



ANNUAL REPORT 2016 >>

# ABOUT ROCKWELL

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



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

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

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

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

*TSX: RDI | JSE: RDI*

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

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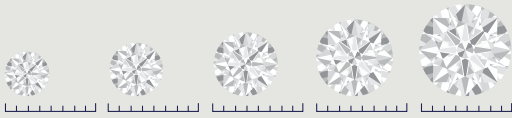
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# ROCKWELL LIVING BY THE 4Cs OF DIAMOND VALUE



## CARATS

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

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

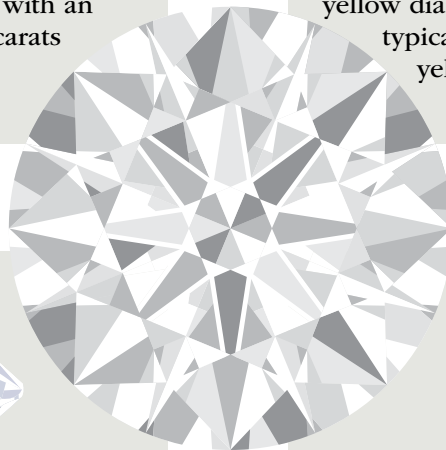


Highest quality color grade a diamond can achieve

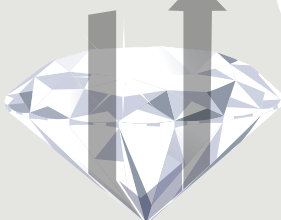
## COLOR

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

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



Refraction

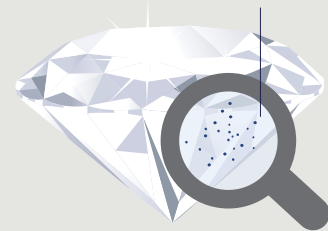


## CUT

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

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

Inclusions found on a diamond can be considered nature's birthmarks.



## CLARITY

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

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



# SALIENT FEATURES OF 2016

## Financial

- > **\$6.1 MILLION LONG-TERM DEBT REPAYED**
- > **\$37.7 MILLION GROSS DIAMOND REVENUE**  
Down 34%
- > **16 954 CARATS SOLD**  
Sales of carats from own operations up 3%
- > **US\$1 586 PER CARAT**  
Average carat value from own operations declined by 27%
- > **\$9.6 MILLION BENEFICIATION REVENUE\***  
Down 13%
- > **\$46.6 MILLION COST OF SALES**  
(before amortization and depreciation)  
Decrease due to a reduction in payments to contractors under royalty mining arrangements for Tirisano sourced goods
- > **\$0.7 MILLION GROSS PROFIT**  
(before amortization and depreciation)  
Due to improved beneficiation income and operating performance
- > **\$0.7 MILLION IMPAIRMENTS**  
Mainly related to mining infrastructure at Niewejaarskraal ("NJK") and Saxendrift Hill Complex ("SHC")
- > **\$27.7 MILLION NET LOSS**  
Versus a net loss of \$14.5 million in 2015
- > **\$4.2 MILLION CASH OUTFLOW FROM OPERATING ACTIVITIES**  
After deducting debt netting arrangement payments of \$6.1 million

*\*Through the profit share agreement with Diacore*

## Strategic

- > **BOARD REVIEW AND OPERATIONAL RESTRUCTURING**  
Company-wide review encompassing improvements in operational effectiveness, renegotiation of acquisition loan agreements and reduction of overheads, including closure of Johannesburg Head Office
- > **ACQUISITION OF REMHOOGTE-HOLSLOOT COMPLEX CONCLUDED**  
Processing and feed challenges identified at Remhoogte-Holsloot Complex ("RHC") and addressed during fiscal 2016; performance lifted
- > **WOUTERSPAN RE-COMMISSIONING**  
Construction of a new plant and in-field screening at Wouterspan ("WPC") capable of processing 200 000m<sup>3</sup> per month, with planned redeployment of staff and equipment from other operations
- > **NON-CORE TIRISANO PROPERTY DISPOSAL**  
Early settlement of deferred purchase consideration receivable. The property was disposed for a total purchase consideration of \$6.4 million, which has been received
- > **REVISED MINING STRATEGY**  
Board mandate to negotiate new mining agreement; fundamental change in Rockwell's business and operating model, with risk of earthmoving vehicle ("EMV") fleet availability transferred to a mining contractor

## Operational

- > **MOR VOLUMES MINED DOWN 30%**  
to 3.3 million m<sup>3</sup>
- > **MOR VOLUMES PROCESSED DOWN 17%**  
to 3.0 million m<sup>3</sup>
- > **16 822 CARATS PRODUCED**  
Carats from own operations up 9%
- > **SEVENTEEN +50 CT DIAMONDS RECOVERED**
- > **EIGHTY +20 CT DIAMONDS RECOVERED**
- > **SAXENDRIFT CLOSURE DEFERRED**  
Winding down of operations synchronized with WPC ramp-up; substantial savings on anticipated closure costs
- > **IN-FIELD SCREENING FACILITIES CONSTRUCTED AT RHC**  
Benefits beginning to show early in fiscal 2017, with production stabilizing
- > **NEW ROYALTY MINING CONTRACTS**  
Royalty income and reduction in Saxendrift rehabilitation liabilities through mining contractors' activities

## Strategic objectives

- > **OPTIMIZING PRODUCING MINES** to deliver better returns by driving down costs and improving metallurgical processes
- > **LEVERAGING PRODUCTION PROFILE** through further development of assets with a focus on minimizing the dilution of existing shareholders
- > **ADDING VALUE DOWN-STREAM** from the Company's exceptional gemstone diamond production through strategic beneficiation partnerships
- > **CREATING SCALE AND CRITICAL MASS** to smooth and increase Rockwell's production and revenue profile through active management of the portfolio of properties, by acquiring select diamond projects or recycling non-productive and lossmaking assets
- > **CONDUCTING GEOLOGICAL INVESTIGATIONS**, including drilling and bulk sampling on new project areas adjacent to the existing operations

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For further information  
on Mineral Resources



# SUSTAINABILITY HIGHLIGHTS

## Safety

### > **SAXENDRIFT SAFETY HIGHLIGHTS:**

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

### > **NIEWEJAARSKRAAL SAFETY HIGHLIGHTS:**

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

### > **REMHOOGTE-HOLSLOOT SAFETY HIGHLIGHTS:**

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

## Workforce

### > **COMPANYWIDE RESTRUCTURING:**

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

### > **TALENT, TRAINING AND DIVERSITY INITIATIVES:**

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

## Environmental

### > **387.1 HECTARES OF LAND REHABILITATED ACROSS ROCKWELL'S PROPERTIES:**

Increased eight-fold since last year

### > **11.2 MILLION KWH OF ENERGY USED:**

Down 27% from last year

### > **96 101 LITRES OF WASTE OIL RECYCLED:**

Down 18% from last year

### > **2.2 MILLION M<sup>3</sup> OF WATER CONSUMED:**

Down 21% from last year

## Community

### > **INTERNET ACCESS SPONSORSHIP IN LOCAL COMMUNITIES:**

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

### > **ONGOING SUPPORT OF CHILDREN'S HOME IN BARKLY WEST:**

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

### > **WAGE AGREEMENT:**

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



# INVESTMENT HIGHLIGHTS: OUR SPECIAL POSITIONING

## People



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

## Product



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

## Properties



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

## Production



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

## Partnerships



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

## Potential



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

## Prospects

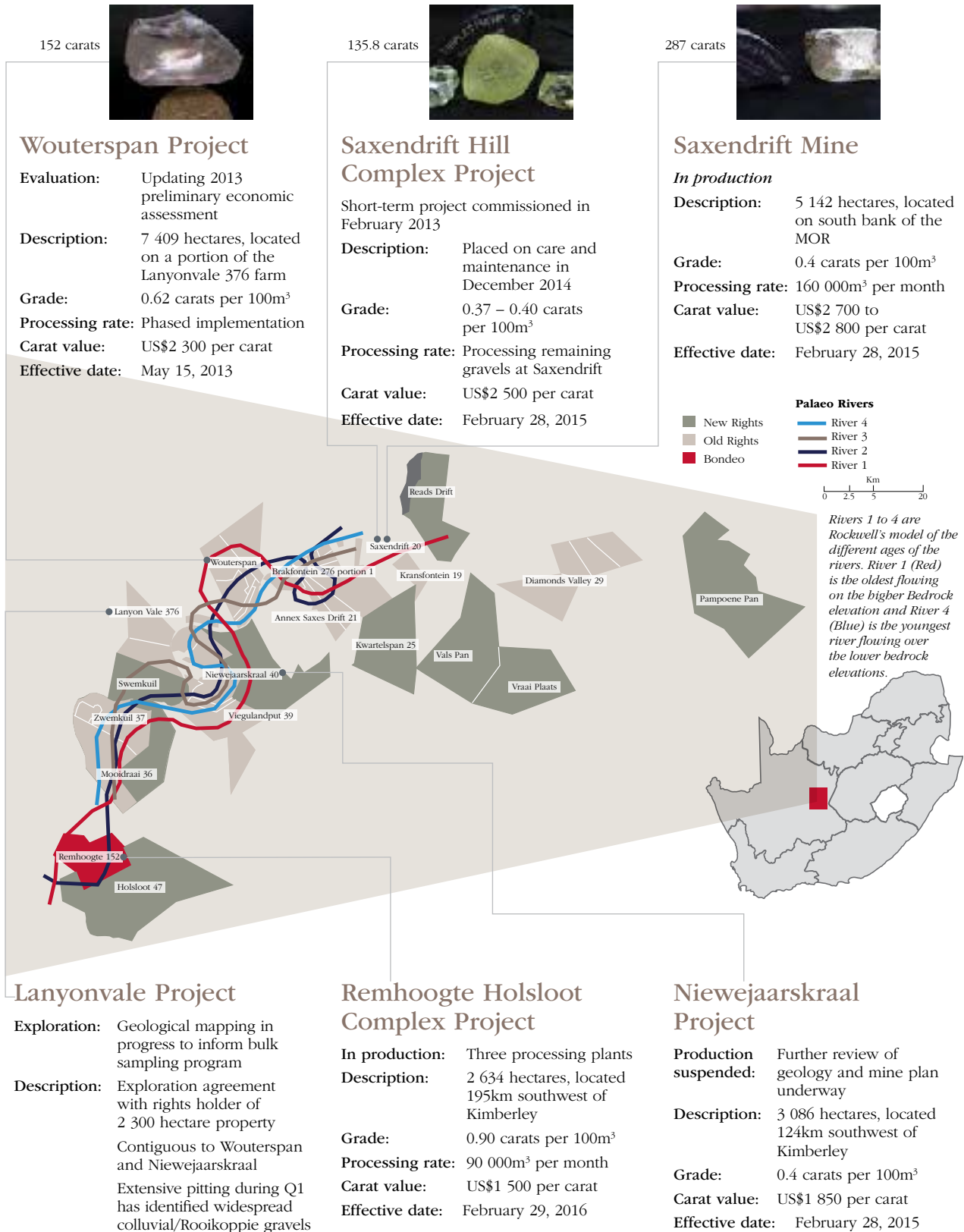


- ◆ Demand growth projected over next 10 years
- ◆ Strong demand for investment diamonds
- ◆ Supply deficit anticipated in medium term



# ROCKWELL AT A GLANCE

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



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



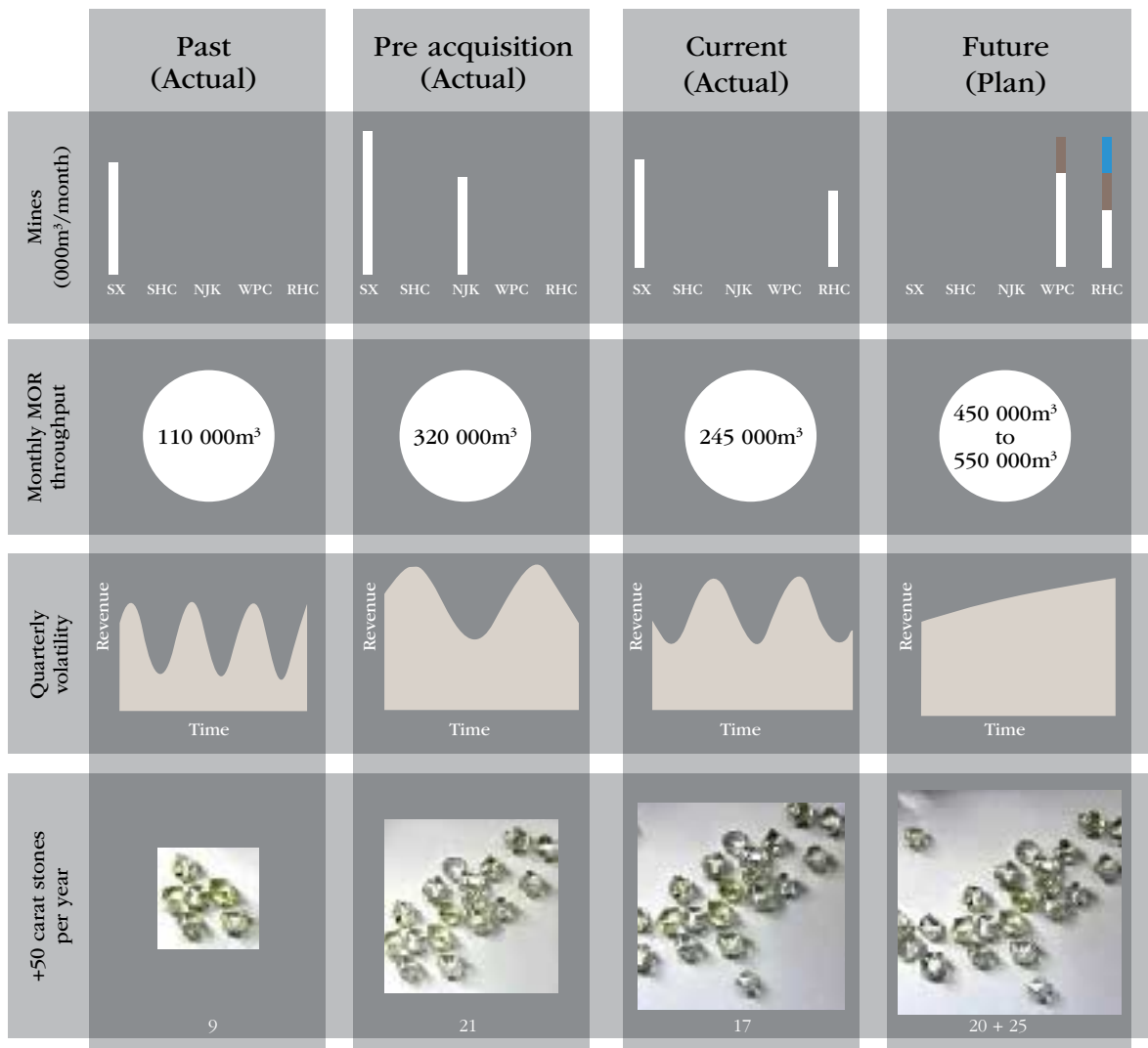
Rockwell's medium-term growth strategy is focused on the MOR properties where it has a good track record of profitably producing large, high valued diamonds.

**Objective:** To increase volumes of quality gravels processed from MOR operations to 500 000m<sup>3</sup> per month.

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

**Assumptions:** A grade of 0.5 cphm<sup>3</sup> and a diamond value of \$2 200/ct (typical MOR diamond assortment and diamond size frequency distribution), with a unit cost of \$10/m<sup>3</sup> mined.

**Results:** Quarterly volumes processed of 1.5 million m<sup>3</sup> enables acceptable and stable quarterly earnings profile. This is due to higher probability of stable, consistent recovery of large high value diamonds at these volumes of gravels processed.



# DIAMOND VALUE CHAIN AND INDUSTRY



## Diamonds are increasingly regarded as a separate investment class providing diversification benefits

- ♦ The physical value of diamonds and the relatively low long-term price volatility are seen as further investment benefits
- ♦ Even though consumers continued to buy diamonds during the global financial crisis, with continued demand for polished diamonds at the consumer level, rough diamond prices fell by 50% as retailers, wholesalers and diamond manufacturers sold down existing inventory
- ♦ The market however recovered quickly. Within 18 months, rough prices exceeded pre-crisis levels. The trade was forced to quickly restock in response to continued consumer demand.

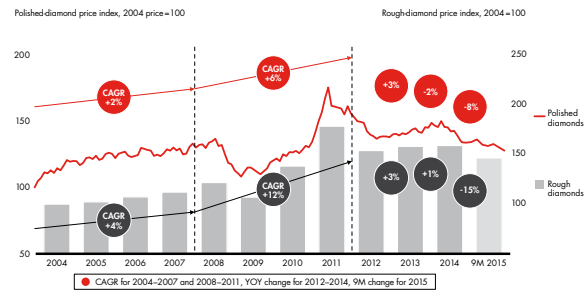
## Positive long-term diamond market fundamentals

- ♦ Demand for diamonds is expected to exceed supply within the next 10 years despite global economic woes
- ♦ A limited number of new diamond projects are being brought on stream and global diamond production could go into decline by 2020
- ♦ Demand for diamonds continues to grow, driven by the emerging middle class in developing markets, especially China and India
- ♦ High valued, gem quality diamonds are in increasing demand by high net worth individuals as long-term investments.

## Project pipeline indicates that demand will outpace supply

- ♦ A diamond supply deficit is expected to emerge from 2018, providing long-term support for diamond prices
- ♦ The US remains a key retail diamond market, followed by the growing markets in China and India.

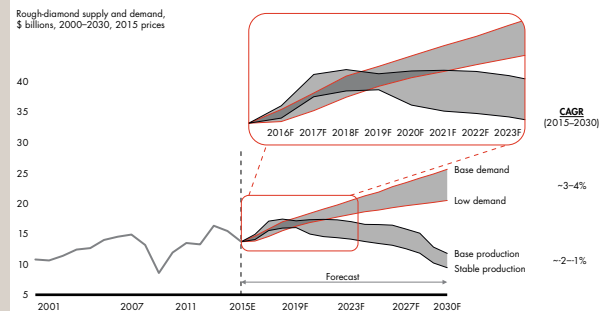
Inventory accumulation led to a fall in polished prices starting in 2014, with rough prices following



Note: The CAGR for polished-diamond prices is calculated as the growth rate for year-end or period-end prices

Sources: WWS Diamond Forecasts; Kimberley Process; company data; Bain analysis

The gap between supply and demand is expected to widen starting in 2019, according to our base scenario



Note: Rough-diamond demand has been converted from polished-diamond demand using historical ratio of rough diamonds and polished diamonds values

Sources: Kimberley Process; Euromonitor; EIU; expert interviews; De Beers; IDEX, Tacy Ltd. and Chaim Even-Zohar (dynamics for 2000-2005); Bain analysis



# BOARD OF DIRECTORS

1.

## **Dr Mark Bristow**

*Chairman*

PhD (Geology)

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

2.

## **James Campbell**

*Chief Executive Officer*

BSc (Hons), ARSM, MBA (Dunelm)

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

FSAIMM, CEng, CSci and PrSciNat.

3.

## **Dr Willem Jacobs**

*Director*

BPL (Hons), DCom

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

4.

## **Richard J Linnell**

*Director*

Geologist

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

5.

## **Stephen Dietrich**

*Director*

CA(SA)

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

6.

## **Johan van't Hof**

*Director*

CPA, CA, MBA

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

7.

## **Richard Peter Menell**

*Director*

MSc (Mineral Exploration and Management), MA (Cantab) – Natural Sciences (Geology)

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



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**Compensation committee**  
Richard J Linnell  
Johan van't Hof
- 

**Nominating and governance committee**  
Dr Willem Jacobs  
Richard J Linnell
- 

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

# LEADERSHIP REPORT'S



**WOUTERSPAN  
RE-COMMISSIONING**

1

**REVISED MINING  
STRATEGY**

2

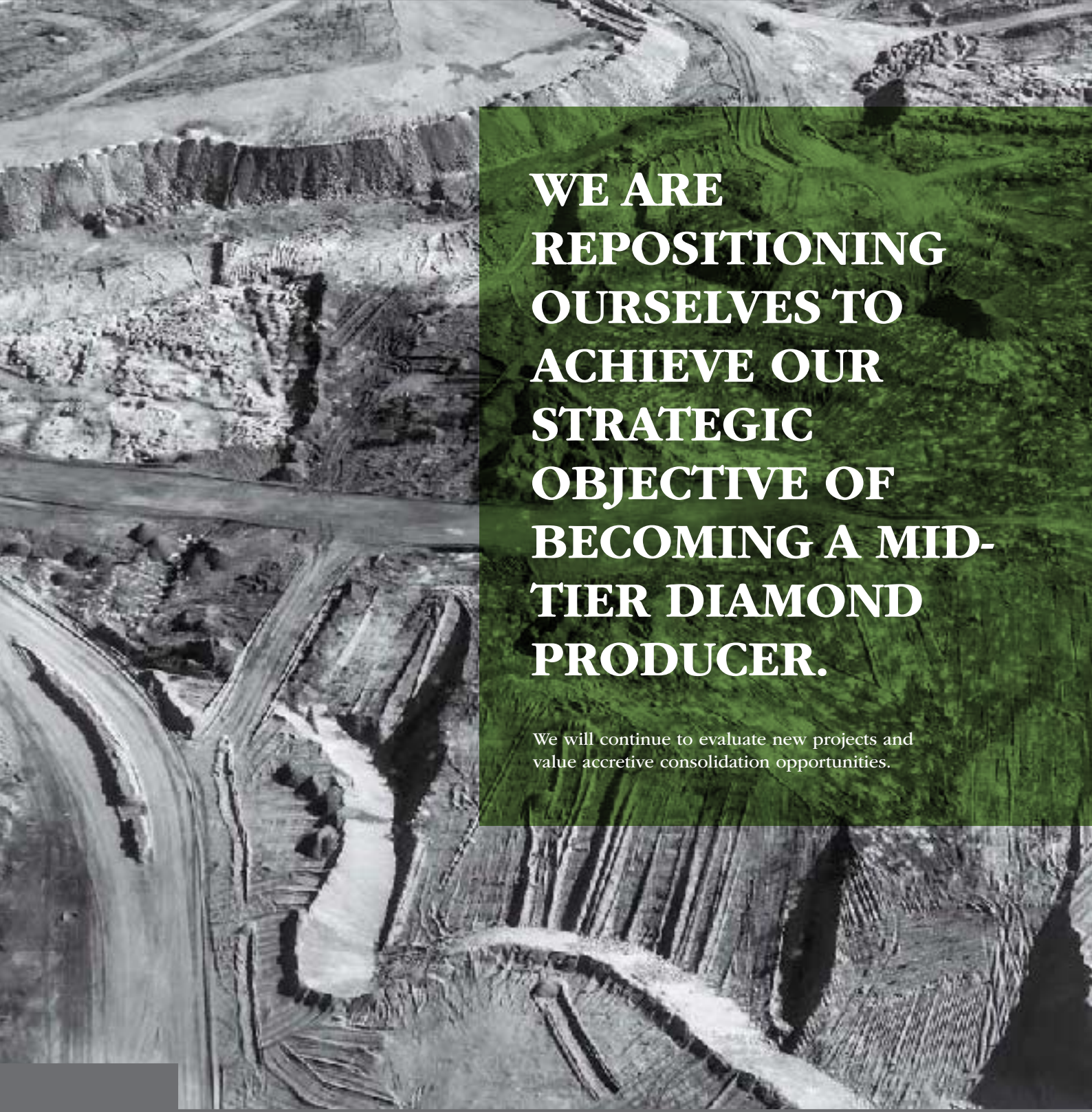
**CONTINUED EXPLORATION  
AT WOUTERSPAN AND  
LANYONVALE**

3

**RENEWED PRODUCTION PROFILE**



Focused on our medium-term objectives of building an integrated diamond business.



