



FOCUSED ON
DIAMOND VALUE
MANAGEMENT



ANNUAL REPORT
2011

ROCKWELL'S OBJECTIVE IS TO CREATE A GROWTH-ORIENTED MID-TIER DIAMOND MINING AND DEVELOPMENT COMPANY.

TO MEET THIS GOAL, THE COMPANY HAS AN INTEREST IN SEVERAL
PRODUCING AND EXPLORATION ALLUVIAL DIAMOND PROPERTIES
IN SOUTH AFRICA.

www.rockwelldiamonds.com

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HIGHLIGHTS

- Operating profit of \$4.0 million, a **turnaround of \$7.5 million** from a \$3.6 million operating loss in 2010
- **43% year-on-year increase in revenue** to \$42.5 million
– **23% year-on-year increase in revenue/m³** to \$12.6/m³
- **35% increase** in average price to US\$1,365 per carat and **2% rise** in sales to 27,017 carats
- Production **increased 5%** to 26,165 carats
- Cash generated by **operating activities** of \$8.9 million compared to \$110,694 consumed in fiscal 2010
- **Net cash balance increased** to \$2.9 million from \$1.8 million
- Appointment of **CEO with extensive operating and corporate track record** in the diamond sector
- **Strategic review** to identify shortcomings and to improve production and enhance operational efficiencies
- **Growth plans redefined** to capitalize on significant portfolio of alluvial diamond deposits

LOWLIGHTS

- Continued poor performance from in-field screening plant at Saxendrift
- Persistent delays and challenges in commissioning Tirisano
- High cost structure forced decision to put Holpan on care and maintenance
- Inability to obtain regulatory approval for continuous operations
- Lack of progress with regard to debt repayment from BEE partner, Africa Vanguard Resources
- Shareholding heavily weighted in North America

SALIENT FEATURES

	2011	2010
	\$	\$
Volume (cubic meters)	3,386,872	2,918,097
Production (carats)	26,165	24,916
Sales (carats)	27,017	26,433
Average price per carat (US\$)	1,365	1,010
Revenue – continuing operations	42,507,747	29,776,933
Average C\$ exchange rate (R/C\$)	7.07	7.21
Operating (loss)/profit	4,021,014	(3,559,134)
Expenses	6,931,427	7,817,612
Total comprehensive loss	3,511,131	1,607,993
Basic and diluted loss per common share	0.01	0.03
Total assets	110,183,714	105,243,386
Net cash and cash equivalents	2,983,645	1,814,595
Inventories (carats)	1,057	3,799

All dollar figures stated in this report are expressed in Canadian dollars, unless otherwise specified.

ABOUT ROCKWELL

Rockwell Diamonds is listed on the Toronto Stock Exchange under the symbol RDI, the JSE Limited under the symbol RDI and the Over-The-Counter Bulletin Board where it trades under the symbol RDI AF.

Rockwell is engaged in the business of operating and developing alluvial diamond mines. The Company operates two existing operations, and has two planned development projects in addition to the acquisition of a further development property which is nearing completion.



**ROCKWELL'S FOCUS IS ON
DIAMOND VALUE MANAGEMENT**
BY OPTIMIZING RECOVERY AND DRIVING
DOWN UNIT COSTS THAT WILL PROVIDE
SHAREHOLDERS WITH THE POTENTIAL
FOR GROWTH AND ADDED VALUE.



BUSINESS STRATEGY

Following the impact of the financial crisis and recession Rockwell has implemented plans to revive its growth and development plans in tandem with improved market conditions and prices.



THE COMPANY'S CORPORATE OBJECTIVES INCLUDE:

- 1. Optimizing productive** mines to deliver better returns by driving down costs and improving metallurgical processes
- 2. Leveraging the production profile** to 10,000 carats per month through further development of assets with a focus on minimizing the dilution of existing shareholders
- 3. Adding downstream value** from the Company's exceptional gemstone diamond production through strategic beneficiation partnerships
- 4. Driving expansion and growth** through the recent acquisition of select alluvial diamond opportunities, such as Tirisano, to increase and smooth the Company's production and revenue profile and create scale and critical mass
- 5. Conducting geological investigations**, including drilling and bulk sampling on new project areas adjacent to the above operations

ROCKWELL HAS A VERY DEEP UNDERSTANDING OF ITS GEOLOGY, A CRUCIAL FACTOR FOR A PROFITABLE ALLUVIAL DIAMOND MINER.

STRONG DIAMOND MARKET FUNDAMENTALS

- Price recovery in 2010
- Recovery accelerated in 2011
- Deficit gap widening as demand continues to outstrip supply
- Strong demand growth in India and China



ROCKWELL IS A UNIQUE INVESTMENT

- Currently only exploiting 3 out of 7 deposits – underpinning the Company's organic growth potential
- Mineral resources and reserve statements stated as per NI 43-101
- Proven track record in producing large, high-quality gemstones
- Enhanced revenue through beneficiation partnerships

INVEST AT A SUBSTANTIAL DISCOUNT TO INTRINSIC VALUE

- Significant upside with minimal capital investment
- New leadership and strong board to drive value creation: additional 40 years' diamond experience
- Participate in turnaround of established diamond producer

NEW LEADERSHIP TEAM FOCUSED ON CLOSING VALUE GAP

- Investments aimed at delivering higher and more predictable production profile
- Deploy fit-for-purpose technology to optimize recovery of diamonds
- Focus on diamond value management





LEADERSHIP TEAM WITH STRONG CREDENTIALS TO DELIVER VALUE

BOARD OF DIRECTORS



DAVID COPELAND
Chairman and Director
P.Eng. (Economic Geology)

Over 30 years' experience across broad ranging projects in mine exploration, discovery and development throughout the South Pacific, Africa, South America and North America, including alluvial bulk sampling and alluvial start-up operations in the Northwest Territories, Canada.



DR MARK BRISTOW
Director
PhD (Geology)

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



RICHARD J LINNELL
Director
Geologist

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



DR WILLEM JACOBS
Director
BPL (Hons) and DCom

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



GARY WU
Director
Executive MBA

Managing partner of Godia Capital Partners, one of the first Chinese private equity funds created to focus on investment opportunities in resource projects in Africa.



SANDILE ZUNGU
Director
BEng. (Mechanical), MBA

Founding member of Zico, a broad-based black economic empowerment investment company which is the majority shareholder of Rockwell's empowerment partner Africa Vanguard Resources. Engineering and production experience at several blue-chip South African resource and industrial companies. Executive director for Strategy and Empowerment at New Africa Investments Limited.



JAMES CAMPBELL
President and Chief Executive
BSc (Hons) ARSM, MBA (Dunelm)

Seasoned diamond executive with career spanning over 20 years at De Beers and four years as managing director of African Diamonds plc. FIMMM, C.Eng, C.Sci and Pr.Sci.Nat.

EXECUTIVE TEAM



JAMES CAMPBELL
President and Chief Executive
BSc (Hons) ARSM, MBA (Dunelm)

Seasoned diamond executive with career spanning over 20 years at De Beers and four years as managing director of African Diamonds plc. FIMMM, C.Eng, C.Sci and Pr.Sci.Nat.



MICHAEL HUNT
Chief Operating Officer
MSc (Advanced Chemical Engineering)

More than 30 years in diamond sector, including senior roles in diamond-winning research for De Beers, and management at Orapa, the world's largest diamond mine. Operations Manager at Pangea DiamondFields Plc from 2007. Pr.Eng.



GERHARD JACOBS
Chief Financial Officer
BAcc, MBA

Mining and corporate experience with junior and senior mining companies with operations in South Africa, Australia and Canada. Knowledge of public listed mining companies.



GLENN NORTON
Mineral Resource Manager
BSc (Hons)

Geological, mineral resource management and production experience in alluvial diamond deposits, diamond and coal exploration. Qualified person and Pr.Sci.Nat.



JEFFREY BRENNER
Diamond Marketing & Sales
Manager

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



RICHARD MHLONTLO
Group HR/Industrial Relations
Manager
Nat Dip (HR Management & Development)

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

PRODUCER OF **LARGE AND EXCEPTIONAL** GEM DIAMONDS

NOTABLE STONES RECOVERED DURING THE 2011 FISCAL YEAR INCLUDED, AMONG OTHERS:



50.31 carat D color	84.29 carat D color
62.89 carat E color	92.39 carat J/K color
69.24 carat fancy orange pink	124.56 carat E/F color
81.30 carat intense yellow	135.98 carat K color, spotted
82.86 carat fancy yellow	145.81 carat



ROCKWELL ROUGH DIAMOND PRODUCTION: AVERAGE US\$/CARAT

		\$0	\$200	\$400	\$600	\$800	\$1,000	\$1,200	\$1,400	\$1,600	\$1,800	\$2,000
		World Diamond Average \$90/carat <0.3 carat/stone										
		Tirisano (North West Province, RSA) \$700/carat ~0.9 carat/stone										
		Holpan/Klipdam (Vaal River, RSA) \$1,200 & \$1,100/carat respectively ~1.2 carat/stone										
		Saxendrift/Wouterspan (Moro, RSA) \$2,000/carat ~2.5 carat/stone										

ROCKWELL 43-101 MINERAL RESERVES AND RESOURCES: AT 28 FEBRUARY 2011

Property	Category	Volume (m ³)	Grade (ct/100m ³)	Value (USD/ct) 43-101
Saxendrift/Kwartelspan	Probable*	4,565,400	0.5	
	Indicated	1,774,600	0.66	\$2,029
	Inferred	5,986,000	0.56	
Klipdam	Indicated	1,907,900	1.21	\$1,049
	Inferred	949,000		
Holpan	Indicated	395,000	0.95	\$1,229
	Inferred	527,000		
Erf 2004	Indicated	404,700	0.63	\$986
	Inferred	127,000		
Rietputs	Inferred	735,000	0.76	\$788
Wouterspan	Indicated	5,025,500	0.7	\$2,029
	Inferred	37,774,000		
Nieuwejaarskraal	Inferred	20,630,000	0.84	\$2,029
Tirisano**	Indicated	25,279,900	2.37	\$606
	Inferred	15,334,000		

Estimates done at November 30, 2010 and reconciled to February 28, 2011 by including material removed by trial mining and bulk sampling in Q4 FY2011.

NC: no change Value: average value of the sales of diamonds during sampling.

* Saxendrift probable mineral reserves are exclusive from the indicated mineral resources.

** Tirisano acquisition not yet complete as the mining rights have not yet been ceded to Rockwell.

Rockwell also holds the Zwemkuil Project (incl. Zwemkuil, Moidraai and Holsloot properties), which was reviewed in fiscal 2011. This is a significant exploration target, but to date there has not been sufficient work done to estimate mineral resources.

Estimates completed by Rockwell's Manager, Resources, GA Norton, (Pr. Sci. Nat.), a qualified person who is not independent of the Company. Reviewed by TR Marshall, PhD, (Pr. Sci. Nat.), an independent qualified person.

SAXENDRIFT



KLIPDAM



TIRISANO





David Copeland, Chairman

During the last six months, Rockwell has made **enormous progress in repositioning** itself to ramp up its production profile.

The 2011 fiscal year was one of change for Rockwell. It emerged in a stronger financial and operational position at the end of the year. The recovery of the diamond market continued after the demand hiatus which followed the 2008 global economic crisis. Supported by increasing diamond prices, we continued to focus on improving our financial position while we also strengthened our management team to deliver on our growth objectives.

Even though Rockwell's financial position showed substantial improvements during the year and we made substantial progress in repositioning the Company to ramp up its production profile, our operational performance fell short of internal production targets. We embarked on a strategic review of all operational activities and processes to map the way forward in order for Rockwell to achieve these objectives.

Rockwell's financial results have established a positive trend over the last four quarters. Management is of the opinion that with ongoing operational improvements to enhance the recovery of diamonds, the continued reductions in operating costs, and the increasing prices and demand for diamonds, the Company's financial performance should be sustainable in fiscal 2012.

Our team of alluvial diamond geology, mining and processing experts is unique in that they have skills across the value chain from exploration to processing and recovery. This has been further strengthened with the appointment of our new CEO and COO to lead our team and the execution of our strategy.

STRATEGY

The strategic review which was conducted during the fourth quarter enabled Rockwell to clearly align its corporate objectives with the associated deliverables in order to increase its production of high-quality gemstones to 10,000 carats per month within five years.

To this end, we will continue to focus on optimizing our productive mines to deliver better returns. We have prioritized two specific areas:

- To continue driving down unit costs by achieving design plant throughput rates and improving both utilization and availability; and
- To pursue sustainable improvement of metallurgical processes, improving the recovery of diamonds and increasing revenue.

During the year, we also evaluated a number of options to leverage our production profile through further development of assets. We are seeking additional financing in the

capital markets to implement further plant improvements at Saxendrift, complete the first two process streams and front end material feeding at Tirisano, and commence with preliminary work on the proposed new high-volume processing plant to bring Wouterspan back on stream.

DIAMOND MARKET TRENDS

Both rough and polished diamond prices improved during the 2010 calendar year underpinned by strong retail demand for diamonds in the second half of 2010. Rough diamond prices achieved levels comparable to those that prevailed at the end of 2007. Price increases accelerated, particularly in the last two months of fiscal 2011.

