Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements
for the 3 months ended 31 May 2017

Index

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

The unaudited interim consolidated financial statements set out on pages 2 to 28, which have been prepared on the going concern basis, were approved by the board on 12 July 2017 and were signed on its behalf by:

Tjaart Willemse	**Dr Mark Bristow**
Director	**Director**

Consolidated Statements of Financial Position

Amounts in Canadian Dollars ('000)	Note(s)	As at 31 May 2017	As at 28 February 2017
Assets			
Non-current assets			
Mineral property interests	2	15 073	15 143
Investment in associates	3	643	623
Property, plant and equipment	4	27 523	24 254
Rehabilitation deposits	5	2 066	1 884
Investment and deposits	6&13	153	136
Total non-current assets		**45 458**	**42 040**
Current assets			
Inventories		929	1 381
Trade and other receivables		1 510	1 569
Cash and cash equivalents	7	285	1 730
Current assets held for sale	8	1 540	-
Total current assets		**4 264**	**4 680**
Non- current assets held for sale	8	9 430	10 970
Total assets		**59 152**	**57 690**
Equity and liabilities			
Equity			
Share capital	9	147 472	147 472
Reserves		(14 756)	(14 391)
Retained loss		(147 114)	(144 825)
Total equity		**(14 398)**	**(11 744)**
Liabilities			
Non-current liabilities			
Loans and borrowings	11	42 047	-
Rehabilitation obligation	13	2 707	2 508
Non-current portion of trade and other payables		961	961
Total non-current liabilities		**45 715**	**3 469**
Current liabilities			
Loans and borrowings	11	-	38 852
Finance lease obligation		329	511
Trade and other payables		17 875	17 007
Bank overdraft	7	1 243	1 207
Total current liabilities		**19 447**	**57 577**
Non-current liabilities held for sale	8	8 388	8 388
Total liabilities		**73 550**	**69 434**
Total equity and liabilities		**59 152**	**57 690**

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

Consolidated Statements of Financial Performance

Amounts in Canadian Dollars ('000)	Note(s)	3 months ended 31 May 2017	3 months ended 31 May 2016
Sale of diamonds	17	-	12 097
Beneficiation income	17	-	369
Cost of sales before amortisation and depreciation	18	-	(9 173)
Gross profit before amortization, depreciation and rehabilitation		**-**	**3 293**
Amortization of mineral property interests	2	(138)	(273)
Depreciation of property, plant and equipment	4	(668)	(1 143)
Rehabilitation obligation incurred in production of inventory		(28)	(42)
Gross (loss) profit		**(834)**	**1 835**
Other income		161	54
General, administration and business development expenses		(1 164)	(713)
(Loss) profit before net finance costs	19	**(1 837)**	**1 176**
Finance income	20	22	18
Foreign exchange profit on US$ loans		282	65
Finance costs	21	(776)	(717)
(Loss) profit after net finance costs		**(2 309)**	**542**
Share of profit from equity accounted investments	3	20	36
(Loss) profit before income tax recovery		**(2 289)**	**578**
Income tax recovery	22	-	(8)
(Loss) profit for the period		**(2 289)**	**570**
(Loss) earnings per share			
Basic and diluted (loss) earnings per share (cents)	23	(4.16)	1.04

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

Consolidated Statements of Comprehensive Income

Amounts in Canadian Dollars ('000)	Note(s)	3 months ended 31 May 2017	3 months ended 31 May 2016
(Loss) profit for the period		**(2 289)**	**570**
Other comprehensive income net of taxation			
Items that are or may be reclassified to profit or loss			
Exchange differences on translating foreign operations		(365)	(453)
Other comprehensive income for the 3 months net of taxation		**(365)**	**(453)**
Total comprehensive (loss) income		**(2 654)**	**117**