**WE ARE  
REPOSITIONING  
OURSELVES TO  
ACHIEVE OUR  
STRATEGIC  
OBJECTIVE OF  
BECOMING A MID-  
TIER DIAMOND  
PRODUCER.**

We will continue to evaluate new projects and value accretive consolidation opportunities.

## CHAIRMAN'S REPORT

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

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

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

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

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

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



Dr Mark Bristow *Chairman*

balance sheet and once the diamond market has strengthened.

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

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

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

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



HIGH VALUED DIAMONDS



2015 CHAIRMAN'S VISIT

Saxendrift large stone production

Dr Mark Bristow with the Rockwell team at Saxendrift

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

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

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

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

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

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

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

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

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

## CHIEF EXECUTIVE OFFICER'S REPORT

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

### Overview

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

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

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

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



James Campbell *Chief Executive Officer*

were severe, and the performance of the operation was negatively affected.

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

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

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

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

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



MINING AT SAXENDRIFT

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

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

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

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

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

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

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

## Production and sales review

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

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

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

## CHIEF EXECUTIVE OFFICER'S REPORT continued

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

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

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

### Results of operations

#### Saxendrift Complex

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

<sup>1</sup> Material from the SHC resource was processed at the Saxendrift Plant from January 2015.

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

The life of the operation has been extended successfully for more than a year, with the mine processing the upper portion of the terrace “middlings”, which had been discarded by the previous operator. A particular effort was made to ensure that costs were kept as low as possible while processing the lower grade material; this resulted in the operation’s cost per cubic metre improving by

12% on the previous year, and reaching an all-time low in the fourth quarter.

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

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

## Niewejaarskraal Project

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

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

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

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

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

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

## CHIEF EXECUTIVE OFFICER'S REPORT continued

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



Makondo mining at RHC

### Remhoogte-Holsloot Complex

	Unit	F2016
<b>Production</b>		
Volumes mined	000m <sup>3</sup>	<b>943</b>
Volumes processed	000m <sup>3</sup>	<b>908</b>
Average grade	cts/100m <sup>3</sup>	<b>0.89</b>
Carats recovered	Carats	<b>8 056</b>
<b>Sales</b>		
Value of sales	US\$m	<b>11.3</b>
Carats sold	Carats	<b>7 791</b>
Average price per carat	US\$	<b>1 455</b>
<b>Average cash operating costs</b>		
Per carat sold	US\$	<b>1 616</b>
Per m <sup>3</sup> processed	US\$	<b>14.1</b>
<b>Inventory</b>	<b>Carats</b>	<b>265</b>

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

Production from the two acquired plants commenced in late May 2015 at a monthly throughput of 90 000m<sup>3</sup>. Production was ramped up through June 2015 to 130 000m<sup>3</sup>. A new in-field screen was installed in the third quarter to replace the acquired IFS assets, with a view to gradually increase monthly throughput to 180 000m<sup>3</sup>, and ultimately to 200 000m<sup>3</sup>.

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

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

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

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

## Royalty mining contractors

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

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

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

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

### Priorities for fiscal 2017

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

Following a board decision taken in May 2016, mining will be outsourced on a fixed pay-per-volume delivered basis. The new contractual arrangement, which represents a fundamental change in our business and operating model,

will transfer the volume risks related to EMV fleet availability to the mining service provider.

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

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

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

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

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

## CHIEF FINANCIAL OFFICER'S REPORT

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

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

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

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



*John Shelton Chief Financial Officer*

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

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

### Production costs

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

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

### Profit for the year

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

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

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



135.8 CARAT YELLOW DIAMOND

Standard Saxendrift production including a 135.8 carat gem quality stone

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

### Operating cash flow

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

### Net debt

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

### Net cash position

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

### Capital expenditure

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

### Outlook

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

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

# EXPERIENCED LEADERSHIP

## EXCO

### James Campbell

*Chief Executive Officer*  
BSc (Hons), ARSM, MBA  
(Dunelm)



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

### John Shelton

*Chief Financial Officer*  
CA (Z)



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

### Glenn Norton

*Group Technical Manager*  
BSc (Hons) Geology



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

### Richard Mhlontlo

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



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

### Jeffrey Brenner

*Diamond Marketing and  
Sales Manager*



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

## Senior operational management

**Frans Bezuidenhout**  
*General Manager: MOR*



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

**Wikus de Winnaar**  
*Mine Manager: RHC*



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

**Attie Benson**  
*Group Risk Manager*



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

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



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

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



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

**Dr Kurt Petersen**  
*Consulting Metallurgist*  
PhD (Metallurgical Science)



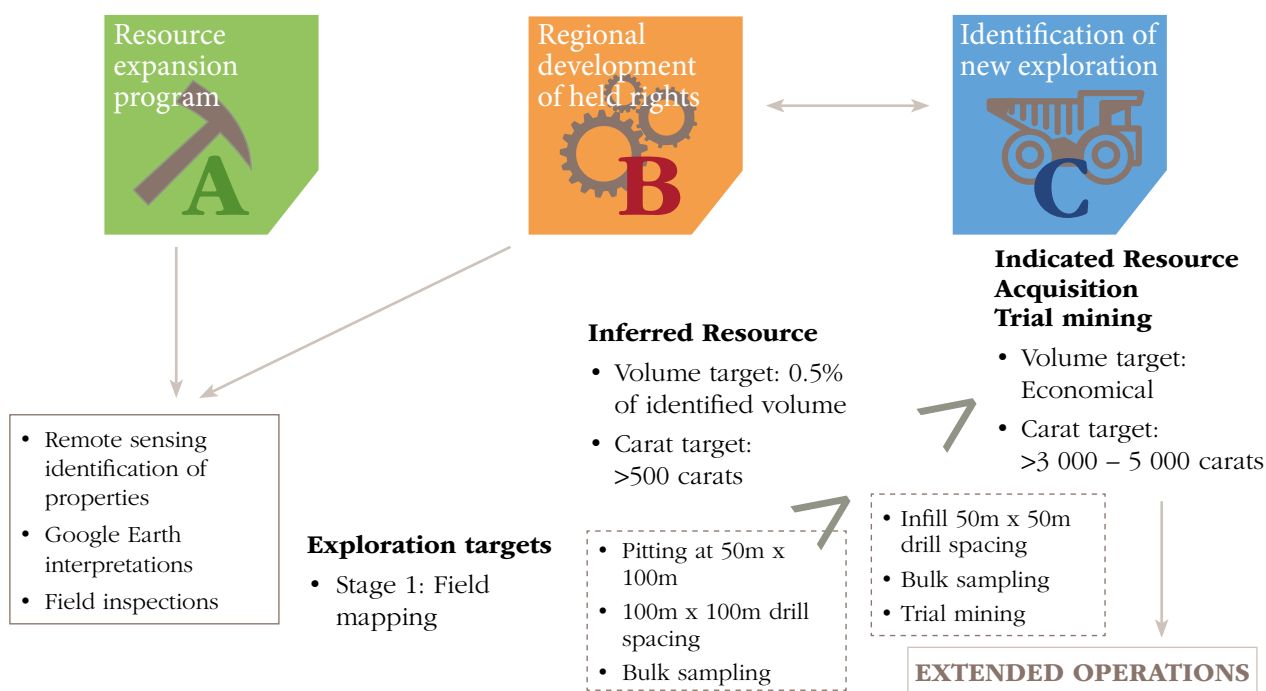
More than 15 years' experience in diamond metallurgy of both kimberlites and alluvial. Expert in plant design, diamond liberation and process performance and simulation.

# ROCKWELL'S STRATEGIC REGIONAL EXPLORATION PROGRAM FOR THE MOR

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

The objective is to fully understand the potential of these properties in support of Rockwell's medium-term target of processing 500 000m<sup>3</sup> per month of quality gravels in the MOR.

## MOR exploration strategy



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

### Lanyonvale 376

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

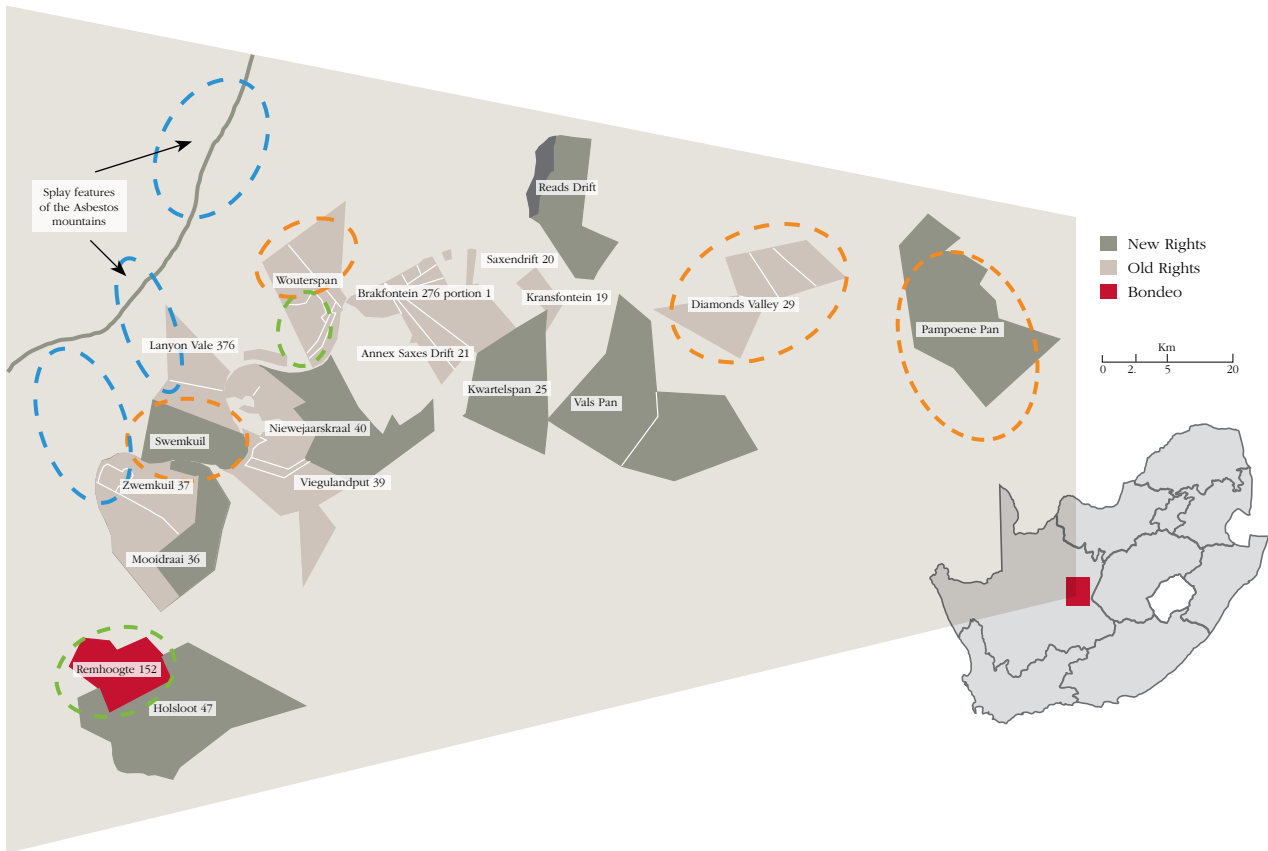
Exploration has identified potentially extensive Rooikoppie and Fluvial-Alluvial gravels and the property has been rated as highly prospective. Initial exploration work has commenced on the Lanyonvale farm and will focus on the evaluation of both the Rooikoppie and the Fluvial-Alluvial exploration targets.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

### Wouterspan

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

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

## Exploration plan



## Three-pronged roll-out

### A areas: Resource expansion program

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

### B areas: Regional development of held rights

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

### C areas: Regional development

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



1 Mining operations at Saxendrift



2 Dust suppression at RHC



3 Typical MOR production



1 **EXPLORATION**  
Increasing inventory of diamonds in MOR

2 **ON-SITE EVALUATION**  
Defining resources and reserves in terms of NI43-101

3 **EVALUATION OF GRADES AND VALUES**  
Using results of mapping, drilling and pitting

SECURING RESOURCES TO MEET GROWTH OBJECTIVES



# MINERAL RESOURCE SUMMARY

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

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

\* As per the NI43-101 Technical Report on the NJK Alluvial Diamond Project (February 28, 2015).

\* Bcos = 6 mm.

\* Both grade and diamond value of total Inferred Mineral Resource is a weighted average.

\* The diamond value is a two-year trailing average.

\* All values/grades are rounded off to reflect the low level of confidence in the estimate.

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

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

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

\* Bcos = 5mm.

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

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

\* Bcos = 5mm.

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

# CORPORATE GOVERNANCE



**EXECUTION**  
Giving of our best to make sure that we achieve the expected outcomes

1

**PARTNERSHIP**  
Working as a team with our colleagues, communities and other stakeholders


2

**CHALLENGE**  
Encouraging debate to improve our business and the way in which we work

3

**LIVING OUR VALUES** >>

Diamond value management has become “business as usual”.



**THE BOARD IS  
SATISFIED WITH  
THE INTEGRITY  
OF INTERNAL  
CONTROL AND  
FINANCIAL  
MANAGEMENT  
SYSTEMS.**

The board adopted a formal mandate as outlined in Rockwell's Corporate Governance Policies and Procedures Manual (the "Manual") on February 28, 2008.

A copy of the Manual is available for review at the Company's website [www.rockwelldiamonds.com](http://www.rockwelldiamonds.com).

# CORPORATE GOVERNANCE

## Mandate of the board

The board adopted a formal mandate (the “**Mandate**”) as outlined in Rockwell’s Corporate Governance Policies and Procedures Manual (the “**Manual**”) on February 28, 2008. The Manual mandates the board to: (i) assume responsibility for the overall stewardship and development of the Company and monitoring of its business decisions, (ii) identify the principal risks and opportunities of the Company’s business and ensure the implementation of appropriate systems to manage these risks, (iii) oversee ethical management and succession planning, including appointing, training and monitoring of senior management and directors, and (iv) oversee the integrity of the Company’s internal financial controls and management information systems. In addition, the Manual includes written charters for each committee. Further, the Manual encourages but does not require continuing education for its directors and it contains a code of ethics, policies dealing with issuance of news releases and disclosure documents, as well as share trading black-out periods. A copy of the Manual is available for review at the Company’s website [www.rockwelldiamonds.com](http://www.rockwelldiamonds.com).

The attendance record of the directors for the 12 months ended February 29, 2016 is set out below. The independent directors do not hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance; however, the board ensures that there is open and candid discussion among independent directors.

Name	Board meetings attended	% of board meetings attended
Mark Bristow	6	100
James Campbell	6	100
Stephen Dietrich	6	100
Willem Jacobs	6	100
Richard Linnell	6	100
Johan van’t Hof	6	100
Rick Menell	5	83.33

## Composition of the board

Applicable governance policies require that a listed issuer’s board of directors determine the status of

each director as independent or not, based on each director’s interest in, or other relationship with, the corporation. Applicable governance policies recommend that a board be constituted with a majority of directors who qualify as independent directors (as defined below). A board should also examine its size with a view to determining the impact of the number of directors upon the effectiveness of the board, and the board should implement a system which enables an individual director to engage an outside advisor at the expense of the corporation in appropriate circumstances. The Manual allows for retention of independent advisors for board members when they consider it advisable.

Under applicable policies, an “independent” director is one who has no direct or indirect material relationship with the Company. Generally speaking, a director is independent if he or she is free from any employment, business or other relationship which could, or could reasonably be expected to, materially interfere with the exercise of the director’s independent judgment. A material relationship includes having been (or having a family member who has been) within the last three years an employee or executive of the Company or having been employed by the Company’s external auditor. An individual who (or whose family member) is or has been within the last three years, an executive officer of an entity is deemed to have a material relationship as is any individual who (or whose family members or partners) received, directly or indirectly, any consulting, advisory, accounting or legal fee or investment banking compensation from the Company (other than compensation for acting as a director or as a part time chairman or vice-chairman).

The board proposes seven nominees for the office of director of whom five can be considered as “independent” directors. The “independent” nominees are Willem Jacobs, Richard Linnell, Johan van’t Hof, Stephen Dietrich and Rick Menell. These nominees are considered independent by virtue of not being executive officers of the Company, not having a material relationship with the Company and having received no compensation other than in their role as independent directors. The non-independent directors (and the reasons for that status) are Mark Bristow (material relationship with the Company) and James Campbell (President and CEO). As the non-executive chairman, Mark Bristow provides leadership to the board, including

its independent directors. Mark Bristow ensures that there is open and candid discussion among all of the directors, including the independent directors, regarding all matters pertaining to the Company, including strategy and operations. On matters where Mark Bristow may be conflicted due to his material relationship with the Company, Mark Bristow ensures that the independent directors have an opportunity to discuss such matters, raise any questions they may have and independently consider such matters to ensure any action that is taken is in the best interest of the Company.

The board monitors the activities of the senior management through regular meetings and discussions amongst the board and between the board and senior management.

The board is of the view that its communication policy between senior management, members of the board and shareholders is good. The board is satisfied with the integrity of the Company's internal control and financial management information systems.

## Committees of the board

The Manual requires that (i) committees of the board be composed of at least a majority of independent directors, (ii) the board expressly assumes, or assigns to a committee, responsibility for the development of the Company's approach to governance issues, (iii) the audit committee be composed only of independent directors and the role of the audit committee be specifically defined and include the responsibility for overseeing management's system of internal controls, (iv) the audit committee have direct access to the Company's external auditor, and (v) the board appoint a nominating and governance committee, composed of a majority of independent directors, with the responsibility for proposing new nominees to the board and for assessing directors on an ongoing basis.

As well as an audit committee, the board also has a compensation committee and a nominating and governance committee.

### Audit committee

The board has established an audit committee which currently consists of Willem Jacobs, Stephen Dietrich and Johan van't Hof. The audit committee carries out its responsibilities under applicable

laws, regulations and stock exchange requirements with respect to the employment, compensation and oversight of the Company's independent auditors and other matters under the authority of the committee. See further disclosure in Item 20 of the Company's AIF filed on [www.sedar.com](http://www.sedar.com) on May 30, 2016 with respect to the audit committee and its relationship with the Company's independent auditors. The Company adopted an audit committee charter on February 28, 2008. The audit committee charter is included in the Manual and available for viewing on the Company's website at [www.rockwelldiamonds.com](http://www.rockwelldiamonds.com).

### Compensation committee

The board has established a compensation committee which currently consists of Richard Linnell and Johan van't Hof. The compensation committee recommends compensation for the directors and executive officers of the Company. See further disclosure under Statement of executive compensation below. The compensation committee charter was adopted on February 28, 2008. This compensation committee charter is included in the Manual and available to view on the Company's website at [www.rockwelldiamonds.com](http://www.rockwelldiamonds.com).

The function of the compensation committee is to review, on an annual basis, the compensation paid to the Company's executive officers and directors, to review the performance of the Company's executive officers and to make recommendations on compensation to the board.

The compensation committee also periodically considers the grant of stock options. Options have been granted to the executive officers and directors and certain other service providers taking into account competitive compensation factors and the belief that options help align the interests of executive officers, directors and service providers with the interests of shareholders.

As further described under the heading Board of directors on page 10, Richard Linnell and Johan van't Hof each have experience that is relevant to their responsibilities as a member of the compensation committee. As a result of this experience, the compensation committee is able to make informed decisions on the suitability of the Company's compensation policies and practices.

## **CORPORATE GOVERNANCE** (continued)

### **Nominating and governance committee**

The board has established a nominating and governance committee (the “**NG committee**”) which currently consists of Richard Linnell and Willem Jacobs.

The NG committee has the responsibility of developing and recommending to the board the Company’s approach to corporate governance and assists members of the board in carrying out their duties. The NG committee also reviews all new and modified rules and policies applicable to governance of listed corporations to ensure that the Company remains in full compliance with such requirements as are applicable to the Company.

The nominating function of the NG committee is to evaluate and recommend to the board the size of the board and persons as nominees for the position of a director of the Company and to formalize the process for ensuring the nomination of high caliber directors and proper director succession planning. The Company has formal procedures for assessing the effectiveness of board committees as well as the board as a whole. Under the Manual, this function is to be carried out annually under the direction of the NG committee and those assessments are then provided to the board.

The Company adopted a nominating and governance committee charter on February 28, 2008. This charter is included in the Manual and available for viewing on the Company’s website at [www.rockwelldiamonds.com](http://www.rockwelldiamonds.com).

### **Board decisions**

Good governance policies require the board of a listed corporation, together with its chief executive officer, to develop position descriptions for the board and for the chief executive officer, including the definition of limits to management’s responsibilities. Any responsibility which is not delegated to senior management or to a committee of the board remains with the board.

### **Recruitment of new directors and assessment of board performance**

Good governance policies require that (i) every board of a listed corporation implement a process for assessing the effectiveness of the board and the committees of the board and the contribution

of individual directors, (ii) every corporation provide an orientation and education program for new directors, and (iii) every board review the adequacy and form of compensation of directors and ensure that the compensation realistically reflects the responsibilities and risks involved in being an effective director. See the section entitled “Committees of the board – nominating and governance committee” above.

### **Directorships**

The Board of directors on page 10 provides details of other reporting issuers of which each proposed director is a director or officer as at the date hereof.

### **Orientation and continuing education**

The Company has traditionally retained individuals with mining experience as directors and hence the need for orientation and continuing education is minimized. When new directors are appointed, they are acquainted with the Company’s mineral projects and the expectations of directors. Board meetings generally include presentations by the Company’s senior management and project staff in order to give the directors full insight into the Company’s operations.

