

VANCOUVER, Sept. 22, 2016 /CNW/ - [Rockwell Diamonds Inc.](#) ("Rockwell" or the "Company") (TSX: RDI; JSE: RDI) announces its quarterly production and sales update for the three months ended August 31, 2016.

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

Salient features

- Strategy - Immediate focus is being placed on:
 - implementation of the new contract for outsourced mining services and sale of the Company's earthmoving vehicle ("EMV") fleet, and transfer of two thirds of the company's staff. This contract is structured to externalize risk from variance in mining volumes and equipment availability;
 - commissioning of the third and fourth line of the Wouterspan ("WPC") wet plant during October 2016. The first two lines are completing commissioning this month;
 - review of current mining plan at Remhoogte ("RHC") to reflect a reduced Rooikoppie resource and less economic Palaeo gravels;
 - shut-down of Saxendrift during September 2016;
 - exploration drilling and bulk sampling in the vicinity of WPC;
 - develop a resource development strategy for MOR to facilitate good business decisions for future production expansion or replacement;
 - assessing potential kimberlite acquisitions to increase stability in monthly production and cash flow

This focus is the result of a detailed board review and intervention in late August due to the performance of RHC and the schedule and cost variances at WPC. The result of the review included a change in certain roles and continued close monitoring by the board of operations and project performance on a weekly basis.

- Volumes - were down 4% on Q1 2017 and 8% on Q2 2016, due to the planned scaling down of operations at Saxendrift, which was partly compensated by a 10% increase in volumes processed at RHC.
- Grades - MOR grades were down 7% on Q1 2017 and 8% on Q2 2016, owing to diminished recoveries from the middlings material at Saxendrift (which was down 13%) and reduced grades at RHC (down 14%).
- Carat sales – 4,849 carats, stable on Q1 2017 and down 9% on Q2 2016.
- Value of sales – decreased 17% from Q1 2017 and 21% from Q2 2016, to US\$7.6 million (excluding beneficiation). Total sales (including royalty contractors' production but excluding beneficiation) were also down by 14% on Q1 2017 and 16% on Q2 2017.
- Average price per carat – decline by 16% on Q1 2017 to US\$1,560.
- Notable recoveries – thirty-three +20-carat stones were recovered at RHC (22), Saxendrift (10) and WPC (1), with two stones over 100-cts: 157.99ct and 129.65ct, both from RHC.
- Rough diamond inventory - 700 carats were carried over into the third quarter of fiscal 2017 (including royalty contract goods).
- Safety - at August 31, 2016, the Company had achieved 174,558 lost time injury free hours ("LTIFH") at its MOR operations.

Material developments

- CML Agreement

A five-year mining agreement has been concluded with C-Rock Mining (Proprietary) Limited ("CML") for the provision of contract mining services at Rockwell's Wouterspan mine with a similar agreement to follow for Remhoogte. This is structured to mitigate the volume and availability risks associated with the Company's earthmoving fleet and its uneven operating performance to date. The contract provides for all mining and associated rehabilitation activities at a fixed fee per unit material delivered at the plant, with adjustments and where necessary termination for underperformance of the contractor or volume reductions implemented by the company for business reasons.

- Exploration update

Rockwell has been granted a prospecting right over the Daniel alluvial deposit, a diamondiferous fluvial-alluvial gravel deposit associated with the adjacent Finsch diamond mine in the Northern Cape Province. Limited modelling based on percussion drilling by the previous operator has identified extensive diamondiferous gravels within the palaeo-channel structure. Further work by the company is still required to assess economic potential.

- Saxendrift Mine

Rockwell's operations at Saxendrift have been suspended as anticipated following recent economic performance. Saxendrift has been the mainstay of Rockwell's production since its acquisition from Trans Hex. Commercial options on how to deal with this asset consisting of plant and remaining resource are currently being evaluated, royalty miners and relocation of fixed infrastructure being some of these.

Commenting on second quarter production and sales and the business in general, Tjaart Willemse, Executive Officer said:

"From my observations to date on the general health of the business and understanding of the main contributors to its current

position, it is clear that the business finds itself in a state of despair for a number of reasons. There has been a general breakdown in controls over a considerable period of time, non-adherence to the procurement policy, amongst others, being very prevalent. This, coupled with inadequate work planning and the lack of project front-end loading has led to a series of financial management concerns and business risks. Blurred lines of accountability, both within the organisation and between the company and some of its service providers, does not bode well for proper management and control of the business and a perceived lack of a sense of urgency further exacerbates the potential for failure.