The rough diamond supply of De Beers remained relatively low during the first half of 2010, but it steadily increased its supply and prices thereafter. This brought prices for its rough diamonds in line with the bullish secondary market where buyers were prepared to pay premiums on all boxes. Alrosa maintained its supply across all available marketing channels, including tender sales. Although tenders are already the preferred sales channel among smaller producers, larger producers are increasingly adopting this as a suitable sales mechanism.

Although the pace of price increases for polished diamonds has not matched that of rough diamonds, the trend has been positive. The growth in the Indian and Chinese domestic markets has led to an increase in market share at the retail consumer level, which includes accelerating online sales. Polished diamond prices, in particular, increased by 5% during January and February 2011.

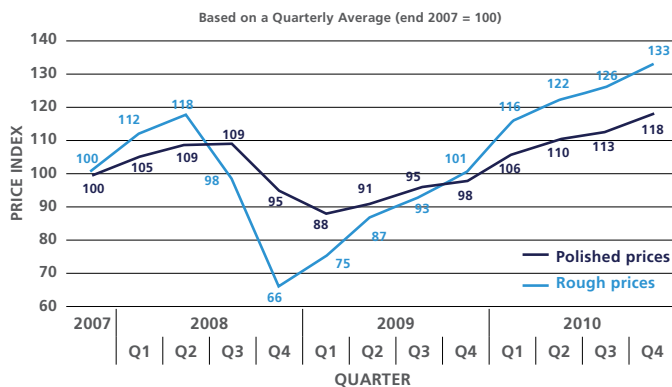
The high prevailing prices for rough diamonds have eroded manufacturing margins, which were already tight. The price of polished diamonds is expected to increase in the longer term, relieving margin pressure in the manufacturing environment.

BOARD AND MANAGEMENT

During the year, our management team was strengthened with the appointment of several key professionals to ensure that we have the capacity to deliver on our strategy. Most notably, these included creating a new human resource and industrial relations function which was filled in April 2010 by Richard Mhlontlo and the appointment of Gerhard Jacobs, a seasoned chief financial officer in July 2010. After year-end, we also brought a new chief operating officer on board, Michael Hunt, a diamond processing engineer with more than 30 years of diamond industry experience.

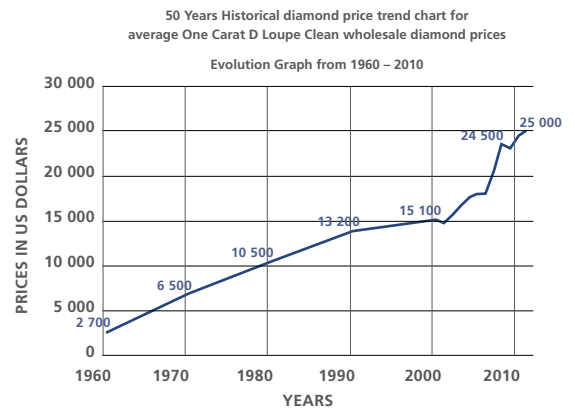
When we announced the resignation of Dr John Bristow from the position of president and CEO in December 2010,

COMPOSITE DIAMOND PRICE INDEX FOR ALL QUALITIES AND SIZES



Source: polishedprices.com

50 YEARS HISTORICAL DIAMOND PRICE TREND



Source: Allan Hochreiter

Dr Mark Bristow, CEO of Randgold Resources Limited stepped in as acting CEO while we recruited a new leader for Rockwell. Following an extensive recruitment program, we were pleased to announce the appointment of James Campbell as the new CEO and president of Rockwell, starting in June 2011. He brings a wealth of experience gained in the diamond sector at this crucial time when Rockwell Diamonds is embarking on further investments to deliver on its production objectives. We are confident that with his knowledge and understanding of the industry he will make a meaningful contribution to unlocking the underlying value of the Company.

OUTLOOK

Our focus is on implementing our recently adopted diamond value management strategy to unlock the inherent value in the Company. We will do this by optimizing output from our producing assets to continue improving the Company's financial performance.

In the medium term, we will also leverage our assets by developing high-volume production plants on our mines currently on standby, and by developing our portfolio of excellent resource properties.

The positive outlook for Rockwell Diamonds is supported by strong fundamentals in the diamond market.

APPRECIATION

I extend my gratitude to the board and management of Rockwell for their unfailing commitment and support during the past year. We encountered a number of challenges and

without your efforts and loyalty, we would not have achieved the improvements which we successfully implemented during the year.

We have made enormous progress and with your continued support I am confident that one year hence, we will be reporting on an even stronger Rockwell Diamonds.

I especially wish to thank my fellow director Mark Bristow, who took on the added responsibility of acting CEO during the recruitment process. Despite his hectic existing professional responsibilities he has made the time to work with the operational team. It is particularly pleasing to see the positive impact and enthusiasm he instilled as he handed over the reins to James Campbell who is now putting into action the next phase of Rockwell's journey.

To each and every one of our dedicated employees, my heartfelt gratitude for your hard work and efforts to overcome the challenges that faced us during the year and with your help, we have put Rockwell on a more solid footing.

I would also like to thank our loyal shareholders for their support and continued faith in the Rockwell board and management. I am very confident that we will see the value unlocked in Rockwell's assets, which will in turn translate into a much better share performance.

David Copeland

Chairman



The Company continued to **drive down unit costs** across its operations, with the average operating cash cost decreasing to US\$7.91 per cubic meter in fiscal 2011.

James Campbell, President and Chief Executive Officer

	PRODUCTION			SALES AND INVENTORIES		
	Volume (m ³)	Carats	Average grade (carats/100 m ³)	Sales (carats)	Average value (US\$/carat)	Inventories (carats)
FISCAL 2011	3,386,872	26,165	0.77	27,017	1,365	1,087
YEAR-ON-YEAR CHANGE	16%	5%	-9%	2%	35%	-45%

INTRODUCTION

As incoming CEO of Rockwell Diamonds it is opportune for me to share my reasons for joining the Company as well as my plans to close the value gap between our current share price and its fair value. During the process of making my decision, I realized that this was an organization with the makings of a very successful mid-tier alluvial diamond mining company.

It was abundantly clear that Rockwell has a very deep understanding of its geology, a crucial factor for a profitable alluvial diamond miner. The Company has invested significant time and effort in fully understanding its diamond resources. The grades and diamond values in our NI 43-101 reports are supported by actual production data and sales prices in addition to sample estimates and have been verified by an independent qualified person. This approach gives us comfort that the estimates are conservative which is important as we begin to optimize our current processes and implement improved concentration and recovery technology which will translate into much greater efficiencies.

Although the Company's production profile has been volatile and suboptimal, I saw ample evidence that by focusing on diamond value management and quality, these issues could chiefly be resolved. To this end, we brought on board some highly experienced diamond metallurgy skills and a new chief operating officer after the fiscal year-end. I believe that we are now equipped to deliver a sustainable turnaround in the production profile of the organization.

FINANCIAL REVIEW

Tender sales of \$37.8 million were achieved in fiscal 2011. The beneficiation profit share agreement delivered further revenue of \$4.7 million. Accordingly, Rockwell reported a 43% year-on-year increase in total revenue to \$42.5 million. During fiscal 2011, eight tender sales of rough diamonds were held, and special diamonds exceeding 10 carats were sold for beneficiation. Sales were at an average price of US\$1,365 per carat, 35% higher than the price in the corresponding period of approximately US\$1,010 per carat. Sales in fiscal 2011 amounted to 27,017 carats, up from 26,533 carats sold in 2010.

Rockwell achieved an operating profit of \$4.0 million for the fiscal year ended February 28, 2011 compared to operating losses of \$3.5 million and \$2.0 million for fiscal 2010 and 2009

respectively. This operating profit is as a result of a significant increase in diamond prices.

Mining costs for the year ended February 28, 2011 amounted to \$28.1 million (February 28, 2010 – \$23.8 million), which excludes amortization and depletion charges of \$10.4 million (February 28, 2010 – \$9.5 million). Exploration expenses decreased to \$49,184 for the year ended February 28, 2011 compared to \$97,805 in the prior year. Office and administrative costs for year ended February 28, 2011 increased to \$3.6 million from \$3.4 million incurred in the prior year. Stock-based compensation increased to \$884,886 for the year ended February 28, 2011 in comparison to \$335,358 in the previous year.

Net interest expenses were \$347,050 for February 28, 2011, compared to \$1,079,114 for the year ended February 28, 2010, due to the reduction of the credit facility and outstanding capital lease obligations.

The improved operational performance also translated into higher cash flows generated by operating activities of \$8.9 million. On the performance of the last two quarters, the operations made a positive contribution towards cash flow. This is not sufficient to fund the future capital projects at Wouterspan and Tirisano. These expansion projects will be funded by external means.

The Company realized a loss of \$5.1 million for the 12-month period ended February 28, 2011 compared to a loss of \$7.0 million for the prior year. The loss was due to production only increasing slightly by 5% or 1,249 carats during fiscal 2011 and other expenses although decreasing to \$6.9 million (2010 – \$7.8 million) still at relatively high levels compared to sales amounts.

Rockwell's liquidity continued to improve with net cash holdings increasing by \$1.1 million to \$2.9 million (end of fiscal 2010: \$1.8 million), after investing \$12.4 million to purchase equipment and mineral properties. Debt repayments of \$3.3 million rendered the Company virtually debt free other than capital lease obligations of \$142,630 which relate to mining equipment and which were fully repaid early in fiscal 2012.

With current assets amounting to \$12.9 million and current liabilities of \$8.6 million, the Company's current ratio improved to 1.49 times (February 28, 2010: 1.02 times).

Diamond inventories at February 28, 2011 totaled 1,057 carats (at February 28, 2010: 1,910 carats).

The operations are generating sufficient cash to cover operating costs and direct overheads. Based on monthly production projections the Company should hold adequate inventory that will generate sales revenue and has adequate cash holdings as well as access to short-term debt facilities to meet its working capital requirements.

PRODUCTION REVIEW

The production of the Company increased by 16% to 3,386,872 cubic meters, which was below internal targets. Delays in commissioning the in-pit de-sanding plant at Saxendrift and heavy floods in January 2011, followed by sustained high levels of precipitation during the rainy season impacted overall productivity. Saxendrift delivered a 19% increase in production and 261,214 cubic meters were processed at the Klipdam Extension bulk sampling project.

In fiscal 2011, 26,165 carats (fiscal 2010: 24,916 carats) were produced from operations at Holpan, Klipdam and Saxendrift. The increase was due to carats which were recovered from the Klipdam Extension (Rietputs) bulk sampling project. Klipdam and Saxendrift were impacted by lower grades, and volumes at all operations were affected by the unseasonably heavy rainfalls.

The Company continued to drive down unit costs across its operations, with the average operating cash cost decreasing to US\$7.91 per cubic meter in fiscal 2011 compared to US\$10.40 per cubic meter in the previous year. The decline is attributable to higher throughput and was achieved despite increased input costs, such as fuel, oil and electricity.

Annual average mining cash costs by operation were as follows:

- Holpan US\$9.59 per cubic meter;
- Klipdam US\$8.06 per cubic meter;
- Klipdam Extension US\$8.13 per cubic meter; and
- Saxendrift US\$6.89 per cubic meter.

Unit costs at Saxendrift are lower than at the other operations due to the significantly higher volumes of gravel processed at this operation compared to the Company's other mining operations.

The average total cash cost for all the operations over fiscal 2011, including rehabilitation, lease payments and royalties, amounted to US\$9.12 per cubic meter (fiscal 2010: US\$9.50 per cubic meter).

OPERATIONAL REVIEW

In the operations environment, we have adopted a philosophy of "quality tonnes" and diamond value management which has been incorporated into all our operational functions. In the past, the focus was more on volume throughput and this allowed processing inefficiencies to creep into the system. By concentrating on quality and value, we aim to show consistent improvement in the recovery of diamonds and efficiency of our plants.

Holpan/Klipdam

Historically, the two mines operated independently from each other with common management and support services. However, going forward a strategy was initiated to rationalize and consolidate these operations in order to optimize value for

the remaining combined life of mine which also supports the objectives of the strategic review.

The Holpan operation was faced with significant challenges during fiscal 2012, due to heavy and unseasonal rainfall during the summer season. As a result, the resource became saturated, which decreased the plant's throughput. This placed upward pressure on unit costs and rendered the mine unprofitable in the fourth quarter. To address these issues, Rockwell entered into negotiations with the recognized trade union (National Union of Mineworkers) to implement full calendar operations (continuous operations). However, an agreement was not reached.

The adjacent Holpan and Klipdam operations are being reviewed by management. In its first step to rationalize the two operations, notice was given to the Union on April 5, 2011, that Management was placing the Holpan operation on care and maintenance. Both the Holpan and Klipdam resources can be processed through the Klipdam plant, which is a pan plant operation and consequently operates at a lower cost. This should result in decreased unit costs and extending the life of mine. A decision was taken to sell the Holpan DMS plant to release funds for our capital investment program.

