

VANCOUVER, Oct. 17, 2016 /CNW/ - [Rockwell Diamonds Inc.](#) ("Rockwell" or the "Company") (TSX:RDI; JSE:RDI) announces results for the three months ended August 31, 2016.

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

Salient features

- Gross profit - \$1.7 million before amortisation and depreciation for the second quarter of fiscal 2017.
- Net Loss/Income – net loss of (\$\$0.6) million compared to 1.1 million profit for the prior year.
- Rough diamond revenues - declined 14% year-on-year and 13% compared to the previous quarter.
- MOR total cost of production - down 9% year-on-year on a unit basis, but up 23% on Q1 F2017.
- Wouterspan ("WPC") processing plant – Phase 1 commissioned (lines 1 and 2); Phase 2 commissioning (lines 3 and 4) expected by November. Project schedule overruns thoroughly investigated; evaluating Phase 3 in-field screen optionality.
- Saxendrift - operations at Saxendrift suspended in September, as anticipated due to grade reduction.
- Remhoogte-Holsloot ("RHC") - operations suspended end-September, pending a review of various options going forward.
- MOR grades - down 9% year-on-year and 7% quarter-on-quarter, to 0.62 carats/100m³ of gravel processed.
- MOR revenues - declined 21% year-on-year, and 17% on the previous quarter.
- Average price per carat - down 13% year-on-year and 16% on the previous quarter (from own operations).
- Exploration - drilling and bulk sampling continues around WPC. Rockwell has been granted a Prospecting Right over the Daniel alluvial deposit (adjacent to the Finsch diamond mine).
- Safety - as at August 31, 2016 Rockwell's MOR operations had recorded 174 558 lost time injury free hours.
- Operational turnaround - contract mining services agreement concluded; focus on improvement of liquidity and working capital whilst securing completion of the WPC project; considering disposal of certain assets.
- Staffing - Company CFO stepping down to remain in Johannesburg with family, and not permanently on the mines.

FINANCIAL HIGHLIGHTS

\$ million unless otherwise stated	Q2 2017	Q2 2016	% Change	Q1 2017	F2016
Total Revenue	13.4	21	(36%)	12.5	47.3
Rough diamond sales	10.6	12.3	(14%)	12.1	37.7
Beneficiation	2.8	8.7	(68%)	0.4	9.6
Average price per carat sold (USD)	1 560	1 791	(13%)	1 864	1 513
Gross profit (loss) before amortisation and depreciation	1.7	9.2	(82%)	3.3	0.4
MOR total production cost / m ³ (USD)	12.8	14.05	(9%)	10.44	13.87
Cash generated / (used) in operations (net of debt repayments)	3.2	3.6	(11%)	2.0	(4.2)
Profit / (loss) attributable to owners of the parent	(0.6)	1.2	(150%)	0.6	(28.3)
Net cash and cash equivalents	(0.5)	(2.4)	(79%)	(0.1)	(1.3)

Commenting on the second quarter financial performance, Tjaart Willemse, Executive Officer said:

"Rockwell has seen some significant challenges during the first half, and notably so during the second quarter of the 2017 fiscal year, both in production volumes and ore quality which resulted in lower than planned diamond revenues. This, combined with a reduction in projected economic large volume resources, especially at our Remhoogte-Holsloot operation, has had an adverse impact on future economic outlook when compared to the same period in the previous fiscal year. Going forward it will not be business as usual.

Our results for the second quarter of fiscal 2017 reflect the decrease in available economic ore volumes and grades at RHC under our large volume business model, with the added disadvantage of having realised lower than planned diamond prices.

The mining contract, which was signed late August 2016, was fully implemented on September 1st. Certain measures have been put in place to manage the transition period.

Wouterspan has had some good recoveries during September, however, at current low production capacity prior to full commissioning of all four streams in November, profitability remains under pressure. The immediate aim is to complete the plant without further delay and to install additional temporary in-field screening capacity to assist the mine in achieving nameplate capacity in advance of completion of the permanent in-field screening facility.

A comprehensive sensitivity analysis was done for RHC to determine economics against fluctuations in grade, volume, diamond revenue, exchange rate, and variable and fixed cost components based on the company's large volume business model. The outcome of this exercise underpinned the Company's decision on the future of the Remhoogte operation. Mining at RHC was suspended at the end of September as it was found not to be sustainable under the current Rockwell business model. It is, however, worth noting that the mine may be operated profitably under a different cost and lower monthly volume structure.

The Saxendrift mine was suspended as well during September due to depletion of economic resources under our business model. This was in line with the mine plan and has been anticipated for some months.

Our senior management team has already and will be undergoing changes in the months ahead, following the resignation of the CEO, James Campbell, in September and that of the CFO, John Shelton for personal reasons, in October.

With the corrected focus on accelerating production ramp-up at Wouterspan and driving down our cost levels while becoming a high volume low cost producer, we believe the operations can flourish. Other aspects of the business turnaround to ensure strategic repositioning of the "new" Rockwell are receiving high priority and the full support of our Board of Directors".