### **Ethical business conduct**

The board has adopted an ethics policy (set out in the Manual) which is available for download from the Company’s website at [www.rockwelldiamonds.com](http://www.rockwelldiamonds.com). The board also believes that the fiduciary duties placed on individual directors by the Company’s governing corporate legislation and the common law, and the restrictions placed by applicable corporate legislation on an individual director’s participation in decisions of the board in which the director has an interest, have been sufficient to ensure that the board operates independently of management and in the best interests of the Company.

### **Nomination of directors**

The board considers its size each year when it considers the number of directors to recommend to the shareholders for election at the annual meeting of shareholders, taking into account the number required to carry out the board’s duties effectively and to maintain a diversity of views and experience. See the section entitled “Committees of the board – Nominating and governance committee” above.

## Assessments

The board monitors the adequacy of information given to directors, communication between the board and management and the strategic direction and processes of the board and committees. The NG committee is mandated to oversee an annual formal assessment of the board and its committees.

## Statement of executive compensation

“Named Executive Officer” (“**NEO**”) means each of the following individuals:

- (a) a chief executive officer (“**CEO**”);
- (b) a chief financial officer (“**CFO**”);
- (c) each of the three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year whose total compensation was, individually, more than \$150 000 for that financial year; and
- (d) each individual who would be an NEO under paragraph (c) but for the fact that the individual was neither an executive officer of the Company, nor acting in a similar capacity, at February 29, 2016.

## Compensation discussion and analysis

The Company’s compensation policies and programs are designed to be competitive with similar resource companies and to recognize and reward executive performance consistent with the success of the Company’s business.

The board has established a compensation committee consisting of Richard Linnell and Johan van’t Hof. The function of the compensation committee as set out in the Manual is to assist the board in fulfilling its responsibilities relating to the compensation practices of the executive officers of the Company. To achieve this purpose, the compensation committee has the duty, responsibility and authority to:

- recommend to the board the form and amount of compensation to be paid by the Company to directors for service on the board and on board committees. The compensation committee reviews director compensation at least annually;
- annually review the Company’s base compensation structure and the Company’s incentive compensation, stock option and other equity-based compensation programs and recommend changes in or additions to such structure and plans to the board as needed;
- recommend to the board the annual base compensation of the Company’s executive officers and senior managers (collectively the “**Officers**”);
- recommend to the board the range of increase or decrease in the annual base compensation for non-Officer personnel providing services to the Company;
- recommend to the board annual corporate goals and objectives under any incentive compensation plan adopted by the Company for Officers and non-Officer personnel providing services to the Company, and recommend incentive compensation participation levels for Officers and non-Officer personnel providing services to the Company under any such incentive compensation plan. In determining the incentive component of compensation, the compensation committee will consider the Company’s performance and relative shareholder return, the values of similar incentives at comparable companies and the awards given in past years;
- evaluate the performance of Officers generally, and in light of annual corporate goals and objectives under any incentive compensation plan;
- periodically review with the Chairman and CEO their assessments of corporate officers and senior managers and succession plans, and make recommendations to the board regarding appointment of Officers and senior managers;
- provide oversight of the performance evaluation and incentive compensation of non-Officer personnel providing services to the Company;
- administer the Company’s stock option and other equity-based compensation plans and determine the annual grants of stock options and other equity based compensation; and
- recommend to the NG committee the qualifications and criteria for membership on the compensation committee.

## CORPORATE GOVERNANCE (continued)

The compensation committee has assessed the Company's compensation plans and programs for its executive officers to ensure alignment with the Company's business plan and to evaluate the potential risks associated with those plans and programs. The compensation committee has concluded that the compensation policies and practices do not create any risks that are reasonably likely to have a material adverse effect on the Company. The compensation committee considers the risks associated with executive compensation and corporate incentive plans when designing and reviewing such plans and programs.

The Company has not adopted a policy restricting its executive officers or directors from purchasing financial instruments that are designated to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by its executive officers or directors. To the knowledge of the Company, none of the executive officers or directors have purchased such financial instruments.

### Report on executive compensation

The valuation report on executive compensation has been authorized by the compensation committee. The board assumes responsibility for reviewing and monitoring the long-range compensation strategy for the senior management of the Company although the compensation committee guides it in this role. As part of its mandate, the board determines the type and amount of compensation for the Company's executive officers. In addition, the board reviews the methodology utilized by the Company for setting salaries of employees throughout the organization.

The compensation committee receives competitive market information on compensation levels for executives.

Mr James Campbell, President and CEO and Mr John Shelton, the CFO, serve the Company on a full-time basis.

### Philosophy and objectives

The compensation program for the senior management of the Company is designed to ensure that the level and form of compensation achieves certain objectives, including:

- attracting and retaining talented, qualified and effective executives;

- motivating the short and long-term performance of these executives; and
- better aligning their interests with those of the Company's shareholders.

In compensating its senior management, the Company has employed a combination of base salary, bonus compensation and equity participation through its share option plan.

### Base salary

In the board's view, paying base salaries that are competitive in the markets in which the Company operates is a first step to attracting and retaining talented, qualified and effective executives. Competitive salary information on comparable companies within the industry is compiled from a variety of sources, including surveys conducted by independent consultants and national and international publications.

### Bonus compensation

The Company's objective is to achieve certain strategic objectives and milestones. The board will consider executive bonus compensation dependent upon the Company meeting those strategic objectives and milestones and sufficient cash resources being available for the granting of bonuses. Bonuses are awarded at the discretion of the board. The board approves executive bonus compensation dependent upon compensation levels based on recommendations of the compensation committee, and such recommendations are generally based, if necessary, on survey data provided by independent consultants. Bonus compensation was awarded as per the previous years' approval from shareholders in the form of shares issued.

### Equity participation

The Company believes that encouraging its executives and employees to become shareholders is the best way of aligning their interests with those of its shareholders. Equity participation is accomplished through the Company's share option plan. Stock options are granted to senior executives taking into account a number of factors, including the amount and term of options previously granted, base salary and bonuses and competitive factors. Options are generally granted to senior executives and vest on terms established by the compensation committee.

Given the evolving nature of the Company's business, the board continues to review and redesign the overall compensation plan for senior management so as to continue to address the objectives identified above.

**Compensation of the Chief Executive Officer**

Under the Manual, the compensation of the CEO is to be approved by the board. Base salary and bonus levels are determined taking into account independent market survey data.

The compensation committee reviews the grants of stock options to directors, management, employees

and consultants. Options have been granted in prior years taking into account competitive compensation factors and the belief that options help align the interests of such persons with the interests of shareholders.

As noted above under "Bonus compensation", incentives that may be paid to the CEO and any other member of the Executive or senior management team are determined in respect of the individuals and management team achieving strategic objectives and milestones which are set at the beginning of each year by the compensation committee and approved by the board.



### Actions, decisions or policies made after February 29, 2016

Given the evolving nature of the Company's business, the board and the compensation committee continue to review and redesign the overall compensation plan for senior management so as to continue to address the objectives identified above. No actions, decisions or policies have been made since February 29, 2016 that would affect a reader's understanding of NEO compensation.

### Option-based awards

The Company has in place a rolling share option plan dated September 9, 2011 (the "**Plan**").

Under TSX policies the Plan must be submitted to shareholders for renewal every three years. The Plan was approved by shareholders at the previous meeting of shareholders held in 2015. The Plan has been established to provide incentive to qualified parties to increase their proprietary interest in the Company and thereby encourage their continuing association with the Company.

Under the Plan, a maximum of 10% of the issued and outstanding Common Shares of the Company may be reserved for issuance. Options up to this limit may be granted at the discretion of the board, or the compensation committee, to eligible optionees (the "**Optionees**"). In addition, as the number of issued and outstanding Common Shares of the Company increases, the number of options available for granting to eligible optionees will increase. As at the date hereof there are options outstanding to purchase an aggregate of 3 084 011 Common Shares representing approximately 5.6% of outstanding Common Shares.

The Plan is administered by the compensation committee of the Company. The Plan provides that options will be issued pursuant to option agreements to directors, officers, employees or consultants of the Company or a subsidiary of the Company. All options expire on a date not later than ten years after the issuance of such option. Previous grants of option-based awards are taken into account when considering new grants of options. Subject to the requirements of the policies of the TSX and the prior receipt of any necessary regulatory approval, the board may, in its absolute discretion, amend or modify the Plan or any outstanding option granted under the Plan, as to the provisions set out in the Plan.

The following is a summary of the material terms of the Plan:

- For stock options granted to employees or service providers (inclusive of management company employees), the Company must ensure that the proposed optionee is a bona fide employee or service provider (inclusive of management company employees), as the case may be, of the Company or any subsidiary;
- If an optionee ceases to be employed by the Company (other than as a result of termination with cause) or ceases to act as a director or officer of the Company or a subsidiary of the Company, any option held by such optionee may be exercised within 90 days after the date such optionee ceases to be employed as an officer or director, as the case may be;
- If an optionee dies, any vested option held by him at the date of death will become exercisable by the optionee's lawful personal representatives, heirs or executors until the earlier of one year after the date of death of such optionee and the date of expiration of the term otherwise applicable to such option;
- In the case of an optionee being dismissed from employment or service for cause, such optionee's options, whether or not vested at the date of dismissal, will immediately terminate without right to exercise same;
- The minimum exercise price of an option granted under the Plan must not be less than the Market Price calculated the day before the grant (as defined in the Plan);
- Vesting of options shall be in accordance with the option commitment in the Plan or otherwise, at the discretion of the board, and will generally be subject to: (i) the service provider remaining employed by or continuing to provide services to the Company or any of its affiliates as well as, at the discretion of the board, achieving certain milestones which may be defined by the board from time to time or receiving a satisfactory performance review by the Company or any of its affiliates during the vesting period; or (ii) the service provider remaining as a director of the Company or any of its affiliates during the vesting period;
- The maximum aggregate number of shares issuable upon exercise of options to non-employee directors must not exceed 1% of the total Common Shares of the Company

- outstanding at any time and no more than \$100 000 in total award value per non-employee director on an annual calendar basis; and
- The board reserves the right in its absolute discretion to terminate the Plan with respect to all Plan shares in respect of options which have not yet been granted hereunder.

The Plan has the following restrictions, which restrictions may only be superseded by the Company obtaining approval of the disinterested shareholders of the Company in each instance:

- Common Shares being issuable to Insiders under the Plan, when combined with all of the Company's other share compensation arrangements, exceeding 10% of the outstanding Common Shares;
- Common Shares to be issued to Insiders under the Plan, when combined with all of the Company's other share compensation arrangements, exceeding 10% of the outstanding Common Shares in any 12-month period;
- Common Shares being issuable to independent directors under the Plan, when combined with all of the Company's other share compensation arrangements, exceeding 1% of the outstanding Common Shares of the Company; and
- A reduction in the exercise price of an option granted hereunder to an Insider or an extension of the term of an option granted hereunder benefiting an Insider.

Options are generally granted to corporate executives in the first quarter of each year as part of the annual compensation review. Any special compensation is typically granted in the form of options. Options are granted at other times of the year to individuals commencing employment with the Company. The exercise price for the options is based on the volume weighted average of the closing price of the shares of the Company on the TSX for the five days prior to the date of grant.



## CORPORATE GOVERNANCE (continued)

### Summary compensation table

The compensation paid to the NEOs during the Company's three most recently completed financial years ended February 28, 2014, February 28, 2015 and February 29, 2016 is as set out below:

Name and principal position	Year	Non-equity incentive plan compensation <sup>3</sup>							Total compensation
		Salary <sup>1</sup> \$	Share-based awards \$	Option-based awards <sup>2</sup> \$	Annual incentive plans <sup>3</sup> \$	Long-term incentive plans \$	Pension value \$	All other compensation \$	
James Campbell <sup>4</sup>	2016	366 997	16 406	Nil	Nil	Nil	Nil	Nil	383 403
	2015	374 001	123 703	41 563	Nil	Nil	Nil	Nil	539 367
	2014	350 208			Nil	Nil	Nil	Nil	449 372
John Shelton <sup>5</sup> CFO, Secretary	2016	232 775	16 406	Nil	Nil	Nil	Nil	Nil	249 181
	2015	145 984	Nil	124 617	Nil	Nil	Nil	Nil	270 601
Gerhard Jacobs <sup>6</sup> former CFO	2015	168 010	27 833	Nil	Nil	Nil	Nil	151 450	347 293
	2014	283 379	44 583	35 749	Nil	Nil	Nil	Nil	363 711

*Notes:*

<sup>1</sup> The Company's South African executives are compensated in South African rand ("ZAR") and have been presented in Canadian dollars at an exchange rate of 1 Canadian dollar = ZAR10.3308 (2015: ZAR9.7276 and 2014: ZAR 9.5329) the average monthly rate in effect for the year ended February 29, 2016.

<sup>2</sup> These amounts represent the dollar amount based on the grant date fair value of the award for the year ended February 29, 2016. The options granted in the Company's financial year ended February 29, 2016 were granted pursuant to the Company's share option plan. For compensation purposes, the Black-Scholes option valuation model has been used to determine the fair value on the date of grant. The Black-Scholes option valuation is determined using the expected life of the stock option, expected volatility of the Company's Common Share Price, expected dividend yield, and risk-free interest rate. The Black-Scholes grant date fair value for awards granted on January 15, 2015 was 50% of the option exercise price.

<sup>3</sup> These amounts include annual non-equity incentive plan compensation, such as bonuses and discretionary amounts for the year ended February 29, 2016.

<sup>4</sup> Mr Campbell is also a director of the Company. He receives no compensation for his role as a director.

<sup>5</sup> Mr Shelton commenced employment as Chief Financial Officer of the Company on July 25, 2014. Mr Shelton was appointed Secretary of the Company on August 10, 2015.

<sup>6</sup> Mr Jacobs commenced employment with the Company on July 19, 2010 and was appointed Chief Financial Officer and resigned on July 25, 2014.

## Outstanding option-based awards

The following table sets out all share-based awards and option-based awards outstanding as at February 29, 2016, for each NEO:

Name	Option-based awards				Share-based awards			
	Number of securities underlying unexercised options	Option exercise price \$	Option expiration date	Value of unexercised in-the-money options \$ <sup>1</sup>	Number of securities underlying unexercised options	Option exercise price \$	Option expiration date	Value of unexercised in-the-money options \$ <sup>1</sup>
James Campbell <sup>2</sup> President and CEO	100 000	0.40	October 9, 2023	Nil	Nil	Nil	Nil	Nil
	332 444	0.26	October 12, 2016	Nil	Nil	Nil	Nil	Nil
John Shelton <sup>3</sup> CFO and Secretary	450 000	0.32	October 9, 2023	Nil	Nil	Nil	Nil	Nil

Notes:

<sup>1</sup> The value at February 29, 2016 is calculated by determining the difference between the closing price of the Company's Common Shares at February 29, 2016 (\$0.245 per Common Share) underlying the option on the TSX and the exercise price of the options.

<sup>2</sup> Mr Campbell was appointed CEO effective June 1, 2011.

<sup>3</sup> Mr Shelton was appointed CFO effective July 25, 2014 and was appointed Secretary on August 10, 2015.

## Incentive plan awards – value vested or earned during the year

The following table sets out all incentive plan awards (value vested or earned) during the year ended February 29, 2016, for each NEO:

Name	Option-based awards – value vested during the year <sup>1</sup> \$	Share-based awards – value vested during the year <sup>1</sup> \$	Non-equity incentive plan compensation – value earned during the year \$
James Campbell President and CEO	Nil	Nil	Nil
John Shelton CFO and Secretary	Nil	Nil	Nil

Notes:

<sup>1</sup> These amounts represent the aggregate dollar value that would have been realized if the options under the option-based award had been exercised on the vesting date. The value of each amount has been determined by taking the difference between the market price of the option at date of exercise and the exercise or base price of the option under the option-based award on the vesting date.

The Company has no pension plans for its directors, officers or employees.

## CORPORATE GOVERNANCE (continued)

### Termination and change of control benefits

As at February 29, 2016 the following NEOs of the Company had written employment contracts between themselves and the Company:

- James Campbell dated June 1, 2011; and
- John Shelton dated July 21, 2014.

Under these agreements James Campbell and John Shelton are to work full time for the Company and are eligible to receive stock options and a performance-based bonus at the discretion of the compensation committee and the board, as well as other standard benefits made available by the Company. Please see Summary compensation table above.

### Potential payments upon termination

The following table provides information concerning the value of payments and benefits following termination of employment of each NEO under various circumstances. Payments vary based on the reason for termination and the timing of a departure. The amounts below are calculated as if the NEO's employment had been terminated on February 29, 2016. Receipt of payments on termination is contingent on the NEO delivering a release to the Company.

NEO		Termination without cause	Change of control
James Campbell <sup>1</sup>	Salary	\$176 215	\$704 863
	Bonus	Nil	Nil
	Options	Nil	Nil
John Shelton <sup>2</sup>	Salary	\$55 659	Nil
	Bonus	Nil	Nil
	Options	Nil	Nil

Notes:

<sup>1</sup> Mr Campbell was appointed as CEO on June 1, 2011.

<sup>2</sup> Mr Shelton was appointed as CFO on July 25, 2014 and was appointed Secretary on August 10, 2015.

Compensation of the Company's South African executives was paid to them in ZAR. In the above table, an exchange rate of CDN\$1 = ZAR10.3308 was used.

Except as outlined above, there are no contracts, agreements, plans or arrangements that provide for payments to an NEO at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement or a change in control of the Company.

### Director compensation

#### Director compensation table

Each director of the Company, who is not an executive officer, is paid an annual director's fee of \$30 000. Each director who is a member of the audit committee receives an additional \$5 000. Each director who is a member of another committee receives an additional \$1 500. Each director receives a fee per meeting attended (\$1 500 per board meeting, \$1 250 per other meeting) and 10 000 share options per annum. The share options are increased to 15 000 share options per annum should a director opt not to receive meeting fees.

The compensation provided to the directors (excluding James Campbell, whose compensation is described above under the heading “Statement of executive compensation – summary compensation table”) for the Company’s most recently completed financial year was:

<b>Name</b>	<b>Fees earned</b> \$	<b>Share-based awards</b> \$	<b>Option-based awards</b> \$	<b>Non-equity incentive plan compensation</b> \$	<b>Pension value</b> \$	<b>All other compensation</b> \$	<b>Total</b> \$
Mark Bristow	39 000	Nil	Nil	Nil	Nil	Nil	39 000
Richard Linnell	41 750	Nil	Nil	Nil	Nil	Nil	41 750
Willem Jacobs	56 500	Nil	Nil	Nil	Nil	Nil	56 500
Johan van’t Hof	62 000	Nil	Nil	Nil	Nil	Nil	62 000
Stephen Dietrich	56 500	Nil	Nil	Nil	Nil	Nil	56 500
Rick Menell	39 000	Nil	Nil	Nil	Nil	Nil	39 000

The following table sets out all option-based awards outstanding as at February 29, 2016 for each director (excluding James Campbell, whose compensation is described above under the heading “Statement of executive compensation – Summary compensation table”):

<b>Name</b>	<b>Option-based awards</b>			
	<b>Number of securities underlying unexercised options</b>	<b>Option exercise price</b> \$	<b>Expiry date options</b>	<b>Value of unexercised in-the-money options</b> \$ <sup>1</sup>
Mark Bristow	75 000	0.48	October 12, 2016	Nil
	10 000	0.21	December 12, 2022	350
	10 000	0.40	October 9, 2023	Nil
Richard Linnell	10 000	0.40	October 9, 2023	Nil
	10 000	0.21	December 12, 2022	Nil
Willem Jacobs	50 000	0.48	October 12, 2016	Nil
	10 000	0.21	December 12, 2022	350
	10 000	0.40	October 9, 2023	Nil
Johan van’t Hof	10 000	0.21	December 12, 2022	350
	10 000	0.40	October 9, 2023	Nil
Stephen Dietrich	10 000	0.21	December 12, 2022	350
	10 000	0.40	October 9, 2023	Nil
Rick Menell	10 000	0.40	October 9, 2023	Nil

Notes:

<sup>1</sup> The value at February 29, 2016 is calculated by determining the difference between the closing price of the Company’s Common Shares at February 29, 2016 (\$0.245 per Common Share) underlying the option on the TSX and the exercise price of the options.

There was no value vested or earned under any incentive plan during the Company’s fiscal year ended February 29, 2016.

## CORPORATE GOVERNANCE (continued)

### Securities authorized for issuance under equity compensation plans

The following table sets out the equity compensation plan information for the fiscal year ended February 29, 2016.

#### Equity compensation plan information

Plan category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders – (the Plan)	3 084 011	\$0.35	2 414 313
Equity compensation plans not approved by security holders	Nil	Nil	Nil
<b>Total</b>	<b>3 084 011</b>	<b>\$0.35</b>	<b>2 414 313</b>

### Indebtedness of directors and executive officers

No directors, proposed nominees for election as directors, executive officers or their respective associates or affiliates, or other management of the Company were indebted to the Company as of the end of the most recently completed financial year or as at the date hereof.

### Interest of informed persons in material transactions

To the knowledge of management of the Company, other than as set out below, no informed person (as defined in National Instrument 51-102 – Continuous Disclosure Obligations) of the Company, any proposed director of the Company, or any associate or affiliate of any informed person or proposed director had any material interest, direct or indirect, in any transaction since the commencement of the Company's most recently completed financial year or in any proposed transaction which has materially affected or would materially affect the Company or any of its subsidiaries during the 12 months ended February 29, 2016, or has any interest in any material transaction in the current year other than in respect of the Company's share option plan or in a document disclosed to the public.

### Flawless Diamonds Trading House

Flawless Diamonds Trading House Proprietary Limited (“**Flawless Diamonds Trading House**” or “**FDTH**”) is a private company, located at Suite 515 South African Jewellery Centre, 225 Main Street, Johannesburg, South Africa 2001, of which Mark Bristow, a director of the Company, is a shareholder. The Company owns a 20% interest in FDTH which was acquired with effect from April 21, 2010 for consideration of approximately \$100 000.

Flawless Diamonds Trading House is a registered diamond broker which provides specialist diamond valuation, marketing and tender sales services to the Company for all of the Company's diamond production. This includes negotiating the price on diamonds sold under the Marketing and Beneficiation Agreement with Diacore (as defined below) for a fixed fee of 1% of turnover which is below the market rate charged by similar tender houses. Rockwell subsequently participates equally in the profits on the sale of the polished diamonds for those rough stones sold to Diacore under the Marketing and Beneficiation Agreement. FDTH was established in 2006 to provide a professional marketing and sales facility to market and sell Rockwell's diamond production. Rockwell had no prior experience of marketing high quality alluvial gemstone production and needed to position itself

in relation to new diamond legislation which was being implemented at the time that Rockwell was establishing itself in the South African market. It was strategically important for Rockwell to have access to a strong and secure dedicated marketing facility to maximize revenue from the sale of its unique diamond production.

