Rockwell Diamonds Inc.

Unaudited Interim Consolidated Financial Statements
for the period ended 31 August 2017

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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 23, which have been prepared on the going concern basis, were approved by the board on 12 October 2017 and were signed on its behalf by:

W Jacobs	**Dr DM Bristow**
Director	**Director**

Consolidated Statements of Financial Position

Amounts in Canadian Dollars ('000)	Note(s)	As at 31 August 2017	As at 28 February 2017
Assets			
Non-current assets			
Mineral property interests	2	-	15 143
Investment in associates	3	-	623
Property, plant and equipment	4	-	24 254
Rehabilitation deposits	5	-	1 884
Investment and deposits	6&12	-	136
Total non-current assets		**-**	**42 040**
Current assets			
Inventories		-	1 381
Trade and other receivables		85	1 569
Cash and cash equivalents	7	56	1 730
Total current assets		**141**	**4 680**
Non-current assets held for sale		-	10 970
Total assets		**141**	**57 690**
Equity and liabilities			
Equity			
Share capital	8	147 472	147 472
Reserves		-	(14 391)
Retained loss		(163 729)	(144 825)
Total equity		**(16 257)**	**(11 744)**
Liabilities			
Non-current liabilities			
Rehabilitation obligation	12	-	2 508
Non-current portion of trade and other payables		-	961
Total non-current liabilities		**-**	**3 469**
Current liabilities			
Loans and borrowings	10	15 486	38 852
Finance lease obligation		-	511
Trade and other payables		912	17 007
Bank overdraft	7	-	1 207
Total current liabilities		**16 398**	**57 577**
Non-current liabilities held for sale		-	8 388
Total liabilities		**16 398**	**69 434**
Total equity and liabilities		**141**	**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 August 2017	6 months ended 31 August 2017	3 months ended 31 August 2016	6 months ended 31 August 2016
Sale of diamonds	16	-	-	10 576	22 673
Beneficiation income	16	-	-	2 839	3 208
Cost of sales before amortization and depreciation	17	-	-	(11 717)	(20 890)
Gross profit before amortization and depreciation		**-**	**-**	**1 698**	**4 991**
Amortization of mineral property interests		-	-	(659)	(932)
Depreciation of property, plant and equipment		-	-	(1 152)	(2 295)
Rehabilitation obligation recognized		-	-	(514)	(556)
Gross (loss) profit		**-**	**-**	**(627)**	**1 208**
Other income		-	-	216	270
General, administration and business development expenses		(133)	(260)	(995)	(1 708)
Loss before net finance costs	18	**(133)**	**(260)**	**(1 406)**	**(230)**
Finance income	19	-	-	1	19
Foreign exchange profit on US$ loans		-	-	1 567	1 632
Finance costs	20	(178)	(343)	(791)	(1 508)
Loss after net finance costs		**(311)**	**(603)**	**(629)**	**(87)**
Share of profit from equity accounted investment	3	-	-	33	69
Loss before taxation		**(311)**	**(603)**	**(596)**	**(18)**
Taxation	21	-	-	8	-
Loss profit for the period		**(311)**	**(603)**	**(588)**	**(18)**
Loss attributable to :					
Owners of the parent		(311)	(603)	(588)	(619)
Non-controlling interest		-	-	-	601
		(311)	**(603)**	**(588)**	**(18)**
Loss per share					
Basic and diluted loss per share (cents)	22	(0.57)	(1.10)	(1.07)	(0.03)

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
Loss for the period		**(311)**	**(603)**	**(588)**	**(18)**
Other comprehensive income net of taxation					
Items that are or may be reclassified to profit or loss					
Exchange differences on translating foreign operations		23 855	23 490	302	(151)
Other comprehensive income for the period net of taxation		**23 855**	**23 490**	**302**	**(151)**
Total comprehensive income (loss) for the period		**23 544**	**22 887**	**(286)**	**(169)**
Total comprehensive income attributable to:					
Owners of the Group		23 490	22 887	(286)	(169)