The Klipdam mine encountered similar challenges related to the high rainfall in the fourth quarter; however, the impact was largely mitigated by increasing the ore extraction from the palaeochannel that has a calcrete capping and protects the resource from being saturated by rain. Although these measures were beneficial, production was below target, and management introduced cost saving measures such as reducing the mining fleet used on the operation. Despite the challenging operating environment, Klipdam continued to recover high-quality gemstones, which had not yet been sold at the financial reporting date.

Saxendrift

The annual production volume of Saxendrift increased 20% but carats recovered were down 24% because of dilution from large sand lenses occurring in the area of current production from the deposit. Although carat volumes were lower, the value of the diamonds produced has remained constant, confirming that the Saxendrift resource continues to produce high-quality gemstones.

The technical challenges associated with the in-pit de-sanding plant persisted through the fourth quarter. These were exacerbated by the unseasonably high rainfall which reduced its effectiveness and, as a result, the anticipated benefits did not materialize. Rockwell, in conjunction with external consultants, developed a strategy to mitigate the problems.

Deliverables at Saxendrift in relation to the strategic review include changing out the in-pit screening plant with a fit-for-purpose screen designed to process wet and sticky ores at the run of mine of the remainder of the processing plant. Changing the cut off recovery rate to maximize stones exceeding 10 mm is also planned in fiscal 2012 to minimize the costs associated with processing volumes of material that may provide little reward or even negative returns. The benefits from these changes are expected to become meaningful from the third quarter of fiscal 2012.

The management of Rockwell remains confident that Saxendrift will continue to contribute the required returns to the Company.

Project development review

Tirisano

After the reporting date, we fulfilled the last conditions precedent for the acquisition of Tirisano from Etruscan Diamonds, which was announced in 2010. The Section-11 cession by the Department of Mineral Resources (DMR) was received early in August 2011, and restructuring of the senior debt provided by the Industrial Development Corporation of South Africa Limited has been restructured. When the transaction becomes effective, Rockwell will also assume certain non-material property maintenance obligations effective immediately and other financial obligations to Etruscan creditors.

The commissioning of the production facility, which started in May 2011, has been delayed as a result of improvements and extensions which were made to the initial plans. Tirisano is an important building block in Rockwell's growth strategy and we needed to make sure that the processing plant would deliver on our expectations. We undertook a plant review at Tirisano which came up with a number of recommendations to improve the processing plant which had been built under the previous leadership. As a result, we modified the commissioning schedule and the first two production streams of the plant will now go into production at the end of the third quarter of 2011 ramping up to a monthly capacity of 90,000 cubic meters.

Our metallurgists are currently reviewing the flow diagrams for the new front end and we plan to complete construction early in fiscal 2013, depending on the availability of capital. The remaining two streams will be redesigned to implement processing technologies which support Rockwell's diamond value management strategy. This work will commence within three months of production so that we can take into account all the learnings from the first two streams. On completion, the high-volume plant is expected to benefit the Company by smoothing its production profile.

Wouterspan and Niewejaarskraal

We are committed to completing the current projects at Saxendrift and Tirisano before embarking on our plans to develop the Wouterspan and Niewejaarskraal mines. Both of these properties have extensive mineral deposits which have historically been mined with recoveries similar to those at Saxendrift, in terms of size, quality and average price per carat.

New high-volume processing plants are planned, incorporating the latest technologies in diamond recovery which have been shown to be significantly more efficient than traditional DMS and pan plant configurations. We are embarking on a proof of concept for the use of high-volume X-ray technology at Saxendrift with a view to deploying the same technology at Wouterspan and Niewejaarskraal with significant efficiency

improvements over the current flow sheets. The timing of these new developments will be predicated on the availability of funding but is unlikely to commence before the end of fiscal 2012. Our preference is to use internal cash flow; however, these may need to be supplemented by external capital.

We are at the tail end of a private placement. We anticipate that the funds raised will be sufficient to complete the first two streams at Tirisano and the improvements at Saxendrift.

CONCLUSION

Following on from the strategic review, which was conducted at the beginning of the 2011 calendar year, Rockwell has already taken decisive steps to improve the recovery of diamonds and turn its underperforming assets around. We are already seeing early signs that these are taking the Company in the right direction.

The priorities in the year ahead are continuation of the same theme – the new management team's focus is firmly on improving efficiencies at our current operations. Our priority is to deliver on our targets to improve our concentration and recovery technology to ensure that our mines produce to their design capacity.

We have accelerated a number of projects to enhance the recovery of diamonds on existing operations as well as at the Tirisano project in fiscal 2012. At Saxendrift we will replace the in-field screening plant with fit-for-purpose technology and review production profiles to improve recoveries. We will also complete the first two streams at Tirisano to start generating revenue from this asset.

From a sales and marketing perspective, our beneficiation partnership with the Steinmetz Diamond Group provides us with a significant competitive edge. It has to date unlocked substantial value from the sale of stones exceeding 10 carats. The agreement was recently extended to include special stones exceeding 2.8 carats, and as such we anticipate that the beneficiation revenues will gain further traction.

The fundamentals for the diamond market remain strong and we are committed to optimizing our current infrastructure and developing our other properties in the medium term, to leverage the underlying market strength to unlock the value of the Company.

Our primary focus is to deliver on our current priorities so that the next time we come to the market, it is on a solid footing, having delivered on our immediate objectives.



James Campbell

President and Chief Executive

MINERAL RESOURCES AND RESERVES

The Company completed technical reports on all of its material mineral properties with an effective date of November 30, 2010. The Company reviewed all technical data and has incorporated this into the new technical report.

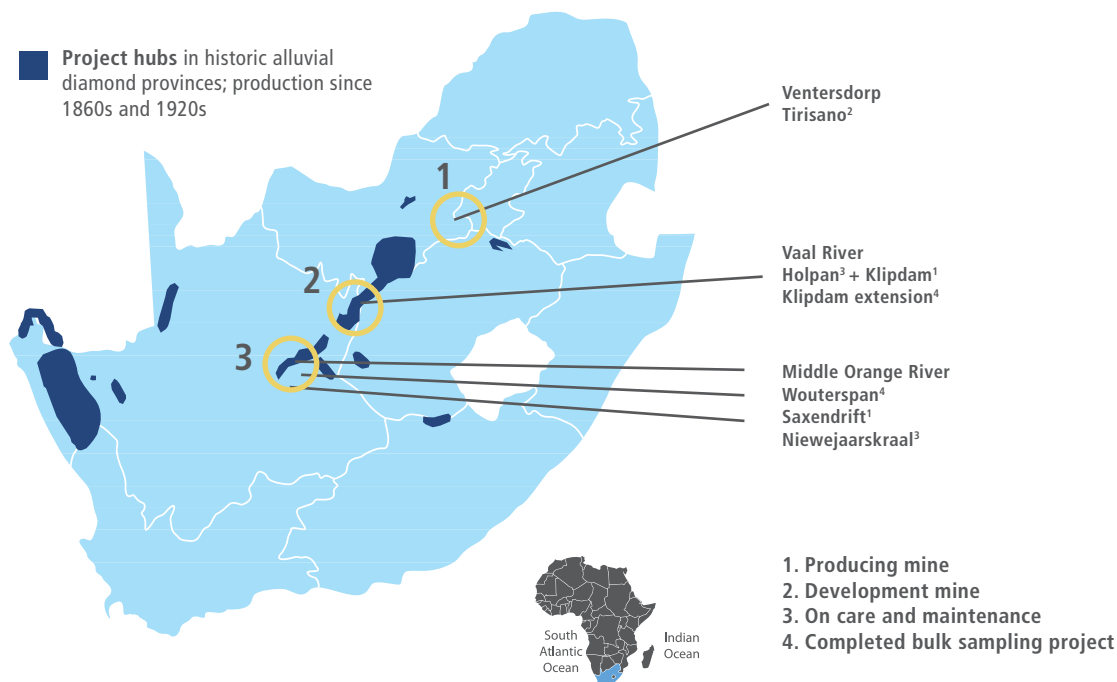
As a TSX-listed company, Rockwell Diamonds complies with the National Instrument 43-101 regulations for the statement of mineral resources and reserves. However, the basis of these rules is not directly applicable to the specifics of alluvial diamond deposits. In order to address these limitations, the Company has developed a conservative and consistent method of declaring its mineral resources and mineral reserves. The grades and diamond values, which have been calculated

using this methodology during the last four years, has been shown to accurately reflect the output of the mines.

All geological determinations and mine planning is conducted under the auspices of the Company's qualified person who oversees and is accountable for the work of all technical personnel on the operations.

The mineral resources and mineral reserves at November 30, 2010 were estimated by Rockwell's Manager, Resources, G Norton, (Pr. Sci. Nat.), a qualified person who is not independent of the Company, and reviewed by T Marshall, PhD, (Pr. Sci. Nat.), a qualified person who is independent of the Company.

Technical reports by Marshall and Norton have been filed with the Company's year-end materials on www.sedar.com.



Category	Volume (m ³) Feb 28, 2011	Carats	Value (USD) millions
Probable reserves	4,565,400	22,827	46.3
Indicated resources	34,787,600	675,412	489.6
Inferred resources	82,062,000	828,641	1,141.1
			1,677.0

SAXENDRIFT

Status: Production

The Saxendrift Project was acquired by Rockwell in April 2008. It is located on the south bank of the Orange River in the Herbert district of the Northern Cape Province, some 50 km southwest of Douglas and some 160 km from Kimberley. Rockwell holds a 74% interest in the property. The remaining 26% is held by the Company's black economic empowerment partner.

Saxendrift is adjacent to Wouterspan, which is located on the north bank of the Middle Orange River. The proximity of these projects offers Rockwell the opportunity to maximize existing infrastructure and operational synergies.

Fiscal 2011 performance statistics

Volume (m ³)	1,449,875
Carats	6,705
Average grade (carats per 100 m ³)	0.46
Sales (carats)	6,956
Value of sales (US\$)	13,931,120
Average value (US\$ per carat)	2,003

Production at Saxendrift declined to 6,705 carats as a result of a 37% decrease in the average grade achieved during fiscal 2011.

Sales from Saxendrift were 6,956 carats at an average price of US\$2,003 per carat, a decrease in carats and increase in value per carat sold from 8,667 carats at an average value of US\$1,968 per carat in the 12 months ended February 28, 2010.

Rough diamond inventories	Carats
Beginning of period*	534
Production	6,705
Rough diamond sales	6,956
End of period	283

Processing plant

130,000 m ³ monthly production capacity
18 ft (4)
Scrubbers (4)
Flow Sort X-ray machines (10)

Mineral resource/reserve estimates

Saxendrift mineral reserves

Mining area	Reserve classification	Volume (m ³)	Grade* (ct/100 m ³)	Carats	Value# (USD/ct)
Total/average Saxendrift Mine probable reserve (Terrace A)		4,859,900	0.50	24,299	2,029

* At 2 mm bottom cut-off

Subsequent to November 30, 2010 during December 2010 to February 28, 2011, the Company has processed 289,540 m³, so the probable reserve at year-end is 4,570,400 m³ grading 0.5 carats per 100 m³.

The mineral reserves above are included in the mineral resources below.

Saxendrift mineral resources

Mining area	Resource classification	Volume (m ³)	Grade* (ct/100 m ³)	Value# (USD/ct)
Terrace A	Indicated	4,859,900	0.50	2,029
Terrace B	Indicated	1,774,600	1.15	
Total/average Saxendrift Mine indicated		6,634,500	0.66	2,029

Terrace A	Inferred	5,400,000	0.50	2,029
Terrace B	Inferred	86,000	0.68	
Kwartelspan prospect	Inferred	500,000	1.00	
Total/average Saxendrift inferred		5,986,000	0.56	2,029

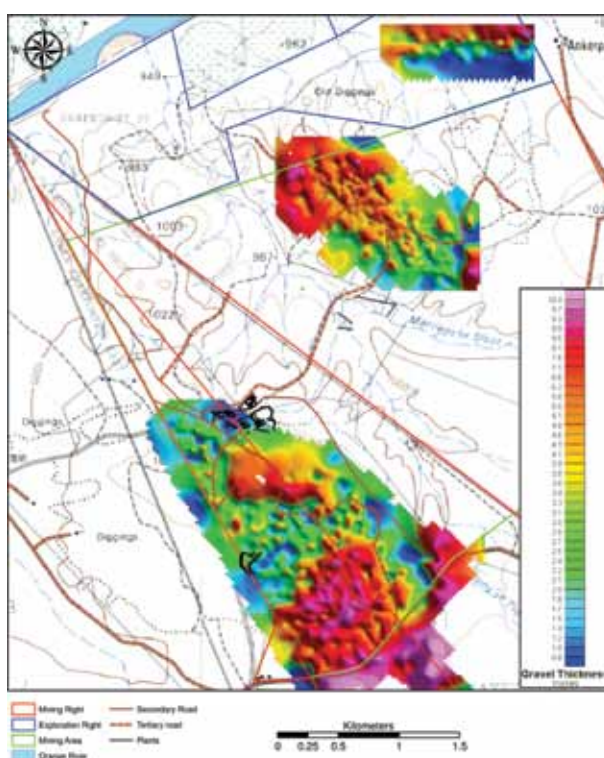
* At 2 mm cut-off



Mine Manager:
Ben Nell
Years of service: 4

Geological setting and mineralization

Alluvial diamond deposits preserved in fluvial-alluvial palaeochannel and deflation gravels (Rooikoppie) in Orange River terraces.



