

VANCOUVER, May 31, 2017 /CNW/ - [Rockwell Diamonds Inc.](#) ("Rockwell" or the "Company") (TSX:RDI; JSE:RDI) announces results for the three and twelve months ended February 28, 2017.

Currency values are presented in Canadian dollars, unless otherwise indicated.

Salient features

- Rough diamond revenues - declined by 31% to \$26.1 million for FY2017, compared to FY2016 (\$37.7 million). Quarterly revenues were down 90% compared Q4 FY2016, due to cessation of mining activities at Saxendrift and Remhoogte-Holsloot ("RHC"), with the sole operation, Wouterspan ("WPC"), being in ramp-up phase.
- Loss attributable to owners - \$(14.5) million for FY2017, compared to \$(28.3) million for FY2016; for the first three quarters of FY2017 substantial losses were incurred at Saxendrift and RHC, which losses were dramatically reduced by ceasing production at these entities, together with a substantial reduction in the cost base during Q4 FY2017. The two loss-making operations were successfully disposed of in Q4 FY2017, generating much needed cash and reducing overall liabilities with the purchaser absorbing certain staff.
- WPC - wet plant construction was completed as at Q1 FY2018 and de-bottlenecking will take place over the next three months to achieve 240,000m³ per month mined by end of August 2017.
- MOR grades – up 12% for FY2017, compared to FY2016; up 20% for Q4 FY2017, compared to Q4 FY2016, reflecting higher grades recovered at WPC during commissioning.
- Average price per carat – up 4% at US\$1,645 for FY2017, compared to FY2016; down 9% on Q4 FY2016 (excluding royalty miners). WPC revenues per carat were US\$1,888 since commissioning began at the end of August 2016.
- Exploration – delineation pitting in progress at Stofdraai (adjacent to WPC); possibility of bulk sampling being investigated.
- Litigation and Business Rescue – the Company's subsidiaries prevailed in a spoliation (asset possession) action brought by its former contractor, but suffered an order for provisional liquidation, which was suspended when certain creditors filed for business rescue of these subsidiaries. That order was granted when the court was persuaded that there was a stronger chance of recovery through maintaining operations and implementing the business plan, than liquidation.
- Management and Directors – Mr Johan Oosthuizen is appointed Interim CFO effective June 1, 2017, replacing Mr Patrick Cooke whose term expired. Mr Oupa Sekhukhune is appointed as a Company director effective June 1, 2017, replacing Mr Richard Mhlontlo who has resigned.

FINANCIAL HIGHLIGHTS

Summary for the 12 Months ended February 28, 2017

- Revenue: Rough diamond sales were \$26.1 million (FY2016: \$37.7 million), a 31 % decrease. This reduction was due chiefly to a 33% decrease in carat sales (18,976 carats to 12,789 carats) attributable to cessation of mining activities at Saxendrift and Remhoogte.
- Beneficiation revenue earned through the profit share agreement with Diacore amounted to \$4.4 million, a decrease of 55% over FY2016 (\$9.6 million). This was contributed to mainly by the decrease in carats produced.
- Gross (loss)/profit before amortization, depreciation and rehabilitation was \$(3.5) million compared to a gross profit of \$0.7 million for FY2016. This was the result of significantly reduced sales, offset by production cost savings.
- Net cash position: At February 28, 2017 the Group had cash and cash equivalents of \$1.7 million and overdrafts of \$1.2 million, net cash of \$523,000 (FY2016: \$1.3 million overdraft). Trade payables were \$9.3 million (FY2016 \$5.0 million). The Group has raised loans and borrowings of \$12.2 million.

Summary for the Fourth Quarter of 2017

- Revenue: The Group reported a 90% decrease in rough diamond revenues at \$987,000 (Q4 FY2016: \$10.3 million) and a decrease in beneficiation revenue to \$69,000 (Q4 FY2016: \$185,000). Total revenue reduced primarily due to cessation of mining activities at Remhoogte and Saxendrift, with the sole operation, Wouterspan, being in ramp-up phase.
- Loss attributable to owners of the parent of \$9.0 million (2016: \$15.0 million) was dramatically reduced by curtailing production at the two loss-making entities and substantial reductions in the cost base.

Commenting on the FY2017 and fourth quarter performance, Tjaart Willemse, Chief Executive Officer said:

"On 20th November 2016 the Board passed a special resolution approving a financing package of US\$8 million designed to fund a repositioning and development plan with the objective of returning Rockwell to normal commercial operations. Despite the additional challenges brought about by the various legal attacks, we have made good progress against the milestones set back in November 2016. This includes a successful restructuring exercise, a substantial reduction in off-mine and total operating costs, and completion of the construction of the Wouterspan mine infrastructure and processing plant.