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

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
Balance at 01 March 2016	**147 472**	**(22 706)**	**9 099**	**(13 607)**	**(130 358)**	**3 507**
Total comprehensive income for the period						
Profit for the period	-	-	-	-	570	570
Other comprehensive income	-	(453)	-	(453)	-	(453)
Total comprehensive income for the period	-	(453)	-	(453)	570	117
Share-based payment expense	-	-	9	9	-	9
Total changes	-	(453)	9	(444)	570	126
Balance at 31 May 2016	**147 472**	**(23 159)**	**9 108**	**(14 051)**	**(129 788)**	**3 633**
Balance at 1 March 2017	**147 472**	**(23 490)**	**9 099**	**(14 391)**	**(144 825)**	**(11 744)**
Total comprehensive income for the period						
Loss for the period	-	-	-	-	(2 289)	(2 289)
Other comprehensive income	-	(365)	-	(365)	-	(365)
Total comprehensive income for the period	-	(365)	-	(365)	(2 289)	(2 654)
Total changes	-	(365)	-	(730)	(2 289)	(3 019)
Balance at 31 May 2017	**147 472**	**(23 855)**	**9 099**	**(14 756)**	**(147 114)**	**(14 398)**
Note(s)	9		10			

* 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.

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

Consolidated Statements of Cash Flows

Amounts in Canadian Dollars ('000)	Note(s)	3 months ended 31 May 2017	3 months ended 31 May 2016
Cash flows from operating activities			
Cash receipts from customers	15	79	11 838
Cash refunded from (paid to) suppliers and employees		986	(9 779)
Cash generated from operations	15	1 065	2 059
Finance income		22	18
Finance costs		(657)	(692)
Net cash inflow from operating activities		**430**	**1 385**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(3 856)	(1 737)
Proceeds from sale of property, plant and equipment		149	215
Increase in investments and deposits		(207)	(112)
Increase in rehabilitation deposits		(16)	(18)
Repayment of loan from buyers of subsidiary		-	1 712
Net cash (outflow) inflow from investing activities		**(3 930)**	**60**
Cash flows from financing activities			
Advances from loans and borrowings		2 311	1 296
Repayment of loans and borrowings		-	(1 362)
Repayment of finance lease obligations		(290)	(170)
Advances from related party loan (financing)		-	35
Net cash inflow (outflow) from financing activities		**2 021**	**(201)**
Net movement in cash and cash equivalents for the period		**(1 479)**	**1 244**
Cash and cash equivalents at the beginning of the period		523	(1 332)
Effect of exchange rate movement on cash balances	8	(2)	-
Total cash and cash equivalents at end of the period	7	**(958)**	**(88)**

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

Accounting Policies

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 May 2017 and 28 February 2017 and for the three months ended 31 May 2017 and 2016, 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 experienced a total comprehensive loss of $2.7 million for the quarter ended 31 May 2017 (31 May 2016: incurred a profit of $0.1 million). As of this quarter end date its current liabilities exceed its current assets by $15.2 million (2016: $32.6 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 May 2017, continue as follows:

- The working capital deficiency was principally caused by the closure of two of the Company's operations due to geology, 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 nine months behind schedule as well as the effects of litigation and damages suffered. These outcomes consumed working capital financing and further strained liquidity, due in part to reduced revenues and cash flows;

- The new wet plant at Wouterspan (WSP) with four lines started commissioning during Q4 2017 and is scheduled for completion in Q2, 2018. 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;

- Certain shareholders have advanced further funds in the amount of ZAR14M (CAD $1.4M) in addition to advances of USD $8M in the past six months;

- Company prepared forecasts reflecting these elements and strategic impacts indicate that the Company should be cash flow positive in mid fiscal 2018 from its operation at Wouterspan.

- Creditors of three of the Company's significant subsidiaries filed for business rescue under the provisions of the South African restructuring regime which application was granted on 18 May 2017. As part of this process, the commercial dispute with the Company's prior contractor and their attempts to enforce liquidation on three operating subsidiaries have been suspended. These subsidiaries are now able to complete commissioning and ramp up, protected from further litigation during such process.