KLIPDAM

Status: Production

The Klipdam Property is located 45 km from Kimberley, South Africa, and consists of the adjacent Holpan 161 and Klipdam 157 farms, covering an area of 3,836 ha. The mining operations are located on the Klipdam (157) and Holpan (161) properties which have a total area of 3,836 ha. Prospecting properties, Erf 1 and Erf 2004, Windsorton have also been acquired (1,146 ha). Holpan was put on care and maintenance in May 2011.

At Klipdam, diamond-bearing gravels are processed through a double 18 ft, low-cost, wet rotary pan plant which was completely modernized and upgraded in October 2007. All concentrate (-32+2 mm) is processed through X-Ray Flow Sort units. Tailings from the Flow Sort are passed over



Mine Manager:
Koggie Mostert
Years of service: 4

mobile grease belts equipped with automated recovery systems, to recover any remaining or non-fluorescent diamonds. The final diamond recovery is done in a glove box and all diamonds are collected in a drop safe at the bottom of the glove box.

Fiscal 2011 performance statistics

		HOLPAN	KLIPDAM
Production	Volume (m ³)	777,791	891,609
	Carats	7,469	10,109
	Average grade (carats per 100 m ³)	0.96	1.13
Sales and revenue	Sales (carats)	8,008	10,195
	Value of sales (US\$)	9,622,911	11,409,098
	Average value (US\$ per carat)	1,202	1,119

The increased carat production at Holpan and Klipdam was mainly attributable to grade increases of 21% and 5% at Holpan and Klipdam respectively.

Sales from Holpan were 8,008 carats at an average value of US\$1,202 per carat, an increase in carat sales and a decrease in value per carat sold from 6,458 carats at an average value of US\$492 per carat in the 12 months ended February 28, 2010.

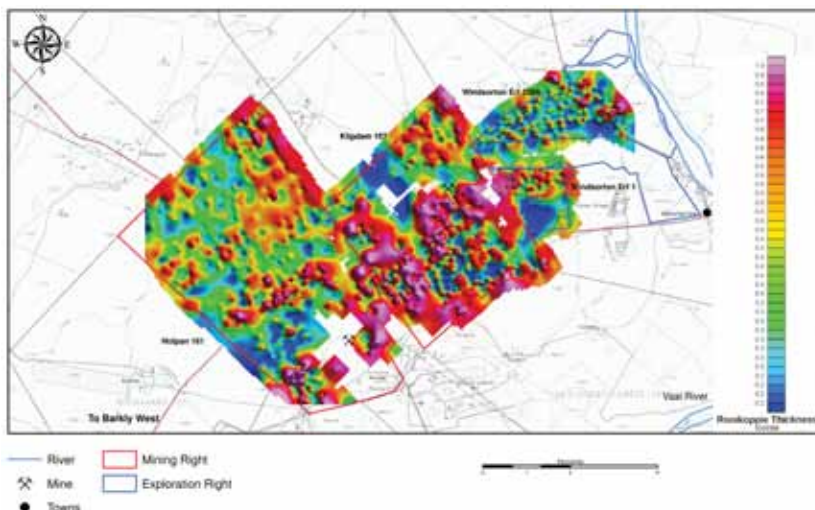
Sales from Klipdam were 10,195 carats at an average value of US\$1,119 per carat. Although carat sales were down from

10,817 carats in the 12 months ended February 28, 2010, the average value per carat increased from US\$581 from the previous fiscal year.

Rough diamond inventories	Holpan (carats)	Klipdam (carats)
Beginning of period*	780	595
Production	7,469	10,109
Rough diamond sales	8,008	10,195
End of period	241	509

Geological setting and mineralization

Alluvial diamond deposits preserved in fluvial-alluvial palaeochannel and deflation gravels (Rooikoppie) in Vaal River terraces.



Processing plant

Holpan	Klipdam
90,000 m ³ monthly processing capacity	90,000 m ³ monthly processing capacity
200 tph DMS	Low-cost 18 ft Rotary pans (2)
Scrubber (1)	Scrubber (1)
Flow Sort X-ray (6), grease units	Flow Sort X-ray (4), grease units

Mineral resource/reserve estimates

	Description of gravel resource	Volume of gravel (m ³) at indicated classification	Volume of gravel (m ³) at inferred classification	Grade (ct/100 m ³)	Value (USD/ct)
Holpan	Fluvial-alluvial gravel	517,800	527,000	0.95	1,229
	Rooikoppie gravel				
Klipdam	Fluvial-alluvial gravel	989,100	–	1.21	1,049
	Rooikoppie gravel	1,102,100	949,000		
Erf 2004, Windsorton		404,700	127,000	0.63	986
TOTAL		3,013,700	1,603,000		

* At 2 mm bottom cut-off.

Subsequent to November 30, 2010, during December 2010 to February 28, 2011 the Company has processed 285,466 m³. The indicated resources for Holpan are 415,600 m³, grading 0.95 carats per m³ and the indicated resources for Klipdam are 1,907,900 m³ grading 1.21 carats per 100 m³.



TIRISANO

The Tirisano Project is a past producer that has been on care and maintenance since 2008. The 10,805.57 ha property is located some 35 km due north of the town of Ventersdorp, in the North West Province approximately 150 km west of Johannesburg.

Rockwell met the outstanding conditions to finalize the acquisition of the Tirisano Project from Etruscan Diamonds on August 5, 2011 with the receipt of the Section 11 cession from the Department of Mineral Resources so that the mining rights can be ceded to Rockwell. Rockwell has purchased 74% of Tirisano with the remaining 26% being held by the local Mogopa Community.

The restructuring of the senior debt, which had been provided by the Industrial Development Corporation of South Africa Limited when the Tirisano Mine (the majority interest which is owned by Etruscan Diamonds) was first developed, has also been finalized.

General Manager:
Graham Chamberlain
Years of service: 1.5

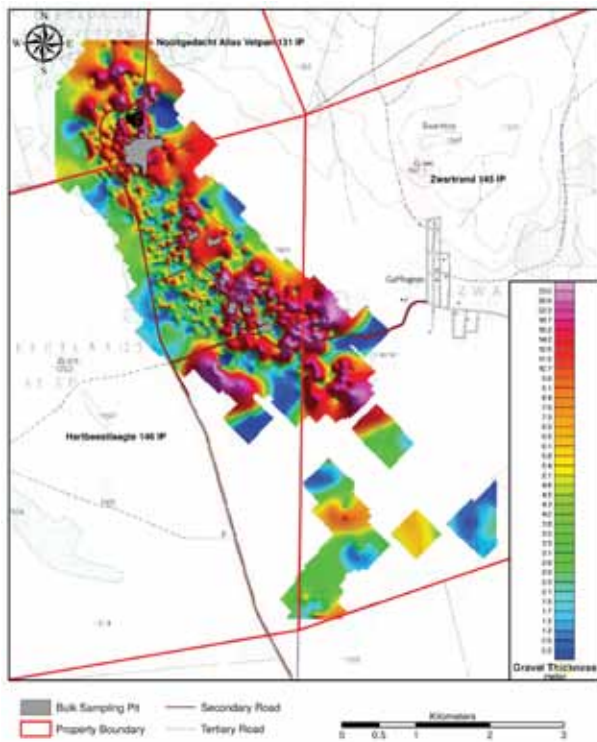


The production facility at the site is being completely rebuilt. It is planned that upon completion, the new plant will comprise four production streams. The first two streams of the plant will go into commercial production at the end of the third quarter of fiscal 2011 with a capacity ranging up to 90,000 cubic meters per month.

Once fully commissioned, the high-volume plant is expected to benefit the Company by smoothing its production profile.

Geological setting and mineralization

Alluvial diamond deposits preserved in a karst system where the dolomitic bedrock contacts may be vertical, the mode of gravel deposition is not typical fluvial-alluvial, periodic subsidence has taken place since deposition, which has taken place since, at least, the Mesozoic, resulting in a build-up of a very thick gravel sequence.



Processing plant

180,000 m ³ monthly production capacity
16 ft Rotary pans (8)
Scrubbers (4)
Flow Sort X-ray machines (9)

Mineral resource/reserve estimates

Description of gravel resource	Volume of gravel (m ³) at indicated classification	Volume of gravel (m ³) at inferred classification	Grade (ct/100 m ³)	Value (USD/ct)
Tirisano*	25,279,900	15,334,000	2.37	606

* Tirisano acquisition is not yet complete as the mining rights have not yet been ceded to Rockwell.



EXPLORATION AND DEVELOPMENT PROPERTIES WOUTERSPAN

Background

The Wouterspan Property is located near Douglas, South Africa. It comprises portions, totalling 7,409.4 hectares, of the Lanyon Vale 376 farm. Operations were taking place on three portions of the property called the Farhom, Okapi and Stofdraai farms, exploiting the Rooikoppie and Primary gravel.

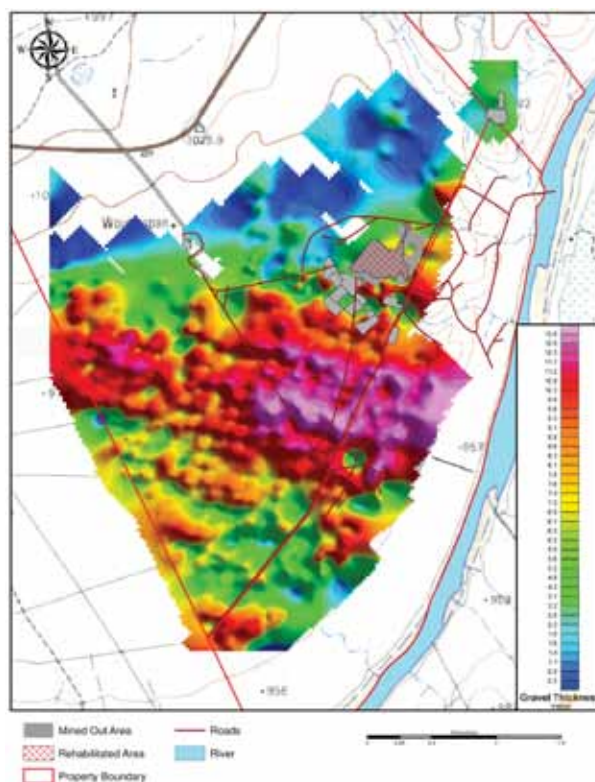
The strategic review of the property continued during the quarter ended February 28, 2011; a review of the proposed new plant design by external consultants is nearing completion.

A preliminary assessment of the Wouterspan project was commissioned by Rockwell in late 2010. A high-volume/low-cost production plant is planned. Construction on the new plant will commence after commissioning of the Tirisano project has been bedded down and funding has been secured.

The geology of Wouterspan is similar to that of adjacent Saxendrift, and similar mining methods are expected to be employed. Excavation of the gravels is not planned to change from the standard techniques applied on all of Rockwell's alluvial diamond mines – excavation by hydraulic excavator followed by transport of gravel to the plant site in mine haul trucks.

Geological setting and mineralization

Alluvial diamond deposits preserved in fluvial-alluvial palaeochannel and deflation gravels (Rooikoppie) in Vaal River terraces.



Processing plant

Old plant	New plant
±90,000 m ³ per month	340,000 m ³ per month
600 carats per month	2,200 carats per month
12 x 16 ft pans	8 x 18 ft pans

Mineral resource/reserve estimates

	Inferred resources	Indicated resources	Ave grade (ct/100 m ³)*	Ave value (USD/ct)
Rooikoppie	5,911,000	714,400	0.70	2,029
Fluvial-alluvial	31,863,000	4,311,100		
TOTAL	37,774,000	5,025,500	0.70	2,029

* At a 2 mm bottom cut-off.



NIEWEJAARSKRAAL

Background

The Niewejaarskraal project is located on the south bank of the Orange River in the Herbert district of the Northern Cape Province, some 57 km southwest of Douglas and some 170 km from Kimberley. The property is a past producer that was acquired by Rockwell in 2009. It is held 74% by Rockwell and 26% by the black economic empowerment partner.

There is an existing processing plant on Niewejaarskraal which was in operation until the mine was put on care and maintenance in 2007, but it will need to be completely refurbished and upgraded prior to recommissioning. The current plan, given that Rockwell is currently in the process of reopening the Wouterspan and Tirisano mines, is for the Niewejaarskraal mine to remain on care and maintenance for the next three to five years, with a preference to fund the project from internally generated cash flows.

The proposed new processing plant will be a high-volume, low-cost plant, specifically designed to deal with the peculiarities of the gravels being processed. The plant is planned to be automated to the extent that optimal production, with minimal downtime and maintenance can be attained.