It is understood that Rockwell completed a challenging quarter and financial year, which was typified by tough business decisions in the face of a series of spurious and malicious legal attacks from its erstwhile mining and construction contractor. In September 2016 the Company curtailed operations at two of its mines to prevent further cash burn, turning Rockwell effectively into a single-operation business. These operations have since been successfully disposed of to allow the Company to focus on the

development of long life operations that meet its investment criteria.

Since recommissioning at WPC commenced in late August 2016, overall grade and revenue performed on plan as did actual recovered grade and US\$/carat. Delays caused by litigation are the primary reason for higher costs and lower revenue from diamond sales.

Focus in the coming months will be on

- Removing the current production bottlenecks to enable the mine to run at higher capacity
- Completing certain mission critical infrastructure
- Bedding down the management structure to ensure delivery and to instill stability in the business
- Working on Company culture to reinforce ethical conduct and workplace accountability
- Developing a fit for purpose ore resource strategy to increase the company's overall operating base
- Working in conjunction with the Business Rescue Practitioners to ensure the return to normal commercial operations.

Despite the challenges, I am confident we have turned the corner on our way back to profitability. Prospects for revenue will remain under pressure until monthly ROM throughput increases to a steady state of 200,000m³ or higher".

Going concern assessment

The auditor's unqualified opinion includes a reference to Note 1.2 in the audited financial statements which outlines the Company's basis of presentation as a going concern. The Note discloses two uncertainties, namely the completion of the business rescue process implementing the new mining strategy and the timely ramp-up of Wouterspan, either of which may have a material impact. To the extent that these uncertainties are not resolved in the Company's favour, or if further financing to fund such further uncertainties or delays is not forthcoming, the ability of the Company to continue as a going concern may be in doubt.

Subsequent Events

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

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

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

The business rescue practitioners are Metis Strategy Advisors, who have been appointed by the Court on an interim basis, subject to ratification by creditors in the short term.

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

In addition, the Company is evaluating the extent to which the relationship with the business rescue practitioners is such that the degree of control required for consolidation of the three subsidiaries in the Company's financial statements remains in place, or whether fair presentation under IFRS would require the Company to deconsolidate the subsidiaries in South Africa.

Market update

The diamond market during FY2017 experienced fluctuations in pricing with respect to both rough and polished, while retail demand remained relatively stable compared to FY2016. Debt remained high with little to no lending by financial institutions and credit offered within the industry between industry members.

Polished prices decreased on average 6% across all sizes below 3ct with 3ct diamonds, showing the largest decrease when

compared to prices in January 2016. Larger diamonds also decreased in price and +10ct polished DIF quality were and continue to be under price pressure. Polished inventory remains high with limited cash flow available. During Q4 FY2017, seasonal festive sales of jewellery were stable and had a marginal increase compared to the previous year which helped reduce polished diamond inventory. However, high rough sales in January are expected to increase inventory levels once the diamonds are polished. Diwali sales were stressed due to the demonetisation policy of the Indian government, and Chinese New Year sales were equally subdued. The US market remains the strongest market for polished diamonds.

Rough diamond prices improved throughout the year by an average 15%, following the ca. 30% decrease in rough diamond prices at the end of 2015, which had resulted in a reduction of production and sales by major producers at the beginning of 2016. Demand for smaller diamonds decreased in late 2016 due to demonetization which settled at the end of 2016 and demand increased marginally albeit at reduced prices. Larger diamonds, +10cts in size, were under pressure and prices did recover from 2015 but remain under pressure and particularly in D Colored diamonds. Mid-range commercial type diamonds had good demand with strong pricing in line with polished demand in this small segment of quality and size.

De Beers' sales were mixed for Q4 FY2017, with a small sight in December followed by large sights in January and February, and marginal increases in prices. Rough diamond demand overall was strong and prices increased a few percentage points.

The imbalance between decreasing polished prices and increasing rough diamond prices and demand is a challenge, since the polished inventory worldwide remains high with no increase in retail demand and pressuring profitability of diamond industry. At the beginning of 2017 a number of new mines started production, which will add to world rough diamond stocks. Major producers have reduced their supplies, and will continue to do so, to avoid any further price decreases as a result of increased supply. The already low prices on smaller diamonds will pressurise cash flow of new and existing producers. The added rough diamond production will pressurise prices for the next few years but presently no new production on the horizon should see rough diamond prices trending upward from around 2020 onwards.