FDTH operates from South Africa's internationally recognized high security diamond trading and manufacturing hub known as Jewel City, Johannesburg. FDTH was established and is still run by experienced and internationally recognized diamantaires. The facility is operated by a small and highly experienced marketing and valuation team which collectively has over 100 years of rough diamond valuation, marketing and sales experience. FDTH follows rigorous diamond handling, security, and Kimberley Process protocols, and all marketing and sales procedures are monitored and facilitated by a proprietary computer-based system. This system provides independent and transparent verification of results for sellers and buyers, and is acknowledged in the industry as a leading standard for transacting diamond sales. Aside from providing marketing and sales to Rockwell, FDTH also conducts sales on behalf of other small and medium size South African producers. During fiscal 2016 FDTH was responsible for selling 100% (or \$37.7 million) of the Company's aggregate diamond sales.

### **Diacore Diamond Group**

Diacore Diamond Group ("**Diacore**") is a private company located at c/o Blue Rock Advisors SA, Aérogare Fret, Entrée 2, Port Franc, Sous-Douane, Bureau no. 1101, Etage E, 20 Voie des Traz, 1215 Geneva, Switzerland. Diacore is an affiliate of Daboll, which beneficially owns 10 200 000 Common Shares (18.7% of the issued and outstanding Common Shares).

The Company has a joint venture through a Marketing and Beneficiation Agreement with Diacore which was initially signed in October 2007. Under the terms of the agreement high valued rough diamonds produced by Rockwell are sold to Diacore at the market price. Rockwell receives 90% of the price up front with the remaining 10% payable on sale of the polished stone. The diamonds are cut and polished by Diacore master cutters and on sale of the polished diamonds, Rockwell participates equally in the profits from

the sale. The partnership was originally set up for stones exceeding \$500 000 in value, but was extended to include all stones exceeding 10 carats in 2009. In May 2011, the agreement was broadened further to include all stones larger than 2.8 carats.

The partnership has been successful for both counterparties as Diacore has access to Rockwell's pipeline of high valued stones, while Rockwell participates in the upside potential on the final sale of the stones where there is significant value leverage. Rockwell is the only diamond producer with a marketing and beneficiation agreement of this nature.

Rockwell has generated total revenue of US\$21.14 million from its profit shares from the Marketing and Beneficiation Agreement in the last three years, with the sale of 36 360 carats, while Diacore has access to the large and exceptional gemstones which are its specialty. As the stock of special stones in the joint venture increases, Rockwell's potential for value added revenues grows.

Diacore is also a creditor of the Company having loaned the Company US\$2 million on June 2, 2011 under a convertible loan agreement (the "**Diacore Loan**"). This has been repaid during the year ended February 29, 2016. On November 19, 2014 the Company announced that it had completed an offering of convertible debentures in the amount of \$2 764 000 and demand loans in the amount of \$236 000 to Daboll, an affiliate of Diacore. Rockwell Resources RSA Proprietary Limited ("**Rockwell RSA**"), a wholly owned subsidiary of the Company, entered into a credit agreement dated May 26, 2015 with Ascot Diamonds Proprietary Limited ("**Ascot**"), an affiliate of Diacore, for a loan in the principal amounts of US\$15 million and ZAR16 million (the "**Ascot Loan**"), which matured at the end of September 2015. In connection with the Ascot Loan, Daboll surrendered its \$2 764 000 million principal amount of convertible debentures in exchange for a promissory note (the "**Promissory Note**") also payable by the Company.

## CORPORATE GOVERNANCE (continued)

On October 1, 2015, the Company entered into an agreement with Ascot extending the tenor of all outstanding debt due to Ascot amounting to \$23.773 million to 1 October 2017 in return for the issue of 18 863 402 warrants for ordinary shares with a strike price of \$0.20 each. During the year payments of capital and interest were made to Diacore amounting to \$6.1 million.

The Ascot Loan is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Mark Bristow

The Company has entered into certain loan agreements with Emerald Holdings Limited. (“**Emerald**”), a company located at Dolberg House, 9 Athol Street, Douglas, Isle of Man, IM1 1 LD, United Kingdom. Mark Bristow, the Company’s non-executive Chairman, has a financial interest in Emerald.

As further described below, on November 19, 2014 the Company announced that it had completed an offering of convertible debentures in the amount of \$1 011 000 and demand loans in the amount of \$89 000 to Emerald. Rockwell RSA entered into a credit agreement dated effective May 14, 2015 with Emerald for a loan in the principal amount of US\$1.5 million (the “**Bristow Loan**”, collectively with the Ascot Loan, the “**Loans**”). On October 1, 2015 the Company entered into an agreement with Emerald extending the tenor of all outstanding debt due to Emerald amounting to \$3.275 million to October 1, 2017 in return for the issue of 2 351 838 warrants for ordinary shares with a strike price of CDN\$0.20 each.

The Bristow Loan is available on SEDAR at [www.sedar.com](http://www.sedar.com).



**1** James Campbell with a proud recipient at the Long Service Awards in 2015



**2** Employees' pledge to Rockwell's values

FOUNDATION TO A SUSTAINABLE BUSINESS



- ACCOUNTABILITY**  
Taking responsibility for our actions and their impacts
- INTEGRITY**  
Acting to the highest ethical standards in all that we do
- COMPLIANCE**  
Going the extra mile to comply to the laws and legislation

**GOVERNANCE IN PRACTICE** >>

Rockwell's values define our ideal work ethic and culture.

**THE DIAMOND VALUE  
MANAGEMENT PRINCIPLES  
DEFINE ROCKWELL'S  
BUSINESS CULTURE**

# ANNUAL FINANCIAL STATEMENTS



**BOARD REVIEW AND  
OPERATIONAL  
RESTRUCTURING**

1

**\$6.1 MILLION LONG-TERM  
DEBT REPAYED**

2

**ENHANCED PRODUCTIVITY  
WITH IMPROVED  
DIAMOND RECOVERIES  
AND VALUE**

3

**DIAMONDS ARE FOREVER**



Rockwell continuously strives to be the lowest cost producer in the industry.



**WE HAVE A  
DEVELOPMENT  
PROJECT AND  
A PIPELINE OF  
EARLIER STAGE  
PROPERTIES  
WITH FUTURE  
DEVELOPMENT  
POTENTIAL.**

The operations are based on a strategy of fit-for-purpose throughput processing and technology.

# DIRECTORS' REPORT

## Nature of business

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

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

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

Rockwell has set a strategic goal to become a mid-tier diamond production company. In pursuit of this goal the Company has embarked on a strategy to grow its MOR operational base and minimize production and recovery volatility by setting a medium-term target to process 500 000m<sup>3</sup> of gravels per month from its MOR operations.

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

## Subsequent events

- On March 30, 2015, the Group concluded the sale of its Tirisano property for a consideration of ZAR60 million (\$5.2 million). This was payable by way of two instalments of ZAR10 million (\$0.9 million) and 20 instalments of ZAR2 million (\$0.2 million). At the balance sheet date 11 instalments, totaling ZAR22 million, remained outstanding. On March 4, 2016 the Group concluded an agreement with the buyers to early settle the outstanding balance of ZAR22 million (\$1.9 million) for an amount of ZAR20 million (\$1.7 million) in two instalments which have subsequently been paid;
- As at the date of signing the financial statements the Group approved the entering into of a long-term mining agreement with CML Proprietary Limited. This agreement will provide for the sale of the Group's earthmoving equipment at net book value, the assumption

of all related Group employees without successor employer obligations or costs to the Group, and provision of mining and related rehabilitation services at guaranteed monthly volumes for a fixed cost per cubic metre delivered. The risk and responsibility for mining volumes, maintenance, employees, sustaining capital reinvestment and supplier relationships will therefore be transferred; and

- A further ZAR15 million was invested by Diacore and Emerald in April and May 2016, as to 50% each, to fund the WPC plant on terms identical to the Acquisition debt, being first security over Bondeo assets, repaid by sweeps or revenue and beneficiation income at designated rates and carrying interest of 1 000 basis points above the six-month LIBOR rate.

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

## Financial results

The financial statements on pages 57 to 115 set out fully the financial position, results of operations and cash flows of the Company.

## Litigation

The Company is not aware of any outstanding or threatened litigation.

## Insurance

Rockwell has adopted a policy that includes insurance coverage for all equipment that is purchased on an instalment plan (called hire purchase in South Africa) or lease but it does not carry full coverage for other equipment that is paid off. Cover is obtained on a risk exposure and some equipment is self-insured. The Group also has coverage on small vehicles, busses, road trucks, Flow-sort X-ray equipment and some of its fixed properties and assets.

## Liquidity

At February 29, 2016 the Group had cash and cash equivalents of \$0.06 (February 28, 2015: \$0.58 million) and bank indebtedness of \$1.4 million (February 28, 2015: \$nil). The Group had negative working capital of \$(9.1) million compared to negative \$(0.3) million at February 28, 2015. This results primarily from the repayment of long-term and short-term financing debt and the results of operational performance, including plant closure, during the year.

At February 29, 2016, the Group had asset retirement obligations relating to its mines and capital lease obligations at Saxendrift, and had obligations relating to the lease of mining equipment with three-year lease agreements (of which two remain). The Group's capital lease obligations are shown in the table below. Repayments are required in South African rand, but reflected in Canadian dollars in the table.

Management has considered the available cash resources at quarter end, the value realized through diamond tenders post quarter end and planned cash flows from operations for the 12-month period post quarter end, as well as the commissioning of the WPC plant shortly (further funded by shareholders) and the improvement in mining and processing operations at RHC recently.

During the assessment of the ability of the Group to continue as a going concern, a number of matters were also noted which may have an impact on the going concern assumption. These matters are summarized as follows:

- The Group incurred a total comprehensive loss of \$32.7 million (2015: \$13.4 million) for the year ended February 29, 2016. These losses are largely attributable to non-cash currency related adjustments for reporting purposes, depreciation and NJK civil works asset impairments;
- At the balance sheet date an equity position of \$3.5 million is reflected, which is partially caused by a \$22.7 million negative currency translation reserve created by the financial statement presentation methodology. However the Company earns revenues in US currency and thus avails itself of this implicit hedge to pay its US dollar denominated debt. As of the year end date, as noted above, the Group's current liabilities exceeded its current assets by \$(9.1) million (2015: \$(0.3) million);
- At an operating and financing level, cash flows have stabilized to the point of being at break-even including overhead allocation, and further progress has been made on this since the end of the financial year; further, the Tirisano sale receivable was collected (ZAR20 million, \$1.7 million), the investment by Diacore and Emerald for the plant construction at WPC (ZAR15 million \$1.3 million) was received (replenishing working capital otherwise used to advance construction during January and February) and certain equipment was sold for a further ZAR12 million, \$1.0 million; and
- The Group has an overdraft facility of \$1.3 million (ZAR15 million) (2015: \$2.9 million (ZAR27 million)) with Standard Bank, which expires at the end of August 2016. It is envisaged that this will be renewed with its current terms, but this expectation has not yet been confirmed. Currently the advance on the overdraft facility is \$0.938 million as at the date of the consolidated financial statements. As at the same date, the net overdraft position was \$0.6 million.

Based on successful outcomes in respect of business plans, particularly the implementation of the new mining strategy through outsourcing and timely and effective commissioning of WPC, the directors believe that the going concern assumption remains an appropriate basis for the preparation of these financial statements. In particular, the effective implementation of the mining agreement and the successful and timely ramp-up of WPC, are material uncertainties which, if delays are experienced, could cause a significant negative impact on cash flow. Should those uncertainties materialize they could cause a strain on corporate liquidity and in such case, should the going concern assumption not be appropriate, adjustments may have to be made to reflect the value of the Group's assets at their net realizable values.

## Contractual obligations and commitments

Rockwell has the following long-term commitments in respect of equipment operating lease payments to various financial institutions for plant and equipment. A minimum finance lease payment of \$0.6 million is payable in the next 12 months, with a further total \$0.4 million payable thereafter.

## DIRECTORS' REPORT (continued)

The following are the maturities of contractual obligations:

	Payments due by period (\$ million)				
	Total	Less than one year	One to three years	Three to five years	More than five years
Finance lease obligations	1.0	0.6	0.4	–	–
Long-term debt obligations	27.8	1.2	26.6	–	–
Operating lease obligations	5.2	3.3	1.9	–	–
<b>Total</b>	<b>34.0</b>	<b>5.1</b>	<b>28.9</b>	<b>–</b>	<b>–</b>

### Financial instruments and risks and uncertainties

#### Financial risk management

The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

In the normal course of business, the Company is inherently exposed to currency and commodity price risk. For a discussion of certain risks and assumptions that relate to the use of derivatives, including liquidity risk and credit risk, refer to the Company's consolidated financial statements.

#### Capital management

As at February 29, 2016, the Group is not subject to externally imposed capital encumbrances other than its overdraft facility, finance leases, loans and borrowings and loans to related parties.

At February 29, 2016, of the \$1.3 million overdraft (February 28, 2015 – \$0.6 million asset) cash and cash equivalents held by the Group, \$1.3 million (February 28, 2015 – \$0.5 million) were held in South African Rand ("ZAR"), \$Nil (February 28, 2015 – \$0.04 million) in Canadian Dollars and \$0.007 (February 28, 2015 – \$0.01 million) in United States Dollars.

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, and to have sufficient funds on hand for business opportunities as they arise. The Group considers the components of shareholders' equity, as well as its cash and cash equivalents, and bank indebtedness as capital.

The Group's investment policy is to invest its cash in highly liquid short-term interest-bearing investments, having maturity dates of three months or less from the date of acquisition, that are readily convertible to known amounts of cash.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Group may issue new shares through private placements, issue debt, or return capital to shareholders, in order to maintain or adjust the capital structure.

In order to facilitate the management of its capital requirements, the Group prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

The Group incurred a loss of \$27.7 million (2015: \$14.5 million) for the year ended February 29, 2016. As of this date its current liabilities exceed its current assets by \$(9.1) million (2015: \$(0.3) million).

The Company has no off-balance sheet arrangements.

### Risks and uncertainties

The risk factors which should be taken into account in assessing the Company's activities include, but are not necessarily limited to, those set out below. Any one or more of these risks and others could have a material adverse effect on the Company.

#### Diamond prices

The value of the Group's mineral resource properties is dependent on the price and the outlook of diamonds. Diamond demand and prices fluctuate and are affected by numerous factors beyond the control of the Group, including worldwide economic trends, worldwide levels of diamond discovery and production, and the level of demand for, and discretionary spending on,

luxury goods such as diamonds and jewelry. Low or negative growth in the worldwide economy, prolonged credit market disruptions or activities creating disruptions in economic growth could result in decreased demand for diamonds, thereby negatively affecting the price of diamonds. Similarly, a substantial increase in the worldwide level of diamond production could also negatively affect the price of diamonds. In each case, such developments could materially adversely affect the Group's results of operations.

The profitability of the Group's operations is highly correlated to the market price of diamonds. If diamond prices decline for a prolonged period below the cost of production of the Group's operating mines, it may not be economically feasible to continue production.

### **Economic conditions**

Unfavorable economic conditions may negatively impact the Company's financial ability. Unfavorable economic conditions could also increase the Company's financing costs, decrease estimated income from prospective mining operations, limit access to capital markets and negatively impact the availability of credit facilities to the Company.

### **Uncertainties related to mineral resource estimates**

There is a high degree of uncertainty attributable to the calculation of mineral resources and corresponding grades being mined or dedicated to future production. Until resources are actually mined and processed, no assurance can be given to the actual quantity of mineral resources and grades. Any material change in the quantity of resources, grades or stripping ratio may affect the economic viability of the Company's properties. In addition, there is no assurance that recoveries in small-scale laboratory tests will be duplicated in larger-scale tests under on-site conditions, or during production. Determining the economic viability of a diamond project is complicated and involves a number of variables. It involves extensive geo-statistical analysis due to the highly variable nature of diamond distribution and the fact that both diamond grade and average diamond value play important roles in determining the viability of any given diamond project. Since no two diamonds are exactly alike, a significant parcel of diamonds is needed to gain confidence levels on diamond size distribution and average diamond value necessary to make any realistic decisions regarding future development.

### **Licenses, permits and approvals**

The Company's operations require licenses, permits and approvals from various governmental authorities. The Company believes that it currently holds and is presently complying in all material respects with all necessary licenses and permits under applicable laws and regulations to conduct its current operations. However, such licenses and permits are subject to change in various circumstances and certain permits and approvals are required to be renewed from time to time. Additional permits or permit renewals will need to be obtained in the future. The granting, renewal and continued effectiveness of these permits and approvals are, in most cases, subject to some level of discretion by the applicable regulatory authority. Certain governmental approval and permitting processes are subject to public comment and can be appealed by project opponents, which may result in significant delays or in approvals being withheld or withdrawn.

There can be no guarantee the Company will be able to obtain or maintain all necessary licenses and permits as are required to explore and develop its properties, commence construction or operation of mining facilities and properties under exploration or development or to maintain continued operations that economically justify the cost.

### **Foreign currency risk**

In the normal course of business, the Group enters into transactions for the purchase of supplies and services denominated in ZAR. In addition, the Group has cash and certain liabilities denominated in ZAR. As a result, the Group is subject to currency risk from fluctuations in foreign exchange rates. The Group has not entered into any derivative or other financial instruments to mitigate this foreign exchange risk.

### **Mining and processing**

The Company's business operations are subject to risks and hazards inherent in the mining industry, including, but not limited to, unanticipated variations in grade and other geological problems, water, power, surface conditions, metallurgical and other processing problems, mechanical equipment performance problems, the lack of availability of materials and equipment, the occurrence of accidents, labor force disruptions, force majeure factors, weather conditions which can materially and adversely affect among other things production quantities and rates, development costs and expenditures and production commencement dates.

## DIRECTORS' REPORT (continued)

The Company periodically reviews its Life of Mine ("LOM") planning. Significant changes in the LOM plans can occur as a result of experience obtained in the course of carrying out its mining activities, changes in mining methods and rates, process changes, investments in new equipment and technology, diamond price assumptions and other factors. Based on this analysis, the Company reviews its accounting estimates and in the event of an impairment may be required to write down the carrying value of its mine or development property. This process continues for the economic life of the mines in which the Company has an interest.

### Environmental and other regulatory requirements

All phases of mining and exploration operations are subject to government regulation including regulations pertaining to environmental protection. Environmental legislation is becoming stricter, with increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and heightened responsibility for companies and their officers, directors and employees.

There can be no assurance that possible future changes in environmental regulation will not adversely affect the Company's operations. As well, environmental hazards may exist on a property in which the Company holds an interest, which were caused by previous or existing owners or operators of the properties and of which the Company is not aware at present. Operations at the Company's mines are subject to strict environmental and other regulatory requirements, including requirements relating to the production, handling and disposal of hazardous materials, pollution controls and health and safety. Any failure to comply with the requirements could result in substantial fines, delays in production, or the withdrawal of the Company's mining licenses.

### Mineral exploration and development

The business of exploring for diamonds and mining is highly speculative in nature and involves significant financial and other risks which even careful evaluation, experience and knowledge may not eliminate. There is no certainty that expenditures made or to be made by the Company in exploring and developing diamond properties in which it has an interest will result in the discovery of commercially mineable deposits. Most exploration projects do not result in the discovery of commercially mineable deposits. While discovery of a diamond bearing deposit may result in substantial rewards, few properties

which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a site. There can be no guarantee that exploration programs carried out by the Company will result in the development of profitable mining operations.

### Rehabilitation funds and mine closure costs

Changes in environmental laws and regulations can create uncertainty with regard to future rehabilitation costs and affect the funding requirements. Closing a mine can have significant impact on local communities and site remediation activities may not be supported by local stakeholders. Actual costs realized in satisfaction of mine closure obligations may vary materially from management's estimates.

### Uninsured risks and insurance coverage

The mining business is subject to a number of risks and hazards that may not be insured including, but not limited to, environmental hazards, industrial accidents, labor disputes, encountering unusual or unexpected geologic formations or other geological or grade problems, encountering unanticipated ground or water conditions, cave-ins, pit wall failures, flooding, rock bursts, periodic interruptions due to inclement or hazardous weather conditions and other acts of God. Such risks could result in damage to mineral properties or facilities, personal injury or death, environmental damage, delays in exploration, development or mining, monetary losses and possible legal liability. The Company maintains insurance against certain risks that are associated with its business in amounts that it believes to be reasonable at the current stage of operations. There can be no assurance that such insurance will continue to be available at economically acceptable premiums or will be adequate to cover any future claim.

### Legal proceedings

Due to the nature of its business, the Company may be subject to numerous regulatory investigations, claims, lawsuits and other proceedings in the ordinary course of its business. The results of these legal proceedings cannot be predicted with certainty due to the uncertainty inherent in litigation, including the effects of discovery of new evidence or advancement of new legal theories, the difficulty of predicting decisions of judges and juries and the possibility that decisions may be reversed on appeal. There can be no assurance that these matters will not have a material adverse effect on the Company's business.

# MANAGEMENT'S RESPONSIBILITIES AND APPROVAL

The consolidated financial statements, the notes thereto and other financial information contained in the annual report have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and are the responsibility of the management of Rockwell Diamonds Inc. ("Company"). The financial information presented elsewhere in the annual report is consistent with the data that is contained in the consolidated financial statements. The consolidated financial statements, where necessary, include amounts which are based on the best estimates and judgment of management.

In order to discharge management's responsibility for the integrity of the consolidated financial statements, the Company maintains a system of internal accounting controls. These controls are designed to provide reasonable assurance that the Company's assets are safeguarded, transactions are executed and recorded in accordance with management's authorisation, proper records are maintained and relevant and reliable financial information is produced. These controls include maintaining quality standards in hiring and training of employees, policies and procedures manuals, a corporate code of conduct and ensuring that there is proper accountability for performance within appropriate and well-defined areas of responsibility. The system of internal controls is further supported by a compliance function, which is designed to ensure that we and our employees comply with securities legislation and conflict of interest rules.

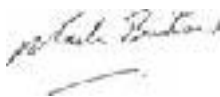
The board of directors is responsible for overseeing management's performance of its responsibilities for financial reporting and internal control. The audit committee, which is composed of non-executive directors, meets with management as well as the external auditors to ensure that management is properly fulfilling its financial reporting responsibilities to the directors who approve the consolidated financial statements. The external auditors have full and unrestricted access to the audit committee to discuss the scope of their audits, the system of internal controls and review financial reporting issues.

The consolidated financial statements have been audited by KPMG Inc, the independent registered public accounting firm, in accordance with Canadian Auditing Standards.