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						
Loss for the period	-	-	-	-	(18)	(18)
Other comprehensive income	-	(151)	-	(151)	-	(151)
Total comprehensive income for the period	-	(151)	-	(151)	(18)	(169)
Share-based payment expense	-	-	16	16	-	16
Total changes	-	(151)	16	(135)	(18)	(153)
Balance as at 31 August 2016	**147 472**	**(22 857)**	**9 115**	**(13 742)**	**-**	**3 354**
	-	-	-	-	-	-
Balance at 01 March 2017	**147 472**	**(23 490)**	**9 099**	**(14 391)**	**(144 825)**	**(11 744)**
Total comprehensive income for the period						
Loss for the period	-	-	-	-	(603)	(603)
Other comprehensive income	-	23 490	-	23 490	-	23 490
Total comprehensive income for the period	-	23 490	-	23 490	(603)	22 887
Loss of control of subsidiaries - effect of deconsolidation	-	-	-	-	(18 301)	(18 301)
Reversal of share-based payment reserve	-	-	(9 099)	(9 099)	-	(9 099)
Total changes	-	23 490	(9 099)	14 391	(18 904)	(4 513)
Balance at 31 August 2017	**147 472**	**-**	**-**	**-**	**(163 729)**	**(16 257)**
Note(s)	8		9			

* 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 August 2017	6 months ended 31 August 2017	3 months ended 31 August 2016	6 months ended 31 August 2016
Cash flows from operating activities					
Cash receipts from customers	14	(79)	-	14 910	26 748
Cash paid to suppliers and employees		(1 722)	(736)	(10 906)	(20 685)
Cash (utilised by) generated from operations	14	(1 801)	(736)	4 004	6 063
Finance income		(22)	-	1	19
Finance costs		314	(343)	(768)	(1 460)
Net cash (outflow) inflow from operating activities		**(1 509)**	**(1 079)**	**3 237**	**4 622**
Cash flows from investing activities					
Purchase of property, plant and equipment	4	1 545	-	(2 102)	(3 839)
Proceeds from sale of property, plant and equipment		454	603	5	220
Purchase of mineral property interests	2	-	-	(21)	(21)
Repayment of related party loans		-	-	(71)	(36)
Increase in investments and deposits		-	-	(1 082)	(1 194)
Decrease in investments and deposits		207	-	-	-
Decrease in rehabilitation deposits		16	-	1 151	1 133
Repayment of loan from buyers of subsidiary		-	-	-	1 712
Net cash inflow (outflow) from investing activities		**2 222**	**603**	**(2 120)**	**(2 025)**
Cash flows from financing activities					
Advances from loans and borrowings		-	-	215	1 511
Repayment of loans and borrowings		-	-	(1 606)	(2 968)
Repayment of finance lease obligations		-	-	(175)	(345)
Finance lease receipts		290	-	-	-
Net cash outflow from financing activities		**290**	**-**	**(1 566)**	**(1 802)**
Net movement in cash and cash equivalents for the period		**1 003**	**(476)**	**(449)**	**795**
Cash and cash equivalents at the beginning of the period		(958)	523	(88)	(1 332)
Effect of exchange rate movement on cash balances		11	9	-	-
Total net cash and cash equivalents at end of the period	7	**56**	**56**	**(537)**	**(537)**

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 August 2017 and 28 February 2017 and for the six months ended 31 August 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. Rockwell is incorporated in Canada under the British Columbia Business Corporations Act. Rockwell is listed on the Toronto Stock Exchange (NEX) with a secondary listing on the Johannesburg Stock Exchange (JSE).

1.2 Continuance of operations

Although the Group experienced a total comprehensive income of $23.5 million for the period ended 31 August 2017 (31 August 2016: incurred a loss of $0.2 million) due to the exchange differences on translating foreign exchange operations being written back due to the deconsolidation of the Company's subsidiaries, as of this date its current liabilities exceed its current assets by $16.3 million (31 August 2016: $11.8 million).

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").

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.

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 was not in business rescue and is not involved in any insolvency arrangement in Canada either.

The business rescue practitioners were Metis Strategy Advisors, who were appointed by the Court on an interim basis. Their appointment was ratified by creditors on 10 June 2017 and they managed the Wouterspan mine since then.

Accounting Policies

1.3 Basis of preparation (continued)

Business rescue (BR) 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 remained in place and continued to direct the affairs of the three subsidiaries, subject to final concurrence of the business rescue practitioners. The Company’s three subsidiaries needed a court order to exit business rescue, and to do so, the business rescue practitioners needed to have been 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 BR order was that the joint business rescue practitioners oversaw 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 at such time was all claims against the three subsidiaries were stayed, and the liquidation process was suspended, such that the commissioning and ramp up could continue on a protected basis. The Company’s subsidiaries would 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 during such period.

Subsequent events relevant to basis of preperation

On 7 September 2017 the business rescue practitioners concluded that the three subsidiaries under business rescue did not represent a sustainable business operation, placed the Wouterspan mine on care and maintenance and made a motion to the High Court in Kimberley to place the three subsidiaries back in provisional liquidation. This resulted in the termination of the business rescue practitioners and their Counsel's mandate.