Accordingly, it remains the Company's judgment that the going concern principle continues to be appropriate for these financial statements, subject to two material uncertainties. The Company believes that key to this assessment is the view that the two remaining material risks, namely successful conclusion to the business rescue process and concurrent dismissal of liquidation proceedings, and the timely and effective and timely commissioning of Wouterspan, are significant uncertainties. Failure of either material risk to be mitigated effectively, or the lack of receipt of further capital to fund such impact during business rescue proceedings, 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 28 February 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Accounting Policies

1.3 Basis of preparation (continued)

1.3.2 Accounting treatment of operating subsidiaries

IFRS 10 requires that a Company consolidate investee entities where:
- an investor controls an investee, and when it is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to affect those returns through its power over the investee.

Traditionally, equity shareholdings of 51% or more have been clear circumstances of control and exposure to variable returns, requiring consolidation in the presentation of financial statements. As the Company owns between 74% and 100% of the operating subsidiaries, it has consolidated such entities in its previous financial statements. With the appointment of business rescue practitioners, whose role it is to run the affairs of the subsidiaries (but not the Company), and to present a business plan by 30 September 2017, the question of control as required by IFRS 10 was considered by the Company.

In assessing this, the Company considered that:
i. it remains the majority shareholder with rights to variable returns;
ii. has provided a business plan to the business rescue practitioners at the time of appointment and continues to work very closely with them to delineate and refine it;
iii. has the status of the largest creditor of the subsidiaries and has to vote in favour of the business plan thus holding a constructive veto; and
iv. has been the only funder of further investments when required, providing a forum for discussion and control over the direction of such investment.

Accordingly, the Company has determined that the loss of shareholder control by virtue of the business rescue proceedings has been sufficiently replaced by creditor rights and continuing funder involvement, such that the Company has not lost sufficient control to fail the consolidation test. Accordingly, the Company has consolidated the three operating subsidiaries in the quarter, and will continue to consider its ability to control its exposure to varying returns as the business rescue process evolves.

1.3.3 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.

1.3.4 Presentation currency

These 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.

1.3.5 Use of estimates and judgements

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

Information about critical estimates and judgements in applying accounting policies that have the most significant effect on the amounts recognized in the unaudited interim consolidated financial statements is included in the following notes to the consolidated financial statements for the year ended 28 February 2017:

- Note 2 – Mineral property interests
- Note 4 – Property, plant and equipment
- Note 7 – Inventories
- Note 15 – Deferred tax
- Note 16 – Rehabilitation obligation

1.4 Significant accounting policies

The accounting policies applied by the Group in these unaudited interim consolidated financial statements are the same as those applied by the Group in its annual consolidated financial statements as at and for the year ended 28 February 2017.

Accounting Policies

1.5. Standards, interpretations and amendments to published standards

During the financial year, the following new and revised accounting standards, amendments to standards and new interpretations were adopted by the Group:

Standard(s) Amendment(s) Interpretation(s)	Details of amendment	Impact on financial position or performance
IAS 19 (Amendment)	Defined Benefit Plans: Employee Contributions	No impact
Various IFRS	The annual improvements project is a collection of amendments to IFRS, which are the result of conclusions reached by the IASB on proposals made at its annual improvements project.	No impact
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	No impact
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	No impact
IAS 1	Disclosure Initiative	No impact
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	No impact
Amendments to 4 standards	Improvements to IFRSs 2012-2014 Cycle	No impact

1.6 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 March 2017 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 2	Share-based payments: Aligning effect of of vesting and non-vesting conditions between cash settled and equity settled share-based payments	1 January 2018
IFRS 9	New standard on Financial Instruments	1 January 2018
IFRS 15	New standard on Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 17	New Standard on Insurance Contracts	1 January 2021

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

Amounts in Canadian Dollars ('000)

2. Mineral property interests

	As at 31 May 2017			As at 28 February 2017		
	Cost	**Accumulated amortization and impairment losses**	**Carrying value**	**Cost**	**Accumulated amortization and impairment losses**	**Carrying value**
Mineral property interests	15 960	(887)	15 073	15 960	(817)	15 143

Reconciliation of mineral property interests - 31 May 2017

	Opening balance	**Foreign exchange movements**	**Amortization**	**Closing balance**
Mineral property interests	15 143	68	(138)	15 073

Reconciliation of mineral property interests - 28 February 2017

	Opening balance	**Additions**	**Transfer to assets held for sale (note 8)**	**Foreign exchange movements**	**Amortization**	**Impairments**	**Closing balance**
Mineral property interests	23 871	22	(10 083)	4 003	(977)	(1 693)	15 143

Details of the Group's mineral property interests are disclosed in its annual consolidated financial statements as at and for the year ended 28 February 2017.