The consolidated financial statements set out on pages 57 to 115 were approved by the board on May 30, 2016 and were signed on its behalf by:



**James Campbell**  
*Director*



**Dr Mark Bristow**  
*Director*

# INDEPENDENT AUDITORS' REPORT

## To the Shareholders of Rockwell Diamonds Inc.

We have audited the accompanying consolidated financial statements of Rockwell Diamonds Inc., which comprise the consolidated statements of financial position as at February 29, 2016 and February 28, 2015, the consolidated statements of financial performance, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

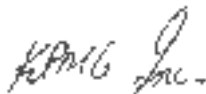
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Rockwell Diamonds Inc. as at February 29, 2016 and February 28, 2015 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## Emphasis of matter

We draw attention to note 1.2 in the consolidated financial statements which discloses that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.



**KPMG Inc.**  
*Chartered Accountants*

Johannesburg, South Africa  
May 30, 2016

KPMG Crescent  
85 Empire Road  
Parktown  
Johannesburg

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Amounts in Canadian dollars ('000)	Note(s)	As at February 29 2016	As at February 28 2015
<b>Assets</b>			
<b>Non-current assets</b>			
Mineral property interests	2	23 871	16 518
Investment in associates	3	452	396
Property, plant and equipment	4	25 506	27 001
Investments and deposits	5	1 344	1 502
Rehabilitation deposits	15	1 103	3 376
<b>Total non-current assets</b>		<b>52 276</b>	<b>48 793</b>
<b>Current assets</b>			
Inventories	6	2 100	2 177
Loans to related parties	16	–	8
Current tax receivable		–	37
Trade and other receivables	7	4 083	4 889
Cash and cash equivalents	8	58	576
Assets held for sale	9	–	13 525
<b>Total current assets</b>		<b>6 241</b>	<b>21 212</b>
<b>Total assets</b>		<b>58 517</b>	<b>70 005</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	10	147 472	147 435
Reserves		(13 607)	(8 575)
Retained loss		(130 358)	(102 076)
Total equity attributable to the equity holders of the Group		3 507	36 784
Non-controlling interest	34	–	(2 369)
<b>Total equity</b>		<b>3 507</b>	<b>34 415</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Loans from related parties	16	2 148	–
Loans and borrowings	12	24 425	3 844
Finance lease obligation	13	430	1 276
Deferred tax	14	4 867	2 995
Rehabilitation obligation	15	7 753	5 987
<b>Total non-current liabilities</b>		<b>39 623</b>	<b>14 102</b>
<b>Current liabilities</b>			
Loans from related parties	16	1 218	162
Loans and borrowings	12	–	2 296
Finance lease obligation	13	594	708
Trade and other payables	17	12 185	10 902
Bank overdraft	8	1 390	–
Liabilities held for sale	9	–	7 420
<b>Total current liabilities</b>		<b>15 387</b>	<b>21 488</b>
<b>Total liabilities</b>		<b>55 010</b>	<b>35 590</b>
<b>Total equity and liabilities</b>		<b>58 517</b>	<b>70 005</b>

# CONSOLIDATED STATEMENTS OF FINANCIAL PERFORMANCE

Amounts in Canadian dollars ('000)	Note(s)	For the year ended February 29 2016	For the year ended February 28 2015
Sale of diamonds	21	37 710	56 948
Beneficiation income	21	9 629	11 050
Cost of sales before amortization and depreciation	22	(46 598)	(68 827)
<b>Gross profit/(loss) before amortization and depreciation</b>		<b>741</b>	<b>(829)</b>
Amortization of mineral property interests	2	(1 795)	(793)
Depreciation of property, plant and equipment	4	(10 169)	(6 273)
Rehabilitation obligation recognized		(1 555)	(993)
<b>Gross loss</b>		<b>(12 778)</b>	<b>(8 888)</b>
Other income		240	1 619
General, administration and business development expenses		(5 252)	(5 895)
Loss on sale of subsidiary	18	(1 774)	-
Realized foreign exchange with sale of subsidiary		1 276	-
Impairments	2,4,7	(669)	(3 643)
<b>Loss before net finance costs</b>	23	<b>(18 957)</b>	<b>(16 807)</b>
Finance income	24	88	449
Foreign exchange loss on US\$ loans		(5 482)	-
Finance costs	25	(4 111)	(1 308)
<b>Loss after net finance costs</b>		<b>(28 462)</b>	<b>(17 666)</b>
Share of profit from equity-accounted investments	3	152	149
<b>Loss before income tax recovery</b>		<b>(28 310)</b>	<b>(17 517)</b>
Income tax recovery	26	629	2 991
<b>Loss for the year</b>		<b>(27 681)</b>	<b>(14 526)</b>
<b>(Loss)/income attributable to:</b>			
Owners of the parent		(28 282)	(13 980)
Non-controlling interest	34	601	(546)
		<b>(27 681)</b>	<b>(14 526)</b>
<b>Loss per share</b>			
Basic and diluted loss per share (cents)	27	(51.79)	(25.89)

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Amounts in Canadian dollars ('000)	Note(s)	For the year ended February 29 2016	For the year ended February 28 2015
<b>Loss for the year</b>		<b>(27 681)</b>	(14 526)
<b>Other comprehensive income net of taxation</b>			
Items that are or may be reclassified to profit or loss			
Exchange differences on translating foreign operations		<b>(3 735)</b>	1 108
Realized foreign exchange with sale of subsidiary		<b>(1 276)</b>	-
<b>Other comprehensive income for the year net of taxation</b>		<b>(5 011)</b>	1 108
<b>Total comprehensive loss</b>		<b>(32 692)</b>	(13 418)
<b>Total comprehensive income attributable to:</b>			
Owners of the Group		<b>(33 383)</b>	(12 786)
Non-controlling interest	34	<b>691</b>	(632)
<b>Total comprehensive income for the year</b>		<b>(32 692)</b>	(13 418)

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Amounts in Canadian dollars ('000)	Share capital	Foreign currency translation reserve*	Share-based payment reserve**	Total net reserves	Retained loss	Total equity attributable to equity holders of the Group	Non-controlling interest	Total equity
<b>Balance at March 1, 2014</b>	147 073	(18 799)	8 790	(10 009)	(88 096)	48 968	(1 737)	47 231
<i>Total comprehensive income for the year</i>								
Loss for the year	-	-	-	-	(13 980)	(13 980)	(546)	(14 526)
Other comprehensive income	-	1 194	-	1 194	-	1 194	(86)	1 108
Total comprehensive income for the year	-	1 194	-	1 194	(13 980)	(12 786)	(632)	(13 418)
Share-based payment expense	-	-	240	240	-	240	-	240
Share options exercised	16	-	-	-	-	16	-	16
Shares issued to employees (note 11)	347	-	-	-	-	347	-	347
Share issue costs	(1)	-	-	-	-	(1)	-	(1)
Total changes	362	1 194	240	1 434	(13 980)	(12 184)	(632)	(12 816)
<b>Balance at February 28, 2015</b>	<b>147 435</b>	<b>(17 605)</b>	<b>9 030</b>	<b>(8 575)</b>	<b>(102 076)</b>	<b>36 784</b>	<b>(2 369)</b>	<b>34 415</b>
<i>Total comprehensive income for the year</i>								
(Loss)/income for the year	-	-	-	-	(28 282)	(28 282)	601	(27 681)
Other comprehensive income	-	(5 101)	-	(5 101)	-	(5 101)	90	(5 011)
Total comprehensive income for the year	-	(5 101)	-	(5 101)	(28 282)	(33 383)	691	(32 692)
Share-based payment expense	-	-	69	69	-	69	-	69
Shares issued to employees (note 11)	43	-	-	-	-	43	-	43
Share issue costs	(6)	-	-	-	-	(6)	-	(6)
Disposal of subsidiary	-	-	-	-	-	-	1 678	1 678
Total changes	37	(5 101)	69	(5 032)	(28 282)	(33 277)	2 369	(30 908)
<b>Balance at February 29, 2016</b>	<b>147 472</b>	<b>(22 706)</b>	<b>9 099</b>	<b>(13 607)</b>	<b>(130 358)</b>	<b>3 507</b>	<b>-</b>	<b>3 507</b>
Note(s)	10		11				34	

\* Currency translation differences arising on the conversion of the results and financial position of foreign operations from their functional currency to the Group's presentation currency are accumulated in the foreign currency translation reserve.

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in Canadian dollars ('000)	Note(s)	For the year ended February 29 2016	For the year ended February 28 2015
<b>Cash flows from operating activities</b>			
Cash receipts from customers	19	43 607	68 301
Cash paid to suppliers and employees		(47 555)	(67 644)
Cash (used in)/generated from operations	19	(3 948)	657
Finance income		88	263
Finance costs		(374)	(469)
Tax paid	20	37	–
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(4 197)</b>	<b>451</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(2 057)	(4 070)
Proceeds from sale of property, plant and equipment		131	367
Purchase of mineral property interests	2	(9)	(663)
Acquisition of subsidiary	18	(1 708)	–
Proceeds from sale of subsidiary	18	2 098	–
Advances on deferred consideration from sale of subsidiary	18	1 312	–
Advances from related party loans (investing)		1 511	328
(Increase)/decrease in investments and deposits		(198)	2 575
Decrease/(increase) in rehabilitation deposits		1 810	(1 623)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>2 890</b>	<b>(3 086)</b>
<b>Cash flows from financing activities</b>			
Proceeds on share issue		–	16
Share issue costs	10	(6)	(1)
Advances from loans and borrowings		–	4 126
(Repayment of)/proceeds from finance lease obligations		(783)	1 606
Advances from related party loan (financing)		188	–
<b>Net cash inflow from financing activities</b>		<b>(601)</b>	<b>5 747</b>
<b>Net movement in cash and cash equivalents for the year</b>			
Cash and cash equivalents at the beginning of the year		576	(1 760)
Cash and cash equivalents included in assets held for sale	9	–	(776)
<b>Total cash and cash equivalents at the end of the year</b>	8	<b>(1 332)</b>	<b>576</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 1. Accounting policies

### 1.1 Nature of operations

Rockwell Diamonds Inc. (“Rockwell” or the “Company”) is engaged in the business of diamond production and the acquisition and exploration of natural resource properties. The consolidated financial statements of the Company as at and for the years ended February 29, 2016 and February 28, 2015 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates. The Group’s mineral property interests are located in South Africa. Rockwell is incorporated in Canada under the British Columbia Business Corporations Act. Rockwell is primarily listed on the Toronto Stock Exchange (“TSX”) with a secondary listing on the Johannesburg Stock Exchange (“JSE”).

### 1.2 Continuance of operations and basis of presentation

The Group incurred a total comprehensive loss of \$32.7 million (2015: \$13.4 million) for the year ended February 29, 2016. As of this date its current liabilities exceed its current assets by \$9.1 million (2015: \$0.3 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 which include:

- Geological assessments on Remhoogte and Holsloot (“RHC”) and Wouterspan (“WPC”) have concluded in 43-101 filings that inferred and indicated resources provide mine lives of in excess of seven years on both properties given the current and expected level of volumes processed annually. Inferred and indicated resources are not ‘reserves’ and are subject to significant assumptions including expected grade and operating costs as detailed in the 43-101 technical reports;
- This year Rockwell repositioned itself fundamentally by selling Etruscan (which owned Tirisano) outright, bringing Saxendrift closer to formal closure with little cost, and acquiring two new mines with a third in construction;
- Processing and feed challenges for the year under review at the two new mines (Remhoogte and Holsloot), have been identified (mining capability and screening) and in the case of screening, also been addressed with a new in-field screen;
- Processing challenges in the past, specifically the impact of throughput efficiency with various types of ore, have now been identified and are being addressed by the Company, with some operational progress to date;
- Saxendrift has essentially exhausted its ore body, and has been under a closing process during the year, and undergone a section 189 (formal employee reduction) process in tandem with the operational wind down. It is expected that final closure will take place in mid 2016, and operations have continued at operational cash breakeven over the last five months;
- The new plant at Wouterspan is scheduled for commissioning in mid calendar 2016. The design of WSP has now incorporated additional processing redundancies and back up capacity to provide reasonable assurance of design level throughput performance under varying operating conditions;
- A new mining strategy was approved by the board, and consists of outsourcing all mining, for a fixed per cubic metre rate, reducing risk, staffing, suppliers, and equipment financing or capital requirements and the Company expects the strategy to be implemented in fiscal 2017;
- Current plants have been operating at 55 – 65% of volume due to mining and processing issues, but have been cash flow positive at the gross margin level, at the Company’s new operations acquired in fiscal 2016, initial grade estimates have been demonstrated to be correct, with actual grades recovered higher than estimates, over the million cubic metres of gravels processed since acquisition;
- The working capital deficiency was principally caused by the temporary closure of one of the Company’s operations due to a fatality, the contractual debt repayments through an acquisition debt sweep structure which proved unaffordable and the commencement of construction of the new Wouterspan plant using working capital financing reduced revenues and cash flows. The temporarily closed plant reopened in late November 2015, the restructuring of the Diacore agreement sweep structure to amend this structure was completed in November 2015, and the financing for the Wouterspan plant, started in January 2016, was

finalized and funds received subsequent to year end; and

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

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

### **1.3 Basis of preparation**

#### **1.3.1 Statement of compliance**

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

#### **1.3.2 Basis of measurement**

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

#### **1.3.3 Presentation currency**

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except as otherwise indicated.

#### **1.3.4 Use of estimates and judgments**

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated financial statements and related disclosures. Use of available information and the application of judgment 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 judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

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

### **1.4 Significant accounting policies**

The accounting policies set out below are applied consistently to all years presented in these consolidated financial statements and have been applied consistently by the Group entities.

#### **1.4.1 Basis of consolidation**

##### **Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Consideration transferred is calculated as the sum of the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination.

A contingent liability of the acquiree is recognized in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 1. Accounting policies (continued)

### 1.4 Significant accounting policies (continued)

#### 1.4.1 Basis of consolidation (continued)

Transaction costs incurred in connection with a business combination, such as legal fees, due diligence fees and other professional and consulting fees are expensed as incurred, unless it is debt or equity related. Directly attributable transaction costs related to debt or equity instruments are capitalized against the debt or equity instruments.

If the Group obtains control over one or more entities that are not businesses, then the bringing together of those entities are not business combinations. The cost of acquisition is allocated among the individual identifiable assets and liabilities of such entities, based on their relative fair values at the date of acquisition. Such transactions do not give rise to goodwill.

Non-controlling interests in the proportionate net assets of consolidated subsidiaries are identified and recognized separately from the Group's interest therein, and are recognized within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interests even if this results in a debit balance being recognized for non-controlling interests.

#### Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date on which control ceases.

#### Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

#### Non-controlling interests ("NCI")

NCI are measured at their proportionate share of the carrying amounts of the acquiree's identifiable net assets at fair value at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

#### Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income ("OCI") of equity-accounted investees, until the date on which significant influence ceases. The Group does not account for losses in excess of its investment in associates.

#### 1.4.2 Mineral property interests

The acquisitions of mineral property interests are initially measured at the fair value of the consideration paid. Mineral property acquisition costs and development expenditures incurred subsequent to the determination of the feasibility of mining operations and approval of development by the Group are capitalized until the property is placed into production, sold, abandoned, or when management has determined that there has been an impairment in value. Such acquisition costs are amortized over the estimated life of the mine, based on the unit of production method, or written off as an impairment to operations if the property is abandoned, allowed to lapse, or if there is little prospect of further work being carried out by the Group.

Under the unit of production method, the yearly depreciation charge is calculated by dividing the actual resources mined by the estimated resources at the beginning of the year and then multiplying the resulting fraction by the net carrying value of the related assets. The unit of production method results in a systematic and rational allocation of

the cost of the mineral property interests over the period the resources are utilized.

The amount presented for mineral property interests represents costs incurred to date less accumulated amortization and impairment losses, and does not necessarily reflect present or future values.

### 1.4.3 Exploration and evaluation costs

Exploration and evaluation expenditures related to cost incurred on the exploration for and evaluation of potential mineral resources includes costs as follows:

- Acquisition of exploration rights;
- Conducting geological studies;
- Exploratory drilling and sampling; and
- Evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Expenditures incurred on activities that precede exploration for and evaluation of mineral resources, being all expenditures incurred prior to securing the legal rights to explore an area, are expensed immediately.

Expenditures towards in-house exploration for, and evaluation of, potential mineral resources for each area of interest are expensed until it is considered probable that future economic benefit will arise through further exploration and subsequent development of the area of interest. Pre-feasibility studies involve the review of one or more potential development options with the aim of moving forward to the more detailed feasibility study stage. Expenditures related to such studies are expensed in full as there is insufficient certainty that future economic benefit will be generated at this stage of a project.

Expenditures relating to preliminary assessments which support the technical feasibility and commercial viability of an area are capitalised at cost under mineral property interests. Where preliminary assessments reach a favorable conclusion, the costs are depleted over the unit of production method as described in 1.4.2. Where the preliminary assessments reach an adverse conclusion, any previously capitalized costs are written off.

### 1.4.4 Property, plant and equipment

The cost of an item of property, plant and equipment is recognized as an asset when:

- it is probable that future economic benefits associated with the item will flow to the Group; and
- the cost of the item can be measured reliably.

Property, plant and equipment are measured at cost less accumulated depreciation and any impairment adjustments.

Cost includes expenditures incurred initially to acquire or construct an item of property, plant and equipment and expenditures incurred subsequently to add to and replace part of it. If a replacement cost is recognized in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognized.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of them can be measured reliably. All other repairs and maintenance are recognized in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

Consistent with the prior year, the useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	12 years
Plant and machinery	4 – 10 years
Motor vehicles	5 years
Office equipment	6 years

Assets under construction are not depreciated until it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Land is not depreciated.

The residual value, useful life and depreciation method of each asset is reviewed annually. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation for each period is recognized in profit or loss unless it is included in the carrying amount of another asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 1. Accounting policies (continued)

### 1.4 Significant accounting policies (continued)

#### 1.4.4 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

#### 1.4.5 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating units exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amounts of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation

or amortization, if no impairment loss had been recognized.

#### 1.4.6 Financial instruments

##### Initial recognition and measurement

Financial instruments are recognized initially when the Group becomes a party to the contractual provisions of the instruments. The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through profit or loss are recognized in profit or loss.

##### Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being recognized in profit or loss for the period.

Loans and receivables are subsequently measured at amortized cost, using the effective interest method, less accumulated impairment losses. Loans and receivables include loans to related parties, trade and other receivables, deposits and cash and cash equivalents.

Financial liabilities are subsequently measured at amortized cost, using the effective interest method. Financial liabilities include loans from related parties, trade and other payables, loans and borrowings and bank overdraft.

##### Investments

The classification of instruments is dependent on the purpose for which the investments were required. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. The Group classifies its investments as fair value through profit or loss.

Purchases and sales of investments are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Fair value through profit or loss and available-for-sale investments are subsequently measured at fair value. The fair value of investments is based on cash value or amounts derived from cash flow models. Equity securities for which fair value cannot be measured reliably are recognized at cost less impairment.

### **Derecognition**

The Group derecognizes a financial asset when the contractual rights to cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

### **Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

### **Share capital and equity**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction of equity, net of any tax effects.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. In the statements of cash flows, cash and cash equivalents includes bank overdrafts.

### **Impairment of financial assets**

At each reporting date the Group assesses all financial assets, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired. Appropriate allowances for estimated non-recoverable amounts are recognized in profit or loss. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the financial asset might be impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Reversals of impairment losses are recognized in profit or loss.

#### **1.4.7 Tax**

##### **Current tax assets and liabilities**

Current tax for current and prior periods is, to the extent unpaid, recognized as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognized as a tax receivable.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

##### **Deferred tax assets and liabilities**

Deferred tax is recognised in respect of all taxable temporary differences between the carrying values of assets and liabilities for accounting purposes and the amounts used for tax purposes and any tax losses. No deferred tax is provided on temporary differences relating to:

- the initial recognition of goodwill;
- the initial recognition (other than in a business combination) of an asset or liability to the extent that neither accounting nor taxable profit is affected on acquisition; and
- investments in subsidiaries and associates to the extent that the Group is able to control the timing and reversal and it is probable that they will not reverse in the foreseeable future.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 1. Accounting policies (continued)

### 1.4 Significant accounting policies (continued)

#### 1.4.7 Tax (continued)

##### Deferred tax assets and liabilities (continued)

Deferred tax is measured using enacted or substantively enacted rates at the reporting date that are expected to apply when the asset is realized or the liability is settled. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the deferred tax asset could be realized.

Deferred tax assets and liabilities are offset only if certain criteria are met.

##### Tax expenses

Current and deferred taxes are recognized as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognized, in the same or a different period, in other comprehensive income which is then recognized in other comprehensive income, or
- a business combination.

Current tax and deferred taxes are recognized directly in equity if the tax relates to items that are recognized, in the same or a different period, directly in equity.

#### 1.4.8 Inventories

Rough diamond inventories are valued at the lower of average production cost and net realizable value. Production costs include the cost of consumable materials, direct labor, mine-site overhead expenses, depreciation and amortization. Work in progress stock piles consist of ground excavated, and delivered for processing at reporting date. The value of these stock piles represents management's best estimate of the costs incurred to excavate and screen the ground as identified by an independent surveyor at reporting date.

Mine supplies are valued at the lower of cost, at the weighted average cost basis, and net realizable value.

Cost of items that are not ordinarily interchangeable, and goods and services produced and segregated for specific projects, are assigned by using a specific identification of their individual costs.

Previous write-downs are reversed to the lower of cost and net realizable value when there is a subsequent increase in the value of inventories.

#### 1.4.9 Assets and liabilities held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than continuing use.

Such assets, or disposal groups are generally measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on disposal group is allocated first to mineral property, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial application as held-for-sale and subsequent gains and losses on remeasurement are recognized in the statement of financial performance.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

#### 1.4.10 Share-based payments

The fair value of share-based payment awards granted to employees is recognized on the grant date as an employee cost, with a corresponding increase in reserves, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the employee share options is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on the measurement date, the exercise price

of the instrument, expected volatility (based on an evaluation of the Group's historic volatility, particularly over the historic period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on Canadian government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

#### **1.4.11 Rehabilitation obligation**

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 at termination of mining operations and is a liability to the state. The estimated costs of rehabilitation are reviewed annually after discussions with the Department of Mineral Resources and adjusted as appropriate for changes in their requirements, legislation, technology or other circumstances.

Provision is made for the Group's legal and constructive obligations to dismantle, remove and restore items of property, plant and equipment and remediation of disturbed areas in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the reporting date. The provision is discounted using a market-based pre-tax discount rate and the unwinding of the discount is included in finance cost.

#### **1.4.12 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the Group. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership to the Group.

#### **Finance leases**

Assets held by the Group under finance leases are recognized initially in the consolidated statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

#### **Operating leases**

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. The difference between the amounts recognized as an expense and the contractual payments is recognized as an operating lease asset. Assets held under operating leases are not recognized in the Group's statement of financial position.

Any contingent rents are expensed in the period they are incurred.

#### **1.4.13 Revenue**

Revenue arising from the sale of diamonds is recognized when all the following conditions have been satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the sale transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the sale transaction can be measured reliably.