Processing plant

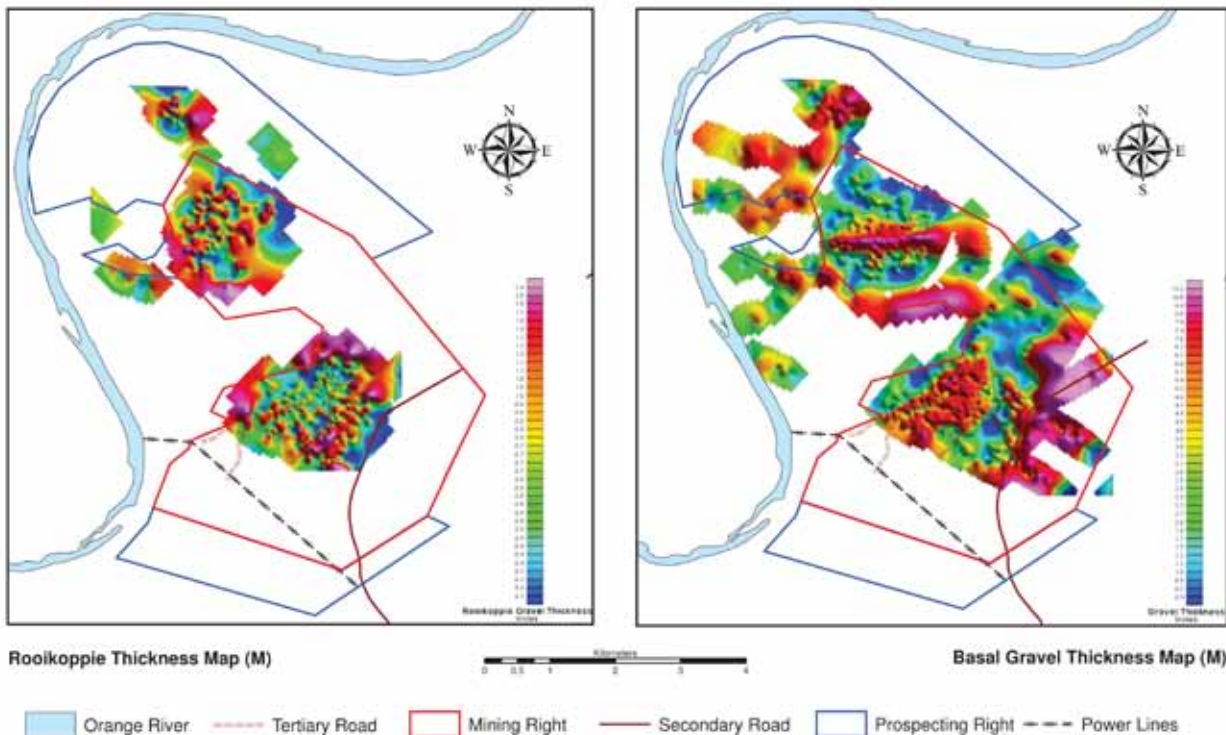
Old plant	New plant
±40,000 m ³ per month	340,000 m ³ per month
336 carats per month	2,700 carats per month
80 tph DMS	8 x 18 ft pans

Work done to date on the adjacent Saxendrift mine indicate that the entire sedimentary profile should be excavated and processed – although this has the effect of decreasing the overall recovered grade, the life of mine is significantly increased. Excavation of the gravel is not planned to change from the standard techniques applied on all of Rockwell’s alluvial diamond mines (excavation by hydraulic excavator followed by transport of gravel to the plant site in dump trucks).

Ongoing review and updating of resources based on production will be made by existing Rockwell staff and the independent qualified person, as necessary. Since Rockwell has large amounts of existing drill data that it acquired from Trans Hex, much of which still requires ongoing and further rigorous analysis and integration with mining results, no new drilling programs have been planned for this property for the period 2012. Before any new drilling is planned and budgeted for on Niewejaarskraal, Rockwell staff will complete supplementary field work, geological mapping, and internal reinterpretation of existing data. No additional costs have been budgeted for 2012 for this exercise as it will take place within Rockwell’s existing budgets.

The current plan is for the Niewejaarskraal mine to remain on care and maintenance until fiscal 2013, after the Wouterspan project has been recommissioned.

Geological setting and mineralization



Mineral resource/reserve estimates

Area	Gravel type	Resource classification	Volume (m ³)	Grade (carats/100 m ³)	Value (USD\$/ct)
Terrace A	Fluvial-alluvial Rooikoppie	Inferred	11,831,500	0.84	2,029
Terrace B	Fluvial-alluvial Rooikoppie	Inferred	5,990,000	0.84	2,029
TOTAL		Inferred	20,630,500	0.84	2,029

ROCKWELL IS FULLY COMMITTED

TO PROTECTING THE HEALTH AND SAFETY OF ALL EMPLOYEES, THE PROTECTION OF THE ENVIRONMENT AND THE WELLBEING OF COMMUNITIES AROUND ITS OPERATIONS.

SAFETY

Rockwell prioritizes and values the health and safety of its employees and therefore promotes the implementation of the highest safety standards and procedures across its operations. Compliance with the provisions of the Mine Health & Safety Act is regarded as a top priority on all operations together with the involvement of our employees and safety representatives.

We recently demonstrated our commitment to the promotion of health and safety in the workplace, with the achievement of One Million Injury Free Hours at our Saxendrift operation in the Northern Cape which is a significant achievement.



JOB CREATION AND SOCIOECONOMIC DEVELOPMENT

Rockwell Diamonds provides employment to 602 people across its mining operations. The majority of the workforce is split between its operations at Saxendrift and Klipdam and its development project at Tirisano. These mines are located in regions which are impacted by high levels of unemployment



and poverty and the jobs that Rockwell has created provide economic stability to its employees and their families.

The workforce at the Tirisano project is also contributing meaningfully to employment in the region, and is especially supporting the economic upliftment of the local Mogopa community, its BEE partner at Tirisano.

The Tirisano project will also provide employment to people from the nearby villages of Boikhutso, Welgevonden and Tsetse. We also support local businesses in the region with Ventersdorp benefiting directly from the project.

BENEFICIATION IN SOUTH AFRICA

Rockwell currently beneficiates 85% of the value of its diamonds in South Africa and is involved in three initiatives to support this:

- Steinmetz Diamond Group is a strategic beneficiation partner of Rockwell Diamonds and the rough diamonds sold through the beneficiation JV are beneficiated in South Africa. Steinmetz is the largest employer of local citizens in southern Africa in the diamond beneficiation sector. It is known for its training and development programs to develop South African diamond cutters.
- Flawless Diamond Trading House also has an initiative to supply diamonds to previously disadvantaged cutters and polishers and subsequently to assist them in selling their products at market prices.
- Initiatives to establish a factory which will be 100% owned by previously disadvantaged persons are at an advanced stage. The CEO started working at the entry level in the diamond industry and has grown his business through hard work.





CORPORATE SOCIAL INVESTMENT

Rockwell has devoted its investments to supporting education of future generations of South Africans and has supported the following initiatives in this regard:

- Refurbished the Barkly West orphanage and place of safety which caters for 50 children. Rockwell's operational head office is based in Barkly West.
- Ensuring that the nutritional requirements of the orphans were met by engaging a dietician and funding the newly updated menus as the orphanage did not have the funds to adequately feed the children.
- Refurbished the Vaal River High School in partnership with the Department of Education.
- Refurbished the Vaal River High School hostel facilities which provide accommodation and shelter for the underprivileged students. In addition, Rockwell sponsors three meals a day for 70 students.
- Provided computer centres to three schools in Barkly West.
- Provides three meals a week to 140 senior citizens and people living with HIV/Aids in Gong-Gong near Barkly West.



ENTERPRISE DEVELOPMENT

Rockwell invested R2 million to start Bokamoso, a brick-making facility which is managed and operated by women. It manufactures and supplies bricks in the Northern Cape. The company was subsequently expanded to provide civil construction to the mining industry. It also carries out renovations to the local communities at low cost. All Rockwell's civil construction on its Northern Cape mines has been carried out by Bokamoso.

ENVIRONMENTAL

Rockwell puts its commitment to managing the impact of its mining operations on the environment into practice by rehabilitating the mined land as it is mined. The mined areas on its properties are almost always indistinguishable from the pre-mining areas with a lag of some 18 months to reach full rehabilitation of the vegetation.

Rockwell only removes endemic trees if all permits have been obtained, and when the land is rehabilitated, it plants two indigenous trees for every endemic tree which was removed.

Rockwell complies with all aspects of the South African environmental legislation.



ROCKWELL IS COMMITTED TO THE HIGHEST STANDARDS OF ETHICS, INTEGRITY, PERSONAL AND CORPORATE RESPONSIBILITY AND ADHERENCE TO LAWS AND REGULATIONS THAT GOVERN OUR BUSINESS.

MANDATE OF THE BOARD

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

The attendance record of the directors for the 12 months ended February 28, 2011 is as follows:

Name	Board meetings attended	% of board meetings attended
William Fisher ⁽¹⁾	Nil	N/A
John Bristow ⁽²⁾	7 out of 7	100%
Mark Bristow	7 out of 7	100%
David J Copeland	7 out of 7	100%
Sandile Zungu	2 out of 7	29%
Willem Jacobs	7 out of 7	100%
Richard Linnell	7 out of 7	100%
Yong Guo ⁽³⁾	1 out of 7	14%
Gary Wu ⁽⁴⁾	1 out of 7	14%
David Barber ⁽⁵⁾	2 out of 7	29%

Notes:

- (1) William Fisher resigned as a director on March 25, 2010.
- (2) Dr John Bristow resigned as a director on May 18, 2011.
- (3) Yong Guo was appointed as a director on January 6, 2010 and resigned as a director on June 28, 2010.
- (4) Gary Wu was appointed as a director on June 28, 2010.
- (5) David Barber was appointed as a director on September 10, 2010 and resigned as a director on December 21, 2010.
- (6) James Campbell was appointed as a director on June 30, 2011.

COMPOSITION OF THE BOARD

Applicable governance policies require that a listed issuer's board of directors determines the status of each director as independent or not, based on each director's interest in, or other relationship with, the corporation. Applicable governance policies recommend that a board be constituted with a majority

of directors who qualify as independent directors (as defined below). A board should also examine its size with a view to determining the impact of the number of directors upon the effectiveness of the board, and the board should implement a system which enables an individual director to engage an outside advisor at the expense of the corporation in appropriate circumstances. The Manual allows for retention of independent advisors for board members when they consider it advisable.

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

The board proposes seven nominees for the office of director of whom two of the nominees can be considered as "independent" directors. The "independent" nominees are Richard Linnell and Willem Jacobs. These nominees are considered independent by virtue of not being executive officers of the Company, not having a material relationship with the Company and having received no compensation other than in their role as directors. The non-independent directors (and the reasons for that status) are David Copeland, Chairman (provides engineering services), Mark Bristow (brother of John Bristow, former President and Chief Executive Officer of the Company) and Sandile Zungu (Chairman and majority shareholder of Zico, which is the majority shareholder of the Company's empowerment partner, AVR) and Gary Wu (nominee of Godia Capital Partners, a significant shareholder of the Company).

Mr Copeland serves on other boards of directors of other publicly traded companies affiliated with a private management company, Hunter Dickinson Services Inc. (HDSI). As described in the Company's AIF, HDSI is a private company that provides geological, accounting, management and administrative

services to a number of public companies (of which the Company is one). HDSI employs members of the executive management of all such companies (of which the Company is one) and HDSI in turn invoices the companies for their share of these executive and director services, as well as other services, including geological, accounting, management and administrative services.

COMMITTEES OF THE BOARD

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

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

Audit committee

The board has established an audit committee which currently consists of Willem Jacobs and Richard Linnell. The audit committee carries out its responsibilities under applicable laws, regulations and stock exchange requirements with respect to the employment, compensation and oversight of the Company's independent auditors and other matters under the authority of the committee. See further disclosure in the AIF filed on www.sedar.com on May 30, 2011. The Company adopted an Audit Committee Charter on February 28, 2008 and it is included in the Manual. The Audit Committee Charter is also available for viewing at the Company's website at www.rockwelldiamonds.com.

Compensation committee

The board has established a compensation committee which currently consists of Willem Jacobs, Richard Linnell and Sandile Zungu. The compensation committee recommends compensation for the directors and executive officers of the Company. See further disclosure under Statement of Executive Compensation below. The Compensation Committee Charter was adopted on February 28, 2008 and is included in the Manual. This Compensation Committee Charter is available to view at the Company's website at www.rockwelldiamonds.com.

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

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

Nominating and governance committee

The board has established a nominating and governance committee (the "NG committee") which currently consists of Richard Linnell and Sandile Zungu.

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

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

BOARD DECISIONS

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

RECRUITMENT OF NEW DIRECTORS AND ASSESSMENT OF BOARD PERFORMANCE

Good governance policies require that (i) every board of a listed corporation implement a process for assessing the effectiveness of the board and the committees of the board and the contribution of individual directors, (ii) every corporation provide an orientation and education program for new directors, and (iii) every board review the adequacy and form of compensation of directors and ensure that the compensation realistically reflects the responsibilities and risks involved in being an effective director.

See the discussion under Nominating and Governance Committee above.

