



CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MAY 31, 2009 and 2008

(Expressed in Canadian Dollars)

(Unaudited)

These financial statements have not been reviewed by the Company's auditors.

ROCKWELL DIAMONDS INC.

Consolidated Balance Sheets

(Expressed in Canadian Dollars)

	May 31, 2009 (unaudited)	February 28, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,200,941	\$ 3,997,807
Accounts receivable	1,348,195	1,131,026
Restricted cash (note 7(a))	–	2,698,719
Trade receivable from a related party (note 11)	1,771,107	3,490,725
Inventory (note 5)	3,634,055	3,719,919
Prepayments	31,254	61,775
	<hr/> 8,985,552	<hr/> 15,099,971
Property, plant and equipment (note 6)	61,976,380	59,569,186
Mineral property interests (note 7)	34,218,565	28,894,477
Other assets and deposits	161,999	139,140
Reclamation deposits (note 9)	2,962,663	2,659,642
	<hr/> \$ 108,305,159	<hr/> \$ 106,362,416
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 12)	\$ 3,727,911	\$ 3,540,880
Accounts payable and accrued liabilities	5,153,147	4,832,038
Due to related parties (note 11)	380,910	193,655
Income taxes	798,392	456,046
Current portion of capital lease obligations (note 8)	5,562,429	5,440,181
	<hr/> 15,622,789	<hr/> 14,462,800
Long-term liabilities		
Capital lease obligations (note 8)	1,987,130	3,284,596
Due to related parties (note 11)	413,960	383,330
Future income taxes	12,491,000	12,126,000
Reclamation obligation (note 9)	4,091,889	3,802,655
	<hr/> 18,983,979	<hr/> 19,596,581
Non-controlling interest	1,789,340	1,882,009
Shareholders' equity		
Share capital (note 10)	119,954,269	119,952,532
Warrants (note 10(c))	–	1,693,197
Contributed surplus	5,975,803	4,167,304
Accumulated other comprehensive loss	(7,934,466)	(13,409,383)
Deficit	(46,086,555)	(41,982,624)
	<hr/> 71,909,051	<hr/> 70,421,026
Continuance of operations and going concern (note 1)		
Contingencies (note 13)		
Subsequent events (note 8)		
	<hr/> \$ 108,305,159	<hr/> \$ 106,362,416

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

Approved by the Board of Directors

/s/ Dr. John Bristow

Dr. John Bristow
Director, Chief Executive Officer

/s/ Dr. Mark Bristow

Dr. Mark Bristow
Director

ROCKWELL DIAMONDS INC.

Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited - Expressed in Canadian Dollars)

	Three months ended May 31	
	2009	2008
Revenue		
Rough diamonds sales	\$ 3,872,799	\$ 7,094,921
Contract diamond sales	–	156,220
Other sales	56,374	79,791
	3,929,173	7,330,932
Cost of sales		
Cost of rough diamonds sales	(4,850,581)	(4,608,568)
Amortization and depletion	(1,819,080)	(2,574,231)
Operating profit (loss)	(2,740,488)	148,133
Expenses		
Accretion of reclamation obligation (note 9)	(14,288)	68,623
Exploration	57,611	304,158
Foreign exchange loss (gain)	546,059	(206,122)
Interest on capital leases	342,721	462,817
Interest expense	407,302	86,041
Legal, accounting and audit	333,700	137,327
Office and administration	656,469	972,055
Shareholder communications	119,366	79,645
Stock-based compensation - exploration (note 10(b))	29,833	202,624
Stock-based compensation - administration (note 10(b))	86,276	482,975
Travel and conferences	35,619	211,904
Transfer agent	22,173	10,051
	2,622,841	2,812,098
Other items		
Loss on disposal of equipment	25,781	20,968
Interest income	(142,789)	(1,381,283)
Write-down of assets	657,634	–
	540,626	(1,360,315)
Loss before income taxes	5,903,955	1,303,650
Current income tax expense	–	267,996
Future income tax recovery	(1,346,407)	(682,008)
Loss before non-controlling interest	4,557,548	889,638
Non-controlling interest	(453,617)	(88,285)
Loss for the period	4,103,931	801,353
Other comprehensive income	(5,474,917)	–
Total comprehensive income (loss)	\$ 1,370,986	\$ (801,353)
Basic and diluted loss per common share	\$ 0.02	\$ 0.003
Weighted average number of common shares outstanding	238,041,651	237,731,010

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

ROCKWELL DIAMONDS INC.

Consolidated Statements of Shareholders' Equity, Accumulated Comprehensive Loss and Retained Earnings

(Expressed in Canadian Dollars)

	Three months ended May 31		Year ended February 28	
	2009		2009	
	(unaudited)			
Share capital	<u>Number of shares</u>		<u>Number of shares</u>	
Balance at beginning of the period	238,041,569	\$ 119,952,532	223,755,854	\$ 112,095,390
Share purchase options exercised at \$0.62 per share	1,500	930	–	–
Consideration for additional interest of operating mines net of issue cost at \$0.55 per share	–	–	14,285,715	7,857,142
Fair value of stock options allocated to shares issued on exercise	–	807	–	–
Balance at end of the period	238,043,069	\$ 119,954,269	238,041,569	\$ 119,952,532
Warrants				
Balance at beginning of the period		\$ 1,693,197		\$ 1,693,197
Expired broker warrants		(1,693,197)		–
Balance at end of the period		\$ –		\$ 1,693,197
Contributed surplus				
Balance at beginning of the period		\$ 4,167,304		\$ 2,332,882
Stock-based compensation (note 10(b))		116,109		1,834,422
Expired broker warrants		1,693,197		–
Fair value of stock options allocated to shares issued on exercise		(807)		–
Balance at end of the period		\$ 5,975,803		\$ 4,167,304
Accumulated other comprehensive loss				
Balance at beginning of the period		\$ (13,409,383)		\$ –
Comprehensive income (loss) on currency translation of previously integrated operations		5,474,917		(13,409,383)
Balance at end of the period		\$ (7,934,466)		\$ (13,409,383)
Deficit				
Balance at beginning of the period		\$ (41,982,624)		\$ (29,006,662)
Loss for the period		(4,103,931)		(12,975,962)
Balance at end of the period		\$ (46,086,555)		\$ (41,982,624)
TOTAL SHAREHOLDERS' EQUITY		\$ 71,909,051		\$ 70,421,026

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

ROCKWELL DIAMONDS INC.

Consolidated Statements of Cash Flows

(Unaudited - Expressed in Canadian Dollars)

Cash provided by (used in):	Three months ended May 31	
	2009	2008
Operating activities		
Loss for the period	\$ (4,103,931)	\$ (801,353)
Items not affecting cash		
Accretion of reclamation obligation	(14,288)	68,623
Amortization and depletion	692,920	1,831,387
Amortization of capital lease equipment	1,126,160	742,844
Write-down of mineral property interests	657,634	424,975
Stock-based compensation (note 10)	116,109	685,598
Loss on disposal of equipment	25,781	20,968
Future income tax recovery	(1,346,407)	(682,008)
Unrealized foreign exchange gain	(316,719)	414,951
Non-controlling interest	(453,617)	(88,285)
Changes in non-cash working capital items		
Accounts receivable	(217,169)	(528,395)
Amounts due to and from related parties	1,937,503	(473,724)
Inventory	85,864	(2,460,035)
Prepayments	30,521	(2,296,336)
Accounts payable and accrued liabilities	321,109	(707,239)
Income taxes	342,346	317,064
Cash provided used in operating activities	(1,116,184)	(3,530,965)
Investing activities		
Acquisition of Saxendrift Mines (Pty) Limited	–	(12,205,245)
Restricted cash	2,698,719	10,560,902
Purchase of equipment and mineral properties	(2,399,726)	(1,745,978)
Proceeds received on disposal of equipment	333,462	139,428
Other assets and deposits	(22,859)	664,526
Reclamation deposits	(303,021)	(42,603)
Cash used in investing activities	306,575	(2,628,970)
Financing activities		
Principal repayments under capital lease obligations	(1,175,218)	(2,393,086)
Common shares issued for cash, net of issue costs	930	–
Addition of capital lease obligations	–	1,019,434
Amounts received to related parties	–	32,624
Amounts paid pursuant to property acquisition	–	459,075
Drawdown of credit facility	187,031	–
Cash provided by (used in) financing activities	\$ (987,257)	(881,953)
Decrease in cash and cash equivalents during the period	(1,796,866)	(7,041,888)
Cash and cash equivalents, beginning of period	\$ 3,997,807	19,623,848
Cash and cash equivalents, end of period	\$ 2,200,941	\$ 12,581,960
Interest paid on facilities during the period	\$ 407,302	\$ 86,041
Interest paid on capital leases	342,721	462,817
Interest received	142,789	1,381,283
Income taxes paid during the period	–	317,064
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of commons shares as consideration for acquisition of property	\$ –	\$ 7,857,143
Issuance of common shares as consideration for property finders fees	86,276	482,975
Equipment acquired under capital lease	1,346,407	1,381,283

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

ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2009 and 2008

(Unaudited – Expressed in Canadian Dollars unless otherwise stated)

1. CONTINUANCE OF OPERATIONS AND GOING CONCERN

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 Company’s principal mineral property interests are located in South Africa.

The accompanying interim consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles (“GAAP”). The going concern basis of presentation assumes that Rockwell will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of business.

The Company incurred losses of \$4,103,931 during the three months ended May 31, 2009 and continues to incur losses subsequent to the quarter end. Although the Company has reduced costs substantially, sales of diamonds have also decreased. The risk that cash and working capital will not be sufficient to fund the continuing losses indicates that a material uncertainty exists which may cast substantial doubt on the ability of the Company to continue as a going concern. The directors believe that the Company will continue as a going concern for the next quarter as well as the fiscal year ending on February 28, 2010.

The cash flow forecasts for the 2010 fiscal year indicate that additional funds of approximately \$4 million will be required to enable the Company to continue as a going concern. The additional funding was calculated on the assumption that volumes remain constant with current production, with the new plant still operating at below 50% capacity, prices remaining at current depressed levels (which are 50% below pre-September 2008 levels) and the South African Rand remains at current levels relative to the United States and Canadian dollar.