Beneficiation revenue is recognized on the date that Diacore notifies the Group of the successful sale of certain retraded and all cut and polished diamonds to third parties.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of value added tax.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 1. Accounting policies (continued)

### 1.4 Significant accounting policies (continued)

#### 1.4.14 Finance income and finance cost

Finance income comprises interest on funds invested and fair value gains on financial assets at fair value through profit or loss. Finance income is recognized, in profit or loss, using the effective interest method.

Finance cost comprises interest expense on borrowings, unwinding of discount on provisions and fair value losses on financial assets at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

#### 1.4.15 Earnings per share

The Group presents basic and diluted earnings/loss per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held and for the effects of all dilutive potential common shares, which comprise share options granted to employees, or warrants granted in respect of financing transactions.

#### 1.4.16 Translation of foreign currencies

##### Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate at the date of the transaction.

At the end of the reporting period:

- Foreign currency monetary items are translated using the spot closing rate;
- Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial periods are recognized in profit or loss in the period in which they arise.

Cash flows arising from transactions in a foreign currency are recorded in Canadian dollars by applying to the foreign currency amount the exchange rate between the Canadian dollars and the foreign currency at the date of the cash flow.

##### Foreign operations

For consolidation purposes the results and financial position of a foreign operation are translated into the presentation currency using the following procedures:

- Assets and liabilities are translated at the closing spot rates at the date of the consolidated statements of financial position;
- Equity components are translated at historical spot rates;
- Income and expenses are translated at exchange rates at the dates of the transactions; and
- All resulting exchange differences are recognized in other comprehensive income and accumulated as a separate component of equity. When a foreign investment is disposed, the cumulative exchange differences previously recognized in other comprehensive income are transferred to profit or loss.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognized initially in other comprehensive income and accumulated in the foreign translation reserve. They are recognized in profit or loss as a reclassification adjustment through to other comprehensive income on disposal of net investment.

The cash flows of a foreign subsidiary are translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

#### 1.4.17 Segmental reporting

Segmental results that are reported to the chief operating decision-maker, or decision-making group, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and tax assets and liabilities.

#### 1.4.18 Employee benefits

##### Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The obligation for employee entitlements to wages, salaries and annual leave represent the amount which the Group has a present obligation to pay as a result of employee services provided to the reporting date. Short-term benefits are undiscounted.

The expected cost of any bonus payments is recognized as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### 1.5 Standards, interpretations and amendments to published standards effective for the year ended February 29, 2016

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)	<i>Defined Benefit Plans: Employee Contributions</i>	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

#### 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 March 1, 2016 or later periods but have not been adopted early by the Group. Management is currently reviewing the impact of these standards on the Group.

These standards, amendments and interpretations are:

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 2. Mineral property interests

Amounts in Canadian dollars ('000)	As at February 29, 2016			As at February 28, 2015		
	Cost	Accumulated amortization and impairment losses	Carrying value	Cost	Accumulated amortization and impairment losses	Carrying value
Mineral property interests	28 568	(4 697)	23 871	20 406	(3 888)	16 518

#### Reconciliation of mineral property interests – February 29, 2016

Amounts in Canadian dollars ('000)	Opening balance	Additions	Business combinations (note 18)	Disposals	Foreign exchange movements	Amortization	Closing balance
	Mineral property interests	16 518	9	13 130	(352)	(3 639)	(1 795)

#### Reconciliation of mineral property interests – February 28, 2015

Amounts in Canadian dollars ('000)	Opening balance	Additions	Transfer to assets held for sale (note 9)	Foreign exchange movements	Amortization	Impairments	Closing balance
	Mineral property interests	26 642	663	(8 000)	582	(793)	(2 576)
Fiscal 2015 impairments							
Tirisano			2 576				

The Group's mineral property interests consist of the following:

#### In operation

##### Wouterspan (including Okapi and Kanonloop)

The Wouterspan property is located in the Herbert district of the Northern Cape Province of South Africa approximately 145 kilometres southwest of Kimberley. The operation is located on the farm Lanyonvale (various portions), Okapi and Kanonloop, with an aggregate area of 2 579.8 hectares.

The operation has not been operational since December 2008, but is now being re-commissioned and a new plant being built. The carrying value of this mineral property is \$12.7 million (2015: \$12.9 million). The carrying value was included in the assessment of the value in use calculation for the Wouterspan mine (refer note 4).

## 2. Mineral property interests (continued)

### **Saxendrift**

The 5 142 hectare Saxendrift mine property is located on the south bank of the Middle Orange River (“MOR”), and adjacent to the Wouterspan property and is currently being mined. Carrying value of this mineral property at February 29, 2016 amounted to \$1.5 million (2015: \$2.2 million) and was included in the value in use calculation for the Saxendrift mine (refer note 4).

### **Remhoogte, Bo-Karoo and Holsloot**

The Remhoogte property is located in the Hay district in the Northern Cape Province of South Africa approximately 35 kilometres north of Prieska. The operation is located on the Farms Remhoogte and Holsloot, with an aggregate area of 2 634.95 hectares. Carrying value of this mineral property at February 29, 2016 amounted to \$9.5 million (2015: \$Nil million). The carrying value was included in the value in use calculation for the Remhoogte mine (refer note 4).

### **On care and maintenance**

#### **Niewejaarskraal**

Niewejaarskraal is located in the Hay district of the Northern Cape Province of South Africa approximately 124 kilometres southwest of Kimberley. The operations are located on Niewejaarskraal 40 and Viegulands Put 39 (total of 3 085.695 hectares) and was actively mined for the first month of fiscal 2016 with a decision taken at March 2015 to suspend operations pending a review of the geological resource and processing capabilities of this operation. Carrying value of this mineral property at February 29, 2016 amounted to \$0.1 million (2015: \$1.1 million) and was included in the value in use calculation for the Niewejaarskraal mine (refer note 4).

### **Sold**

#### **Tirisano**

The Tirisano mine, totaling 10 805.57 hectares, is located some 35 kilometres due north of Ventersdorp, in the North West Province and approximately 150 kilometres west of Johannesburg. Operations at Tirisano mine were placed on care and maintenance in December 2012. Rockwell announced on March 30, 2015 that it had sold its 100% interest in Etruscan Diamonds Proprietary Limited, which held a 74% investment in Blue Gum Diamonds Proprietary Limited, for a total of ZAR60 million (\$6.4 million). The Tirisano mineral property was held in Blue Gum Diamonds Proprietary Limited. In line with its accounting policy the Company considered the fair value less cost to sell of the Tirisano net assets and liabilities forming part of the disposal, and allocated a shortfall of \$2.6 million as an impairment to the mineral properties of Tirisano. Furthermore, management concluded that the investment in Etruscan Diamonds Proprietary Limited was an asset held for sale as at February 28, 2015, and it is disclosed as such (refer note 9). This impairment reduced the value of the Tirisano net assets and liabilities to its recoverable amount of \$6.4 million determined via the sale. The balance on sale has now been fully received (refer note 33).

#### **Jasper**

The Jasper Mining property, consisting of Portion 1 of the farm Brakfontein No. 276, is contiguous to Rockwell’s Saxendrift Mine. It was sold as part of the consideration paid for the Bondeo Acquisition on May 27, 2015.

### **Estimates and judgments**

Carats available at the mineral property interests have been estimated by a qualified geologist employed by the Group and were reviewed by an independent qualified geologist. These resource estimates include inferred resources which have a great amount of uncertainty as to their existence, and economic and legal feasibility. The estimated carats have been published as required by National Instrument 43 – 101. The carats included in the 43 – 101 are used in the calculation of the amortization for the period (refer accounting policy).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. Investment in associates

#### 3.1 Flawless Diamonds Trading House Proprietary Limited – (20% shareholding)

On April 21, 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.

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
<b>Carrying amount</b>		
Opening balance	396	233
Equity share of profit	152	149
Foreign exchange movements	(96)	14
<b>Closing balance</b>	<b>452</b>	<b>396</b>
The associate had no other comprehensive income (2015: \$Nil).		
<b>Summarised financial information of associate – (100% interest)</b>		
Current assets	9 459	14 511
Non-current assets	57	776
<b>Total assets</b>	<b>9 516</b>	<b>15 287</b>
Current liabilities	6 656	13 325
Non-current liabilities	–	–
<b>Total liabilities</b>	<b>6 656</b>	<b>13 325</b>
Net assets	2 860	1 962
Revenue	109 001	105 643
Total comprehensive income for the year	758	743
Capital commitments and contingent liabilities of associate	–	–
<b>Reconciliation of carrying value to the 20% interest in net assets</b>		
Net assets at 20%	572	392
Other adjustments	(24)	4
Foreign exchange movements	(96)	–
<b>Carrying value</b>	<b>452</b>	<b>396</b>

### 3. Investment in associates (continued)

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

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

### 4. Property, plant and equipment

Amounts in Canadian dollars ('000)	As at February 29, 2016			As at February 28, 2015		
	Cost	Accumulated depreciation and impairment losses	Carrying value	Cost	Accumulated depreciation and impairment losses	Carrying value
Land and buildings	3 643	(936)	2 707	3 495	(1 019)	2 476
Plant and machinery	46 044	(25 028)	21 016	51 249	(28 366)	22 883
Motor vehicles	917	(669)	248	1 197	(810)	387
Office equipment	997	(780)	217	1 043	(879)	164
Construction in progress	1 318	-	1 318	1 091	-	1 091
	<b>52 919</b>	<b>(27 413)</b>	<b>25 506</b>	58 075	(31 074)	27 001

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 4. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment – February 29, 2016

Amounts in Canadian dollars ('000)	Opening balance	Additions	Business combination (note 18)
Land and buildings	2 476	43	802
Plant and machinery	22 883	1 050	12 583
Motor vehicles	387	–	–
Office equipment	164	197	–
Construction in progress	1 091	767	–
	<b>27 001</b>	<b>2 057</b>	<b>13 385</b>

#### Reconciliation of property, plant and equipment – February 28, 2015

Amounts in Canadian dollars ('000)	Opening balance	Additions	Transfer to assets held for sale (note 9)
Land and buildings	2 532	55	(147)
Plant and machinery	25 655	3 097	(1 300)
Motor vehicles	500	–	–
Office equipment	165	59	(1)
Construction in progress	1 867	859	–
	<b>30 719</b>	<b>4 070</b>	<b>(1 448)</b>

	Disposals	Transfers	Foreign exchange movements	Depreciation	Impairment loss	Closing balance
	-	148	(603)	(159)	-	2 707
	(93)	119	(4 996)	(9 861)	(669)	21 016
	(27)	-	(53)	(59)	-	248
	-	-	(54)	(90)	-	217
	-	(267)	(273)	-	-	1 318
	(120)	-	(5 979)	(10 169)	(669)	25 506

	Disposals	Transfers	Foreign exchange movements	Depreciation	Impairment loss	Closing balance
	-	88	69	(121)	-	2 476
	(579)	1 534	880	(5 966)	(438)	22 883
	(54)	-	13	(72)	-	387
	-	49	6	(114)	-	164
	-	(1 671)	36	-	-	1 091
	(633)	-	1 004	(6 273)	(438)	27 001

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 4. Property, plant and equipment (continued)

The impairment loss represents:

Amounts in Canadian dollars ('000)	Year ended February 29 2016	Year ended February 28 2015
Saxendrift Hill Complex – High Wall	–	62
Earthmoving vehicles	<b>669</b>	376
	<b>669</b>	438

Impairments for the year ended 29 February 2016 and 28 February 2015 were determined on the estimated market value less cost to sell on certain items of equipment no longer in use.

Refer note 8 and note 12 for the security charge over property, plant and equipment.

The following assets are subject to finance lease obligations: plant and machinery with a net carrying value of \$2.1 million (2015: \$2.6 million) and motor vehicles with a net carrying value of \$0.1 million (2015: \$0.1 million) totaling \$2.2 million (2015: \$2.8 million).

#### Estimates and judgments

Management performs an ongoing review of the Group's property, plant and equipment to consider indicators for impairment, and where indicators for impairment were identified, the recoverable amount is estimated. Comparisons are made to similar assets available in the market taking into consideration their economic life, residual value, current condition and application in the mining and recovery processes. Impairment indicators were identified for certain items of property, plant and equipment and where no future economic benefits (value in use) will flow from the identified assets, judgment was applied to consider fair value less costs to sell. Assets identified, where the carrying value exceeds the recoverable amount, are impaired. Life of mine cash flow models form the basis against which the value in use is measured.

Management's review identified the following indicators for impairment:

#### Saxendrift

The economic life of the Saxendrift operation, consisting of mineral property of \$1.4 million and plant and other related assets of \$7.3 million, has been extended to June 2016. The latest business plan is to mine the Saxendrift property and transfer the processing plant and movable assets of \$7.0 million to other development properties. The available resource is currently being mined by two royalty mining contractors.

It is estimated that the remaining 7 800 000m<sup>3</sup> (7 000 000m<sup>3</sup> in terms of resource and 800 000m<sup>3</sup> in terms of dumps) will be processed by royalty miners. Management believes that the remaining asset value will be recovered through the 10% royalty income.

#### Wouterspan

Wouterspan was previously on care and maintenance and this continued during the financial year. The mine is being re-developed and the plant rebuilt. The carrying value of assets to be included in the Wouterspan value in use calculation amounts to \$15.4 million, being mineral properties of \$12.7 million and plant and other assets of \$2.7 million.

Management did not identify indicators of impairment associated with this project.

#### Niewejaarskraal

Niewejaarskraal Mine was suspended in April 2015 to allow for further operational and geological evaluation work to be performed. Subject to the results of this work management intends to re-use the resource in future.

The carrying value of assets to be included in the Niewejaarskraal value in use calculation amounts to \$4.4 million, being mineral properties of \$0.1 million and plant and other assets of \$4.3 million.

Management accelerated the depreciation on the fabrication and civil works of this project.

#### 4. Property, plant and equipment (continued)

##### Estimates and judgements (continued)

##### Remhoogte Holsloot Complex

The mining license and movable assets were acquired at the end of Q1 2016. The life expectancy of this mine is currently forecast to 2022.

Key assumptions used by management in its assessment of the value in use are summarized as follows:

- Average diamond price US\$1 699/carat
- Inflation US\$ sales value 2% and cost denominated inflation in ZAR 5%
- Expected value to process 11 954m<sup>3</sup>
- Discount rate 16% after tax

The carrying value of assets to be included in the Remhoogte/Holsloot Complex value in use calculation amounts to \$19.7 million, being mineral properties of \$9.4 million and plant and other assets of \$10.3 million.

The value in use was estimated to be higher than the carrying value of the associated assets.

#### 5. Investments and deposits

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
At fair value through profit or loss		
<b>Investments</b>	<b>1 291</b>	1 436
The Group invests in investment policies with endowment benefits on maturity of the policies in order to provide funding for the rehabilitation obligations. Premiums are invested on an initial lump sum and/or monthly annuity premium basis with the insurers and invested in specific investment plans. Policy investment value at any one time represents the value of premiums and growth after deduction of administration and investment fees. Withdrawals could be made against the policies before endowment against the deduction of penalties, which is lower than the investment value. To surrender the policy prior to maturity date will similarly attract penalties at a lower rate, and represents the value accessible at any one stage. Fair value at any one stage represents the surrender value of the investments. These policies are encumbered by the guarantees issued by Standard Bank on behalf of the Group (refer notes 15 and 29).		
<b>At amortized cost</b>		
Deposits	<b>53</b>	66
Deposits paid to the South African national electricity supplier.		
<b>Total investments and deposits</b>	<b>1 344</b>	1 502
<b>Non-current assets</b>		
At fair value through profit or loss	<b>1 291</b>	1 436
At amortized cost	<b>53</b>	66
	<b>1 344</b>	1 502

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 6. Inventories

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
Rough diamond inventories	744	599
Stockpile diamond inventory	145	118
Fuel, oil and grease	151	233
Mine supplies	1 060	1 227
	<b>2 100</b>	<b>2 177</b>

The net realizable value of rough diamond inventories is estimated at the average price per carat achieved for the most recent diamond tender taking into account the variable factors of clarity, carat, shape and color. A write-down to net realizable value of \$0.3 million (2015: \$1.5 million) was recognized during the year.

Mine supplies were written down by \$0.2 million (2015: \$0.05 million) during the year.

#### Estimates and judgments

Management performs an ongoing review of inventory in order to determine the net realizable value and to identify inventory that requires a write-off. Obsolete, slow moving and damaged inventory are indicators that a write-off is required. Management's best judgment is applied in estimating the write-off should this be necessary.

### 7. Trade and other receivables

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
Trade receivables	3 119	3 023
Other receivables	765	992
Prepayments	31	258
VAT	168	616
	<b>4 083</b>	<b>4 889</b>

### 8. Cash and cash equivalents

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
Cash and cash equivalents consist of:		
Cash on hand	1	2
Bank balances	55	574
Short-term cash deposits	2	-
	<b>58</b>	<b>576</b>
Bank overdraft	<b>(1 390)</b>	-
	<b>(1 332)</b>	<b>576</b>
Current assets	<b>58</b>	<b>576</b>
Current liabilities	<b>(1 390)</b>	-
	<b>(1 332)</b>	<b>576</b>

## 8. Cash and cash equivalents (continued)

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

## 9. Assets and liabilities held for sale

On March 30, 2015, the Company announced that it had reached an agreement to sell its non-core Tirisano Project (“Tirisano”) in the North West Province of South Africa for a cash consideration of ZAR60 million (\$5.1 million). The property had previously been identified as a non-core asset and a sale process was initiated. After evaluating a number of proposals as part of the sale process, the Company reached an agreement with a consortium made up of the royalty miners (“the Consortium”), who have operated at Tirisano for the past two years. The Consortium signed an agreement on March 27, 2015 and acquired the entire issued share capital, together with claims on loan account in Rockwell’s 100% owned subsidiary, Etruscan Diamonds Proprietary Limited, including the Tirisano mining right and its associated infrastructure, on completion of conditions precedent. Accordingly these assets and liabilities were presented as a disposal group held for sale in the statement of financial position as at February 28, 2015.

The sale closed during the year, after the successful completion of conditions precedent, including required regulatory approvals. The cash consideration was agreed to be settled by way of two initial payments totaling ZAR20 million (\$1.8 million), already received in Q1 2016, followed by 20 equal monthly instalments of ZAR2 million (\$0.17 million).

As at February 29, 2016 the balance receivable remaining on this transaction was ZAR20 million (\$1.8 million). This amount was settled in full in April 2016 (refer note 33 – Subsequent events).

As at February 28, 2015 the disposal group was stated at the impaired carrying amount being the lower of carrying amount or fair value less costs to sell (Level 1 of the fair value hierarchy) and was included within the North West for operating segment reporting purposes (refer note 30). An impairment of \$2.6 million was calculated on the mineral property value based on the difference between the selling price of ZAR60 million (\$5.1 million) and the net carrying value.

The disposal of the Tirisano Project was not considered to be a discontinued operation. Although regarded as a separate segment it was not considered to represent a separate line of business or geographical area.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 9. Assets and liabilities held for sale (continued)

#### Assets and liabilities

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
<b>Assets held for sale</b>		
Mineral property interests		8 000
Property, plant and equipment		1 448
Investments and deposits		1 664
Rehabilitation deposits		84
Inventory		457
Trade and other receivables		1 096
Cash and cash equivalents		776
		<b>13 525</b>
<b>Liabilities held for sale</b>		
Loans and borrowings		3 697
Rehabilitation obligation		2 117
Trade and other payables		1 606
		<b>7 420</b>

### 10. Share capital

#### Reconciliation of number of shares issued

Number of shares	As at February 29 2016	As at February 28 2015
Beginning of year	54 558 244	53 523 244
Shares issued to employees <sup>^</sup>	425 000	960 000
Share options exercised	-	75 000
<b>End of year</b>	<b>54 983 244</b>	<b>54 558 244</b>

<sup>^</sup> Shares issued to consultants and employees amounted to:

	As at February 29, 2016		As at February 28, 2015	
	Quantity	Share price at grant date	Quantity	Share price at grant date
Consultants	Nil	-	50 000	0.36
Employees	425 000	0.10	910 000	0.36
	<b>425 000</b>		<b>960 000</b>	

## 10. Share capital (continued)

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

Share capital is shown net of share issuance cost.

The following shares are reserved for issue:

– Employee share options	3 084 011
– Daboll/Emerald loans – credit facilities (note 12)	21 215 240

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

## 11. Share-based payments

### Employee share-based payments

The Group has a share-based payment plan approved by the shareholders that allows the Group to grant options for up to 10% of the Company's shares in issue at any point in time, typically vesting over two years, to its directors, employees, officers and consultants. The Group determines the exercise price using an historic volume weighted average which could differ from the closing price on the grant date. Share options have a maximum term of five years and typically terminate 90 days following the termination of the optionee's employment, except in the case of retirement or death, which terminate one year thereafter.

The Group uses the Black-Scholes option pricing model to estimate a fair value for these options at grant date. This model require inputs such as expected volatility, expected life to exercise, and interest rates. Changes in any of these inputs could cause a significant change in the share-based payment expense charged in a period.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 11. Share-based payments (continued)

The terms and conditions of the grants of the share option plan are as follows:

Amounts in Canadian dollars ('000)	Number of instruments granted – key management	Number of instruments granted – senior employees	Number of instruments granted – other	Vesting conditions
<b>Share options issued during the year ended February 28, 2015</b>				
October 10, 2014	450 000	–	–	1/3 vests July 21, 2015, 1/3 vests July 21, 2016 and 1/3 vests July 21, 2017
January 15, 2015	64 537	20 923	29 152	All vest immediately
January 15, 2015	332 444	–	–	221 629 vest immediately and 110 815 vest June 1, 2015
<b>Share options issued during the year ended February 29, 2016</b>				
	Nil	Nil	Nil	

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term. The expected term of the instruments has been based on historical experience and general option holder behavior.