The increased generic marketing initiatives by different industry organisations started during FY2017; these will hopefully start taking effect through FY2018. While industry remains under financial stress, with limited financial institution support, transparency has increased and the industry continues moving forward.

Outlook and priorities

The ramp-up of Wouterspan and the the ongoing business rescue process to ensure viability of the business are key priorities for the Company in the short term, as it continues to pursue its ultimate processing target of 500,000m³ of gravel per month.

Priorities for fiscal 2018 include:

- Ramp-up and debottlenecking of the processing plant at Wouterspan
- Stabilising the business and bedding down management structures
- Developing an effective mineral resources strategy
- Create an effective working relationship with the business rescue practitioners
- Deliver on the Wouterspan business plan
- Create alternatives to bring other mining and exploration properties to book in the shortest possible time

Conference Call:

Rockwell will host a telephone conference call on Tuesday, June 6, 2017 at 09:00 a.m. Eastern Time (15:00 p.m. Johannesburg / 14:00 p.m. London) to discuss these results. The conference call may be accessed as follows:

| Country | Access Number |
|--------------------------------------------------------------------------------|------------------------------|
| Canada and USA (Toll-Free) | 1 855 481 5362 |
| South Africa (Toll-Free) | 0 800 200 648 |
| South Africa – Johannesburg | 011 535 3600 or 010 201 6800 |
| South Africa – Cape Town | 021 819 0900 |
| UK (Toll-Free) | 0808 162 4061 |
| Other Countries (Intl Toll) | +27 11 535 3600 |
| Other countries – Alternate | +27 10 201 6800 |
| (Please ask to be joined into the Rockwell Diamonds Inc. call) | |

A transcript of the audio webcast will be available on the Company's website: www.rockwelldiamonds.com. The conference call will be archived for later playback until midnight (ET) June 9, 2017 and can be accessed by dialing the relevant number in the table below and using the pass code 14076#.

| Country | Access Number |
|-----------------------------|-----------------|
| South Africa (Telkom) | 011 305 2030 |
| Canada and USA (Toll Free) | 1 855 481 5363 |
| Other Countries (Intl Toll) | +27 11 305 2030 |
| UK (Toll-Free) | 0 808 234 6771 |

For further details, see Rockwell's complete financial results and Management Discussion and Analysis (MD&A) posted on the website and on the Company's profile at www.sedar.com. These include additional details on production, sales and revenues for the quarter, as well as comparative results for fiscal 2016.

About Rockwell Diamonds:

Rockwell is engaged in the business of operating and developing alluvial diamond deposits. The Company also evaluates consolidation opportunities that have the potential to expand its mineral resources and production profile and provide accretive value to the Company.

Rockwell 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 and certain re-traded diamonds, 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 an ultimate target to process 500,000m³ 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".

No regulatory authority has approved or disapproved the information contained in this news release.

Forward Looking Statements

Except for statements of historical fact, this news release contains certain "forward-looking information" within the meaning of applicable securities law. Forward-looking information is frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements.

Factors that could cause actual results to differ materially from those in forward-looking statements include uncertainties and costs related to the transaction and the ability of each party to satisfy the conditions precedent in a timely manner or at all, exploration and development activities, such as those related to determining whether mineral resources exist on a property; uncertainties related to expected production rates, timing of production and cash and total costs of production and milling; uncertainties related to the ability to obtain necessary licenses, permits, electricity, surface rights and title for development projects; operating and technical difficulties in connection with mining development activities; uncertainties related to the accuracy of our mineral resource estimates and our estimates of future production and future cash and total costs of production and diminishing quantities or grades of mineral resources; uncertainties related to unexpected judicial or regulatory procedures or changes in, and the effects of, the laws, regulations and government policies affecting our mining operations; changes in general economic conditions, the financial markets and the demand and market price for mineral commodities such as diesel fuel, steel, concrete, electricity, and other forms of energy, mining equipment, and fluctuations in exchange rates, particularly with respect to the value of the US dollar, Canadian dollar and South African Rand; changes in accounting policies and methods that we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; environmental issues and liabilities associated with mining and processing; geopolitical uncertainty and political and economic instability in countries in which we operate; and labour strikes, work stoppages, or other interruptions to, or difficulties in, the employment of labour in markets in which we operate our mines, or environmental hazards, industrial accidents or other events or occurrences, including third party interference that interrupt operation of our mines or development projects.

For further information on Rockwell, Investors should review Rockwell's home jurisdiction filings that are available at www.sedar.com.

SOURCE [Rockwell Diamonds Inc.](#)

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