The directors have started the process to raise financing by either a rights offering or a private placement, and have identified and communicated with current investors and potential new investors to ensure that the desired investment is raised.

Accordingly, the interim financial statements have been prepared on the basis of accounting policies applicable to a going concern. Should the Company and its subsidiaries be unsuccessful in raising the additional funds of \$4 million, they may be unable to realise their assets and discharge their liabilities in the normal course of business. If the going concern basis is not appropriate for these consolidated financial statements, then significant adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2009 and 2008

(Unaudited – Expressed in Canadian Dollars unless otherwise stated)

2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

These consolidated financial statements have been prepared in accordance with Canadian GAAP. These consolidated financial statements include the accounts of the Company, its subsidiaries and its variable interest entities where the Company has been determined to be the primary beneficiary. All significant intercompany balances and transactions have been eliminated upon consolidation.

These interim financial statements do not include all the disclosures required for annual financial statements under generally accepted accounting principles. However, these interim financial statements follow the same accounting policies and methods of application as the Company's most recent audited annual financial statements except for the changes described in note 3 below. These interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended February 28, 2009, which are filed on www.sedar.com.

3. CHANGES IN ACCOUNTING POLICIES

Effective March 1, 2009, the Company adopted the following accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

(a) *Section 3064 – Goodwill and Intangibles*

The Canadian Accounting Standards Board ("AcSB") issued CICA Handbook Section 3064 which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The Company evaluated the impact of this new standard and concluded that this standard did not have a significant impact on the financial statements.

(b) *EIC 173 – Credit Risk and the Fair value of Financial Assets and Financial Liabilities*

The AcSB issued EIC-173 which requires the Corporation to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The standard is effective for the first quarter of 2009 and is required to be applied retrospectively without restatement of prior periods. The adoption of this standard did not have an impact on the valuation of financial assets or liabilities of the Company.

(c) *EIC 174 – Mining Exploration Costs*

The AcSB issued EIC-174, "Mining Exploration Costs" which provides guidance to mining enterprises related to the measurement of exploration costs and the conditions that a mining enterprise should consider when determining the need to perform an impairment review of such costs. The accounting treatments provided in EIC-174 have been applied in the preparation of these financial statements and did not have an impact on the valuation of the Company's mineral properties.

ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2009 and 2008

(Unaudited – Expressed in Canadian Dollars unless otherwise stated)

(d) *New Accounting Standards Not Yet Adopted:*

i) *International Financial Reporting Standards ("IFRS")*

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of March 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. The Company is currently in the process of developing an IFRS conversion plan and evaluating the impact of the transition to IFRS.

ii) *Business Combinations/Consolidated Financial Statements/Non-Controlling Interests*

The AcSB adopted CICA sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests" which superseded current sections 1581, "Business Combinations" and 1600 "Consolidated Financial Statements". These new sections replace existing guidance on business combinations and consolidated financial statements to harmonize Canadian accounting for business combinations with IFRS. These Sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these Sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. The Corporation is currently evaluating the impact of the adoption of these changes on its consolidated financial statements.

4. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) *Capital Management Objectives*

The Company's primary objectives when managing capital are to safeguard the Company'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 Company considers the components of shareholders' equity, as well as its cash and cash equivalents, and bank indebtedness as capital. The Company'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 Company 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 Company may issue new shares through private placements, issue debt, or return capital to shareholders, in order to maintain or adjust the capital structure.

ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2009 and 2008

(Unaudited – Expressed in Canadian Dollars unless otherwise stated)

As at May 31, 2009, the Company is not subject to externally imposed capital requirements other than the overdraft facility (note 12).

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

There were no changes to the Company's approach to capital management during the three months ended May 31, 2009 and the Company expects it will be able to raise sufficient capital resources to carry out its plans of operations for fiscal 2010 as disclosed in note 1.

(b) *Carrying Amounts and Fair Values of Financial Instrument*

The carrying value of the Company's cash and cash equivalents, accounts receivable, restricted cash, trade receivable from a related party, reclamation deposits, bank indebtedness, accounts payable and accrued liabilities and due to/from related parties approximate their fair values.

Aside from the financial assets mentioned above, the carrying amounts of the Company's other financial assets approximate their fair values. The following tables show the estimated fair values of the financial assets:

	Estimated fair value as at	
	May 31, 2009	February 28, 2009
Cash and equivalents	\$ 2,200,941	\$ 3,997,807
Restricted cash	-	2,698,719
Held for trading	\$ 2,200,941	\$ 6,696,526
Accounts receivable	\$ 1,348,195	\$ 1,131,026
Trade receivable from a related party	1,771,107	3,490,725
Loans and receivables	\$ 3,119,302	\$ 4,621,751
Reclamation deposits	\$ 2,962,663	\$ 2,659,642
Available for sale financial assets	\$ 2,962,663	\$ 2,659,642
Total financial assets	\$ 8,282,906	\$ 13,977,919

The fair value of reclamation deposits represents the market value of quoted investments.

ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2009 and 2008

(Unaudited – Expressed in Canadian Dollars unless otherwise stated)

The fair values of financial liabilities are as follows:

	Estimated fair value as at	
	May 31, 2009	February 28, 2009
Bank Indebtedness	\$ 3,727,911	\$ 3,540,880
Accounts payable and accrued liabilities	5,153,147	4,832,038
Amounts due to a related party	794,870	576,985
Capital lease obligations	7,549,559	8,724,777
Income tax liability	798,392	456,046
	<u>\$ 18,023,879</u>	<u>\$ 18,130,726</u>

5. INVENTORY

	As at	As at
	May 31, 2009	February 28, 2009
Rough diamond inventory	\$ 1,558,051	\$ 1,845,986
Mine supplies	2,076,004	1,873,933
Total inventory	<u>\$ 3,634,055</u>	<u>\$ 3,719,919</u>

As at May 31, 2009, rough diamond inventory was valued at net realizable value.

6. PROPERTY, PLANT AND EQUIPMENT

	As at May 31, 2009		
	Cost	Accumulated Amortization	Net book value
Land and buildings	\$ 6,180,864	\$ –	\$ 6,180,864
Processing plant and equipment	55,456,364	17,237,180	38,219,184
Processing plant and equipment under capital lease obligation	23,082,962	7,057,893	16,025,069
Office equipment	929,496	377,890	551,606
Vehicles and light equipment	1,705,811	706,154	999,657
	<u>\$ 87,355,497</u>	<u>\$ 25,379,117</u>	<u>\$ 61,976,380</u>

	As at February 28, 2009		
	Cost	Accumulated Amortization and Impairments	Net book value
Land and buildings	\$ 5,822,677	\$ 228,591	\$ 5,594,086
Processing plant and equipment	52,090,193	15,102,720	36,987,473
Processing plant and equipment under capital lease obligation	21,374,971	5,931,733	15,443,238
Office equipment	859,678	302,618	557,060
Vehicles and light equipment	1,579,592	592,263	987,329
	<u>\$ 81,727,111</u>	<u>\$ 22,157,925</u>	<u>\$ 59,569,186</u>

ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2009 and 2008

(Unaudited – Expressed in Canadian Dollars unless otherwise stated)

The Company's bankers have registered two notarial general covering bonds of ZAR 10 million (\$1.4 million) over all loose assets on the property of the farm Holpan, Barkley West, Northern Cape.

7. MINERAL PROPERTY INTERESTS

Acquisition Costs	As at May 31, 2009	As at February 28, 2009
H.C. Van Wyk Diamonds and Klipdam Mining		
Balance, beginning of period	\$ 22,373,984	\$ 25,247,936
Acquisition costs	–	55,746
Foreign exchange and other adjustments	2,192,907	(7,321,972)
Future income tax liability	–	6,390,327
Change in future income tax rate	–	(201,415)
Depletion of mineral properties during the period	(585,266)	(1,796,639)
H.C. Van Wyk and Klipdam, end of period	\$ 23,981,625	\$ 22,373,983
Saxendrift Mine		
Balance, beginning of period	\$ 6,520,494	\$ –
Acquisition costs	1,997,268	5,295,754
Foreign exchange and other adjustments	1,113,074	(178,144)
Future income tax liability	776,715	1,990,181
Depletion of mineral properties during the period	(170,611)	(587,297)
Saxendrift Mine (Pty) Ltd, end of period	\$ 10,236,940	\$ 6,520,494
Balance, end of period	\$ 34,218,565	\$ 28,894,477

Acquisition of Niewejaarskraal mining rights relating to Saxendrift Mine (Pty) Ltd. acquisition

As at February 28, 2009, the Company was committed to pay Trans Hex for the acquisition of the remaining Niewejaarskraal mining rights. The Company had placed \$2.7 million in trust toward application of the remaining payment, to be released to Transhex upon the anticipated grant of Ministerial Consent to the cession of each of the Outstanding Mining Rights to the Company and registration of cession of such rights in its name.

On April 11th, 2009 all the conditions precedent were met and the Company paid ZAR18.9 million (\$2.6 million) in cash to Trans Hex for the remaining Niewejaarskraal mining rights of which ZAR 16.5 million (\$2.0 million) was capitalized. This action completed the Saxendrift/Remhoogte-Holsloot transaction negotiated during April 2008. The Company has no further commitments in relation to more acquisitions.

ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2009 and 2008

(Unaudited – Expressed in Canadian Dollars unless otherwise stated)

8. CAPITAL LEASE OBLIGATIONS

Included in property, plant and equipment are mining equipment that the Company acquired pursuant to three to four year capital lease agreements.

The Company's capital lease obligations are with the following financial institutions:

	As at May 31, 2009	As at February 28, 2009
Stannic	\$ 603,150	\$ 883,409
Wesbank	78,633	81,779
Nedbank	97,927	178,092
Komatfin	6,769,849	7,581,497
	\$ 7,549,559	\$ 8,724,777

Capital lease obligations as detailed above are secured over plant and equipment and are repayable, on average, in 36 monthly installments. Interest is charged at rates of between 12.00% to 12.75% per annum linked to the prevailing prime rate of the relative financial institution mentioned above.