Directorships

The Election of Directors section above in this Information Circular provides details of other reporting issuers of which each director is a director or officer as at the date hereof.

Orientation and continuing education

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

Ethical business conduct

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

Nomination of directors

The board considers its size each year when it considers the number of directors to recommend to the shareholders for election at the annual meeting of shareholders, taking into account the number required to carry out the board's duties effectively and to maintain a diversity of views and experience.

Assessments

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

Financial instrument risk exposure and risk management

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

Credit risk

Credit risk is the risk of potential loss to the 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, restricted cash, accounts receivable and trade receivable from a related party. The carrying value, which approximates fair value, of the Company's cash and cash equivalents, accounts receivable and trade receivable from a related party represents the maximum exposure to credit risk.

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 does not have financial assets that are invested in asset-backed commercial paper.

The Company minimizes its credit risk by reducing credit terms to 30 days on its sales.

Cash and cash equivalents and bank indebtedness are carried in traded currencies.

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 raised \$8.0 million in a private placement and rights offering in the first quarter of fiscal 2011. 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. 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 that the Company may not be able to acceptably repatriate such funds once those subsidiaries are able to repay the loans or repatriate other funds such as operating profits should any develop. The repatriation of cash held in South Africa is permitted upon the approval of the South African Reserve Bank. Cash balances in South Africa are disclosed above.

Currency 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 ZAR. As a result, the Company is subject to currency 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.

A 10 percent increase/decrease of the Canadian dollar (CAD) against the ZAR at February 28, 2011 would have a net gain/loss effect of \$226,349 (February 28, 2010 – \$391,238). This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

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

The Company has capital lease obligations with several financial institutions. The capital leases bear interest at rates linked to the prevailing prime rate of the relative financial institution, and are subject to interest rate change risk.

A 10 percent increase/decrease of the prime rate for the year ended February 28, 2011 would have a net loss/gain effect of \$7,241 (February 28, 2010 – \$154,580). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

Diamond price risk

The value of the Company's mineral resource properties is dependent on the price and the outlook of diamonds. Diamond demand and prices fluctuate and are affected by numerous factors beyond the control of the 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 jewelry. Low or negative growth in the worldwide economy, prolonged credit market disruptions or activities creating disruptions in economic growth could result in decreased demand for diamonds, thereby negatively affecting the price of diamonds. Similarly, a substantial increase in the worldwide level of diamond production could also negatively affect the

price of diamonds. In each case, such developments could materially adversely affect the Company's results of operations. The profitability of the Company's operations is highly correlated to the market price of diamonds. If diamond prices decline for a prolonged period below the cost of production of the Company's operating mines, it may not be economically feasible to continue production.

COMPLIANCE WITH LAWS, REGULATIONS, RULES AND STANDARDS

Rockwell believes that it is in compliance with all material laws and regulations that currently apply to its activities, but there can be no assurance that it can continue to do so. Current laws and regulations could be amended and the Company might not be able to comply with them, as amended. Further, there can be no assurance that Rockwell will be able to obtain or maintain all permits necessary for our future operations, or that it will be able to obtain them on reasonable terms. To the extent such approvals are required and are not obtained, Rockwell may be delayed or prohibited from proceeding with planned exploration or development of its mineral properties.

EXECUTIVE COMPENSATION

GENERAL PROVISIONS

"Named executive officer" (NEO) means each of the following individuals:

- (a) a chief executive officer (CEO);
- (b) a chief financial officer (CFO);
- (c) each of the three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year, whose total compensation was, individually, more than \$150,000 for that financial year; and
- (d) each individual who would be an NEO under paragraph (c) but for the fact that the individual was neither an executive officer of the Company, nor acting in a similar capacity, at February 28, 2011.

COMPENSATION DISCUSSION AND ANALYSIS

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

The board has established a compensation committee consisting of Willem Jacobs, Richard Linnell and Sandile Zungu. The function of the compensation committee as set out in the Manual is to assist the board in fulfilling its responsibilities relating to the compensation practices of the executive officers of the Company. To achieve this purpose, the compensation committee has the duty, responsibility and authority to:

- (a) recommend to the board the form and amount of compensation to be paid by the Company to directors for service on the board and on board committees. The compensation committee shall review director compensation at least annually;
- (b) annually review the Company's base compensation structure and the Company's incentive compensation, stock option and other equity-based compensation programs and recommend changes in or additions in such structure and plans to the board as needed;

- (c) recommend to the board the annual base compensation of the Company's executive officers and senior managers (collectively the Officers);
- (d) recommend to the board the range of increase or decrease in the annual base compensation for non-Officer personnel providing services to the Company;
- (e) recommend to the board annual corporate goals and objectives under any incentive compensation plan adopted by the Company for Officers and non-Officer personnel providing services to the Company, and recommend incentive compensation participation levels for Officers and non-Officer personnel providing services to the Company under any such incentive compensation plan. In determining the incentive component of compensation, the committee will consider the Company's performance and relative shareholder return, the values of similar incentives at comparable companies and the awards given in past years;
- (f) evaluate the performance of Officers generally, and in light of annual corporate goals and objectives under any incentive compensation plan;
- (g) periodically review with the Chairman and CEO their assessments of corporate officers and senior managers and succession plans, and make recommendations to the board regarding appointment of officers and senior managers;
- (h) provide oversight of the performance evaluation and incentive compensation of non-Officer personnel providing services to the Company;
- (i) administer the Company's stock option and other equity-based compensation plans and determine the annual grants of stock options and other equity-based compensation; and
- (j) recommend to the NG committee the qualifications and criteria for membership on the compensation committee.

Report on executive compensation

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

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

Mr James Campbell, President and CEO, Mr Gerhard Jacobs, CFO, and Mr Michael Stanley Hunt, Chief Operating Officer, serve the Company on a full-time basis. Dr John Bristow resigned as president and chief executive officer of the Company with effect from December 14, 2010 and he resigned from his position as director of the Company on May 18, 2011. James Andrew Hartley Campbell was appointed as President and CEO on June 1, 2011 and was appointed as a director on June 30, 2011.

Graham Chamberlain stepped down as chief operating officer on July 8, 2011 and Michael Stanley Hunt was appointed as chief operating officer with effect from July 11, 2011.

Philosophy and objectives

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

- (a) attracting and retaining talented, qualified and effective executives;
- (b) motivating the short and long-term performance of these executives; and
- (c) better aligning their interests with those of the Company's shareholders.

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

Base salary

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

Bonus compensation

The Company's objective is to achieve certain strategic objectives and milestones. The board will consider executive bonus compensation dependent upon the Company meeting those strategic objectives and milestones and sufficient cash resources being available for the granting of bonuses. Bonuses are awarded at the discretion of the board. The board approves executive bonus compensation dependent upon compensation levels based on recommendations of the compensation committee, and such recommendations are generally based, if necessary, on survey data provided by independent consultants. There were no bonuses awarded in the financial year.

Equity participation

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

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

Compensation of the chief executive officer

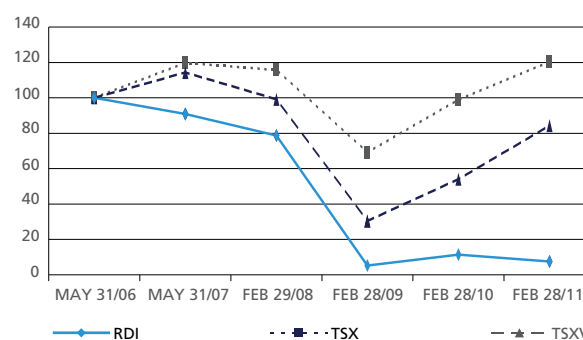
Under the Manual, the compensation of the CEO is to be approved by the board. Base salary and bonus levels are determined taking into account independent market survey data.

The compensation committee reviews the grants of stock options to directors, management, employees and consultants. Options have been granted in prior years taking into account competitive compensation factors and the belief that options help align the interests of such persons with the interests of shareholders.

As noted above under Bonus Compensation, incentives that may be paid to the CEO and any other member of the Executive or senior management team are determined in respect of the individuals and management team achieving strategic objectives and milestones which are set at the beginning of each year by the compensation committee and approved by the board. No incentives of any nature have been awarded in the past financial year due to the financial challenges faced by the Company as a consequence of the economic recession and sharp decline in diamond prices.

Performance graph

The Company commenced trading on the Toronto Stock Exchange (the TSX) on February 22, 2008. Prior thereto it was listed on the TSX Venture Exchange (the TSXV). In 2007 the Company changed its year-end from May 31 to February 28. The following graph compares the cumulative total return to a shareholder who invested \$100 in common shares of the Company on May 31, 2006 until February 28, 2011, with the cumulative total return of the TSX and TSXV.



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

As a result of the credit crisis, commodity prices collapsed, with diamonds being particularly hard hit. This, coupled with uncertainty raised from an unsolicited take-over attempt, resulted in a collapse in the share price.

The performance of management cannot be measured on the share price but in maintaining liquidity, increasing production and reducing costs. The fact that the Company is still in operation where many of its peers have failed completely is evidence of the commitment and creativity of management in ensuring that the Company is still operational.

No salary increases, bonuses or incentives of any nature have been awarded in the past financial year due to the financial challenges faced by the Company as a consequence of the economic recession and sharp decline in diamond prices.

Actions, decisions or policies made after February 28, 2011

Given the evolving nature of the Company's business, the board and its compensation committee continue to review and redesign the overall compensation plan for senior management so as to continue to address the objectives identified above. No actions, decisions or policies have been made since February 28, 2011 that would affect a reader's understanding of NEO compensation, except for the following:

- (a) Dr John W Bristow resigned as President and CEO on December 14, 2010 and he resigned from his position as director on May 18, 2011;
- (b) James Andrew Hartley Campbell was appointed as President and CEO on June 1, 2011 and was appointed as a director on June 30, 2011. Mr Campbell signed an employment agreement with the Company on May 5, 2011 and commenced employment on June 1, 2011; and
- (c) Graham Chamberlain resigned as chief operating officer on July 8, 2011; and Michael Stanley Hunt was appointed chief operating officer effective July 11, 2011.

OPTION-BASED AWARDS

The Company has in place a share option plan dated for reference August 14, 2008 (the Plan). Under TSX policies the Plan must be submitted to shareholders for renewal every three years. The Plan has been established to provide incentives to qualified parties to increase their proprietary interest in the Company and thereby encourage their continuing association with the Company. The maximum aggregate number of common shares that may be reserved for issuance under the Plan at any point in time is 10% of the outstanding common shares at the time the options are granted, less any common shares reserved for issuance under any other arrangements. The Plan is administered by the compensation committee of the Company. The Plan provides that options will be issued pursuant to option agreements to directors, officers, employees or consultants of the Company or a subsidiary of the Company. All options expire on a date not later than five years after the issuance of such option. Previous grants of option-based awards are taken into account when considering new grants of options. Subject to the requirements of the policies of the TSX and the prior receipt of any necessary regulatory approval, the board may, in its absolute discretion, amend or modify the Plan or any outstanding option granted under the Plan, as to the provisions set out in the Plan. See Adoption of New Share Option Plan under Particulars of other Matters to be Acted Upon below.

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

- (a) Currently all options granted under the Plan are non-assignable and non-transferable and are issuable for a period of up to five years;
- (b) for stock options granted to employees or service providers (inclusive of management company employees), the Company must ensure that the proposed optionee is a bona fide employee or service provider (inclusive of management company employees), as the case may be, of the Company or any subsidiary;
- (c) if an optionee ceases to be employed by the Company (other than as a result of termination with cause) or ceases to act as a director or officer of the Company or a subsidiary of the Company, any option held by such optionee may be exercised within 90 days after the date such optionee ceases to be employed as an officer or director or, as the case may be;
- (d) if an optionee dies, any vested option held by him at the date of death will become exercisable by the optionee's lawful personal representatives, heirs or executors until the earlier of one year after the date of death of such optionee and the date of expiration of the term otherwise applicable to such option;

- (e) in the case of an optionee being dismissed from employment or service for cause, such optionee's options, whether or not vested at the date of dismissal, will immediately terminate without right to exercise same;
- (f) the minimum exercise price of an option granted under the Plan must not be less than the Market Price calculated the day before the grant (as defined in the Plan);
- (g) vesting of options shall be in accordance with the option commitment in the New Option Plan or otherwise, at the discretion of the board, and will generally be subject to:
 - (i) the service provider remaining employed by or continuing to provide services to the Company or any of its affiliates as well as, at the discretion of the board, achieving certain milestones which may be defined by the board from time to time or receiving a satisfactory performance review by the Company or any of its affiliates during the vesting period; or (ii) the service provider remaining as a director of the Company or any of its affiliates during the vesting period;
- (h) the maximum aggregate number of shares issuable upon exercise of options to non-employee directors must not exceed 1% of the total common shares of the Company outstanding at any time and no more than \$100,000 in total award value per non-employee director on an annual calendar basis; and
 - (i) the board reserves the right in its absolute discretion to terminate the Plan with respect to all Plan shares in respect of options which have not yet been granted hereunder.