Following some changes to the team and with the full co-operation of the remaining management and the outgoing CEO, the board led intervention with myself as the new leader will continue. I am pleased to report some significant progress has already been made and I hope to be able to update stakeholders in more detail when we release the quarterly results next month.

In conclusion, I am of the opinion that, with appropriate controls in place and with the right team to execute it, Rockwell can be turned around to deliver good shareholder value".

PRODUCTION REVIEW

Volume and carat production for total Company owned properties to August 31, 2016 were as follows:

	Q2 F2017	Q2 F2016	% Change	Q1 F2017	% Change	F2016
Volumes processed (000m ³)	786	837	(6)	865	(9)	3 214
Carats produced (carats)	4 747	5 613	(15)	5 688	(17)	18 984
Grade (carats/100m ³)	0.62	0.67	(8)	0.66	(6)	0.59

Figures above include royalty mining contractors. Refer to Appendix 1 for additional information

- RHC: Second quarter volumes fell short due to poor EMV availability and operational performance. This, combined with a 14% decline in grade compared to Q1 F2017 led to a 5% decline in carats produced. A total of 3,424 carats were recovered from this property in the quarter, including twenty-two plus 20-carat stones, with the largest being 158.99ct and 129.66ct. An average stone size of 4.6 ct/stn was achieved at a bottom cut-off of 5 mm. A detailed re-evaluation of RHC's business potential will be done in the next weeks.
- Saxendrift: The volume of gravel processed was down 19% from Q1 2017, as the operation approached its end of economic life. The recovered grade of 0.35 cphm³ was also down by 13%. Quarterly carat production declined by 28% to 1,227 carats. Notable recoveries included ten plus 20-carat stones, with the largest being 43.91ct and 42.72ct. An average stone size of 4.04 ct/stn was achieved at 5mm bottom cut-off. The Saxendrift operation was closed down on 12 September following a cost-benefit analysis.
- WPC: Commissioning of WPC commenced in August 2016, with 12,031m³ of gravel processed at a recovered grade of 0.80 cphm³. Carats produced amounted to 96.26 carats, including one stone weighing 27.405ct. An average stone size of 5.35 ct/stn was achieved at 5mm bottom cut-off. Schedule overrun due to inadequate granularity in the project plan and lack of a commercial arrangement for building the IFS is a risk. A comprehensive and detailed review of the project plan and related expenditure flow requirements will take place on 20 September. Potential for unplanned stoppages and under-delivery of the new plant due to the possibility of inadequate modelling and understanding of dynamic load impact, and risks associated with structural integrity and component maintainability needs to be better understood. A reputable alluvial diamond project design and implementation company was approached to do an external review to understand potential risk and to make recommendations on mitigating measures, a site visit is planned for late September.
- Royalty contractor mining: No diamonds were recovered in the second quarter by royalty mining contractors, following the suspension of their operations after a fatal accident at their Saxendrift Hill Complex plant in June 2016. While the company is facilitating the investigation by the DMR, it does not expect any consequences to its operations as a result.

SALES REVIEW

Diamond sales for total Company-owned properties to August 31, 2016 were as follows:

	Q2 F2017	Q2 F2016	% Change	Q1 F2017	% Change	F2016
Sales value (US\$000's)	8 062	9 557	(16)	9 347	(14)	28 713
Carats sold	5 167	5 359	(4)	5 191	(0)	18 976
Average price (US\$ per carat)	1 560	1 783	(13)	1 801	(13)	1 513

Figures above include royalty mining contractors' goods. Refer to Appendix 2 for additional information

- Saxendrift: Diamond sales were down by 11% compared to Q1 2017 at US\$2.3 million. A total of 1,337 carats were sold, down 14% on Q1 2017, at an average value per carat of US\$1,757, which was up 4% from Q1 2017. The marginal value increase is within normal parameters.
- RHC: Diamond sales were down 20% on Q1 2017, at US\$5.2 million, from the sale of 3,485 carats (up 5% on Q1 2017). The recorded average value of RHC goods declined by 24% on Q1 2017, to US\$1,486 per carat. Reduced value resulted from a lack of large stone delivery.