Financial review

- **Revenue:** The Group reported a 14% decrease in rough diamond revenues at \$10.6 million (Q2 F2016: \$12.3 million), chiefly due to reductions in grade and diamond values realised at RHC and Saxendrift, and a 67% drop in beneficiation revenue to \$2.8 million (Q2 F2016: \$8.7 million). Total revenues decreased by 36% to \$13.4 million (Q2 F2016: \$20.9 million), reflecting the benefit of early settlement of the entire beneficiation pipeline in the prior year (\$5.8 million). Total revenues were up by 8% compared with Q1 F2017 (\$12.5 million), reflecting the benefit of beneficiation proceeds received in the current quarter.
- **Cost of sales before amortization and depreciation** decreased to \$11.7 million (Q2 F2016: \$11.8 million), mainly due to the impact of the costs of restructuring that took place in the prior year, which included the cost of goods sourced from contractors at Tirisano up to the point that operation closed, and \$0.9 million in respect of cost of closure of NJK early in Q1 F2016.
- **Production costs:** The Group's consolidated total cost of production for the quarter at its MOR operations was US\$12.84 (Q2 F2016: US\$14.05 Q1 F2017: US\$10.44) per cubic metre processed. The average total cash cost (including royalty payments) for all the operations for Q2 F2017 amounted to US\$11.54 per cubic metre processed (Q2 F2016: US\$12.89; Q1 F2017: US\$ 9.54).
- **Gross profit before amortization and depreciation:** A gross profit of \$1.7 million was reported by the Group for Q2 F2017, which compares to a profit of \$9.2 million for Q2 F2016 (profit of \$3.3 million for Q1 F2017). MOR carats sold were down 9% compared to the previous year, and MOR revenue per carat decreased to US\$1,560 (Q2 F2016: US\$1,791; Q1 F2017 US\$1,864), due to the reduced incidence of large stones largely from the declining resource at Saxendrift. Average MOR grades were down 9% during Q2 F2017 to 0.62 carats per 100m³ of gravel processed compared to last year and down 7% on Q1 F2017, reflecting reduced grades at both RHC and Saxendrift in the quarter.
- **Loss attributable to owners of the parent** of \$0.6 million (Q2 F2016: \$1.2 million profit; Q1 F2017 \$0.6 million profit) reflecting the drop in volumes and grades, as well as the impact of less favourable pricing or trading, and the impact of exchange rates on profitability.
- **Net cash position:** At August 31, 2016 the Group had a net cash position of (\$0.5) million (Q1 F2017: (\$0.1) million; Q2 F2016: (\$2.4) million).
- **Middle Orange River ("MOR") operating performance:** Volumes processed at Rockwell's MOR operations during the quarter were down 8% year-on-year at 0.76 million m³ (Q2 F2016: 0.82 million m³), due to the planned scaling down of operations at Saxendrift. MOR volumes mined were up 2% year-on-year at 0.85 million m³ (Q2 F2016: 0.83 million m³).

Market update

Markets were quiet with limited trading occurring during June, July and August, historically slow trading summer months. Three DTC Sights occurred during this period. Supply was steady, with no changes to prices. De Beers reported increased sales of 12% for the first half 2016. Increased rough sales in the first half of the year allowed producers to reduce their inventories.

Inventory levels remain high in the polished market, a result of large purchases of rough diamonds during the first half of 2016, which have now been manufactured and graded. Oversupply of inventory reduced rough diamond demand in the secondary market and placed some pressure on rough prices. Diamonds of 1-3ct are in good demand while demand for diamonds of 5-10cts is weak, with great discounts offered to wholesalers. Demand for +10ct diamonds is low and prices have dropped

substantially, which has been evident on auctions.

The Chinese jewellery market remains stressed. Hong Kong and Chinese jewellers have reported substantially reduced revenue compared to their last comparative year. As Chinese retailers close down stores and stop new polished purchases, manufacturers are unable to lower their inventory to required levels. The US jewellery market is effectively keeping the diamond industry going, with sales reported as steady. However, Signet and Tiffany also reported reductions in revenue from the previous comparative period.

Market expectations heading into the festive season are for a reduction in rough diamond supply by DTC and for no substantial change to prices, except for small increases that may occur on certain items. Polished demand should pick up towards the end of 2016, which would assist in reducing industry inventory.

Outlook and priorities

Rockwell is presently engaged in an operational turnaround given the disappointing results at RHC and the late delivery of WPC, with immediate focus being placed on:

- Immediate improvement to liquidity and working capital through asset sales, cost improvements, faster production ramp-ups through mobile in-field screening, and shareholder funding;
- closely managing the recently concluded outsourced mining contract and associated sale of the Company's earthmoving vehicle ("EMV") fleet, which includes the transfer of two thirds of the Company's staff. This contract is now in effect and is structured to externalize risk from variance in mining volumes and equipment availability;
- commissioning of the third and fourth lines of the WPC wet plant by November 2016. The first two lines have been commissioned;
- review of various options for RHC given the reduced Rooikoppie resource and high stripping ratio associated with the Palaeo gravels;
- relocation of people and equipment from Saxendrift following its placement onto care and maintenance;
- exploration drilling and bulk sampling in the vicinity of WPC;
- building a resource development strategy for MOR, and for assessing kimberlite opportunities, to facilitate future production expansion and/or replacement;
- assessing potential kimberlite acquisitions to increase stability in monthly production and cash flow.

Conference Call:

Rockwell will host a telephone conference call on Monday, October 24, 2016 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
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

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) October 27, 2016 and can be accessed by dialling the relevant number in the table below and using the pass code 49744#.

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 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 2015.

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 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 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.](#)

Contact

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