Amounts in Canadian Dollars ('000)	As at 31 May 2017	As at 28 February 2017

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	623	452
Equity share of profit	20	81
Foreign exchange movements	-	90
Closing balance	**643**	**623**

The associate had no other comprehensive income for the 3 months ended 31 May 2017 (3 months ended 31 May 2016: $Nil).

Summarised financial information of associate - (100% interest)

Current assets	2 716	2 746
Non-current assets	3	2
Total assets	2 719	2 748
Current liabilities	3	3
Total liabilities	3	3
Net assets	2 716	2 745
Net revenue from commissions	2 166	8 793
Total comprehensive income for the period/year	96	402

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

4. Property, plant and equipment

	As at 31 May 2017			As at 28 February 2017		
	Cost	**Accumulated depreciation and impairment losses**	**Carrying value**	**Cost**	**Accumulated depreciation and impairment losses**	**Carrying value**
Land and buildings	2 401	(1 335)	1 066	2 401	(1 237)	1 164
Plant and machinery	50 083	(29 219)	20 864	50 666	(29 528)	21 138
Motor vehicles	1 129	(847)	282	1 114	(821)	293
Office equipment	1 162	(987)	175	1 186	(999)	187
Construction in progress	5 136	-	5 136	1 472	-	1 472
	59 911	**(32 388)**	**27 523**	**56 839**	**(32 585)**	**24 254**

Reconciliation of property, plant and equipment - 31 May 2017

	Opening balance	**Additions**	**Disposals**	**Foreign exchange movements**	**Depreciation**	**Closing balance**
Property, plant and equipment	24 254	3 856	(265)	346	(668)	27 523

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 28 February 2017

	Opening balance	Additions	Disposals	Foreign exchange movements	Depreciation	Impairment loss	Closing balance
Property, plant and equipment	25 506	6 164	(7 088)	3 966	(3 740)	(554)	24 254

The impairment loss represents

	3 months ended 31 May 2017	Year ended 28 February 2017
Land and buildings	-	554
	-	**554**

Impairments for the year ended 28 February 2017 were determined on the estimated market value less cost to sell on certain items of buildings and equipment no longer in use. The items impaired relates to the Northern Cape segment.

Refer note 7 for the encumbrances over property, plant and equipment.

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	As at 31 May 2017	As at 28 February 2017

5. Rehabilitation deposits

At fair value through profit or loss		
Investments	2 066	1 884

The Group invests in investment products 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. 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. These policies are encumbered by the guarantees issued by Standard Bank on behalf of the Group (refer notes 13).

Non-current assets		
At fair value through profit or loss	2 066	1 884

6. Investments and deposits

At amortized cost

South African national electricity supplier deposit	106	106
Deposits for capital work in progress - plant and equipment	47	30
	153	**136**

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	285	1 730
Bank overdraft	(1 243)	(1 207)
	(958)	**523**
Current assets	285	1 730
Current liabilities	(1 243)	(1 207)
	(958)	**523**

The Group has an overdraft facility in the amount of ZAR12.0 million ($1.2 million) available for its operations which was fully utilised at 31 May 2017 and 28 February 2017. This facility carries interest at prime rate (currently 10.5% per annum) plus 5.0%.