The High Court sanctioned the provisional liquidation order on 22 September 2017 and provisional liquidators were appointed on 27 September 2017, taking the control of the three subsidiaries away from the Company as its parent.

In terms of IFRS 10, the Company has concluded that the above circumstances represent a loss of shareholder control by virtue of the provisional liquidation orders against the subsidiaries, and the assets and liabilities in such subsidiaries were de-recognised at the reporting date.

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.

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

2. Mineral property interests

	As at 31 August 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	(817)	15 143

Reconciliation of mineral property interests - 31 August 2017

	Opening balance	**Additions**	**Transfer to assets held for sale**	**Foreign exchange movements**	**Amortization**	**Effect of deconsolidation**	**Closing balance**
Mineral property interests	15 143	-	-	2 172	-	(17 315)	-

Reconciliation of mineral property interests - 28 February 2017

	Opening balance	**Additions**	**Transfer to assets held for sale**	**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.

Due to deconsolidation, the Group is not reflecting any mineral property interests for deconsolidated subsidiaries as at 31 August 2017 (refer note 1.3).

Amounts in Canadian Dollars ('000)	As at 31 August 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 (through Rockwell Resources RSA) 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.

	As at 31 August 2017	As at 28 February 2017
Carrying amount		
Opening balance	623	452
Effect of deconsolidation of subsidiaries	(533)	-
Equity share of profit	-	81
Foreign exchange movements	(90)	90
Closing balance	**-**	**623**

Summarised financial information of associate - (100% interest)

	As at 31 August 2017	As at 28 February 2017
Current assets	-	2 746
Non-current assets	-	2
Total assets	-	2 748
Current liabilities	-	3
Total liabilities	-	3
Net assets	-	2 745
Net revenue from commissions	-	8 793
Total comprehensive income for the period/year	-	402

Due to deconsolidation, the Group is not reflecting the investment in associates for deconsolidating subsidiaries as at 31 August 2017 (refer note 1.3).

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

4. Property, plant and equipment

	As at 31 August 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	(1 237)	1 164
Plant and machinery	-	-	-	50 666	(29 528)	21 138
Motor vehicles	-	-	-	1 114	(821)	293
Office equipment	-	-	-	1 186	(999)	187
Construction in progress	-	-	-	1 472	-	1 472
	-	**-**	**-**	**56 839**	**(32 585)**	**24 254**

Reconciliation of property, plant and equipment - 31 August 2017

	Opening balance	**Disposals**	**Depreciation**	**Effect of deconsolidation**	**Closing balance**
Property, plant and equipment	24 254	(603)	(1 446)	(22 205)	-

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

	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.

Due to deconsolidation, the Group is not reflecting any balances for property, plant and equipment for deconsolidating subsidiaries as at 31 August 2017 (refer note 1.3).

Notes to the Unaudited Interim Consolidated Financial Statements

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

5. Rehabilitation deposits

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

The Group invested in investment products with endowment benefits on maturity of the policies in order to provide funding for the rehabilitation obligations. Premiums were 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 was lower than the investment value. To surrender the policy prior to maturity date would similarly attract penalties at a lower rate, and represents the value accessible at any one stage. These policies were encumbered by the guarantees issued by Standard Bank on behalf of the Group (refer note 12).

Reversal due to deconsolidation of subsidiaries	(1 884)	-
Non-current assets		
At fair value through profit or loss	-	1 884
	-	**1 884**

Due to deconsolidation, the Group is not reflecting any balances for rehabilitation deposits for deconsolidating subsidiaries as at 31 August 2017 (refer note 1.3).

6. Investments and deposits

At amortized cost

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

Due to deconsolidation, the Group is not reflecting any balances for investments and deposits for deconsolidating subsidiaries as at 31 August 2017 (refer note 1.3).

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	56	1 730
Bank overdraft	-	(1 207)
	56	**523**
Current assets	56	1 730
Current liabilities	-	(1 207)
	56	**523**

Notes to the Unaudited Interim Consolidated Financial Statements

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

8. Share capital

Reconciliation of number of shares issued:

	Number of shares	**Number of shares**
Beginning of period	54 983 244	54 983 244
End of period	**54 983 244**	**54 983 244**

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

Share capital is shown net of share issuance cost.

The following shares are reserved for issue:

- Employee share options	41 789	417 899
- Daboll/Emerald Loans - credit facilities (note 10)	21 215 240	21 215 240

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

9. 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 share option plan was approved by shareholders on 2 October 2017.