Future minimum lease payments are as follows:

	As at May 31, 2009	As at February 28, 2009
2010	\$ 6,358,584	\$ 6,570,081
2011	1,820,834	2,860,859
2012	–	106,122
Total minimum lease payments	8,179,418	9,537,062
Less: interest portion	(629,859)	(812,285)
Present value of capital lease obligations	7,549,559	8,724,777
Current portion	5,562,429	5,440,181
Non-current portion	\$ 1,987,130	\$ 3,284,596

Subsequent to May 31, 2009, the Company successfully negotiated a payment holiday on its Komatsu equipment with one of its lessors. This will enable the group to defer its cash commitments for four months by ZAR4 million (\$546,000) per month.

ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2009 and 2008

(Unaudited – Expressed in Canadian Dollars unless otherwise stated)

9. RECLAMATION OBLIGATION

The continuity of the provision for reclamation costs related to the Holpan, Wouterspan, Klipdam and Saxendrift mines, are as follows:

	As at May 31, 2009	As at February 28, 2009
Holpan, Wouterspan and Klipdam		
Balance, beginning of period	\$ 2,690,335	\$ 1,755,820
Changes during the period:		
Reclamation obligation recognized (expenditure incurred)	(299,940)	(10,274)
Foreign exchange on reclamation	211,427	–
Accretion expense	148,112	944,789
Balance, end of period	\$ 2,749,934	\$ 2,690,335
Saxendrift		
Balance, beginning of period	\$ 1,112,320	\$ –
Changes during the period:		
Reclamation obligation recognized	–	984,720
Foreign exchange on reclamation	92,095	–
Accretion expense	137,540	127,600
Balance, end of period	\$ 1,341,955	\$ 1,112,320
Total reclamation obligation, end of period	\$ 4,091,889	\$ 3,802,655

The rehabilitation provision is based on an independent professional surveyor's measurement of those mined areas which need to be rehabilitated at year-end.

These measurements determine the volume of material needed to reclaim the mined areas. The liability is calculated by applying a cost of ZAR4.00 (\$0.51) for each cubic meter measured, and has been determined with reference to plant, fuel and labour usage and has been found acceptable by the Department of Mineral and Energy Affairs.

As required by regulatory authorities, at May 31, 2009, the Company had cash reclamation deposits totaling \$2,962,663 (2008 – \$2,659,642). These investments have been ceded as security in favour of the guarantees the bank issued on behalf of the group.

ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2009 and 2008

(Unaudited – Expressed in Canadian Dollars unless otherwise stated)

10. SHARE CAPITAL

(a) Authorized share capital

The Company's authorized share capital consists of an unlimited number of common shares, without par value, and an unlimited number of preferred shares without par value, of which no preferred shares have been issued.

(b) Share purchase options

The continuity of share purchase options for three months ended May 31, 2009 is as follows:

Expiry date	Exercise price	Feb 28 2009	Granted	Exercised	Expired/ cancelled	May 31 2009
September 24, 2012	\$ 0.62	5,901,334	–	1,500	–	5,899,834
November 14, 2012	\$ 0.63	1,104,834	–	–	3,334	1,101,500
June 20, 2011	\$ 0.45	950,000	–	–	–	950,000
		7,956,168	–	1,500	3,334	7,951,334
Weighted average exercise price		\$ 0.60	\$ 0.00	\$ 0.62	\$ 0.63	\$ 0.60
Weighted average fair value of options granted during the period						\$ 0.00

As at May 31, 2009, 7,318,000 of the options outstanding with a weighted average exercise price of \$0.60 per share have vested with grantees.

Using a Black-Scholes option pricing model with the assumptions noted below, the fair values of stock options granted have been reflected in the statement of operations as follows:

	Three months ended May 31	
	2009	2008
Exploration and engineering	\$ 29,833	\$ 202,624
Operations and administration	86,276	482,975
Total compensation cost expensed to operations, with the offset credited to contributed surplus	\$ 116,109	\$ 685,599

The weighted-average assumptions used to estimate the fair value of options granted are as follows:

	Three months ended May 31	
	2009	2008
Risk free interest rate	nil	4%
Expected life	nil	4.8 years
Expected volatility	nil	112%
Expected dividends	nil	nil

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(c) *Share purchase warrants*

The continuity of share purchase warrants (each warrant exercisable into one common share) for the period ended May 31, 2009 is as follows:

Expiry date	November 22, 2009⁽ⁱ⁾	May 09, 2009⁽ⁱⁱ⁾	May 09, 2009⁽ⁱⁱⁱ⁾
Balance, February 28, 2009	39,600,000	116,007,154	5,772,000
Issued	–	–	–
Exercised	–	–	–
Expired	–	116,007,154	5,772,000
Balance, May 31, 2009	39,600,000	–	–

(i) The share purchase warrants are exercisable over three years with the option to exercise at \$0.60 expiring on November 22, 2007, the option to exercise at \$0.80 expiring on November 22, 2008 and the option to exercise at \$1.00 expiring on November 22, 2009.

(ii) In May 2007, Rockwell completed a \$60 million private placement financing of 116,007,154 million equity Units at \$0.52 each with each Unit consisting of one common share and one share purchase warrant exercisable over two years at \$0.70. These warrants expired unexercised on May 9, 2009.

(iii) In May 2007, the Company issued 5,772,000 broker warrants exercisable over two years at \$0.70 expiring on May 9, 2009. Using a Black-Scholes option pricing model, the fair value of the 5,772,000 broker warrants granted in the amount of \$1,693,197 (2008 \$1,693,197) have been reflected in the consolidated balance sheet. The weighted-average assumptions used to estimate the fair value of warrants granted were an expected volatility of 97%, expected dividends of nil, expected life of 2 years and risk free rate of 4%. These warrants expired unexercised on May 9, 2009.

11. RELATED PARTY BALANCES AND TRANSACTIONS

Balances payable	As at May 31, 2009	As at February 28, 2009
Jeffrey Brenner	\$ –	\$ 7,890
Jakes Tyres (g)	3,187	5,498
Hunter Dickinson Services Inc. (a)	369,669	180,267
Seven Bridges Trading (c)	8,054	–
Current balances payable	\$ 380,910	\$ 193,655
Liberty Lane (i)	413,960	383,330
Long-term balances payable	\$ 413,960	\$ 383,330
Balances receivable		
Flawless Diamonds Trading House (e)	\$ 1,718,203	\$ 3,441,510
Banzi Trade 26 (Pty) Ltd (f)	21,782	19,547
Diacor CC (h)	31,122	29,668
	\$ 1,771,107	\$ 3,490,725

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(Unaudited – Expressed in Canadian Dollars unless otherwise stated)

Transactions	Three months ended May 31	
	2009	2008
Services rendered and expenses reimbursed:		
Hunter Dickinson Services Inc. (a)	\$ 173,616	\$ 249,346
Seven Bridges Trading (c)	15,739	30,864
Cashmere Trading (d)	–	9,812
Banzi Trade 26 (Pty) Ltd (f)	912	7,646
Jakes Tyres (g)	5,030	199,393
Diacor CC (h)	–	3,618
Sales rendered to:		
Flawless Diamonds Trading House (e)	\$ 3,872,799	\$ 7,094,921
Banzi Trade 26 (Pty) Ltd (f)	577	884

- (a) Hunter Dickinson Services Inc. (“HDSI”) is a private company with a director in common with the Company. HDSI provides geological, technical, corporate development, administrative and management services to, and incurs third party costs on behalf of, the Company on a full cost recovery market related basis pursuant to an agreement dated November 21, 2008.
- (b) CEC Engineering Ltd. is a private company owned by David Copeland, Chairman and a director of the Company, which provides engineering and project management services at market rates.
- (c) Seven Bridges Trading is a wholly owned subsidiary of Randgold Resources, a public company where Mark Bristow, a director of the Company, serves in an executive capacity. Seven Bridges Trading provides office, conferencing, information technology, and other administrative and management services at market rates to the Company’s South African subsidiaries.
- (d) Cashmere Trading is a private company owned by Hennie Van Wyk, a former officer of the Company, which provides helicopter services for the movement of product on an ad-hoc basis at competitive market rates thereby providing benefits to the company and its employees in respect of secure transport of high value product and reduced insurance premiums.
- (e) Flawless Diamonds Trading House (“Flawless”) is a private company where certain directors, former directors and officers of the Company, namely, Messr. Brenner, J W and D M Bristow and Van Wyk, are shareholders of. Flawless is a registered diamond broker which provides specialist diamond valuation, marketing and tender sales services to the Company for a fixed fee of 1% of turnover which is below the market rate charged by similar tender houses.
- (f) Banzi Trade 26 (Pty) Ltd (“Banzi”) is 49% owned by HC van Wyk Diamonds Ltd and 51% by Bokomoso Trust. Banzi is an empowered private company established to provide self sustaining job creation programs to local communities as part of the company’s Social and Labour Plan which is required in terms of the Minerals and Petroleum Resources Development Act (“MPRDA”). Banzi provides the Company with buildings materials at market rates.
- (g) Jakes Tyres is a private company with former directors and officers (H C van Wyk) in common with the Company that provides tyres, tyre repair services and consumables at market rates to Rockwell’s remote Middle Orange River operations.

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- (h) Diacor CC is a private company of which H C van Wyk is a director from which the Company has purchased consumable materials at market rates.
- (i) Liberty Lane is the BEE partner of the Saxendrift property and has certain directors in common with the Company.

12. BANK INDEBTEDNESS

The Company has an overdraft facility in the amount of ZAR28 million (\$3.8 million) available for its operations, of which \$3.7 million has been utilized. Current operating income is being used to service this facility. This facility has an interest cost of Prime (currently 11% per annum) plus 0.6% and have a notarial bond over assets of ZAR10million (\$1.4 million).

HC van Wyk Diamonds Ltd holds guarantees by the bank towards Eskom (Electricity Provider) of ZAR1,225,300 (\$351,738) and the Department of Minerals and Energy (DME) of ZAR 11,576,104 (\$1,580,140) towards rehabilitation expenses.