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

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

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

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

Summary compensation table

The compensation paid to the NEOs during the Company's three most recently completed financial years ended February 28, 2009, February 28, 2010 and February 28, 2011 is as set out below:

Name and principal position	Year	Salary ⁽¹⁾ (\$)	Share-based awards (\$)	Option-based awards ⁽²⁾ (\$)	Non-equity incentive plan compensation ⁽³⁾ (\$)			All other compensation (\$)	Total compensation (\$)
					Annual incentive plans ⁽³⁾	Long-term incentive plans	Pension value (\$)		
John Bristow ⁽⁴⁾ former President and CEO	2011	352,753	Nil	58,500	Nil	Nil	Nil	Nil	411,253
	2010	346,030	Nil	32,000	Nil	Nil	Nil	Nil	378,030
	2009	333,455	Nil	121,900	Nil	Nil	Nil	Nil	455,355
Desmond Morgan former CFO ⁽⁵⁾	2011	47,622	Nil	Nil	Nil	Nil	Nil	Nil	47,622
	2010	124,571	Nil	24,000	Nil	Nil	Nil	Nil	148,571
	2009	44,043	Nil	Nil	Nil	Nil	Nil	Nil	44,043
Gerhard Jacobs ⁽⁵⁾ CFO	2011	191,133	Nil	52,000	Nil	Nil	Nil	Nil	243,133
Graham Chamberlain ⁽⁶⁾ former COO	2011	211,652	Nil	58,500	10,441	Nil	Nil	Nil	280,593
	2010	69,206	Nil	24,000	Nil	Nil	Nil	Nil	93,206

Notes:

- (1) The Company's South African executives are compensated in South African rand (ZAR) and have been presented in Canadian dollars at an exchange rate of 1 Canadian dollar = ZAR7.0871 (2010: ZAR7.2248 and 2009: ZAR7.872) the average monthly rate in effect for the year ended February 28, 2011.
- (2) These amounts represent the dollar amount based on the grant date fair value of the award for the year ended February 28, 2011. The options granted in the Company's financial year ended February 28, 2011 were granted pursuant to the Stock Option Plan. For compensation purposes, the Black-Scholes option valuation model has been used to determine the fair value on the date of grant. The Black-Scholes option valuation is determined using the expected life of the stock option, expected volatility of the Company's common share price, expected dividend yield, and risk-free interest rate. The Black-Scholes grant date fair value for awards granted on October 8, 2010 was 86% of the option exercise price.
- (3) These amounts include annual non-equity incentive plan compensation, such as bonuses and discretionary amounts for the year ended February 28, 2011.
- (4) Mr Bristow resigned from the position of President and CEO on December 14, 2010.
- (5) Mr Morgan resigned as CFO on July 16, 2010. Mr Jacobs was appointed as CFO on July 19, 2010.
- (6) Graham Chamberlain commenced employment with the Company and was appointed chief operating officer on November 1, 2009.

INCENTIVE PLAN AWARDS

Outstanding option-based awards

The following table sets out all share-based awards and option-based awards outstanding as at February 28, 2011, for each NEO:

Name	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$) ⁽¹⁾
John Bristow former President and CEO	39,967	9.30	Sept 24, 2012	Nil
	20,000	6.75	June 20, 2011	Nil
	40,000	0.90	December 7, 2014	Nil
	60,000	0.975	October 8, 2015	Nil
Gerhard Jacobs ⁽²⁾ CFO	53,333	0.975	October 8, 2015	Nil
Graham Chamberlain COO	30,000	0.90	December 7, 2014	Nil
	60,000	0.975	October 8, 2015	Nil
Desmond Morgan ⁽²⁾ former CFO	Nil	Nil	Nil	Nil

Notes:

- (1) The value at February 28, 2011 is calculated by determining the difference between the closing price of the Company's common shares at February 28, 2011 (\$0.05 per common share) underlying the option on the TSX and the exercise price of the options.
- (2) Mr Jacobs was appointed as the new CFO effective July 19, 2010. Mr Morgan resigned as CFO effective July 16, 2010 and any options held by Mr Morgan expired unexercised.

Incentive plan awards – value vested or earned during the year

The following table sets out all incentive plan awards (value vested or earned) during the year ended February 28, 2011, for each NEO:

Name	Option-based awards – Value vested during the year ⁽¹⁾ (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
John Bristow former President and CEO	Nil	Nil
Desmond Morgan former CFO	Nil	Nil
Gerhard Jacobs CFO	Nil	Nil
Graham Chamberlain COO	Nil	Nil

Note:

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

TERMINATION AND CHANGE OF CONTROL BENEFITS

As at February 28, 2011 there were no written employment contracts between the Company and any NEO except the agreement with Gerhard Jacobs dated August 1, 2010, and the agreement with Graham Chamberlain dated November 21, 2009.

Under these agreements Gerhard Jacobs and Graham Chamberlain are to work full-time for the Company and are eligible to receive stock options and a performance-based bonus at the discretion of the compensation committee and the board, as well as other standard benefits made available by the Company. Please see Summary Compensation Table above.

There are no other compensatory plans or arrangements, with respect to the NEOs resulting from the resignation, retirement or any other termination of employment of the NEOs or from a change of any NEO's responsibilities following a change in control.

POTENTIAL PAYMENTS UPON TERMINATION

The following table provides information concerning the value of payments and benefits following termination of employment of each NEO under various circumstances. Payments vary based on the reason for termination and the timing of a departure. The amounts below are calculated as if the NEO's employment had been terminated on February 28, 2011. Receipt of payments on termination is contingent on the NEO delivering a release to the Company.

Name	Fees earned (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
David Copeland ⁽¹⁾	25,601	Nil	45,500	Nil	Nil	Nil	71,101
Mark Bristow	20,000	Nil	48,750	Nil	Nil	Nil	68,750
William Fisher ⁽²⁾	2,333	Nil	Nil	Nil	Nil	Nil	2,333
Sandile Zungu	26,000	Nil	16,250	Nil	Nil	Nil	42,250
Richard John Linnell	31,000	Nil	32,500	Nil	Nil	Nil	63,500
Willem Jacobus Jacobs	28,000	Nil	32,500	Nil	Nil	Nil	60,500
Yong Guo ⁽³⁾	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Gary Wu ⁽⁴⁾	11,667	Nil	13,000	Nil	Nil	Nil	24,667

Notes:

- (1) Fees paid to Mr Copeland via CEC Engineering are based on time spent working on the Company's matters.
 (2) Mr Fisher resigned as a director on March 25, 2010 and all his outstanding options expired.
 (3) Mr Guo resigned as a director on June 28, 2010 and all his outstanding options expired unexercised.
 (4) Mr Wu was appointed as a director on June 28, 2010.

The following table sets out all share-based awards and option-based awards outstanding as at February 28, 2011, for each director, excluding a director who is already set out in disclosure for an NEO for the Company:

Name	Number of securities underlying unexercised options (#)	Option-based awards			Share-based awards		
		Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$) ⁽¹⁾	Number of shares or units of shares that have not vested (#)	Market or pay-out value of share-based awards that have not vested (\$)	
David Copeland	33,300	9.30	Sept 24, 2012	Nil	Nil	Nil	
	40,000	0.90	Dec 7, 2014	Nil	Nil	Nil	
	46,667	0.975	Oct 8, 2015	Nil	Nil	Nil	
Mark Bristow	29,967	9.30	Sept 24, 2012	Nil	Nil	Nil	
	33,333	0.90	Dec 7, 2014	Nil	Nil	Nil	
	50,000	0.975	Oct 8, 2015	Nil	Nil	Nil	
Sandile Zungu	20,000	0.90	Dec 7, 2014	Nil	Nil	Nil	
	16,667	0.975	Oct 8, 2015	Nil	Nil	Nil	
Richard John Linnell	20,000	0.90	Dec 7, 2014	Nil	Nil	Nil	
	33,333	0.975	Oct 8, 2015	Nil	Nil	Nil	
Willem Jacobus Jacobs	33,333	0.90	Dec 7, 2014	Nil	Nil	Nil	
	33,333	0.975	Oct 8, 2015	Nil	Nil	Nil	
Gary Wu	13,333	0.975	Oct 8, 2015	Nil	Nil	Nil	

Note:

- (1) The value at February 28, 2011 is calculated by determining the difference between the closing price of the Company's common shares at February 28, 2011 (\$0.05 per common share) underlying the option on the TSX and the exercise price of the options.

NEO	Termination without cause	Change of control
John Bristow	Salary	Nil
	Bonus	Nil
	Options	Nil
Gerhard Jacobs ⁽¹⁾⁽²⁾	Salary	150,696
	Bonus	Nil
	Options	Nil
Graham Chamberlain	Salary	105,826
	Bonus	Nil
	Options	Nil

Notes:

- (1) Mr Jacobs was appointed as CFO on July 19, 2010.
 (2) Compensation of the Company's South African executives (including Mr Chamberlain) was paid to them in South African rand (ZAR). In the above table, an exchange rate of CAD1 = ZAR7.143 was used.

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

DIRECTOR COMPENSATION

Director Compensation Table

Each director of the Company, who is not an executive officer, is paid an annual director's fee of \$20,000. Each director who is a member of a committee receives either an additional \$5,000 for acting as chairperson or \$3,000 for being a member of a committee.

The compensation provided to the directors, excluding a director who is included in disclosure for an NEO for the Company's most recently completed financial year of February 28, 2011 is:

There was no value vested or earned under any incentive plan during the Company's fiscal year ended February 28, 2011.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

To the knowledge of management of the Company, no informed person (a director, officer or holder of 10% or more of the shares) or nominee for election as a director of the Company or any associate or affiliate of any informed person or proposed director had any interest in any transaction which has materially affected or would materially affect the Company or any of its subsidiaries during the 12 months ended February 28, 2011, or has any interest in any material transaction in the current year other than in respect of the share option plan and as set out herein or in a document disclosed to the public.

Hunter Dickinson Services Inc.

Hunter Dickinson Services Inc. (HDSI) is a wholly owned subsidiary of Hunter Dickinson Inc. (HDI), a private company. HDSI was, until recently, owned equally by several public companies, one of which was Rockwell. During the year, Rockwell sold its interest in HDSI for nominal value. HDSI has a director in common with the Company (Mr D Copeland) and provides geological, corporate development, administrative and management services to, and incurs third-party costs on behalf of, the Company pursuant to annually set rates. During the year ended February 28, 2011, the Company paid HDSI \$467,151 (2010 – \$961,042; 2009 – \$1,280,316) for services rendered and amounts reimbursed to HDSI for third-party costs incurred on the Company's behalf.

Flawless Diamonds Trading House

Flawless Diamonds Trading House (Pty) Limited (Flawless Diamonds Trading House or FTDH) is a private company where one director, Dr DM Bristow, and certain former directors and/or officers of the Company, namely, Messrs JW Brenner and HC van Wyk are shareholders. Rockwell owns a 20% interest in FTDH which was acquired with effect from May 5, 2010 for consideration of approximately \$100,000.

Flawless Diamonds Trading House is a registered diamond broker which provides specialist diamond valuation, marketing and tender sales services to the Company for a fixed fee of 1% of turnover which is below the market rate charged by similar tender houses. FDTH was established in 2006 to provide a professional marketing and sales facility to market and sell Rockwell's diamond production. Rockwell had no prior experience of marketing high-quality alluvial gemstone production and needed to position itself in relation to new diamond legislation which was being implemented at the time that Rockwell was establishing itself in the South African market. It was strategically important for Rockwell to have access to a strong and secure dedicated marketing facility to maximize revenue from the sale of its unique diamond production.

FDTH operates from South Africa's internationally recognized high-security diamond trading and manufacturing hub known as Jewel City, Johannesburg. FDTH was established and is still run by experienced and internationally recognized diamantaire. The facility is operated by a small and highly experienced marketing and valuation team which collectively has over 100 years of rough diamond valuation, marketing and sales experience. FDTH follows rigorous diamond handling, security, and Kimberley Process protocols, and all marketing and sales procedures are monitored and facilitated by a proprietary computer-based system. This system provides independent and transparent verification of results for sellers and buyers, and is acknowledged in the industry as a leading standard for transacting diamond sales. Aside from providing marketing and sales to Rockwell, FDTH also conducts sales on behalf of other small South African producers. During 2010 FDTH was responsible for selling 99.5% of the Company's aggregate diamond sales.

Relationship with Daboll Consulting Limited (affiliate of the Steinmetz Diamond Group)

Daboll Consultants Limited, an affiliate of the Steinmetz Diamond Group, owns 10.5% (3.533 million Rockwell common shares) and has subscribed for a further 6.67 million common shares in the current placement at \$0.75 each.

Rockwell Diamonds Inc. has a Marketing and Beneficiation Agreement with the Steinmetz Diamond Group which was initially signed in October 2007. Under the terms of the agreement high-value rough diamonds produced by Rockwell are sold to Steinmetz at the market price. Rockwell receives 90% of the price up front with the remaining 10% payable on sale of the polished stone. The diamonds are cut and polished by Steinmetz's master cutters and on sale of the polished diamonds, Rockwell participates equally in the profits from the sale. The partnership was originally set up for stones exceeding \$500,000 in value, but was extended to include all stones exceeding 10 carats in 2009. In May 2011, the agreement was broadened further to include all stones larger than 2.8 carats.