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.

Notes to the Unaudited Interim Consolidated Financial Statements

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

10. Loans and borrowings

Held at amortized cost		
Credit facilities	-	25 564
Ascot Diamonds Proprietary Limited		
Convertible loans/Debenture holders	15 486	13 288
Emerald Holdings/Diacore/DRC investor		

Bridging loans, to fund the Bondeo acquisition, were obtained from Diacore (to the subsidiaries) and Emerald Holdings Limited (to the Company) in order to meet the transaction financing requirements for the Remhoogte, BoKaroo, Holsloot acquisition at the time (May 2015).

The initial term of the 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, one by the subsidiaries and the other by the Company, 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 to the subsidiaries, and Emerald and an unrelated investor committed to advance a further US$2M each to the Company.

During the quarter ended 31 August 2017 Emerald and Diacore 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.

Current liabilities		
At amortized cost	15 486	38 852

Due to deconsolidation, the Group is not reflecting the balance due to Ascot in respect of the credit facility. A subsidiary of the Company, N10C (a Cayman company), issued a surety and guarantee in favour of Ascot Diamonds Proprietary Limited. Ascot holds a first security charge over moveable assets and cession of shares in the three subsidiaries not consolidated (refer note 1.3 Basis of preparation).

Notes to the Unaudited Interim Consolidated Financial Statements

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

11. Deferred tax

Reconciliation of net deferred tax liability

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

Estimates and judgements

Deferred tax assets were raised only to the extent that future taxable income will be available against which the deferred tax asset can be set off.

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)

12. Rehabilitation obligation

Reconciliation of obligation - 31 August 2017

	Opening balance	Effect of deconsolidation	Foreign exchange movements	Closing balance
Rehabilitation obligation	2 508	(2 470)	(38)	-

Reconciliation of obligation - 28 February 2017

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

Estimated rehabilitation costs, which were 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.

Due to deconsolidation, the Group is not reflecting any balance for rehabilitation obligation of deconsolidating subsidiaries as at 31 August 2017 (refer note 1.3).

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	As at 31 August 2017	As at 28 February 2017
13. Related parties		
Related party balances		
Loans and borrowings include the following amounts due to related parties		
Emerald (d) - long term acquisition credit facilities	7 949	7 804
Diacore (c) - long term acquisition credit facilities	7 537	31 048
Receivables from related party included under trade and other receivables		
Diacore (c)	-	852
Related party transactions		
Services rendered and expenses reimbursed:		
Flawless Diamonds Trading House (a)	24	207
Sales rendered to:		
Sale of diamonds - Diacore (c)	12 865	28 480
Beneficiation income - Diacore (c)	-	4 364
Finance cost include the following amounts paid to		
Daboll (b)	151	-
Diacore (c)	170	1 470
Emerald (d)	173	228

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.

(e) Only revenue from sales with related parties of carats liberated during commissioning are reflecting in the notes. Loans and borrowings are not reflected as the subsidiary entity which owes such balance is no longer consolidated (refer note 1.3).

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 August 2017	6 months ended 31 August 2017	3 months ended 31 August 2016	6 months ended 31 August 2016
14. Cash (utilised by) generated from operations				
Loss before taxation	(311)	(603)	(596)	(18)
Adjustments for:				
Depreciation and amortization	640	1 446	1 811	3 227
(Profit) loss on disposal of property, plant and equipment	(117)	-	(4)	(204)
Reclamation obligation recognized	-	-	514	556
Share of profit from equity accounted investment	20	-	(33)	(69)
Finance income	22	-	(1)	(19)
Finance costs	(433)	343	190	1 508
Net rehabilitation obligation	(149)	-	-	-
Share-based payment expense	-	-	7	16
Changes in working capital:				
Inventories	(467)	-	421	(425)
Trade and other receivables	(79)	-	(217)	(845)
Trade and other payables	(927)	(1 922)	1 912	2 336
	(1 801)	**(736)**	**4 004**	**6 063**
Cash receipts from customers				
Revenue	-	-	13 415	25 881
Movement in trade and other receivables	(79)	-	1 495	867
	(79)	**-**	**14 910**	**26 748**

15. Tax paid

Current tax for the period recognised in profit or loss	-	-	8	-

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 August 2017	6 months ended 31 August 2017	3 months ended 31 August 2016	6 months ended 31 August 2016

16. Revenue

Sale of diamonds	-	-	10 576	22 673
Beneficiation income	-	-	2 839	3 208
	-	**-**	**13 415**	**25 881**

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.