13. CONTINGENCIES

In connection with the acquisition of Saxendrift, one of the assets purchased from Trans Hex, with a carrying value of \$6,257 is the subject of a dispute between Trans Hex and a third party, which claims ownership in a certain plant. Although the Company is not subject to this dispute and cannot determine the likelihood of the outcome, the Company has a warranty claim with Trans Hex should the third party be successful with its claim against Trans Hex.

During the first quarter of fiscal 2008, pursuant to an amending agreement to the Midamines Agreement, the Company paid consideration of \$600,000 to Midamines in order to increase the size of the concession (Permit 331). As part of such amending agreement, Midamines waived its right to payment of US\$1,200,000 in royalty payment on December 31, 2007. Subsequently, and pursuant to Midamines' persistent breach of material provisions of the Midamines Agreement (coupled with its failure to remedy such instances of breach notwithstanding notice to do so), Durnpike cancelled the Midamines Agreement and claimed damages.

Midamines has subsequently disputed Durnpike's entitlement to cancel the Midamines Agreement and has demanded payment of US\$1,200,000 as well as other amounts which have not yet been particularised. Midamines has threatened to refer the dispute to arbitration and to join Rockwell as party thereto, but no formal referral to arbitration has as yet been forthcoming.

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1.1 Date

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited consolidated financial statements of Rockwell Diamonds Inc. ("Rockwell", or the "Company") for the three months ended May 31, 2009, and the three months ended May 31, 2008, prepared in accordance with Canadian generally accepted accounting principles, and publicly available on SEDAR at www.sedar.com.

This MD&A is prepared as of July 14, 2009. All dollar figures stated herein are expressed in Canadian dollars, unless otherwise specified.

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address future production, reserve potential, exploration drilling, exploitation activities and events or developments that the Company expects are forward-looking statements. 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 market prices, exploitation and exploration successes, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

Information Concerning Estimates of Indicated and Inferred Resources

This management discussion also uses the terms 'indicated resources' and 'inferred resources'. Rockwell Diamonds Inc advises investors that although these terms are recognized and required by Canadian regulations (under National Instrument 43-101 Standards of Disclosure for Mineral Projects), the U.S. Securities and Exchange Commission does not recognize them. Investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves. In addition, 'inferred resources' have a great amount of uncertainty as to their existence, and economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, or economic studies except for Preliminary Assessment as defined under 43-101. Investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally mineable.

1.2 Overview

Rockwell Diamonds Inc. ("Rockwell" or the "Company") is engaged in the business of alluvial diamond production. The Company has also investigated other potential diamond acquisitions which would provide accretive value to Rockwell. In the light of current financial and diamond market conditions the Company is unlikely to progress acquisition opportunities until such time as these conditions improve.

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1.2.1 Summary

Operations

In the 2009 fiscal year, the diamond market was significantly impacted by the world financial crisis. Rough diamond prices are slowly recovering; the average price received over the quarter increased to US\$555 per carat, 75% up from the low of US\$318 per carat obtained in the previous quarter.

The Company sold parcels of diamonds in March and May 2009, and subsequent to the end of the quarter in June and July 2009. The average price per carat received was US\$531.43 in March, US\$584.69 in May, US\$700 in June and US\$835 in July.

In fiscal 2010, Rockwell has operated three alluvial diamond mines: Holpan, Klipdam and Saxendrift. The Wouterspan operation remains on care and maintenance.

In the three month period ended May 31, 2009:

- 4,021.74 carats were produced at the Holpan/Klipdam and Saxendrift operations.
- 5,116.29 carats were sold at an average price of US\$554.79 per carat.
- Profit share of US\$454,952 was received from the sale by Steinmetz¹ of two stones totalling 68.29 carats from Wouterspan.
- Revenues from sales were \$3.9 million.
- Cost of sales and amortization totalled \$6.6 million, resulting in an operating loss of \$2.7 million for the period.
- Net general and administrative expenses amounted to \$2.5 million, a write down of assets of 0.7 million plus a future tax recovery of \$1.3 million resulting in a net loss of \$4.1 million or \$0.02 per share.

Diamonds in inventory at May 31, 2009 totalled 2,431.02 carats valued at \$1,558,051. Inventory in the financial statements has been valued at net realisable value in the current period.

Corporate

On April 29, 2009, Pala Investments Holdings Limited ("Pala") called a special shareholders' meeting of the Company. The meeting was called to remove certain directors of the Company, to appoint and elect certain new directors and to amend and terminate the Company's shareholders' rights plan. The special

¹ Certain quality diamonds are manufactured and sold under an agreement with Steinmetz Diamond Group.

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shareholders meeting was held on June 17, 2009 and the proposed resolutions to reconstitute the Board and amend and terminate the shareholders' rights plan were not approved by the shareholders.

Subsequent to the end of the quarter, two directors, Gregory Radke and Terence Janes resigned from the Board of Directors.

Pursuant to National Instrument 52-110 – *Audit Committees* ("NI52-110"), the Company is required to have an audit committee composed entirely of board members that are "independent" of the Company, as that term is defined in NI52-110 and meaning generally free from material relationships with the Company which could be reasonably expected to interfere with the exercise of the person's independent judgement. The audit committee members of the Company currently only consist of Messrs. William Fisher. The Company is currently undertaking steps to remedy such non-compliance, including actively recruiting new board members that are both independent and financially literate. While it is difficult to set a firm deadline by which the Company will completely rectify the non-compliance given the high demand for qualified individuals the Company does intend to take the required steps in order to reach this goal as soon as practicable.

The Company is taking steps to ensure that the duties generally performed by independent directors are being performed by the current directors. The board members have extensive experience as directors of public companies and are sensitive to the related corporate governance and financial reporting obligations associated with such positions. Thus the board members are reasonably well versed in the obligations of directors and the expectations of independence from management. Given the Company's recent activities, the board has been particularly sensitive to the appropriateness of board and management interaction, checks and balances.

1.2.2 Financing

During the quarter, the Company did not complete any financings. Subsequent to the end of the quarter, the Company initiated a fair rights offering.

1.2.3 Agreements

Black Economic Empowerment Holdings ("BEE") in Rockwell Properties

The African Vanguard Resource (Propriety) Limited ("AVR") group was contractually committed to inject ZAR 10.5 million in working capital into the Van Wyk Diamond Group ("VWDG"), the prior holder of interests in the Holpan, Klipdam and Wouterspan properties that Rockwell acquired by way of the agreement with Durnpike Investment Holdings (Pty) Inc ("Durnpike"). (For further details see the Company's Management Discussion and Analysis and Notes to the Financial Statements for the year ended February 28, 2009.) Given the credit crunch, depressed economic conditions and fall in diamond prices the AVR group indicated to the Board of Directors of Rockwell RSA (the holding company of the entities in VWDG) in the fourth quarter of 2009 that it was unable to make these payments and that it would pursue funding mechanisms to complete its obligations. Rockwell RSA has endeavoured to identify alternate sources of funding with a view to assist AVR to complete its investment but these attempts were unsuccessful. Rockwell RSA has entered into discussions with AVR and the Department

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of Minerals and Energy with the assistance of its legal counsel to address completion of the BEE participation in the share capital of the entities comprising the VWVG.

1.2.4 Production Properties

Production and Sales – Quarter Comparison

The following is a comparison of the current quarter (ended May 31, 2009) with the quarter ended May 31, 2008.

PRODUCTION						
Operation	3 months ending May 31, 2009			3 months ending May 31, 2008		
	Volume (cubic meters)	Carats	Average grade (carats per 100 cubic meters)	Volume (cubic meters)	Carats	Average grade (carats per 100 cubic meters)
Holpan	190,660	986.99	0.52	206,466	1,805.35	0.87
Klipdam	210,710	1,607.82	0.76	218,670	2,609.88	1.19
Wouterspan	-	-	-	242,240	1,620.30	0.67
Saxendrift Gravel	236,963	1,426.93	0.60	4,601	130.70	2.84
Saxendrift Bantoms*	-	-	-	2,325	144.35	6.21
Total	638,333	4,021.74	0.63	674,302	6,310.58	0.93

*Concentrate that has already been processed

SALES AND REVENUE								
Operation	3 months ending May 31, 2009				3 months ending May 31, 2008			
	Sales (carats)	Value of Sales (US\$)	Average value (US\$ per carat)	Inventory (carats)	Sales (carats)	Value of Sales (US\$)	Average value (US\$ per carat)	Inventory (carats)
Holpan	1,144.49	316,344	276.41	683.01	1,662.60	2,629,335	1,581.46	509.03
Klipdam*	2,472.86	1,183,274	478.50	877.38	2,013.80	2,449,541	1,216.38	956.09
Wouterspan	561.69	269,087	479.07	13.71	1,266.90	2,003,902	1,581.74	658.32
Saxendrift	937.25	1,069,744	1,141.36	856.92	-	-	-	275.05
Total	5,116.29	2,838,449	554.79	2,431.02	4,943.30	7,082,778	1,432.80	2,398.87**

*Included in the Klipdam inventory are 199.89 carats from Windsorton, a prospecting right

**includes 0.38 carats from Makoenskloof.

INVENTORY (carats)				
Operation	Rough Diamond Inventory Beginning of Period	Production	Rough Diamond Sales	Rough Diamond Inventory End of Period
Holpan	839.82	986.99	1,144.49	683.01
Klipdam	1,742.31	1,607.82	2,472.86	877.38
Wouterspan	576.85	-	561.69	13.71
Saxendrift	367.21	1,426.93	937.25	856.92
Total	3,526.19	4,021.74	5,116.29	2,431.02

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Holpan/Klipdam

The Holpan/Klipdam Property is located 45 km from Kimberley, South Africa. It consists of the contiguous Holpan 161 farm and Klipdam 157 farm, covering an area of 3,836 hectares. The production from Holpan and Klipdam is accounted for separately because they are separate operating entities.

Windsorton is a property adjacent to the Klipdam mine that was acquired on February 25, 2009. During the quarter, gravels were bulk sampled and processed through the Klipdam plant and 199.89 carats were recovered.