The guarantees/warranties for this overdraft facility at 31 May 2017 and 28 February 2017 were as follows:

Provided on account of HC van Diamonds Wyk Limited

- Unlimited suretyship by Rockwell Resources RSA Proprietary Limited
- Unlimited pledge on call deposit with value ZAR 12.9 million ($1.3million) held by HC van Wyk Diamonds Limited
- Cession of investments policies that lapsed prior to 28 February 2017.

Amounts in Canadian Dollars ('000) | As at 31 May 2017 | As at 28 February 2017

7. Cash and cash equivalents (continued)

Provided on account of Saxendrift Mine Proprietary Limited

- Suretyship restricted to ZAR 31 million ($3.1million) by HC van Wyk Diamonds Limited
- Suretyship restricted to ZAR 31 million ($3.1million) by Rockwell Resources RSA Proprietary Limited
- Suretyship restricted to ZAR 38 million ($3.9million) by Rockwell Diamonds Incorporated.
- Unrestricted cession of book trade receivables.
- Special and general notarial bond to the value of ZAR 40.0 million ($ 4.1 million) over generally all moveable property and specifically the Niewejaarskraal Plant and IFS Screen.
- Cession of an investment policy with value ZAR 2.6 million ($ 0.3 million)

This facility lapsed on 2 February 2017 and is in the process of condonation as a result of the business rescue process.

8. Non-current assets and liabilities held for sale

On 22 December 2016 the Company announced that it had entered into a purchase and sale agreement with Nelesco 318 Proprietary Limited for certain mining rights, land, plant and equipment and the assumption of certain rehabilitation obligations for a cash consideration of ZAR 45 million ($ 4.3 million), which included the transfer of 84 employees, including successor employer obligations. This transaction included the transfer of the issued share capital of the subsidiary Pioneer Minerals Proprietary Limited.

Payment was structured in three tranches of which ZAR 20 million ($ 1.9 million) was received during January 2017 settling the plant and equipment disposed of, the second receipt is ZAR 15 million ($ 1.4 million) and is due on transfer of the Saxendrift land in the name of Nelesco 318 Proprietary Limited, the balance of ZAR 10.0 million ($ 0.95 million) is due upon the completion and consent of certain contracts, the Section 11 transfer approval and execution by the Department of Mineral Resources as well as the Takeover Regulation Panel of South Africa.

The assets, transferred which are subject to regulatory approval and execution indicated above, with their corresponding rehabilitation obligations will only transfer on legal transfer of ownership land, are disclosed as assets and liabilities held for sale.

At May 2017 the disposal group was stated at the impaired carrying amount being the lower of carrying amount or fair value less costs to sell.

Assets and liabilities

	As at 31 May 2017	As at 28 February 2017
Assets held for sale		
Mineral property interests being Remhoogte, Holsloot and Saxendrift	10 970	10 083
Rehabilitation deposits		1 129
	10 970	**11 212**
Liabilities held for sale		
Provision for rehabilitation relating to Remhoogte, Holsloot and Saxendrift	(8 388)	(8 388)
	(8 388)	**(8 388)**
Net non-current assets held for sale	2 582	2 824
Outstanding consideration	(2 582)	(2 582)
Net loss on remeasurement at fair value less cost to sell	-	242
Loss realized on sale of plant and equipment	-	4 950
Net loss on Nelesco transaction	**-**	**5 192**

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	As at 31 May 2017	As at 28 February 2017

9. Share capital

Reconciliation of number of shares issued:

	Number of shares	**Number of shares**
Beginning 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	417 899	417 899
- Daboll/Emerald loans - credit facilities (note 11)	21 215 240	21 215 240

No shares were issued to consultants and employees during the period or the prior year.

10. Share-based payments

Employee share-based payments

The Group has a share-based payment plan approved by the shareholders that allows the Group to grant options for up to 10% of the Company's shares in issue at any point in time, typically vesting over two years with a maturity of 5 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 or the prior year.

Amounts in Canadian Dollars ('000)	As at 31 May 2017	As at 28 February 2017

11. Loans and borrowings

Held at amortized cost		
Credit facilities	42 047	38 852

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

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 Libor plus a margin of 15% per annum 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 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 15%.
- 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 Diacore (18,863,402) and Emerald (2,351,838) at a strike price of 20 cents per share.