17. Cost of sales before amortisation and depreciation

Mining	-	-	3 586	6 942
Employee cost	-	-	2 798	4 859
Processing	-	-	902	1 530
Contract mining	-	-	3 215	6 124
Other	-	-	699	1 246
Royalties	-	-	46	81
Production cost	**-**	**-**	**11 246**	**20 782**
Royalty mining	-	-	574	574
Inventory movement	-	-	(103)	(466)
	-	**-**	**471**	**108**
	-	**-**	**11 717**	**20 890**

Revenue from carats recovered, income and cost of sales was capitalised to the WPC project carrying value, which has now been deconsolidated (refer note 1.3).

18. Loss before net finance costs

Loss 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)
Depreciation on property, plant and equipment	-	-	1 152	2 295
Amortisation on mineral property interests	-	-	659	932
Salaries and wages	-	-	1 372	1 770
Share-based payment expense	-	-	7	16
General, administration and business development expenses				-
- General and administration expenses	133	260	995	1 708

19. Finance income

Bank	-	-	1	19

Notes to the Unaudited Interim Consolidated Financial Statements

Amounts in Canadian Dollars ('000)	3 months ended 31 August 2017	6 months ended 31 August 2017	3 months ended 31 August 2016	6 months ended 31 August 2016
20. Finance costs				
Loans and borrowings	178	343	681	1 329
Finance lease obligation	-	-	23	48
Bank	-	-	58	58
Other	-	-	29	73
	178	**343**	**791**	**1 508**
21. Tax expense				
Major components of the tax expense				
Current tax				
Local income tax - current period	-	-	(8)	-
22. Loss per share				
Basic and diluted loss per share				
Basic loss per share				
Cents per share	(0.57)	(1.10)	(1.07)	(0.03)

Basic 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 2017 (3 months ended 31 August 2016: 54 983 244) and 54 983 244 for the 6 months ended 31 August 2017 (6 months ended 31 August 2016: 54 983 244).

Reconciliation of loss for the period to basic loss				
Loss for the period	(311)	(603)	(588)	(18)
Basic loss attributable to owners of the Group	**(311)**	**(603)**	**(588)**	**(18)**

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

At 31 August 2017 and 31 August 2016 the impact of share-based payment options were excluded from the weighted average number of shares as the effect would have been anti-dilutive.

Basic and diluted headline loss per share				
Headline loss per share (cents)	(0.57)	(1.10)	(1.08)	(0.40)
Reconciliation between basic loss and headline loss				
Basic loss attributable to owners of the Group	(311)	(603)	(588)	(18)
Adjusted for:				
Profit on disposal of assets	-	-	(4)	(204)
Non-controlling interest portion of above adjustment	-	-	-	-
Headline loss earnings attributable to owners of the Group	**(311)**	**(603)**	**(592)**	**(222)**

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

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

Notes to the Unaudited Interim Consolidated Financial Statements

23. 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 was not in business rescue and is not involved in any insolvency arrangement in Canada either.

The business rescue practitioners were Metis Strategy Advisors, who were appointed by the Court on an interim basis. Their appointment was ratified by creditors on 10 June 2017 and they managed the Wouterspan mine since then.

Business rescue (BR) 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 remained in place and continued to direct the affairs of the three subsidiaries, subject to final concurrence of the business rescue practitioners. The Company's three subsidiaries needed a court order to exit business rescue, and to do so, the business rescue practitioners needed to have been 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 BR order was that the joint business rescue practitioners oversaw 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 at such time was all claims against the three subsidiaries were stayed, and the liquidation process was suspended, such that the commissioning and ramp up could continue on a protected basis. The Company's subsidiaries would 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 during such period.

24. Subsequent events

On 7 September 2017 the business rescue practitioners concluded that the three subsidiaries under business rescue did not represent a sustainable business operation, placed the Wouterspan mine on care and maintenance and made a motion to the High Court in Kimberley to place the three subsidiaries back in provisional liquidation. This resulted in the termination of the business rescue practitioners and their Counsel.

The High Court sanctioned the provisional liquidation order on 22 September 2017 and provisional liquidators were appointed on 27 September 2017 with a return date of 3 November 2017 for final determination.

In terms of IFRS 10, the Company has concluded that the above circumstances represent a loss of shareholder control by virtue of the provisional liquidation orders against the subsidiaries, and the assets and liabilities in such subsidiaries were de-recognised at the reporting date.

25. Statement of no audit or review

The interim consolidated financial statements for quarter 2 of 2018 have not been audited or reviewed by the auditors.