Fair value grant date of option	Share price grant date	Exercise price	Assumptions used to fair value options:			
			Risk free interest rate %	Expected life	Expected volatility %	Expected dividend
0.28	0.28	0.32	1.9	9	169	Nil
0.07	0.25	0.26	0.8	0.7	88	Nil
0.13	0.25	0.26	0.8	1.7	107	Nil
<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 11. Share-based payments (continued)

The continuity of share-based payments for the year ended February 29, 2016 is as follows:

	February 28 2015	Granted/ issued	Exercised	Expired/ cancelled	February 29 2016
<b>Grant date</b>					
October 8, 2010	138 065	–	–	(138 065)	–
October 12, 2011	125 000	–	–	–	<b>125 000</b>
October 22, 2012	320 000	–	–	–	<b>320 000</b>
December 12, 2012	593 267	–	–	–	<b>593 267</b>
October 9, 2013	1 263 300	–	–	–	<b>1 263 300</b>
October 10, 2014	450 000	–	–	–	<b>450 000</b>
January 15, 2015	447 056	–	–	(114 612)	<b>332 444</b>
	<b>3 336 688</b>	–	–	(252 677)	<b>3 084 011</b>
Weighted average exercise price	\$0.38	–	–	\$0.65	<b>\$0.35</b>
Weighted average fair value of share options granted during the year					–
Total options vested					<b>2 784 011</b>
Total options unvested					<b>300 000</b>
					<b>3 084 011</b>

The continuity of share-based payments for the year ended February 28, 2015 is as follows:

	February 28 2014	Granted/ issued	Exercised	Expired/ cancelled	February 28 2013
<b>Grant date</b>					
December 7, 2009	296 298	–	–	(296 298)	–
October 8, 2010	595 659	–	–	(457 594)	138 065
October 12, 2011	825 132	–	–	(825 132)	–
October 12, 2011	571 275	–	–	(446 275)	125 000
October 22, 2012	320 000	–	–	–	320 000
December 12, 2012	758 267	–	(75 000)	(90 000)	593 267
October 9, 2013	1 469 800	–	–	(206 500)	1 263 300
October 10, 2014	–	450 000	–	–	450 000
January 15, 2015	–	447 056	–	–	447 056
	<b>4 836 431</b>	<b>897 056</b>	(75 000)	(2 321 799)	<b>3 336 688</b>
Weighted average exercise price	\$0.54	\$0.29	\$0.21	\$0.70	\$0.38
Weighted average fair value of share options granted during the year					\$0.19
Total options vested					2 775 873
Total options unvested					560 815
					<b>3 336 688</b>

## 11. Share-based payments (continued)

### Share-based payment expenses

Amounts in Canadian dollars ('000)	For the year ended February 29 2016	For the year ended February 28 2015
Share options granted in prior years	69	164
Share options granted in current year	-	76
<b>Total share-based payment cost expensed to operations, with the offset credited to share-based payment reserve</b>	<b>69</b>	<b>240</b>

## 12. Loans and borrowings

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
<b>Held at amortized cost</b>		
<i>Daboll loan</i>	-	1 967
On June 2, 2011, the Group signed a Convertible Loan Agreement with Daboll Consultants Limited for \$2 million.		
Prior to June 26, 2015 the loan was repayable at the election of the borrower and was disclosed as non-current.		
The loan bore interest at 5% p.a. payable each calendar quarter, and any unpaid interest is compounded annually.		
The loan was convertible into common shares of the Company at the option of Daboll Consultants Limited during 21 calendar days prior and up to June 26, 2015. The loan and interest were not converted and became payable on demand post June 26, 2015.		
The loan was repaid in full on August 31, 2015, following agreement with Daboll to offset the liability against beneficiation proceeds owing to Rockwell.		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 12. Loans and borrowings (continued)

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
<b>Held at amortized cost</b> (continued)		
<i>Convertible debentures</i>	–	4 173
<p>On November 19, 2014 Rockwell completed an offering of two-year unsecured convertible debentures in a principal amount of \$4.1 million with two insiders, namely Rockwell's principal shareholder Daboll Consultants Limited, an affiliate of Diacore, (\$3 million) and with Mark Bristow, Rockwell's non-executive chairman, (\$1.1 million) in three instalments payable up to January 23, 2015.</p> <p>The debentures bore interest at a rate of 5% p.a. and would become convertible, subject to the prior approval of the disinterested minority shareholders, into the same equity securities as may be issued in any equity financings completed by the Company within the first 12 months after the debentures are issued, at the undiscounted, five day volume weighted average price ("VWAP"). If no equity financings are completed, then the debentures were to be converted into common shares, at the option of the debenture holder, any time in the second 12 months, at a 10% discount to the equity financing price not to exceed a discount of more than 25% from the VWAP (where the Company's share trade at \$0.50 or less and 20% discount from VWAP if above \$0.50).</p> <p>The total offering was reduced by \$0.3 million and separate demand loan agreements were executed for this amount on similar terms to the convertible debentures, and were included in the above total (Daboll Consultants Limited – \$0.2 million and Mark Bristow – \$0.09 million).</p> <p>As a condition for entering the bridging loan agreement with Diacore below, the Daboll Consultants Limited convertible debenture (including the demand loan) above in the amount of \$3.1 million has been added to the bridging loan amount, to form a new debt instrument and therefore subject to the same terms and conditions. It is therefore now included in the amended bridging loan total.</p>		

## 12. Loans and borrowings (continued)

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
<b>Held at amortized cost</b> (continued)		
<i>Credit facilities</i>	<b>24 425</b>	–
Bridging loans, to fund the Bondeo acquisition, were obtained from Diacore (via Ascot Diamonds Proprietary Limited) (\$20.4 million) and Mark Bristow (\$1.8 million) in order to meet the transaction financing requirements for the acquisition of Bondeo 140 cc.		
The total loans amounted to US\$16.5 million plus ZAR16 million, of which US\$1.5 million was advanced by Mark Bristow and US\$15.0 plus ZAR16 million advanced by Diacore.		
The initial term of the two loans was for a period of three months (“first period”), extendable for a further month if the Company called a shareholder meeting to approve any required amendments to the loan; Interest was payable at 1.25% per month for the first period of three months. There were no broker’s or similar fees associated with these two transactions.		
The Company renegotiated these loans during Q2 2016, and upon shareholders’ approval on September 23, 2015, two new loans, including the convertible debentures of November 2014, commencing on October 1, 2015, were issued, each with the following terms:		
– A term of 24 months from October 1, 2015		
– Interest payable every six months at US – 6-month Libor rate plus a margin of 1 000 basis points		
– To be repaid through a sweep mechanism linked to sales revenues (currently up to 7.5% on diamond sales and up to 50% on beneficiation income), paid pro rata to Diacore and Emerald in proportion to the ratio of the original two loan principal balances		
– The issue of three-year share warrants to Ascot (18 863 402) and Emerald (2 351 838) at a strike price of 20 cents per share.		
The loans are classified as non-current based on the legal substance of the contracts. Sales to Diacore brings the sweep mechanism into effect.		
The total loan amounts are secured by a first security charge over movable assets, including those acquired in note 18.2, and cession of shares in subsidiary companies.		
	<b>24 425</b>	6 140
<b>Non-current liabilities</b>		
At amortized cost	<b>24 425</b>	3 844
<b>Current liabilities</b>		
At amortized cost	–	2 296
	<b>24 425</b>	6 140

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 13. Finance lease obligation

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
<b>Minimum lease payments due</b>		
– within one year	663	869
– between one and five years	447	1 387
	<b>1 110</b>	2 256
<i>Less: Future finance charges</i>	<b>(86)</b>	(272)
<b>Present value of minimum lease payments</b>	<b>1 024</b>	1 984
<b>Present value of minimum lease payments due</b>		
Current liabilities – within one year	594	708
Non-current liabilities – between one and five years	430	1 276
	<b>1 024</b>	1 984

Finance lease obligations as detailed above are secured over plant and equipment and are repayable, on average, in 36 monthly instalments and are denominated in South African rand. Interest is charged at rates of between 1.25% to 2.00% in excess of the prevailing prime rate, which is 10.50% per annum (2015: 9.25%) at February 29, 2016. There are no significant restrictions imposed on the lessee as a result of the lease obligations.

Operating leases are disclosed under note 28.

### 14. Deferred tax

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
<b>Deferred tax liability</b>		
Mineral property interests	(4 867)	(2 743)
Property, plant and equipment	–	(2 270)
	<b>(4 867)</b>	(5 013)
<b>Deferred tax asset (recognized)</b>		
Rehabilitation obligation	–	973
Tax loss recognized	–	1 024
Other	–	21
	–	2 018
	<b>(4 867)</b>	(2 995)
<b>Reconciliation of net deferred tax liability</b>		
At beginning of the year	(2 995)	(5 926)
Foreign exchange movement	867	(60)
Recognized in profit or loss	629	2 991
Business combination	(3 368)	–
	<b>(4 867)</b>	(2 995)

## 14. Deferred tax (continued)

### Estimates and judgments

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.

### Unrecognized deferred tax asset

Deferred tax assets have not been recognized for temporary differences where it is not yet probable that the respective entities to which they relate will generate future taxable income against which to utilize the temporary differences. Estimated unrecognized deferred tax assets could be summarized as follows:

Amounts in Canadian dollars ('000)	Canada	South Africa
Balance as at February 28, 2014	22 425	12 314
Unrecognized net deferred tax assets for the year	273	1 322
Balance as at February 28, 2015	<b>22 698</b>	<b>13 636</b>
Previously unrecognized net deferred tax assets utilized	-	(8 441)
Unrecognized net deferred tax assets for the year	<b>425</b>	<b>2 195</b>
Foreign exchange movements	-	(2 949)
Disposal of subsidiary	-	(456)
<b>Balance as at February 29, 2016</b>	<b>23 123</b>	<b>3 985</b>

## 15. Rehabilitation obligation

### Reconciliation of obligation – February 29, 2016

Amounts in Canadian dollars ('000)	Opening balance	Rehabilitation obligation recognized/ (revised)	Foreign exchange movements	Business combination (note 18.2)	Unwinding	Closing balance
Wouterspan	1 044	(398)	(161)	-	-	485
Saxendrift Mine	3 000	(90)	(584)	-	-	2 326
Remhoogte/ Holsloot	-	2 023	(471)	994	821	3 367
Jasper Mining*	510	128	(116)	-	-	522
Nieuwejaarskraal	1 433	(108)	(272)	-	-	1 053
	<b>5 987</b>	<b>1 555</b>	<b>(1 604)</b>	<b>994</b>	<b>821</b>	<b>7 753</b>

\* The Group will derecognize the rehabilitation provision associated with the sale of Jasper once the legal obligation to rehabilitate historical damage is transferred to the purchaser through the Section 11 to be approved by the Department of Mineral Resources.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 15. Rehabilitation obligation (continued)

#### Reconciliation of obligation – February 28, 2015

Amounts in Canadian dollars ('000)	Opening balance	Rehabilitation obligation recognized/ (revised)	Foreign exchange movements	Transfer to non-current liabilities held for sale (note 9)	Unwinding	Closing balance
Wouterspan	1 007	(90)	37	–	90	1 044
Saxendrift Mine	1 514	1 106	111	–	269	3 000
Tirisano Mine	2 456	(413)	74	(2 117)	–	–
Jasper Mining	355	136	19	–	–	510
Nieuwejaarskraal	1 127	254	52	–	–	1 433
	6 459	993	293	(2 117)	359	5 987

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 have been consistently applied from the prior year:

Discount period:	5 years on current mining operations (end of life of mine)
South African discount rate:	9%
South African inflation rate:	6%

As required by regulatory authorities, at February 29, 2016, the Group had cash rehabilitation deposits totaling \$1.1 million (February 28, 2015 – \$3.4 million) comprising \$1.1 million (February 28, 2015 – \$3.4 million) for the Saxendrift, Wouterspan and Remhoogte operations. These deposits are invested in interest-bearing and money market-linked investments. These investments have been pledged as security in favor of the guarantees the bank issued on behalf of the Group (refer to note 5).

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

## 16. Related parties

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
<b>Related party balances</b>		
<b>Balances payable</b>		
Emerald Holdings (h)	2 148	–
Non-current balances payable	2 148	–
Banzi Trade (c)	1 178	–
Seven Bridges Trading (a)	4	5
Gump Mining (g)	36	157
Current balances payable	1 218	162
<b>Loans from related parties</b>	<b>3 366</b>	162
Certain of the above named loans are unsecured, interest free and have no fixed terms of repayment and are therefore disclosed as current.		
<b>Balances receivable</b>		
Mogopa Minerals (d)	–	8
Current balances receivable	–	8
<b>Loans to related parties</b>	<b>–</b>	8
These loans represent working capital loans and are therefore disclosed as current.		
<b>Related party transactions</b>		
<b>Services rendered and expenses reimbursed:</b>		
Seven Bridges Trading (a)	43	46
Banzi Trade (c)	240	–
Mogopa Minerals (d)	34	124
Flawless Diamonds Trading House (b)	397	707
<b>Sales rendered to:</b>		
Sale of diamonds – Diacore (f)	33 359	38 650
Beneficiation income – Diacore (f)	9 629	11 050
<b>Finance cost include the following amounts accrued to related parties</b>		
Daboll (e)	–	109
Emerald (h)	386	15
Diacore (f)	1 889	–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 16. Related parties (continued)

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
<b>Loans and borrowings include the following amounts due to related parties</b>		
Daboll (e) – convertible loan	–	1 967
Daboll (e) – convertible debenture	–	2 789
Daboll (e) – demand loan	–	239
Emerald (h) – convertible debenture	–	1 055
Emerald (h) – demand loan	–	90
Emerald (h) – long-term acquisition credit facilities	<b>3 349</b>	–
Diacore (f) – long-term acquisition credit facilities	<b>21 076</b>	–
<b>Receivables from related party included under trade and other receivables</b>		
Diacore (f)	<b>1 454</b>	2 891
<b>Compensation to key management personnel</b>		
Salaries and other short-term benefits	<b>1 060</b>	1 118
Bonus	<b>303</b>	322
Termination benefits	<b>143</b>	151
Share-based payment (note 11)	–	169
	<b>1 506</b>	1 760

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

- Seven Bridges Trading 14 Proprietary Limited (“Seven Bridges Trading”) is a wholly owned subsidiary of Randgold Resources Limited, a public company where Dr DM Bristow, a director of the Company, serves in an executive capacity. Seven Bridges Trading provides administrative and management services.
- Flawless Diamonds Trading House Proprietary Limited (“Flawless Diamonds Trading House”) is an associated company. Flawless is a registered diamond broker which provides specialist diamond valuation, marketing and tender sales services to the Group for a fixed fee of 1% of turnover which is below the market rate charged by similar tender houses.
- Banzi Trade 26 Proprietary Limited (“Banzi Trade”) is 49% owned by HC van Wyk Diamonds Limited (note 3) and 51% by Bokomoso Trust. Banzi Trade is an empowered private company established to provide projects to local communities in South Africa as part of the Company's Social and Labour Plan commitments in terms of the South African Minerals and Petroleum Resources Development Act (“MPRDA”). Banzi provides the Group with building materials at market rates.

## 16. Related parties (continued)

- The Bakwena Ba Mogopa Trust is the beneficial owner of 26% in the Tirisano Mine operation resident in Blue Gum Diamonds Proprietary Limited. This interest is held by Magopa Minerals Proprietary Limited through Magopa Blue Gum Proprietary Limited. As the landowner, surface rentals are paid to the Trust, while business and support services are paid to Magopa Minerals for shareholder relations and related services. This relationship terminated with the sale of Etruscan in March 2015.
- 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.
- Diacore Diamond Group (“Diacore”) is the holding company of Daboll and is the Company’s strategic beneficiation partner, with plus 2.8 carat sized diamonds being acquired by Diacore through the diamond trading house for beneficiation. The Group and Diacore participate equally in the retail profit from the sale of its stones, after polishing and finishing.
- Gump Mining Proprietary Limited (“Gump Mining”) owns a 50% interest in Gumrock Mining Proprietary Limited, a subsidiary company.
- Emerald Holdings Limited (“Emerald”) is an investment company in which Dr. DM Bristow, a director of the Company, has a financial interest.

## 17. Trade and other payables

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
Trade payables	5 001	3 640
Royalties payable	2 834	3 380
Other payables	1 065	2 928
Payroll accruals	1 635	932
VAT	1 650	22
	<b>12 185</b>	10 902

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 18. Sale and acquisition of subsidiaries

#### 18.1 Sale of subsidiary

The acquisition consortium (refer note 9) assumed control of Tirisano on March 28, 2015, and therefore the Group accounted for the sale as of that date. The cash consideration was to be settled by way of two initial payments totaling ZAR20 million (\$1.8 million), followed by 20 equal monthly instalments of ZAR2 million (\$0.17 million), of which nine have been received to date. Therefore as at February 29, 2016, ZAR22 million (\$1.9 million) was outstanding on the sale price. This was received after year end. Agreement has been concluded after February 29, 2016 for early settlement of the remaining balance in the amount of ZAR20 million after a ZAR2 million settlement discount.

Amounts in Canadian dollars ('000)	As at February 29 2016
<b>Carrying value of assets sold</b>	
Property, plant and equipment	1 417
Mineral property interests	8 000
Rehabilitation obligation	(2 072)
Rehabilitation deposits	1 739
Trade and other receivables	1 142
Trade and other payables	(238)
Loans and borrowings	(3 720)
Loan to related party	8
Outside shareholders	1 678
<b>Total net assets sold</b>	<b>7 954</b>
Net assets sold	7 954
Loss on sale of subsidiary	(1 774)
	<b>6 180</b>
<b>Consideration</b>	
Cash received	2 098
Deferred consideration – outstanding at year end	2 770
Deferred consideration – received since acquisition	1 312
	<b>6 180</b>

## 18. Sale and acquisition of subsidiaries (continued)

### 18.2. Business combination

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

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

The movable assets acquired have been included in a first security charge securing the two long-term acquisition credit facilities from Diacore and Emerald as disclosed in note 12.

#### The following summarizes the fair value of assets and liabilities acquired

Amounts in Canadian dollars ('000)	As at February 29 2016
Mineral property interests	13 130
Property, plant and equipment	13 385
Deferred tax	(3 368)
Rehabilitation obligation	(994)
Other liabilities	(99)
<b>Total identifiable net assets</b>	<b>22 054</b>
The deferred tax arises under IFRS as the difference between the fair value and the tax base of the asset acquired, times the tax rate. In future years, depreciation and amortization will be greater than the tax cover on the asset, at which time the deferred tax balance will be drawn down. It does not represent a tax liability owing at present.	
<b>The Group financed the purchase consideration through</b>	
Cash	(513)
Bridging loan – Diacore (paid directly by vendor to seller)	(20 346)
Bridging loan – Emerald	(1 195)
	<b>(22 054)</b>
<b>Net cash outflow from Company, on acquisition</b>	
Cash consideration paid	(1 708)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 19. Cash (used in)/generated from operations

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
Loss before taxation	(28 310)	(17 517)
<b>Adjustments for:</b>		
Depreciation and amortization	11 964	7 066
Loss on disposal of property, plant and equipment and mineral properties	340	266
Foreign exchange loss	5 482	–
Loss on sale of subsidiary	1 774	–
Share of profit from equity-accounted investment	(152)	(149)
Finance income	(88)	(449)
Finance costs	4 111	1 308
Realized foreign exchange with sale of subsidiary	(1 276)	–
Rehabilitation obligation recognized	1 555	993
Share-based payment expense	69	240
Equity-settled employee cost	43	347
Impairment of mineral property interests	–	2 576
Impairment of property, plant and equipment	669	438
(Reversal)/write-down to net realizable value of diamond inventories	338	1 468
Write-down of mine supplies	208	48
Impairment of receivables	247	581
Revenue utilized to set off against loans and borrowings (net of exchange revaluations)	(6 071)	–
<b>Changes in working capital</b>		
Inventories	(946)	547
Trade and other receivables	2 339	2 082
Trade and other payables	3 756	812
	<b>(3 948)</b>	657
<b>Cash receipts from customers for 2016 could be reconciled as follows:</b>		
Revenue	47 339	
Revenue utilized to set off against loans and borrowings (refer note 12)	(6 071)	
Movement in trade and other receivables	2 339	
	<b>43 607</b>	

## 20. Tax paid

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
Balance at beginning of the year	37	36
Current tax for the period recognized in profit or loss	-	-
Exchange rate movements	-	1
Balance at end of the year	-	(37)
	<b>37</b>	-

## 21. Revenue

Amounts in Canadian dollars ('000)	Year ended February 29 2016	Year ended February 28 2015
Sale of diamonds	37 710	56 948
Beneficiation income	9 629	11 050
	<b>47 339</b>	67 998

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

## 22. Cost of sales before amortization and depreciation

Amounts in Canadian dollars ('000)	Year ended February 29 2016	Year ended February 28 2015
Mining	15 033	19 374
Employee cost	10 351	9 337
Processing	3 154	4 940
Contract mining	14 608	7 880
Other	2 748	9 253
Royalties	178	409
<b>Production cost</b>	<b>46 072</b>	51 193
Inventory movement	(338)	2 774
Royalty mining	864	14 860
	<b>46 598</b>	68 827

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 23. Loss before net finance costs

Amounts in Canadian dollars ('000)	Year ended February 29 2016	Year ended February 28 2015
Loss before net finance costs for the year is stated after accounting for the following:		
Loss on disposal of property, plant and equipment and mineral properties	340	266
Loss on sale of subsidiary	1 774	–
Depreciation on property, plant and equipment	10 169	6 273
Amortization on mineral property interests	1 795	793
Salaries and wages	1 710	2 123
Share-based payment expense	69	240
Operating lease expense	5 225	4 620
Impairment of mineral property interests	–	2 576
Impairment of property, plant and equipment	669	438
Impairment of receivables	247	581
Write-down to net realizable value of diamond inventories	338	1 468
Write-down of mine supplies	208	48
Auditors' remuneration		
– Audit fee	248	268
– Audit-related services	424	49
General, administration and business development expenses		
– General and administration expenses	4 308	5 524
– Business development expenses	944	371

### 24. Finance income

Amounts in Canadian dollars ('000)	Year ended February 29 2016	Year ended February 28 2015
Bank	88	263
Fair value adjustments on other financial assets	–	186
	88	449

## 25. Finance costs

Amounts in Canadian dollars ('000)	Year ended February 29 2016	Year ended February 28 2015
Loans and borrowings	2 732	515
Finance lease obligation	144	96
Bank	374	168
Fair value adjustments	40	–
Unwinding of rehabilitation obligation	821	359
Other	–	170
	<b>4 111</b>	1 308

## 26. Income tax recovery

Amounts in Canadian dollars ('000)	Year ended February 29 2016	Year ended February 28 2015
<b>Deferred tax</b>		
Movement in deferred tax balance recognized through profit or loss	<b>(629)</b>	(2 991)
<b>Reconciliation of taxation</b>		
Reconciliation between accounting loss and taxation:		
Loss before tax	<b>(28 310)</b>	(17 517)
Tax recovery at the applicable tax rate of 26.00% (2015: 26.00%)	<b>(7 361)</b>	(4 554)
<b>Tax effect of adjustments on taxable loss</b>		
Difference in foreign tax rates	<b>(755)</b>	(329)
Non-deductible expenses	<b>405</b>	297
Unrecognized deferred tax assets	<b>7 082</b>	1 595
	<b>(629)</b>	(2 991)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 27. Loss per share

Amounts in Canadian dollars ('000)	Year ended February 29 2016	Year ended February 28 2015
<b>Basic and diluted loss per share</b>		
Cents per share	(51.79)	(25.89)
Basic loss per share was calculated based on a weighted average number of common shares of 54 610 498 (2015: 54 001 354).		
<b>Reconciliation of loss for the year to basic loss</b>		
Loss for the year	(27 681)	(14 526)
<b>Adjusted for:</b>		
Loss attributable to non-controlling interest	(601)	546
<b>Basic loss attributable to owners of the Group</b>	<b>(28 282)</b>	<b>(13 980)</b>
At February 29, 2016 and February 28, 2015 the impact of share-based payment options and warrants was excluded from the weighted average number of shares, for the purpose of the diluted loss per share calculation, as the effect would have been anti-dilutive.		
<b>Basic and diluted headline loss per share</b>		
Cents per share	(49.03)	(19.81)
<b>Reconciliation between basic loss and headline loss</b>		
Basic loss attributable to owners of the Group	(28 282)	(13 980)
<b>Adjusted for:</b>		
Loss on disposal of property, plant and equipment and mineral properties	340	266
Impairment of mineral property interests	-	2 576
Impairment of property, plant and equipment	669	438
Loss on sale of subsidiary	1 774	-
Realized foreign exchange with sale of subsidiary	(1 276)	-
Non-controlling interest portion of above adjustments	-	-
<b>Headline loss attributable to owners of the Group</b>	<b>(26 775)</b>	<b>(10 700)</b>

The basic and diluted headline loss per share disclosure is provided based on the Listings Requirements of the JSE (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 re-measurements.