During the year ended 28 February 2017, the Company also arranged for further financing in the amount of USD $8M on the same terms and conditions as the loans noted above. Diacore committed to advance a further US$4M, and Emerald and an unrelated investor committed to advance a further US$2M each. At 31 May 2017 US$0.2M was yet to be received.

During the quarter ended 31 May 2017 Emerald and Diacor advanced a further US$0.9M. Both the 2016 and 2017 loans are subject to inter-creditor arrangements which provide for priority repayment and preferential debt settlement, with an extention of the due date to 1 October 2018.

The total loan amounts are secured by a first security charge over movable assets and cession of shares in subsidiary companies.

Non-current liabilities		
At amortized cost	42 047	-
Current liabilities		
At amortized cost	-	38 852
	42 047	**38 852**

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	As at 31 May 2017	As at 28 February 2017

12. Deferred tax

Reconciliation of net deferred tax liability

At beginning of the period / year	-	(4 867)
Foreign exchange movement	-	(730)
Recognized in profit or loss	-	5 597
	-	**-**

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)

13. Rehabilitation obligation

Reconciliation of obligation - 31 May 2017

	Opening balance	Rehabilitation obligation recognised / (revised)	Foreign exchange movements	Unwinding	Closing balance
Rehabilitation obligation	2 508	149	33	17	2 707

Reconciliation of obligation - 28 February 2017

	Opening balance	Rehabilitation obligation recognised / (revised)	Foreign exchange movements	Transferred to non-current liabilities held for sale (note 9)	Transferred to other payables	Unwinding	Closing balance
Rehabilitation obligation	7 753	3 538	1 782	(8 388)	(2 223)	46	2 508

Amounts in Canadian Dollars ('000)

13. 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:	7 years (2016: 5 years) on current mining operations (End of life of mine)
South African discount rate:	8.79%
South African inflation rate:	5.4%

As required by regulatory authorities, at 31 May 2017, the Group had cash rehabilitation deposits totaling $2.1 million (28 February 2017 – $1.9 million) comprised of $1.6 million (28 February 2017 – $1.3 million) for the Wouterspan operations and $0.6 million (28 February 2017 – $0.6 million) for the Saxendrift Mine. 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 and ceded to Saxendrift in respect of the Steyn transaction and acquisition of Remhoogte.

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	As at 31 May 2017	As at 28 February 2017

14. Related parties

Related party balances

Loans and borrowings include the following amounts due to related parties		
Emerald (d) - long term acquisition credit facilities	9 118	7 804
Diacore (c) - long term acquisition credit facilities	32 784	31 048
Receivables from related party included under trade and other receivables		
Diacore (c)	-	852

Related party transactions for the 3 months ended 31 May 2017 (3 months ended 31 May 2016)

Services rendered and expenses reimbursed:		
Flawless Diamonds Trading House (a)	-	89
Sales rendered to:		
Sale of diamonds - Diacore (c) (being capitalised during WPC project establishment)	1 231	-
Sale of diamonds - Diacore (c)	-	12 097
Beneficiation income - Diacore (c)	-	369
Finance cost include the following amounts accrued to related parties		
Emerald (d)	80	84
Diacore (c)	135	502

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

(a) 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 contractually agreed fee of 0.75% (2016: 1%) of turnover.

(b) 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.

(c) 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 40%/60% (2016: 50%:50%) in the retail profit from the sale of its stones, after polishing and finishing.