Three months ended May 31, 2009 compared to three months ended May 31, 2008

Production at Holpan in the quarter was 986.99 carats from 190,660 cubic meters (352,721 tonnes) of gravel processed, compared with 1,805.35 carats from 206,466 cubic meters (381,962 tonnes) of gravel processed in the quarter ending May 31, 2008.

Sales from Holpan were 1,144.49 carats at an average value of US\$276.41 per carat, compared to 1,662.60 carats at an average value of US\$1,581.46 per carat in the three months ending May 31, 2008.

The inventory at Holpan is 683.01 carats.

Production at Klipdam was 1,607.82 carats from 210,710 cubic meters (389,981 tonnes) of gravels, compared to 2,609.88 carats from 218,670 cubic meters (404,540 tonnes) of gravel produced in the quarter ended May 31, 2008.

Sales from Klipdam were 2,472.86 carats at an average value of US\$478.50 per carat compared to 2,013.80 carats at an average value of 1,216.38 per carat in the three months ending May 31, 2008.

The inventory at Klipdam is 877.38 carats.

Wouterspan

The Wouterspan Property is located near Douglas, South Africa. It comprises portions, totalling approximately 7,409 hectares, of the Lanyon Vale 376 farm. Operations have taken place on three portions of the property called the Farhom, Okapi, and Stofdraai farms, exploiting the Rooikoppie and Primary gravel units.

Three months ending May 31, 2009 compared to three months ending May 31, 2008

During the quarter, the property produced zero carats as the property is held on care and maintenance.

Sales from Wouterspan were 561.69 carats at an average price of US\$479.07 per carat, compared to 1,266.90 carats at an average price of US\$1,581.74 per carat in the three months ending May 31, 2008

The inventory at Wouterspan is 13.71 carats.

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Saxendrift

The Saxendrift operation is located on the south bank of the Middle Orange River and adjacent to the Wouterspan diamond operation. It comprises portions totalling 3,600.98 hectares. The operation exploits Palaeo and Rooikoppie gravels as well as dumps and gravel stockpiles from operations by the prior owner.

Three months ending May 31, 2009 compared to three months ending May 31, 2008

During the quarter ending May 31, 2009, the property produced 1,426.93 carats from 236,963 cubic meters (497,622 tonnes) of gravel, compared to 275.05 carats from 6,926 cubic meters (14,545 tonnes) in gravel and bantoms in the quarter ended May 31, 2008.

Sales from Saxendrift during the three months ending May 31, 2009 were 937.29 carats at an average price of US\$1,141.36 per carat. There were no sales from Saxendrift during the comparable period in the previous fiscal year.

The inventory at Saxendrift is 856.92 carats.

Production Costs

Production at the three operations steadily increased, as the plant throughputs approached operating capacities because of improved maintenance and operating efficiencies.

Operations at the Holpan and Klipdam Mines were impacted by heavy seasonal rainfall. The gravels became saturated and the Palaeo channel flooded. Saxendrift continued to increase throughput as commissioning problems were resolved and the plant approached steady state conditions.

Operations at Saxendrift were impacted by irregularities in the electrical supply from Eskom (National Energy Supplier). The Company is working with Eskom to identify problems on the supply lines and find solutions to rectify them.

The Company's drive to cut costs and optimize its operations continues to yield results. Operating costs were US\$2.60 per tonne compared costs in the US\$3.00 - 3.50 per tonne range that were forecasted. Costs for each operation were: Holpan US\$2.45 per tonne; Klipdam US\$2.68 per tonne and Saxendrift US\$2.45 per tonne, resulting in an average for the group of US\$2.60 per tonne. The average cost for all the operations including rehabilitation, hire purchase payments and royalties was US\$ 4.78 per tonne.

Niewejaarskraal Project

The Niewejaarskraal Project, located on the Middle Orange River area of South Africa, was a past producer of alluvial diamonds.

In terms of the Sale of Shares and Claims Agreement entered into between, among others, Rockwell Resources RSA (Proprietary) Limited ("Rockwell") and Trans Hex Operations (Proprietary) Limited ("Trans Hex") on March 3, 2007, Rockwell indirectly acquired the mining and prospecting rights to, among other areas, Portion 6 of the Farm Niewejaarskraal 40 in the magisterial district of Prieska

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("Niewejaarskraal"). In terms of the same agreement, Rockwell also indirectly acquired, among other things, certain mining equipment situated on Niewejaarskraal, including a dense media separation plant previously erected and operated by Trans Hex.

As at February 28, 2009, the Company was committed to pay Trans Hex for the acquisition of the remaining Niewejaarskraal mining rights. The Company had placed \$2.7 million in trust toward application of the remaining payment, to be released to Trans Hex upon the anticipated grant of Ministerial Consent to the cession of each of the Outstanding Mining Rights to the Company and registration of cession of such rights in its name. Cession of the Niewejaarskraal mining right occurred on March 4, 2009.

On April 11th, 2009 all the conditions precedent were met and the Company paid ZAR18.9 million (\$2.6 million) in cash to Trans Hex for the remaining Niewejaarskraal mining rights of which ZAR 16.5 million (\$2.0 million) was capitalized. This action completed the Saxendrift transaction negotiated during April 2008. The Company has no further commitments in relation to more acquisitions.

During the course of 2008 and prior to the prospecting and mining rights having been transferred from Trans Hex to Rockwell, a representative of the land owner of Niewejaarskraal asserted a claim of ownership over the equipment located on Niewejaarskraal. This claim was ostensibly based on a surface rights agreement entered into between Trans Hex and the owner of Niewejaarskraal and an allegation that Trans Hex had abandoned the mining equipment concerned. This Contract expired prior to Rockwell receiving the Niewejaarskraal mining rights. Since the transfer of the prospecting and mining rights associated with and the mining equipment located on Niewejaarskraal to Rockwell, it has not received any formal approach from the land owner of Niewejaarskraal to progress this claim. Discussions with the landowner have indicated that he would be happy to enter into amenable and workable landowner agreements with Rockwell, subject to appropriate land use agreements being entered into between the Parties. In addition, Rockwell has had sight of the legal advice provided by external legal counsel to Trans Hex to the effect that the merits of this claim are limited. In the event that a claim were to be made by the owner of Niewejaarskraal against Rockwell in respect of this mining equipment, Rockwell will vigorously defend its ownership of that equipment and will also seek to rely on certain protective warranties and indemnities that were given to it by Trans Hex in the Sale of Shares and Claims Agreement.

Kwango River Project, DRC

Durnpike's interest in the Kwango River Project was constituted by an agreement ("Midamines Agreement") concluded during 2006 with Midamines SPRL ("Midamines"), the holder of the exploration permit on the Kwango River Project, to act as contractor on behalf of Midamines to manage and carry out exploration and mining. Durnpike was entitled to an 80% share of the net revenue from the sale of any diamonds produced from the contract area.

Under the Midamines Agreement, Durnpike agreed to certain minimum royalty payments being made to Midamines, and Midamines undertook several obligations in favour of Durnpike including that of procuring and facilitating Durnpike's access to the Kwango River Project site. The royalties took the form of a series of recurring annual minimum royalty payments of US\$1,200,000 per annum (commencing on December 31, 2007). During the first quarter of 2008, pursuant to an amending agreement to the Midamines Agreement, the Company paid consideration of \$600,000 to Midamines in order to increase the size of the concession (Permit 331). As part of such amending agreement Midamines waived its right

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to payment of the abovementioned US\$1,200,000 royalty payment on 31 December 2007. Subsequently, and pursuant to Midamines' persistent breach of material provisions of the Midamines Agreement (coupled with its failure to remedy such instances of breach notwithstanding notice to do so), Durnpike cancelled the Midamines Agreement and claimed damages.

Midamines has subsequently disputed Durnpike's entitlement to cancel the Midamines Agreement and has demanded payment of US\$1.2 million as well as other amounts which have not yet been determined. Midamines has threatened to refer the dispute to arbitration and to joint Rockwell as party thereto, but no formal referral to arbitration has as yet been forthcoming.

Other

Rockwell has adopted a policy that includes insurance cover for all equipment that is purchased on Hire Purchase or leases but it does not carry full coverage for other equipment that is paid off or which has been acquired in respect of its acquisitions of Trans Hex mineral rights and equipment. The Company also has coverage on small vehicles, busses, horse and trailer road trucks, Flow-sort X-ray equipment and some of its fixed properties and assets.

1.2.6 Diamond Market Trends

In the first quarter of fiscal 2010, demand for diamonds began to recover from the collapse in the demand for rough diamonds beginning with the world financial crisis in late 2008. Consequently there has been an improvement in the prices of rough diamonds.

There has been an increase in the demand for rough diamonds since February 2009. The demand for polished diamonds has also shown a steady increase, primarily in the size range for most engagement rings, which has fuelled demand for rough diamonds, mainly in 2 carat to 4 carat range.

Insolvencies in the mid tier of the diamond industry, including manufacturers and dealers, have been minimal; however, insolvencies of retail diamond sellers continues, primarily in the United States.

De Beers have had very small sales (called "sights") during this quarter of between \$100-200 million, and have generally supplied as per the immediate needs of sight-holders. The majority of goods sold are as per demand i.e. for bridal ranges. De Beers has resisted selling their larger stones until prices improve. Alrosa, the second largest marketer of rough diamonds has maintained a similar position to De Beers.

The overall effect of these sales policies has caused a shortage of rough diamonds in the ranges below 10 carats; hence, a level of speculation has occurred driving prices upward by 10-20% in this first quarter. Most of the demand has been from Israeli and Far East traders. Indian traders continue to deflate their overall inventory levels to return to a cash positive position. Israelis have preferred to trade their diamonds whereas Far East and Indian manufacturers are supplying their factories.

In terms of the 10 plus carat rough diamonds that constitute the majority of Rockwell's turnover, there was very limited interest in March but interest has progressively increased since that time. Demand for polished goods which result from beneficiation of 10 carat rough diamonds, i.e. 3 carat plus polished stones, has started to increase. Buyers have started making, albeit opportunistic, offers but this is a

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positive note. This intention to buy is very important for the future achievement of value for Rockwell for our larger sized diamonds.