Appendix 1: Volumes and carat production for the Company's owned mines and its royalty mining contractors for the three months ended August 31, 2016 were as follows:

Volume Mined Q2 F2017 Q2 F2016 % Change Q1 F2017 % Change F2016

(000m³)

Saxendrift Complex	438	479	(9)	536	(18)	2 249
NJK	-	-	-	-	-	104
RHC	389	355	10	399	(2)	943
WPC	27	-	100	-	100	-
Total RDI	854	834	2	935	(9)	3 296

Volume Processed Q2 F2017 Q2 F2016 % Change Q1 F2017 % Change F2016

(000m³)

Saxendrift Complex	350	446	(22)	430	(19)	1 980
NJK	-	-	-	-	-	63
RHC	398	377	6	361	10	908
WPC	12	-	100	-	100	-
Total RDI	760	823	(8)	791	(4)	2 951
Contractors' mining*	26	15	73	74	(64)	263
Grand Total	786	837	(6)	865	(9)	3 214

Carats produced Q2 F2017 Q2 F2016 % Change Q1 F2017 % Change F2016

(carats)

Saxendrift Complex	1 227	2 168	(43)	1 705	(28)	8 335
NJK	-	-	-	-	-	431
RHC	3 424	3 405	1	3 596	(5)	8 056
WPC	96	-	100	-	100	-
Total RDI	4 747	5 573	(15)	5 301	(10)	16 822
Contractors' mining*	-	40	(100)	398	(100)	2 162
Grand Total	4 747	5 613	(15)	5 688	(17)	18 984

Grade	Q2 F2017	Q2 F2016	% Change	Q1 F2017	% Change	F2016
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(carats/100m³)

Saxendrift Complex	0.35	0.49	(29)	0.40	(13)	0.42
NJK	-	-	-	-	-	0.69
RHC	0.86	0.90	(4)	1.00	(14)	0.89
WPC	0.80	-	100	-	-	-
Total RDI	0.62	0.68	(9)	0.67	(7)	0.57
Contractors' mining*	-	0.28	(100)	0.52	(100)	0.82
Grand Total	0.62	0.67	(7)	0.66	(6)	0.59

* "Contractors' mining" refers to independent royalty contractors processing gravel for their own risk and reward on Rockwell owned mineral properties. Carats recovered are then sold through the Company's tender process. The Company retains the responsibility for diamond security and sales and recognises 100% of the revenue on sale. The contractual 89.5% of the sales value, payable to the contractor, is recognised as production costs in the statement of profit and loss.

Appendix 2: Sales for each of the Company's own mines and its royalty mining contractors for the three months ended August 31, 2016 were as follows:

Carats Sold	Q2 F2017	Q2 F2016	% Change	Q1 F2017	% Change	F2016
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Saxendrift Complex	1 337	2 279	(41)	1 557	(14)	8 478
NJK	-	-	-	-	-	685
RHC	3 485	3052	14	3 323	5	7 791
WPC	27	-	100	-	100	-
Total MOR	4 849	5 331	(9)	4 880	(1)	16 954
Contractors' carats**	318	28	1034	311	2	2 022
Grand total	5 167	5 359	(4)	5 191	(0)	18 976

Value of sales (US\$000s)	Q2 F2017	Q2 F2016	% Change	Q1 F2017	% Change	F2016
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Saxendrift Complex	2 350	5 365	(56)	2 637	(11)	14 435
NJK	-	-	-	-	-	1 109
RHC	5 177	4 184	24	6 459	(20)	11 339
WPC	37	-	100	-	100	-
Total MOR	7 563	9 549	(21)	9 096	(17)	26 883
Contractors' carats**	499	8	6138	251	99	1 830
Grand total	8 062	9 557	(16)	9 347	(14)	28 713

Average Price (US\$/carat)	Q2 F2017	Q2 F2016	% Change	Q1 F2017	% Change	F2016
Saxendrift Complex	1 757	2354	(25)	1694	4	1703
NJK	-	-	-	-	-	1619
RHC	1 486	1371	8	1944	(24)	1455
WPC	1 336	-	100	-	100	-
Total MOR	1 560	1 791	(13)	1864	(16)	1586
Contractors' carats**	1 571	301	422	806	95	905
Grand total	1 560	1 783	(13)	1801	(13)	1513

** "Contractors' carats" refers to independent royalty contractors processing gravel for their own risk and reward on Rockwell owned mineral properties. Carats recovered are then sold through the Company's tender process. The Company retains the responsibility for diamond security and sales and recognises 100% of the revenue on sale. The contractual 89.5% of the sales value, payable to the contractor, is recognised as production costs in the statement of profit and loss.

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 rough 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 500,000m3 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 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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