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

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 May 2017	3 months ended 31 May 2016
15. Cash generated from operations		
(Loss) profit before taxation	(2 289)	578
Adjustments for:		
Depreciation and amortization	806	1 416
Loss (profit) on disposal of property, plant and equipment and mineral properties	117	(200)
Share of profit from equity accounted investment	(20)	(36)
Finance income	(22)	(18)
Finance costs	776	1 318
Rehabilitation obligation recognised	149	42
Share-based payment expense	-	9
Changes in working capital:		
Inventories	467	(846)
Trade and other receivables	79	(628)
Trade and other payables	1 002	424
	1 065	**2 059**
Cash receipts from customers		
Revenue	-	12 466
Movement in trade and other receivables	79	(628)
	79	**11 838**
16. Tax paid		
Balance at beginning of the period	-	-
Current tax for the period recognised in profit or loss	-	(8)
	-	**(8)**

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 May 2017	3 months ended 31 May 2016

17. Revenue

Sale of diamonds	-	12 097
Beneficiation income	-	369
	-	**12 466**

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 40% 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.

Revenue was capitalised to the WPC project.

18. Cost of sales before amortisation and depreciation

Mining	-	3 356
Employee cost	-	2 061
Processing	-	628
Contract mining	-	2 909
Other	-	547
Royalties	-	35
Production cost	**-**	**9 536**
Inventory movement	-	(363)
	-	**9 173**

Cost of sales was capitalised to the WPC project.

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 May 2017	3 months ended 31 May 2016

19. (Loss) profit before net finance costs

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

Loss (profit) on disposal of property, plant and equipment and mineral properties	117	(200)
Depreciation on property, plant and equipment	668	1 143
Amortization on mineral property interests	138	273
Employee costs	238	-
Salaries and wages	238	339
Share based payment expense	-	9
Auditors' remuneration		
General, administration and business development expenses		
- General and administration expenses	1 163	713

20. Finance income

Bank	22	18

21. Finance costs

Loans and borrowings	628	648
Finance lease obligation	102	25
Bank and other creditors	46	2
Royalties	-	42
	776	**717**

22. Income tax recovery

Current tax		
Local income tax - current period	-	8

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 May 2017	3 months ended 31 May 2016

23. (Loss) earnings per share

Basic and diluted (loss) earnings per share

Cents per share	(4.16)	1.04

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 2017 (3 months ended 31 May 2016: 54 983 244).

Reconciliation of (loss) earnings for the period to basic (loss) earnings		
(Loss) profit for the period	(2 289)	570

At 31 May 2017 and 31 May 2016 the impact of share-based payment options and warrants were excluded from the weighted average number of shares, for the purpose of the diluted (loss) earnings per share calculation, as the effect would have been anti-dilutive.

Basic and diluted headline (loss) earnings per share

Cents per share	(3.95)	0.67
Reconciliation between basic (loss) earnings and headline (loss) earnings		
Basic (loss) earnings attributable to owners of the Group	(2 289)	570
Adjusted for:		
Loss (profit) on disposal of property, plant and equipment and mineral properties	117	(200)
Headline (loss) profit attributable to owners of the Group	**(2 172)**	**370**

None of the adjustments to headline (loss) profit had any tax impact.

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 re-measurements.

At 31 May 2017 and 31 May 2016 the impact of share-based payment options and warrants 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.

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

24. Segmental information

The Group has two reportable operating segments, as described below and a corporate office. For each of the divisions the Group executive committee (chief operating decision making body) reviews internally managed reports on 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; and
- Corporate represents the corporate management and administrative function of the Group.

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 3 months ended 31 May 2017

	Northern Cape	Corporate	Total
Total assets	58 619	533	59 152
Total liabilities	(29 615)	(43 935)	(73 550)
External revenue	-	-	-
Loss for the period	1 301	988	2 289

For the year ended 28 February 2017

	Northern Cape	Corporate	Total
Property, plant and equipment	24 254	-	24 254
Mineral property interests	15 143	-	15 143
Total assets	57 599	91	57 690
Total liabilities	(69 213)	(221)	(69 434)
External revenue	(30 443)	-	(30 443)
Other material non-cash items			
- Depreciation on property, plant and equipment	3 740	-	3 740
- Amortization on mineral property interests	977	-	977
- Rehabilitation obligation recognised	3 538	-	3 538
- Impairment of property, plant and equipment	554	-	554
- Impairment of receivables	950	-	-
- Write down of mine supplies	232	-	-
- Share of profit from equity accounted investment	-	(81)	(81)
Finance income	(76)	-	(76)
Finance cost	1 140	2 019	3 159
Taxation	(629)	(5 597)	(6 226)
Loss for the year	12 204	2 263	14 467