Retail jewellery sales in the US for the month of April have shown an increase relative to previous months, and the general feeling is that the worst has occurred, possibly the result of an increase in consumer confidence related to the various stimulus package initiatives by US government

De Beers held their fifth sight of 2009 in June. The sight was approximately \$600 million which is large compared to the previous four events in 2009. The market was concerned that this large sale would affect the overall market, yet prices remained firm in the open market. However, there are still minimal sales of larger diamonds by the world's leading producers.

Indian traders have returned to the market in order to replenish their factory stocks as well as trying to avoid a situation where their employees are leaving the industry to gain employment in other sectors. Israelis are presently resisting manufacturing and preferring to trade the rough diamonds while the market is moving upwards.

Rockwell has continued to optimise and refine its diamond marketing procedures and is currently selling via tenders as well as direct sales. Now that the market seems to be settling and prices returning to realistic levels, Rockwell has once again visited the different options of adding value to our diamonds. Overall the Company expects the market to maintain recent price increases and expect small increase in certain ranges through the remainder of 2009.

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1.3 Selected Annual Information

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and are expressed in Canadian dollars except common shares outstanding.

<i>Balance Sheet</i>	As at February 28, 2009	As at February 29, 2008	As at May 31, 2007
Current assets	15,099,971	38,596,562	56,142,572
Mineral properties	28,894,477	25,247,937	24,121,855
Other assets	62,367,968	69,848,625	49,341,956
Total assets	106,362,416	133,693,124	129,606,383
Current liabilities	14,462,800	12,502,301	29,399,774
Other liabilities	21,478,590	34,076,016	28,613,767
Shareholders' equity (deficiency)	70,421,026	87,114,807	71,592,842
Total liabilities and shareholders' equity	106,362,416	133,693,124	129,606,383
<i>Statement of Operations</i>	Year ended February 28, 2009	Nine months ended February 29, 2008	Year ended May 31, 2007
Revenue	34,633,477	36,149,308	10,103,328
Mine site operating costs	(25,113,363)	(22,730,271)	(8,974,742)
Amortization and depletion	(11,287,197)	(6,533,941)	(2,074,415)
Operating profit (loss)	(1,767,083)	6,885,096	(945,829)
<i>Expenses</i>			
Accretion of reclamation obligation	1,072,389	464,316	55,471
Exploration	498,739	604,169	1,371,351
Foreign exchange loss (gain)	(350,485)	(751,318)	(3,580,364)
Legal, accounting and audit	1,863,261	790,725	691,759
Office and administration	3,489,460	2,697,077	2,993,453
Shareholder communications	453,489	198,985	200,574
Stock-based compensation	1,834,422	1,826,317	79,623
Travel and conference	605,812	654,705	666,194
Transfer agent filings	250,878	544,232	176,530
Subtotal	9,717,965	7,029,208	2,654,591
Loss on disposal of equipment	364,918	402,411	94,621
Loss on disposal of mineral properties	203,339	-	-
Interest (income)	(2,672,021)	(1,118,396)	(372,149)
Interest on capital leases	1,592,001	1,289,385	433,125
Convertible note accretion and interest expense	3,009,680	270,976	2,466,839
Loss on early extinguishment convertible promissory notes	-	-	137,957
Write down of assets	2,590,958	-	-
Write-off of amounts receivable	291,063	18,360	224,942
Write-down of marketable securities	-	-	1
Subtotal	5,379,938	862,736	2,985,336
Loss before income taxes	16,864,986	1,006,848	6,585,756
Income tax expense	7,000	179,290	-
Future income tax (recovery) expense	(3,347,000)	2,261,110	(635,773)
Loss before non-controlling interest	13,524,986	3,447,248	5,949,983
Non-controlling interest	(549,024)	5,955,779	415,159
Loss for the period	12,975,962	9,403,027	6,365,142
Other comprehensive loss	13,409,383	-	-
Total comprehensive loss	26,385,345	9,403,027	6,365,142
Basic and diluted loss per common share	0.05	0.05	0.11
Weighted average number of common shares outstanding	237,924,152	196,428,551	55,418,242

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1.4 Summary of Quarterly Results

Expressed in thousands of Canadian dollars (000), except per-share amounts. Minor differences are due to rounding.

Balance Sheet	May 31 2009	Feb 28 2009	Nov 30 2008	Aug 31 2008	May 31 2008	Feb 29 2008	Nov 30 2007	Aug 31 2007
Current assets	8,986	15,100	22,830	21,757	27,190	38,597	36,823	46,861
Mineral properties	34,219	28,894	36,831	37,386	36,592	25,248	24,928	25,589
Other assets	65,100	62,368	85,330	80,146	74,621	69,848	66,544	55,997
Total assets	108,305	106,362	144,991	139,289	138,403	133,693	128,295	128,447
Current liabilities	15,623	14,463	14,814	17,369	15,353	12,502	17,173	23,899
Other liabilities	20,773	19,597	32,171	28,941	28,194	34,076	30,395	32,297
Shareholders' equity (deficiency)	71,909	72,303	98,006	92,979	94,856	87,115	80,727	72,251
Total liabilities and shareholders' equity	108,305	106,362	144,991	139,289	138,403	133,693	128,295	128,447
Working capital (deficit)	(6,637)	637	8,016	4,388	11,837	26,095	19,650	22,962
Statement of Operations	May 31 2009	Feb 28 2009	Nov 30 2008	Aug 31 2008	May 31 2008	Feb 29 2008	Nov 30 2007	Aug 31 2007
Revenue	3,929	1,008	16,126	10,168	7,331	9,802	12,125	14,222
Mine site operating costs	(4,851)	(9,143)	(3,710)	(7,651)	(4,609)	(7,350)	(9,571)	(5,809)
Amortization and depletion	(1,819)	(3,177)	(2,864)	(2,673)	(2,574)	(2,418)	(2,141)	(1,975)
Operating profit (loss)	(2,740)	(11,312)	9,552	(156)	148	34	413	6,438
Expenses								
Accretion of reclamation obligation	(14)	809	95	99	69	378	28	59
Exploration	58	132	96	(33)	304	174	127	304
Foreign exchange loss (gain)	546	(72)	(903)	831	(206)	16	(126)	(641)
Legal, accounting and audit	334	408	678	640	137	472	253	66
Office and administration	656	960	689	868	972	1,147	850	700
Shareholder communications	119	81	173	119	80	65	64	69
Stock-based compensation	116	276	499	373	686	1,177	617	32
Travel and conference	36	147	139	108	212	382	147	126
Transfer agent	22	178	28	35	10	439	98	7
Subtotal	1,873	2,919	1,494	3,040	2,264	4,250	2,058	722
Write-off of amounts receivable	–	291	–	–	–	18	–	–
Loss (gain) on disposal of equipment	26	66	(6)	284	21	424	3	(25)
Loss on disposal of mineral properties	–	203	–	–	–	–	–	–
Interest income	(143)	(191)	(357)	(743)	(1,381)	(447)	(186)	(487)
Interest on capital leases	343	354	335	440	463	391	427	471
Accretion and interest expense	407	2,309	452	163	86	84	102	86
Write down of assets	658	2,591	–	–	–	–	–	–
Profit (loss) before income taxes	(5,904)	(19,854)	7,634	(3,340)	(1,305)	(4,686)	(1,991)	5,671
Future income tax recovery (expense)	1,346	2,089	134	703	414	(698)	25	(1,768)
Profit (loss) before non-controlling interest	(4,558)	(17,765)	7,768	(2,637)	(891)	(5,384)	(1,966)	3,903
Non-controlling interest	454	2,015	(3,241)	589	88	3,322	(837)	3,472
Profit (loss) for the period	(4,104)	(19,780)	11,009	(3,226)	(979)	(8,706)	(1,129)	431
Basic and diluted profit (loss) per share	(0.02)	(0.08)	0.05	(0.01)	(0.00)	(0.04)	(0.00)	0.00
Weighted average number of common shares outstanding (thousands)	238,042	237,924	238,537	238,537	237,731	223,891	187,817	187,132

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1.5 Results of Operations

For the three months ended May 31, 2009, the Company had a loss of \$4.1 million compared to a net loss of \$0.8 million for the three months ending May 31, 2008. The loss was due to the continued collapse in the diamond market that commenced in the fourth quarter of fiscal 2009, along with the ongoing global credit crisis which caused a total collapse in the demand and prices of diamonds. Operations at the Wouterspan Mine are still in care and maintenance in order to preserve the Company's cash reserves.

During the three months ended May 31, 2009, the Company realized diamond sales of \$3.9 million compared to \$7.3 million for the quarter ending May 31, 2008. This decrease was a result of the economic crisis which has caused diamond prices to collapse, resulting in prices still remaining approximately 50% below those achieved prior to November 2008. Sales prices achieved in the quarter are below the cost of production; however, as the Company is required to maintain liquidity, sales have been made below production cost. In July cash inflows from sales have exceeded outflows from operating expenses, though overall inflows have not been sufficient to cover the full costs of the hire purchase payments for lease payments on a limited amount of earth moving equipment. For this reason the Company has invoked the payment holiday with Komatfin-Westbank.

Mining costs in the first quarter were \$4.9 million compared with \$4.6 million in the quarter ending May 31, 2008. Operations at the Holpan and Klipdam Mines were impacted by heavy seasonal rainfall and operations at Saxendrift were impacted by irregularities in the electrical supply from Eskom (National Energy Supplier). Amortisation and depletion for the quarter was \$1.8 million compared to \$2.6 million in the quarter ending May 31, 2008 mainly due to lower carat production as depletion is calculated based on the number of carats produced during the period.

Administrative costs for the first quarter were \$2.6 million in comparison to \$2.8 million incurred for the quarter ending May 31, 2008. Management have been successful in containing costs, even though the Company experienced significant legal costs due to the unsolicited bid by Pala.

Please refer to section 1.2 for additional discussion on the Company's results of operations.