At February 29, 2016 and February 28, 2015 the impact of share-based payment options and warrants was 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.

## 28. Commitments

### Authorised capital expenditure (not contracted for)

At February 29, 2016, the Company committed to spend \$0.1 million (2015: \$0.2 million) on capital projects during the following year to be funded through cash flows from operating activities.

Amounts in Canadian dollars ('000)	Year ended February 29 2016	Year ended February 28 2015
<b>Operating leases</b>		
<b>Minimum lease payments due</b>		
– within one year	3 281	5 054
– in second to fifth year inclusive	1 949	7 171
	<b>5 230</b>	12 225

Operating lease payments represent rentals payable by the Group for surface and equipment rentals and certain of its office properties.

A potential claim for penalty compensation to the Company in the estimated amount of \$1 million for shortfalls of availability of contracted equipment has not been reflected in these financial statements as the outcome of the claim is not yet determined.

## 29. Guarantees and contingencies

- Standard Bank Limited and Standard General Insurance Limited issued guarantees in favor of the Department of Minerals and Energy on behalf of HC van Wyk Diamonds Limited, Saxendrift Mine Proprietary Limited, Etruscan Diamonds Proprietary Limited and Blue Gum Proprietary Limited to:

	2016 ZAR m	2015 ZAR m
Department of Minerals and Energy (for rehabilitation expenses)	26.3	37.8
Electricity Provider Eskom (for utility services)	5.4	5.4

	\$ m	\$ m
Department of Minerals and Energy (for rehabilitation expenses)	2.3	4.0
Electricity Provider Eskom (for utility services)	0.5	0.6

The guarantees issued by Standard General Insurance Limited are secured by a Main Pledge and Deed of Cession issued by Rockwell Diamonds RSA Proprietary Limited and Saxendrift Mine Proprietary Limited respectively under which it indemnifies the insurer against all or any claims or loss demands, liability, costs or any other expenses of whatsoever nature which the insurance company may incur by reason of it having furnished such guarantees, undertaking of suretyships.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 29. Guarantees and contingencies (continued)

2. Rockwell Diamonds Incorporated, and its wholly owned subsidiaries N9C Resources Incorporated and N10C Resources Incorporated, provided guarantees as guarantor to Ascot Diamonds Proprietary Limited for the obligations of Rockwell Diamonds Proprietary Limited as principal borrower for the amended and restated credit agreement and senior secured credit facility through which the acquisition of the Steyn Transaction was funded.

In terms of this agreement the following securities and collateral are held by Ascot Diamonds Proprietary Limited, a member of the Diacore Group of companies pledge and cession:

- Share certificates representing Rockwell Diamonds Incorporated's holding of 23% in HC van Wyk Diamonds Limited;
- Share certificates representing Rockwell Resources RSA Proprietary Limited's holding of 77% in HC van Wyk Diamonds Limited;
- Share certificates representing Rockwell Resources RSA Proprietary Limited's holding of 100% in Saxendrift Mine Proprietary Limited;
- Share certificate representing Rockwell Resources RSA Proprietary Limited's (as nominee for Saxendrift Mine Proprietary Limited) holding of 100% in Pioneer Minerals Proprietary Limited;
- Share certificate representing Rockwell Resources RSA Proprietary Limited's holding of 20% in Flawless Diamond Trading House Proprietary Limited;
- Special notarial covering bond over the mining fleet (EMV) owned by Saxendrift Mine Proprietary Limited and utilized at Remhoogte (Pioneer Minerals Proprietary Limited) to a value of ZAR90 million (\$7.7 million);
- Notarial covering bond over plant and equipment owned by Saxendrift Mine Proprietary Limited and utilized at Remhoogte (Pioneer Minerals Proprietary Limited) to a value of ZAR27 million (\$2.3 million);
- First mortgages over the five townhouses, with a net book value of \$0.3 million, owned by Rockwell Diamonds RSA Proprietary Limited, situated in Douglas, Northern Cape Province;
- First mortgage over the residential and office property, with a net book value of \$0.7 million, owned by HC van Wyk Diamonds Limited, situated in Barkly West, Northern Cape Province;
- Pledge on debtors outstanding at any time owing to Saxendrift Mine Proprietary Limited; and
- Cession of the positive bank balances of HC van Wyk Diamonds Limited and Saxendrift Mine Proprietary Limited.

### 3. Banking facility

Rockwell Resources RSA Proprietary Limited and HC van Wyk Diamonds Limited provided collateral to Standard Bank Limited to the overdraft facility, which at February 29, 2016 was ZAR15 million (\$1.3 million).

## 29. Guarantees and contingencies (continued)

### 4. Black Economic Empowerment Transaction

The South African Mining Charter of 2004 requires participation of black economic empowerment entities in mining projects. On September 24, 2015 shareholders approved the sale to Siyancuma Capital Proprietary Limited (“Siyancuma”) of 30% of the shares of certain of its subsidiaries holding various mining rights, namely Saxendrift Mine Proprietary Limited and HC Van Wyk Diamonds Limited to Siyancuma (the “BEE Transaction”). Mr Richard Mhlontlo (currently Group HR/Industrial Relations Manager for Rockwell RSA) and Mr Oupa Sekhukhune are currently the ultimate shareholders in Siyancuma, each holding 50% of the shares of Siyancuma. In due course, a trust established for the benefit of Rockwell RSA employees will acquire 30% of the shares in Siyancuma from Messrs Mhlontlo and Sekhukhune. Pursuant to the BEE Agreement, the aggregate consideration payable by Siyancuma to Rockwell RSA is a minimum of ZAR67.7 million (\$5.8 million), payable over 10 years. At the date of signature of these financial statements the conditions precedent to this transaction were not concluded.

## 30. Segmental information

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 30. Segmental information (continued)

For the year ended February 29, 2016

Amounts in Canadian dollars ('000)	Northern Cape	North West	Corporate	Reconciling	Total
Property, plant and equipment	25 164	-	342	-	25 506
Mineral property interests	23 871	-	-	-	23 871
Total assets	56 394	-	4 504	(2 081)	58 817
Total liabilities	(25 523)	-	(27 406)	(2 081)	(55 010)
External revenue	(46 274)	(1 065)	-	-	(47 339)
<i>Other material non-cash items</i>					
- Depreciation on property, plant and equipment	10 167	-	2	-	10 169
- Amortization on mineral property interests	1 795	-	-	-	1 795
- Rehabilitation obligation recognized	1 555	-	-	-	1 555
- Impairment of property, plant and equipment	669	-	-	-	669
- Impairment of receivables	247	-	-	-	247
- Write-down of mine supplies	208	-	-	-	208
- Share of profit of associate	-	-	(152)	-	(152)
Finance income	76	10	2	-	(88)
Finance costs	486	32	3 593	-	4 111
Taxation	(629)	-	-	-	(629)
Loss for the year	18 350	4 027	5 304	-	27 681

### 30. Segmental information (continued)

For the year ended February 28, 2015

Amounts in Canadian dollars ('000)	Northern Cape	North West	Corporate	Reconciling	Total
Property, plant and equipment	26 999	–	2	–	27 001
Mineral property interests	16 518	–	–	–	16 518
Total assets	47 415	13 525	65 672	(56 607)	70 005
Total liabilities	63 578	22 007	6 612	(56 607)	35 590
External revenue	(51 504)	(16 494)	–	–	(67 998)
<i>Other material non-cash items</i>					
– Depreciation on property, plant and equipment	6 021	248	4	–	6 273
– Amortization on mineral property interests	568	225	–	–	793
– Rehabilitation obligation (revised)/recognized	1 406	(413)	–	–	993
– Impairment of property, plant and equipment	–	2 576	–	–	2 576
– Write-down of mine supplies	48	–	–	–	48
– Impairment of sundry receivables	578	3	–	–	581
– Share of profit from equity-accounted investment	–	–	(149)	–	–
Finance income	(347)	(93)	(9)	–	(449)
Finance cost	809	374	125	–	1 308
Taxation	(2 991)	–	–	–	(2 991)
Loss for the year	10 892	2 362	1 272	–	14 526

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 31. Financial risk management

The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

#### Overview

This note presents information about the Group's exposure to risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

#### Capital management

As at February 29, 2016, the Group is not subject to externally imposed capital encumbrances other than its overdraft facility, finance leases, loans and borrowings and loans to related parties.

At February 29, 2016, of the \$1.3 million overdraft (February 28, 2015: \$0.6 million asset) cash and cash equivalents held by the Group, \$1.3 million (February 28, 2015: \$0.5 million) were held in South African rand ("ZAR"), \$Nil (February 28, 2015: \$0.04 million) in Canadian dollars and \$0.007 million (February 28, 2015: \$0.01 million) in United States dollars.

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, and to have sufficient funds on hand for business opportunities as they arise. The Group considers the components of shareholders' equity, as well as its cash and cash equivalents, and bank indebtedness as capital. The Group's investment policy is to invest its cash in highly liquid short-term interest-bearing investments, having maturity dates of three months or less from the date of acquisition, that are readily convertible to known amounts of cash.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Group may issue new shares through private placements, issue debt, or return capital to shareholders, in order to maintain or adjust the capital structure.

In order to facilitate the management of its capital requirements, the Group prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

The Group incurred a loss of \$27.7 million (2015: \$14.5 million) for the year ended February 29, 2016. As of this date its current liabilities exceed its current assets by \$9.1 million (2015: \$0.3 million).

#### 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.

### 31. Financial risk management (continued)

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

Amounts in Canadian dollars ('000)	February 29, 2016		February 28, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets carried at fair value through profit or loss</b>				
Investments	1 291	1 291	1 436	1 436
<b>Assets carried at amortized cost</b>				
Deposits	53	53	66	66
Rehabilitation deposits	1 103	1 103	3 376	3 376
Trade and other receivables	3 884	3 884	4 015	4 015
Cash and cash equivalents	58	58	576	576
Loans to related parties	-	-	8	8
<b>Liabilities carried at amortized cost</b>				
Loans and borrowings	24 425	24 425	6 140	6 140
Trade and other payables	6 066	6 066	6 568	6 568
Finance lease obligations	1 024	1 024	1 984	1 984
Loans from related parties	3 366	3 366	162	162
Bank overdraft	1 390	1 390	-	-

The fair values of assets and liabilities carried at amortized 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 following table illustrates the classification of the Group's financial instruments recorded at fair value within the fair value hierarchy:

Amounts in Canadian dollars ('000)	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value – February 29, 2016</b>				
Investments	1 291	-	-	1 291
<b>Financial assets at fair value – February 28, 2015</b>				
Investments	1 436	-	-	1 436

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 31. Financial risk management (continued)

#### Financial instrument risk exposure and risk management

The Group is exposed in varying degrees to a variety of financial instrument-related risks. The board approves and monitors the risk management processes, including treasury policies, counterparty limits, controlling and reporting structures, credit risk, liquidity risk, currency risk, interest risk and diamond price risk. The types of risk exposure and the way in which such exposure is managed are provided as follows:

#### Credit risk

Credit risk is the risk of potential loss to the Group if counterparties to a financial instrument or a material contract fail to meet their contractual obligations. The Group's credit risk is primarily attributable to its liquid financial assets including cash and equivalents, trade and other receivables and loans to related parties. The carrying values of the Group's cash and cash equivalents, trade and other receivables and loans to related parties represent the maximum exposure to credit risk.

The Group limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents with high-credit quality financial institutions. The Group does not have financial assets that are invested in asset-backed commercial paper.

The Group minimizes its credit risk by reducing credit terms to 30 days on its sales. The aging of trade and other receivables at the reporting date was:

Amounts in Canadian dollars ('000)	February 29, 2016		February 28, 2015	
	Carrying amount	Impairment	Carrying amount	Impairment
Not past due	3 884	–	4 015	389
Past due 0 – 30 days	–	–	–	–
Past due 31 – 120 days	–	–	–	–
More than one year	–	–	–	–

The current carrying values represent the Group's maximum exposure to credit risk.

#### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. As disclosed in note 1.2, after taking into account cash flows from operations and the Group's holdings of cash and cash equivalents, the Group believes that these sources will be sufficient to cover the likely requirements for the foreseeable future. The Group's cash and equivalents are invested in business accounts which are available on demand for the Group's capital programs, and which are not invested in any asset-backed deposits/investments.

The Group operates in South Africa. The Group is subject to currency exchange controls administered by the South African Reserve Bank, that country's central bank. A significant portion of the Group's funding structure for its South African operations consists of advancing loans to its South Africa incorporated subsidiaries and it is possible the Company may not be able to acceptably repatriate such funds once those subsidiaries are able to repay the loans or repatriate other funds such as operating profits should any develop. The repatriation of cash held in South Africa is permitted upon the approval of the South African Reserve Bank. Cash balances in South Africa are disclosed below.

### 31. Financial risk management (continued)

The following are the contractual maturities of financial liabilities at carrying values (excluding future interest payments):

Amounts in Canadian dollars ('000)	Carrying amount	Contractual cash flow	2017	2018	2019 – 2021
<b>February 29, 2016</b>					
<b>Non-derivative financial liabilities</b>					
Trade and other payables	6 066	6 066	6 066	–	–
Loans from related parties	3 366	3 366	1 218	2 148	–
Bank overdraft	1 390	1 390	1 390	–	–
Finance lease obligations	1 024	1 024	594	430	–
Loans and borrowings	24 425	24 425	–	24 425	–
<b>February 28, 2015</b>					
<b>Non-derivative financial liabilities</b>					
Trade and other payables	6 568	6 568	6 568	–	–
Loans from related parties	162	162	162	–	–
Bank overdraft	–	–	–	–	–
Finance lease obligations	1 984	1 984	708	1 276	–
Loans and borrowings	6 140	6 140	2 296	3 844	–

The Group incurred a loss of \$27.7 million (2015: \$14.5 million) for the year ended February 29, 2016 and as at this date its current liabilities exceeded its current assets by \$9.1 million (2015: \$0.28 million). As reflected in note 1.2, the Group believes that it will be able to settle its liabilities as they fall due.

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

#### Foreign currency risk

In the normal course of business, the Group enters into transactions for the purchase of supplies and services denominated in ZAR and sales denominated in US dollars. In addition, the Group has cash and certain liabilities denominated in ZAR and US dollars. As a result, the Group is subject to currency risk from fluctuations in foreign exchange rates. The Group has not entered into any derivative or other financial instruments to mitigate this foreign exchange risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 31. Financial risk management (continued)

The exposure of the Group's financial assets and liabilities to currency risk is as follows:

#### Foreign currency exposure at the end of the reporting period

Amounts in Canadian dollars ('000)	As at February 29 2016	As at February 28 2015
<b>Assets (liabilities)</b>		
<b>United States dollar</b>		
Cash and cash equivalents	7	11
Loans and borrowings	<b>(24 425)</b>	–
Total financial assets (liabilities) denominated in currency different to the functional currency of the respective Group entity	<b>(24 418)</b>	11
<b>Exchange rates used for conversion of foreign operations were:</b>		
CDN vs. ZAR – Annual average rate	<b>0.0968</b>	0.1028
CDN vs. ZAR – Year end spot rate	<b>0.0858</b>	0.1070
CDN vs. USD – Annual average rate	<b>1.3106</b>	1.1266
CDN vs. USD – Year end spot rate	<b>1.3523</b>	1.2508

#### Sensitivity analysis

The Group has significant financial instruments exposed to currencies different to the functional currency of the respective Group entity.

A 1% increase/decrease in the foreign exchange rate for the year ended February 29, 2016 would have a net loss/gain effect on profit or loss before tax of \$242 (February 28, 2015 – \$Nil). This analysis assumes that all other variables, in particular interest rates, remain constant.

#### Interest rate risk

The Group is subject to interest rate risk with respect to its investments in cash and cash equivalents, finance lease obligations and loans and borrowings. The Group's policy is to invest cash at floating rates of interest and cash reserves are to be maintained in cash equivalents in order to maintain liquidity, while achieving a satisfactory return for shareholders. Fluctuations in interest rates when the cash equivalents mature impact interest income earned.

The Group has finance lease obligations with several financial institutions (note 13) as well as a loan from Diacore and Emerald (note 12). These obligations bear interest at rates linked to the prevailing South African prime rate and Libor, and are subject to interest rate change risk.

#### Sensitivity analysis

A 100 basis point increase/decrease in the prime interest rate for the year ended February 29, 2016 would have a net loss/gain effect on profit or loss before tax of \$402 (February 28, 2015: \$36). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

### 31. Financial risk management (continued)

#### Business risk – Diamond price risk

The value of the Group's mineral resource properties is dependent on the price and the outlook of diamonds. Diamond demand and prices fluctuate and are affected by numerous factors beyond the control of the Group, including worldwide economic trends, worldwide levels of diamond discovery and production, and the level of demand for and discretionary spending on, luxury goods such as diamonds and jewelry. Low or negative growth in the worldwide economy, prolonged credit market disruptions or activities creating disruptions in economic growth could result in decreased demand for diamonds, thereby negatively affecting the price of diamonds. Similarly, a substantial increase in the worldwide level of diamond production could also negatively affect the price of diamonds. In each case, such developments could materially adversely affect the Group's results of operations.

The profitability of the Group's operations is highly correlated to the market price of diamonds. If diamond prices decline for a prolonged period below the cost of production of the Group's operating mines, it may not be economically feasible to continue production.

### 32. List of subsidiaries

Name of subsidiary	Principal place of business	Ownership interest 2016	Ownership interest 2015
HC van Wyk Diamonds Limited <sup>1</sup>	South Africa	100%	100%
Saxendrift Mine Proprietary Limited <sup>1</sup>	South Africa	100%	100%
Jasper Mining Proprietary Limited <sup>3</sup>	South Africa	100%	100%
Etruscan Diamonds Proprietary Limited <sup>2</sup>	South Africa	0%	100%
Blue Gum Diamonds Proprietary Limited <sup>1</sup>	South Africa	0%	74%
N9C Resources Inc. <sup>2</sup>	Cayman Islands	100%	100%
N10C Resources Inc. <sup>2</sup>	Cayman Islands	100%	100%
N11C Resources Inc. <sup>2</sup>	Cayman Islands	100%	100%
Rockwell Resources RSA Proprietary Limited <sup>2</sup>	South Africa	100%	100%
Rockwell Diamonds North West Proprietary Limited <sup>3</sup>	South Africa	100%	100%
Linaplex Proprietary Limited <sup>3</sup>	South Africa	100%	100%
Gumrock Proprietary Limited <sup>1</sup>	South Africa	50%	50%
Pioneer Minerals Proprietary Limited <sup>1</sup>	South Africa	100%	0%

<sup>1</sup> Operating company

<sup>2</sup> Investment holding company

<sup>3</sup> Dormant

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 33. Subsequent events

On March 30, 2015, the Group concluded the sale of its Tirisano property for a consideration of ZAR60 million (\$5.2 million). This was payable by way of two instalments of ZAR10 million (\$0.9 million) and 20 instalments of ZAR2 million (\$0.2 million). At the balance sheet date 11 instalments, totaling ZAR22 million, remained outstanding. On March 4, 2016 the Group concluded an agreement with the buyers to early settle the outstanding balance of ZAR22 million (\$1.9 million) for an amount of ZAR20 million (\$1.7 million) in two instalments which have subsequently been paid.

As at the date of signing the financial statements the Group approved the entering into of a long-term mining agreement with CML Proprietary Limited. This agreement will provide for the sale of the Group's earthmoving equipment at net book value, the assumption of all related Group employees without successor employer obligations or costs to the Group, and provision of mining and related rehabilitation services at guaranteed monthly volumes for a fixed cost per cubic metre delivered. The risk and responsibility for mining volumes, maintenance, employees, sustaining capital reinvestment and supplier relationships will therefore be transferred.

A further ZAR15 million was invested by Diacore and Emerald in April and May 2016, as to 50% each, to fund the WPC plant on terms identical to the acquisition debt, being first security over Bondeo assets, repaid by sweeps or revenue and beneficiation income at designated rates and carrying interest of 1 000 basis points above the six-month LIBOR rate.

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

### 34. Non-controlling interest

The following table summarizes the information relating to each of the Group's subsidiaries that has material non-controlling interest ("NCI"), before any intra-group eliminations.

Amounts in Canadian dollars ('000)	Blue Gum Diamonds Proprietary Limited	Gumrock Mining Proprietary Limited	Intra-group eliminations	Total
<b>February 29, 2016</b>				
NCI percentage	26%	50%	–	–
Non-current liabilities	–	25	–	–
Current liabilities	–	(25)	–	–
Net assets	–	–	–	–
Carrying amount of NCI	–	–	–	–
Revenue	1 068	–	–	–
Loss for the year	(41)	–	–	–
Other comprehensive income	712	–	–	–
Total comprehensive income	671	–	–	–
Loss allocated to NCI	(6)	607	–	601
Other comprehensive income allocated to NCI	37	53	–	90
<b>February 28, 2015</b>				
NCI percentage	26%	50%	–	–
Non-current assets	–	29	–	–
Current assets	3 670	91	–	–
Non-current liabilities	–	(1 251)	–	–
Current liabilities	(24 484)	(83)	–	–
Net assets	(20 814)	(1 214)	–	–
Carrying amount of NCI	(5 412)	(607)	3 650	(2 369)
Revenue	16 494	472	–	–
Profit/(loss) for the year	340	(1 268)	–	–
Other comprehensive income	464	(23)	–	–
Total comprehensive income	804	(1 291)	–	–
Profit/(loss) allocated to NCI	88	(634)	–	(546)
Other comprehensive income allocated to NCI	(60)	(26)	–	(86)



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