For the 3 months ended 31 May 2016

	Northern Cape	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

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 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 2017 - Carrying amount	31 May 2017 - Fair value	28 February 2017 - Carrying amount	28 February 2017 - Fair value
Assets carried at fair value through profit or loss				
Investments	2 066	2 066	1 884	1 884
Assets carried at amortized cost				
Deposits	153	153	136	136
Trade and other receivables	893	893	1 000	1 000
Cash and cash equivalents	285	285	1 730	1 730
Current assets held for sale	1 540	1 540	-	-
Non-current assets held for sale	9 430	9 430	10 970	10 970
Liabilities carried at amortized cost				
Loans and borrowings	42 047	42 047	38 852	38 852
Trade and other payables	16 275	16 275	11 751	11 751
Finance lease obligations	329	329	511	511
Bank overdraft	1 243	1 243	1 207	1 207
Non-current liabilities held for sale	8 388	8 388	8 388	8 388

The fair values of assets and liabilities carried at amortised cost approximate carrying amounts due to their short term nature or variable market interest rates. The fair values do not factor the Company's credit risk.

The value of non-current assets held for sale is based on the Nelesco sales transaction (refer note 8).

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 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments	-	2 066	-	2 066
Financial assets at fair value - 28 February 2017				
Investments	-	1 884	-	1 884

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.

26. Business rescue

In November 2016, an interim liquidation application was brought by C-Rock Mining Limited (''CML'') against three subsidiaries of the Company, which resulted in a provisional winding-up order being issued by the High Court of South Africa, Northern Cape division on 23 March 2017. This order made in respect of the Company's subsidiaries, Rockwell Resources RSA (Pty) Ltd (Rockwell RSA), HC van Wyk Diamonds Ltd (HC van Wyk) and Saxendrift Mine (Pty) Ltd (Saxendrift), but not the Company.

The Company's subsidiaries attended again before the High Court in South Africa, Northern Cape division on 18 May 2017 in respect of creditors' applications to place the three subsidiaries into 'business rescue'. In order to grant the applications, the court needed to be satisfied that the prospects for success were sufficiently reasonable that the provisional liquidation order should be permanently suspended, and all other legal matters be stayed, to allow the subsidiaries the ability to return to commercial health. In accepting the applications, the court accepted the Company's contention that there is a reasonable prospect of rescuing the subsidiaries and that it has a sound business plan to restore them to long-term profitability.

The Company itself is not in business rescue and is not involved in any insolvency arrangement in Canada either.

The business rescue practitioners are Metis Strategy Advisors, who were appointed by the Court on an interim basis. Their appointment was ratified by creditors on 10 June 2017.

Business rescue is similar to Canadian work out arrangements, although a major distinction in South Africa is that final commercial decisions are made by the practitioners in consultation with the existing management of the entity, and not by the Court which is the practice in Canada. The board of directors of the subsidiaries will remain in place and will continue to direct the affairs of the three subsidiaries, subject to final concurrence of the business rescue practitioners. The Company's three subsidiaries will need a court order to exit business rescue, and to do so, the business rescue practitioners will have to be satisfied that the business is sound enough to meet obligations as they fall due for the subsequent six months after exit. The effect of the order is that the joint business rescue practitioners now oversee the affairs of the subsidiaries, by working alongside the directors and management to right the businesses of the subsidiaries, and implement the business rescue plan to restore future commercial success. The immediate effect is that all claims against the three subsidiaries are stayed, and the liquidation process is suspended, such that the commissioning and ramp up can continue on a protected basis. The Company's subsidiaries will also continue to pursue all of its current criminal and civil claims against a former employee as well as CML and certain individuals involved in the business of CML.

27. Statement of no audit or review

The interim consolidated financial statements for quarter 1 of 2018 have not been audited or reviewed by the auditors.