1.6 Liquidity

Liquidity Risk

At May 31, 2009, the Company had cash and equivalents of \$2.2 million and an overdraft balance of \$3.7 million, for a net overdraft balance of \$1.5 million. The Company also had a working capital deficit of \$6.6 million, as compared to cash and equivalents of \$4 million and working capital of \$0.6 million at February 28, 2009. The Company had no long-term debt at February 28, 2009, other than asset retirement obligations relating to its Klipdam, Holpan, Wouterspan mines and Saxendrift operations, and capital lease obligations relating to mining equipment with three to four year lease agreements. The Company's capital lease obligations are denominated in South African Rand ("ZAR"). Capital lease obligations have been presented at an exchange rate of 1 Canadian dollar = ZAR 7.326, the closing rate in effect on May 31, 2009. Since then, the South African Rand has further strengthened to 1 Canadian dollar = ZAR 7.1633 as of July 13, 2009.

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To meet short term liquidity requirements the Company has invoked a payment holiday over its lease obligations on a limited number of earth moving vehicles. The Company has successfully negotiated a payment holiday relating to outstanding lease payments on the Komatsu equipment with Komatfin-Wesbank. This will enable the group to reduce its cash commitments by approximately ZAR4 million (\$546,000) per month.

The average cash burn rate in the first quarter of fiscal 2010 is approximately ZAR5 million (approximately \$685,000) per month. This negative cash burn rate has been gradually improving as sales have been increasing in the first three months. The improved diamond prices and the reduced cash outflow from the payment holiday on its lease obligations has resulted in positive cash flow from operations subsequent to quarter end. Should the improved diamond prices trend continue, along with a weakening of the South African Rand, the Company anticipates it should be able to generate sufficient cash flow at the end of the four month period of the payment holiday.

Although the Company has implemented the necessary plans to ensure sufficient financial liquidity in the near term, the Company's ability to repay or refinance its financial liabilities to their contractual maturities depends on a number of factors such as an improvement in diamond demand and prices and unfreezing of credit and capital markets, some of which are beyond the Company's control. There is no assurance that our expected cash flows from operations in combination with other steps being taken will allow the Company to meet these obligations as they become due.

To ensure the continuation of operations, and develop existing and new opportunities, the Board of Directors of Rockwell have proposed a financing to strengthen the Company's balance sheet through a rights offering. The Company anticipates the rights offering sometime in the second fiscal quarter.

Contractual Obligations and Commitments

The Company has the following payment commitments: (a) minimum lease payments of \$7.6 million, with \$5.6 million payable in the next 12 months, with instalments up to the year 2012 to various financial institutions for plant and equipment.

The following are the contractual maturities of contractual obligations:

	Payments due by period				
	Total	Less than one	1 to 3 years	3-5 years	More than 5
Contractual obligation	Nil	Nil	Nil	Nil	Nil
Long term debt obligations	7.6m	5.6m	2m	Nil	Nil
Operating lease obligations	Nil	Nil	Nil	Nil	Nil
Purchase obligations	Nil	Nil	Nil	Nil	Nil
Other	Nil	Nil	Nil	Nil	Nil
Total	7.6m	5.6m	2m	Nil	Nil

Other than described above and in the notes of the financial statements for the three months ended May 31, 2009, the Company has no "Purchase Obligations" defined as any agreement to purchase goods or services that is enforceable and legally binding on the Company that specifies all significant terms,

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including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

The payment holiday to the Company's equipment lessors will not change the period of the contracts, as subsequent payments will be increased to catch up the shortfall and additional interest charged.

1.7 Capital Resources

The Company's sources of capital are primarily equity investment and debt.

Historically, the Company's sources of funding have been cash flow from operations and the issuance of equity securities for cash, primarily through private placements to sophisticated investors and institutions. The Company has issued common share capital in each of the past few years, pursuant to private placement financings and the exercise of warrants and options. The Company's access to financing, when the financing is not transaction specific, is always uncertain. There can be no assurance of continued access to significant equity funding.

The Company's access to capital sources is dependent upon general financial market conditions, especially those that pertain to venture capital situations such as mineral exploration and development.

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions have had a significant material adverse impact on a number of financial institutions forcing them into bankruptcy or requiring government authorities to rescue them. These events and a general flight from risk have limited access to capital and credit for many companies. The unprecedented disruptions in the current credit and financial markets, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to obtain, or increase its cost of obtaining, capital and financing, if required, for its operations. The Company's access to additional capital may not be available on terms acceptable to the Company or at all.

Furthermore, in recent months, worldwide securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies have experienced unprecedented declines in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. In addition, significantly higher redemptions by holders of mutual and hedge funds has forced many of such funds (including those holding the Company's securities) to sell such securities at any price. Therefore, there can be no assurance that significant fluctuations in the trading price of the Company's common shares will not occur, or that such fluctuations will not materially adversely affect the Company's ability to raise equity funding without significant dilution to its existing shareholders, or at all.

During the quarter ended May 31, 2009, the Company did not complete any debt financings, other than the payment holiday on its capital lease obligations. The Company anticipates that it has sufficient funding facilities and funds available (Refer to Section 1.6 above) to meet its working capital requirements, provided that the diamond market recovers and sales achieve over US\$917 per carat in the near future and the exchange rate remains constant. At an exchange rate of ZAR8.80 to US\$1 and current volumes and grade being achieved, breakeven point is anticipated to be reached when the Sales price per carat recovers to the US\$1,000 – US\$1,100 per carat range.

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The Company intends to raise between about \$2 million and \$4 million on a rights offer and are investigating various available options at this stage to ensure adequate working capital should the recovery in the markets be delayed beyond our estimations and to complete capital projects to expand production.

Other than already described above, the Company had no other lines of credit or other sources of financing which have been arranged but as yet unused as at May 31, 2009.

1.8 Off-Balance Sheet Arrangements

None.

1.9 Transactions with Related Parties

Balances payable	As at May 31, 2009	As at February 28, 2009
Jeffrey Brenner	\$ -	\$ 7,890
Jakes Tyres (g)	3,187	5,498
Hunter Dickinson Services Inc. (a)	369,669	180,267
Seven Bridges Trading (c)	8,054	-
Current balances payable	\$ 380,910	\$ 193,655
Liberty Lane (i)	413,960	383,330
Long-term balances payable	\$ 413,960	\$ 383,330
Balances receivable		
Flawless Diamonds Trading House (e)	\$ 1,718,203	\$ 3,441,510
Banzi Trade 26 (Pty) Ltd (f)	21,782	19,547
Diacor CC (h)	31,122	29,668
	\$ 1,771,107	\$ 3,490,725

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Transactions	Three months ended May 31	
	2009	2008
Services rendered and expenses reimbursed:		
Hunter Dickinson Services Inc. (a)	\$ 173,616	\$ 249,346
Seven Bridges Trading (c)	15,739	30,864
Cashmere Trading (d)	-	9,812
Banzi Trade 26 (Pty) Ltd (f)	912	7,646
Jakes Tyres (g)	5,030	199,393
Diacor CC (h)	-	3,618
Sales rendered to:		
Flawless Diamonds Trading House (e)	\$ 3,872,799	\$ 7,094,921
Banzi Trade 26 (Pty) Ltd (f)	577	884

Related Party transactions are explained below. These arrangements and transactions have typically been established to provide professional and cost effective services and resources to Rockwell. In particular these services relate to the remote areas in which some of Rockwell's operations are located and have also been established to address security and social responsibility requirements. In remote areas it is difficult to obtain key services and make purchases of certain supplies on an as needed basis. Likewise security consideration is paramount given the high value product produced by the Company.

- (a) Hunter Dickinson Services Inc. ("HDSI") is a private company with a director in common with the Company. HDSI provides geological, technical, corporate development, administrative and management services to, and incurs third party costs on behalf of, the Company on a full cost recovery market related basis pursuant to an agreement dated November 21, 2008.
- (b) CEC Engineering Ltd. is a private company owned by David Copeland, Chairman and a director of the Company, which provides engineering and project management services at market rates.
- (c) Seven Bridges Trading is a wholly owned subsidiary of Randgold Resources, a public company where Mark Bristow, a director of the Company, serves in an executive capacity. Seven Bridges Trading provides office, conferencing, information technology, and other administrative and management services at market rates to the Company's South African subsidiaries.
- (d) Cashmere Trading is a private company owned by Hennie Van Wyk, a former officer of the Company, which provides helicopter services for the movement of product on an ad-hoc basis at competitive market rates thereby providing benefits to the company and its employees in respect of secure transport of high value product and reduced insurance premiums.
- (e) Flawless Diamonds Trading House ("Flawless") is a private company where certain directors, former directors and officers of the Company, namely, Messr. Brenner, J W and D M Bristow and Van Wyk, are shareholders of. Flawless is a registered diamond broker which provides specialist diamond valuation, marketing and tender sales services to the Company for a fixed fee of 1% of turnover which is below the market rate charged by similar tender houses.

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- (f) Banzi Trade 26 (Pty) Ltd (“Banzi”) is 49% owned by HC van Wyk Diamonds Ltd and 51% by Bokomoso Trust. Banzi is an empowered private company established to provide self sustaining job creation programs to local communities as part of the company’s Social and Labour Plan which is required in terms of the Minerals and Petroleum Resources Development Act (“MPRDA”). Banzi provides the Company with buildings materials at market rates.
- (g) Jakes Tyres is a private company with former directors and officers (H C van Wyk) in common with the Company that provides tyres, tyre repair services and consumables at market rates to Rockwell’s remote Middle Orange River operations.
- (h) Diacor CC is a private company of which H C van Wyk is a director from which the Company has purchased consumable materials at market rates.
- (i) Liberty Lane is the BEE partner of the Saxendrift property and has certain directors in common with the Company.

1.10 Fourth Quarter

None.

1.11 Proposed Transactions

None.

1.12 Critical Accounting Estimates

The Company's accounting policies are presented in note 3 of the audited consolidated financial statements for the year ended February 28, 2009 and note 3 of the interim consolidated financial statements for the quarter ended May 31, 2009, which have been publicly filed on SEDAR at www.sedar.com and as presented in changes in accounting policies item 1.13. The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to select accounting policies and make estimates. Such estimates may have a significant impact on the financial statements. These estimates include:

- mineral resources and reserves,
- the carrying values of diamond and supplies inventories,
- the carrying values of mineral properties,
- the carrying values of property, plant and equipment,
- rates of amortization of property, plant and equipment

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- the carrying values of the reclamation liability,
- the assumptions used in determining the reclamation obligation,
- the valuation allowances for future income taxes,
- the valuation of stock-based compensation expense.

