax

Local income tax - current period	8	-	-	-
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###### Deferred tax

Movement in deferred tax balance recognised through profit and loss	-	-	(384)	950
	<b>8</b>	<b>-</b>	<b>(384)</b>	<b>950</b>

#### 23. (Loss) earnings per share

##### Basic and diluted (loss) earnings per share

###### Basic (loss) earnings per share

Cents per share	(1.07)	(0.03)	2.19	(7.24)
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Basic earnings (loss) per share was calculated based on a weighted average number of ordinary common shares of 54 983 244 for the 3 months ended 31 August 2016 (3 months ended 31 August 2015: 54 558 244) and 54 983 244 for the 6 months ended 31 August 2016 (6 months ended 31 August 2015: 54 558 244).

##### Reconciliation of earnings (loss) for the period to basic earnings (loss)

(Loss) profit for the period	(588)	(18)	1 146	(4 034)
<b>Adjusted for:</b>				
Loss attributable to non-controlling interest	-	-	49	83
<b>Basic (loss) earnings attributable to owners of the Group</b>	<b>(588)</b>	<b>(18)</b>	<b>1 195</b>	<b>(3 951)</b>

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

At 31 August 2016 and 31 August 2015 the impact of share-based payment options were excluded from the weighted average number of shares as the effect would have been anti-dilutive.

## Rockwell Diamonds Inc.

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Amounts in Canadian Dollars ('000)	3 months ended 31 August 2016	6 months ended 31 August 2016	3 months ended 31 August 2015	6 months ended 31 August 2015
<b>23. (Loss) earnings per share (continued)</b>				
<b>Basic and diluted headline (loss) earnings per share</b>				
Headline (loss) earnings per share (cents)	(1.08)	(0.40)	2.17	(6.65)
<b>Reconciliation between basic (loss) earnings and headline (loss) earnings</b>				
Basic (loss) earnings attributable to owners of the Group	(588)	(18)	1 195	(3 951)
<b>Adjusted for:</b>				
Profit on disposal of assets	(4)	(204)	(11)	(11)
Profit on disposal of mineral property	-	-	-	(165)
Realized foreign exchange with sale of subsidiary	-	-	-	(1 276)
Loss on sale of subsidiary	-	-	-	1 774
Non-controlling interest portion of above adjustment	-	-	-	-
<b>Headline (loss) earnings attributable to owners of the Group</b>	<b>(592)</b>	<b>(222)</b>	<b>1 184</b>	<b>(3 629)</b>

The basic and diluted headline (loss) earnings 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 (loss) earnings per share is provided in accordance with Circular 2/2013 as issued by the South African Institute of Chartered Accountants. Headline (loss) earnings represents the basic (loss) earnings attributable to the owners of the Group excluding certain remeasurements.

At 31 August 2016 and 31 August 2015 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.

# Rockwell Diamonds Inc.

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## Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

### 24. Segmental information

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

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

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

#### For the 6 months ended 31 August 2016

	Northern Cape	North West	Corporate	Reconciling	Total
Total assets	59 369	-	937	-	60 306
Total liabilities	(34 092)	-	(22 660)	-	(56 752)
External revenue	(25 881)	-	-	-	(25 881)
Inter segment revenue	-	-	1 311	-	1 311
Profit / (loss) for the period	651	-	(669)	-	(18)

#### 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 6 months ended 31 August 2015

	Northern Cape	North West	Corporate	Reconciling	Total
Total assets	70 739	-	64 253	(51 770)	83 222
Total liabilities	78 911	-	27 676	(51 770)	54 817
External revenue	29 140	1 065	-	-	30 205
Profit / (loss) for the period	1 751	(15)	(5 770)	-	(4 034)

# Rockwell Diamonds Inc.

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

## Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

### 25. 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 realised 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:

#### Company

	31 August 2016 - Carrying amount	31 August 2016 - Fair value	29 February 2016 - Carrying amount	29 February 2016 - Fair value
<b>Assets carried at fair value</b>				
Investments	1 386	1 386	1 291	1 291
<b>Assets carried at amortized cost</b>				
Deposits	55	55	53	53
Rehabilitation deposits	1 167	1 167	1 103	1 103
Trade and other receivables	2 706	2 706	3 884	3 884
Cash and cash equivalents	23	23	58	58
<b>Liabilities carried at amortized cost</b>				
Loans and borrowings	25 649	25 649	26 573	26 573
Trade and other payables	10 281	10 281	6 066	6 066
Finance lease obligations	765	765	1 024	1 024
Loans from related parties	1 182	1 182	1 218	1 218
Bank overdraft	560	560	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:

	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value - 31 August 2016</b>				
Investments	1 386	-	-	1 386
<b>Financial assets at fair value - 29 February 2016</b>				
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.

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### 26. Subsequent events

- The new mining agreement was executed on 27 August 2016. This is being implemented in September 2016 and 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.

- Both Saxendrift and Remhoogte suspended operations due to the deterioration of grade and volume at Saxendrift and the re-evaluation of the mine plan at the Remhoogte operation.

Apart from the above management is not aware of any matter or circumstance arising since the end of the financial year period, requiring amendment to the amounts and disclosures in these financial statements.

### 27. Statement of no audit or review

The consolidated financial statements for quarter 2 of 2017 have not been audited or reviewed by the auditors.