Actual amounts could differ from the estimates used and, accordingly, affect the results of operation.

Mineral resources and reserves, and the carrying values of property, plant and equipment

Mineral resources and reserves are estimated by professional geologists and engineers in accordance with recognized industry, professional and regulatory standards. These estimates require inputs such as future metal prices, future operating costs, and various technical geological, engineering, and construction parameters. Changes in any of these inputs could cause a significant change in the estimated resources and reserves which, in turn, could have a material effect on the carrying value of property, plant and equipment.

The carrying value of mineral properties is also dependant on the valuation used for the common shares and warrants of the Company issued for the acquisition of mineral properties. The value of the common shares issued is the price of the common shares of the Company at the date of issuance to effect the acquisition. The Company uses the Black-Scholes pricing model to estimate a value for the warrants issued upon the acquisition of a property. This model, and other models which are used to value options and warrants, 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 carrying value initially recorded for mineral properties.

Long-lived assets, including mineral properties and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed, if any, are presented separately on the balance sheet and reported at the lower of the carrying amount and the fair value less costs to sell, and are no longer amortized.

The Company's estimates of mineral prices, recoverable reserves, and operating, capital and reclamation costs used in impairment tests are subject to certain risks and uncertainties that may affect the recoverability of mineral property costs. Although the Company has made its best estimate of these factors, it is possible that changes could occur in the future that could adversely affect management's estimate of the net cash flow from its assets.

Site restoration costs

Upon the completion of any mining activities, the Company will ordinarily be required to undertake environmental reclamation activities in accordance with local and/or industry standards. The estimated costs of these reclamation activities are dependent on labour costs, the environmental impacts of the Company's operations, the effectiveness of the chosen reclamation techniques, and applicable government

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environmental standards. Changes in any of these factors could cause a significant change in the reclamation expense charged in a period.

Stock-based compensation expense

From time to time, the Company may grant share purchase options to employees, directors, and service providers. The Company uses the Black-Scholes option pricing model to estimate a value for these options. This model, and other models which are used to value options, 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 stock-based compensation expense charged in a period.

1.13 Changes in Accounting Policies including Initial Adoption

(a) The following accounting policies were adopted during the period ended May 31, 2009:

(i) *Goodwill and Intangibles (Section 3064)*

The AcSB issued CICA Handbook Section 3064, which replaces Section 3062, “*Goodwill and Other Intangible Assets*”, and Section 3450, “*Research and Development Costs*”. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company evaluated the impact of this new standard and concluded that this standard did not have a significant impact on the financial statements.

(ii) *EIC 173 – Credit Risk and the Fair value of Financial Assets and Financial Liabilities*

The AcSB issued EIC-173 which requires the Company to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The standard is effective for the first quarter of fiscal 2010 and is required to be applied retrospectively without restatement of prior periods. The Company evaluated the impact of this new standard and concluded that this standard did not have a significant impact on the financial statements.

(iii) *EIC 174 – Mining Exploration Costs*

The AcSB issued EIC-174, “*Mining Exploration Costs*” which provides guidance to mining enterprises related to the measurement of exploration costs and the conditions that a mining enterprise should consider when determining the need to perform an impairment review of such costs. The standard is effective for the first quarter of fiscal 2010 and is required to be applied retrospectively without restatement of prior periods. The Company evaluated the impact of this new standard and concluded that this standard did not have a significant impact on the financial statements.

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(b) Accounting Policies Not Yet Adopted

(i) International Financial Reporting Standards ("IFRS")

The Accounting Standards Board ("AcSB") confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP ("GAAP") for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. Accordingly, the Company will convert over to IFRS on March 1, 2011 and prepare its first financial statements in accordance with IFRS for the three month period ended May 31, 2011, with comparative information also prepared under IFRS.

Management of IFRS Convergence Project

The Company is currently in the process of preparing its transition plan. This process will involve the establishment of a Steering Committee to manage the IFRS transition process, the allocation of internal resources, the engagement of external expert consultants, assessing the impact of the conversion on the consolidated financial statements and disclosure, considering the impact of conversion on the Company's information technology systems, internal controls over financial reporting and business activities that may be influenced by GAAP measurements, and assessing the readiness of the Company's staff, Board of Directors and auditors.

The IFRS convergence project instituted consists of three primary phases, which in certain cases will be in process concurrently as IFRS is applied to specific areas:

- Initial Scoping and Impact Assessment Analysis: to isolate key areas that will be impacted by the transition to IFRS.
- Evaluation and Design: to identify specific changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statements.
- Implementation and Review: to execute the changes to information systems and business processes, completing formal authorization processes to approve recommended accounting policy changes and training programs across the company's finance and other staff, as necessary. It will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements, embedding IFRS principles in business processes, and Audit Committee approval of IFRS financial statements.

A detailed timetable is currently being prepared to manage the transition and the Company is currently on schedule. The Company cannot at this time reasonably estimate the impact of adopting IFRS on its consolidated financial statements.

(ii) Business Combinations/Consolidated Financial Statements/Non-Controlling Interests

The AcSB adopted CICA sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests" which superseded current sections 1581, "Business Combinations" and 1600 "Consolidated Financial Statements". These new sections replace existing guidance on business combinations and consolidated financial statements to harmonize Canadian accounting for business combinations with IFRS. These Sections will be applied prospectively to business combinations for which the acquisition date is

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on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these Sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. The Corporation is currently evaluating the impact of the adoption of these changes on its consolidated financial statements.

1.14 Financial Instruments and Risks and Uncertainties

The carrying value of the Company's cash and equivalents, amounts receivable, restricted cash, trade receivable from a related party, reclamation deposits accounts payable and accrued liabilities, due to/from related parties and capital lease obligations approximate their fair values.

Financial Instrument Risk Exposure and Risk Management

The Company is exposed in varying degrees to a variety of financial market and financial instrument related risk, including credit risk, liquidity risk, foreign exchange risk, interest risk and commodity price risk. It is also exposed to the diamond market.

Credit Risk

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents, accounts receivable and trade receivable from a related party. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents with high-credit quality financial institutions. The Company's minimize its credit risk by settling the receivables on its diamond sales in the month following the sale. The carrying value of the Company's cash and cash equivalents, accounts receivable and trade receivable from a related party represent the maximum exposure to credit risk. The Company does not have financial assets that are invested in asset backed commercial paper.

Liquidity Risk

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

The Company operates in South Africa. Like other foreign entities operating there, the Company is subject to currency exchange controls administered by the South African Reserve Bank, that country's central bank. A significant portion of the Company'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

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Africa is permitted upon the approval of the South African Reserve Bank. Cash balances in South Africa are the Rand balances disclosed below.

Foreign Exchange Risk

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

Capital Market Risk

The Company is operating in an uncertain and volatile capital market environment which presents risks in respect of the Company being able to raise equity or debt to finance existing or new projects, or pursue growth opportunities through acquisition

Diamond Market Risk

During the latter part (October, November and December) of 2008 and the early part (January and February) of 2009 the international diamond market softened considerably as a consequence of the credit crunch and the volatility and uncertainty in the banking and financial market sector. In the three months ended May 31, 2009, the diamond markets continue to experience the carryover effects from reduced diamond demand and lower pricing. Diamond demand and prices fluctuate and are affected by numerous factors beyond the control of the Company, 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 jewellery. 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 Company’s results of operations.

1.15 Other MD&A Requirements

Additional information relating to the Company is available on SEDAR at www.sedar.com.

1.15.1 Additional Disclosure for Venture Issuers Without Significant Revenue

Not applicable. The Company is not a venture issuer.

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1.15.2 Disclosure of Outstanding Share Data

The following details the share capital structure as of the date of this MD&A. These figures may be subject to minor accounting adjustments prior to presentation in future consolidated financial statements.

	Expiry date	Exercise price	Number	Total
Common shares				238,043,069
Share purchase options				
	September 24, 2012	\$ 0.62	5,896,500	
	November 14, 2012	\$ 0.63	1,101,500	
	June 20, 2011	\$ 0.45	950,000	7,948,000
Warrants	November 22, 2009	\$ 1.00	39,600,000	39,600,000

1.15.3 Internal Controls over Financial Reporting Procedures

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. Any system of internal controls over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

During management's evaluation of the effectiveness of internal controls over financial reporting for the year ended February 28, 2009, management identified significant deficiencies in the Company's internal controls over financial reporting. The significant deficiencies identified include insufficient supervision and review by key accounting personnel over routine, non-routine and complex accounting transactions, inconsistent application of documented financial reporting procedures by accounting personnel, and the ineffective review of certain accounting transactions by accounting personnel. Management continued to remediate the material weakness that existed as at February 28, 2009, during the quarter ended May 31, 2009 by implementing the following remediation plans:

- Recruitment of qualified and experienced members to the accounting team. The Company has also contracted the services of an accountant with experience in the diamond industry to assist in the rigorous review of procedures and to assist with addressing backlogs and changes in reporting.
- Enhance controls around the timing and level of review of accounting schedules and calculations that support significant financial statement accounts. The CFO, Group Financial Manager and Rockwell staff has implemented a review of the financial reporting procedures and will continue to implement further improvements to ensure sufficient, appropriate and timely review of the financial information to mitigate any potential future delays. Processes will be thoroughly planned and re-engineered to meet the Company's financially reporting and continuous disclosure obligations.
- Provide appropriate training to accounting personnel regarding the Company's period end financial reporting process and procedures.

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These programs, as enhanced, are designed to reduce, although they may not eliminate, the risk of a material misstatement to a reasonable level.

Other than has already been disclosed there have been no significant changes in internal controls over financial reporting during the period ended May 31, 2009 that could have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

1.15.4 Disclosure Controls and Procedures

The Company has disclosure controls and procedures in place to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information.

There have been no significant changes in the Company's disclosure controls and procedures during the period ended May 31, 2009 that could significantly affect disclosure controls and procedures subsequent to the date the Company carried out its evaluation.