The partnership has been successful for both counterparties as Steinmetz has access to Rockwell's pipeline of high-value stones, while Rockwell participates in the upside potential on the final sale of the stones where there is significant value leverage. Rockwell is the only diamond producer with a marketing and beneficiation agreement of this nature. Rockwell has generated total revenue of \$8.5 million from its profit shares in terms of the joint venture in the last three years, with the sale of 6,184 carats, while Steinmetz has access to the large and exceptional gemstones which are its speciality. As the stock of special stones in the joint venture increases, so Rockwell's potential for value-added revenues grows. With the recent extension of the agreement to include stones exceeding 2.8 carats, the benefits for Rockwell will increase.



CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED FEBRUARY 28, 2011, 2010 AND 2009

(Expressed in Canadian dollar)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the shareholders and directors of Rockwell Diamonds Inc.

The accompanying consolidated financial statements, the notes thereto and other financial information contained in the annual report of Rockwell Diamonds Inc. (the Company) have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the management of the Company. The financial information presented elsewhere in the Annual Report is consistent with the data that is contained in the consolidated financial statements. The consolidated financial statements, where necessary, include amounts which are based on the best estimates and judgements of management.

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

The board of directors is responsible for overseeing management's performance and the fulfillment of its responsibilities for financial reporting and internal control. The audit committee, which is composed of two non-executive directors, meets with management as well as the external auditors to ensure that management is properly fulfilling its financial reporting responsibilities to the directors who approve the consolidated financial statements. The audit committee satisfies itself that each party is properly discharging its responsibilities, reviews the quarterly and annual consolidated financial statements and any reports by the external auditors and recommends the appointment of the external auditors for review by the board of directors and approval by the Shareholders. The external auditors have full and unrestricted access to the audit committee to discuss the scope of their audits, the adequacy of the system of internal controls and review financial reporting issues.

The consolidated financial statements have been audited by KPMG Inc., the independent registered chartered accountants, in accordance with Canadian generally accepted auditing standards.



Dr Mark Bristow
Director, Acting Chief Executive Officer

May 25, 2011



Gerhard Jacobs
Chief Financial Officer

May 25, 2011

INDEPENDENT AUDITORS' REPORT

To the shareholders of Rockwell Diamonds Inc.

We have audited the accompanying consolidated financial statements of Rockwell Diamonds Inc., which comprise the consolidated balance sheets as at February 28, 2011 and 2010, and the consolidated statements of operations and comprehensive loss, accumulated comprehensive loss and deficit, shareholders' equity and cash flows for each of the years in the three-year period ended February 28, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Rockwell Diamonds Inc. as at February 28, 2011 and 2010, and its consolidated results of operations and its consolidated cash flows for each of the years in the three-year period ended February 28, 2011 in accordance with Canadian generally accepted accounting principles.



KPMG Inc.
Registered Auditors

Johannesburg, South Africa
May 25, 2011

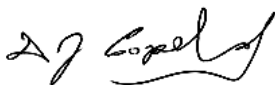
CONSOLIDATED BALANCE SHEETS

(Expressed in Canadian dollar)

	Notes	February 28, 2011 \$	February 28, 2010 \$
ASSETS			
Current assets			
Cash and cash equivalents	5	4,771,124	2,512,610
Accounts receivable	5	4,743,034	6,260,717
Restricted cash	5, 18	–	4,946
Trade receivable from a related party	15	92,398	46,108
Inventories	6	2,628,090	2,976,058
Taxes receivable		540,956	–
Prepayments		82,808	75,275
		12,858,410	11,875,714
Non-current assets			
Property, plant and equipment	7	62,828,438	58,790,736
Mineral property interests	8	29,565,304	30,850,998
Investment in associate	12	129,660	–
Other assets and deposits	11	2,042,291	827,871
Reclamation deposits	5, 10	2,759,611	2,898,067
		97,325,304	93,367,672
		110,183,714	105,243,386
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness	18	1,787,479	698,015
Accounts payable and accrued liabilities	5	6,373,382	6,458,751
Due to related parties	5, 15	72,064	641,323
Taxes payable		245,228	583,194
Current portion of capital lease obligations	5, 9	142,630	3,196,189
		8,620,783	11,577,472
Non-current liabilities			
Capital lease obligations	5, 9	–	140,332
Due to related parties	5, 15	424,572	414,566
Future income taxes	16	14,118,000	11,545,000
Reclamation obligation	10	3,814,638	3,722,984
		18,357,210	15,822,882
Non-controlling interest			
		647,407	648,941
Shareholders' equity			
Share capital	13	135,989,508	127,999,040
Contributed surplus		7,079,937	6,195,051
Accumulated other comprehensive loss		(6,363,878)	(7,979,683)
Deficit		(54,147,253)	(49,020,317)
		82,558,314	77,194,091
Continuance of operations and going concern	1		
Contingencies	19		
Subsequent events	20		
		110,183,714	105,243,386

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

Approved by the board of directors



David James Copeland
Director



Dr Mark Bristow
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Expressed in Canadian dollar)

	Notes	Year ended February 28, 2011 \$	Year ended February 28, 2010 \$	Year ended February 28, 2009 \$
Revenue				
Rough diamond sales		42,507,747	29,776,933	34,330,078
Cost of sales				
Cost of rough diamond sales		(28,079,696)	(23,790,340)	(25,113,363)
Amortization and depletion		(10,407,037)	(9,545,727)	(11,287,197)
Operating profit/(loss)		4,021,014	(3,559,134)	(2,070,482)
Expenses				
Net reclamation obligation recognized/(utilized)	10	1,809	(394,409)	1,072,389
Exploration		49,184	97,805	498,739
Foreign exchange loss/(gain)		1,381	483,902	(350,485)
Interest on capital lease obligations		119,286	969,530	1,592,001
Interest expense		329,717	576,272	3,009,680
Legal, accounting and audit		1,211,186	1,389,272	1,863,261
Office and administration		3,615,436	3,411,990	3,489,460
Shareholder communications		185,490	506,482	453,489
Stock-based compensation	13(b)	884,886	335,358	1,834,422
Travel and conferences		433,636	194,544	605,812
Transfer agent		99,416	246,866	250,878
		6,931,427	7,817,612	14,319,646
Other items				
Write-off of receivables		–	167,414	291,063
Fair value adjustment to investments held	11(a)	31,920	–	–
Loss on disposal of equipment		296,510	36,720	364,918
Writedown or loss on disposal of mineral property	8(c)	–	657,634	203,339
Other income		(193,157)	(513,338)	(303,399)
Interest income		(101,953)	(466,688)	(2,672,021)
Share of profit from equity accounted investment	12	(34,396)	–	–
Writedown of property, plant and equipment	7	284,696	23,862	2,590,958
		283,620	(94,396)	474,858
Loss before income taxes		3,194,033	11,282,350	16,864,986
Current income tax expense	16	–	18,946	7,000
Future income tax (recovery)/expense	16	2,021,000	(2,645,000)	(3,347,000)
Loss before non-controlling interest		5,215,033	8,656,296	13,524,986
Non-controlling interest		(88,097)	(1,618,603)	(549,024)
Loss for the year		5,126,936	7,037,693	12,975,962
Other comprehensive loss/(income)		(1,615,805)	(5,429,700)	13,409,383
Total comprehensive loss		3,511,131	1,607,993	26,385,345
Basic and diluted loss per common share		0.01	0.03	0.05
Weighted average number of common shares outstanding		518,185,238	267,164,309	237,924,152

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

CONSOLIDATED STATEMENTS OF ACCUMULATED COMPREHENSIVE LOSS AND DEFICIT

(Expressed in Canadian dollar)

	Year ended February 28, 2011 \$	Year ended February 28, 2010 \$	Year ended February 28, 2009 \$
Accumulated other comprehensive loss			
Balance at beginning of the year	(7,979,683)	(13,409,383)	–
Comprehensive income/(loss) on currency translation of self-sustaining operations	1,615,805	5,429,700	(13,409,383)
Balance at end of the year	(6,363,878)	(7,979,683)	(13,409,383)
Deficit			
Balance at beginning of the year	(49,020,317)	(41,982,624)	(29,006,662)
Loss for the year	(5,126,936)	(7,037,693)	(12,975,962)
Balance at end of the year	(54,147,253)	(49,020,317)	(41,982,624)

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

CONSOLIDATED STATEMENTS OF ACCUMULATED COMPREHENSIVE LOSS AND DEFICIT

(Expressed in Canadian dollar)

	Year ended February 28, 2011		Year ended February 28, 2010		Year ended February 28, 2009	
	Number of shares	\$	Number of shares	\$	Number of shares	\$
Share capital						
Balance at beginning of the year	370,843,069	127,999,040	238,041,569	119,952,532	223,755,854	112,095,390
Consideration for additional interest of operating mines net of issue cost at \$0.55 per share (note 13(c))	–	–	–	–	14,285,715	7,857,142
Share purchase options exercised at \$0.62 per share	–	–	1,500	929	–	–
Fair value of stock options allocated to shares issued on exercise	–	–	–	808	–	–
Private placement fourth quarter, net of issue costs at \$0.065 per share (note 13(d))	–	–	132,800,000	8,044,771	–	–
Rights offering at subscription price of \$0.05 per share (note 13(e))	92,710,767	4,583,644	–	–	–	–
Private placement, net of issue costs at \$0.065 per share (note 13(f))	54,631,402	3,406,824	–	–	–	–
Balance at end of the year	518,185,238	135,989,508	370,843,069	127,999,040	238,041,569	119,952,532
Warrants						
Balance at beginning of the year	–	–	–	1,693,197	–	1,693,197
Expired broker warrants	–	–	–	(1,693,197)	–	–
Balance at end of the year	–	–	–	–	–	1,693,197
Contributed surplus						
Balance at beginning of the year	–	6,195,051	–	4,167,304	–	2,332,882
Stock-based compensation (note 13(b))	–	884,886	–	335,358	–	1,834,422
Expired broker warrants	–	–	–	1,693,197	–	–
Fair value of stock options allocated to shares issued on exercise	–	–	–	(808)	–	–
Balance at end of the year	–	7,079,937	–	6,195,051	–	4,167,304
Accumulated other comprehensive loss						
Balance at beginning of the year	–	(7,979,683)	–	(13,409,383)	–	–
Comprehensive income/(loss) on currency translation of self-sustaining operations	–	1,615,805	–	5,429,700	–	(13,409,383)
Balance at end of the year	–	(6,363,878)	–	(7,979,683)	–	(13,409,383)
Deficit						
Balance at beginning of the year	–	(49,020,317)	–	(41,982,624)	–	(29,006,662)
Loss for the year	–	(5,126,936)	–	(7,037,693)	–	(12,975,962)
Balance at end of the year	–	(54,147,253)	–	(49,020,317)	–	(41,982,624)
TOTAL SHAREHOLDERS' EQUITY	82,558,314			77,194,091		70,421,026

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollar)

	Year ended February 28, 2011 \$	Year ended February 28, 2010 \$	Year ended February 28, 2009 \$
Cash provided by (used in):			
Operating activities			
Loss for the year	(5,126,936)	(7,037,693)	(12,975,962)
Items not affecting cash			
Net reclamation obligation recognized/(utilized) (note 10)	1,809	(394,409)	1,072,389
Amortization and depletion	10,247,569	6,235,261	8,347,837
Amortization of capital lease equipment	159,468	3,310,466	2,939,360
Writedown of rough diamond inventories and mine supplies (note 6)	899,034	1,380,538	–
Writedown of assets	284,696	23,862	2,590,958
Diamond sale price adjustment	–	1,515,099	–
Write-off of accounts receivable	–	167,414	291,063
Share of profit from equity accounted investment (note 12)	(34,396)	–	–
Stock-based compensation (note 13 (b))	884,886	335,358	1,834,422
Writedown or loss on disposal of equipment and mineral properties	296,510	694,354	364,918
Future income tax expense/(recovery)	2,021,000	(2,645,000)	(3,347,000)
Unrealized foreign exchange (gain)/loss	(73,408)	198,448	(768,117)
Fair value adjustment to investments held (note 11 (a))	31,920	–	–
Non-controlling interest	(88,097)	(1,618,603)	(549,024)
Changes in non-cash working capital items			
Accounts receivable	1,680,272	(3,762,497)	(790,642)
Amounts due to and from related parties	(634,248)	3,107	(2,369,910)
Inventories	(476,349)	(320,530)	(123,266)
Prepayments	5,755	(8,571)	885,083
Accounts payable and accrued liabilities	(242,916)	1,685,554	411,826
Taxes payable	(899,141)	127,148	(434,286)
Cash provided by/(used in) operating activities	8,937,428	(110,694)	(2,620,351)
Investing activities			
Acquisition of Saxendrift Mines (Pty) Limited	–	–	(10,652,026)
Amounts paid pursuant to acquisition	–	–	(294,402)
Restricted cash	4,946	2,949,919	10,636,405
Investment in associate	(95,690)	–	–
Purchase of equipment and mineral properties	(11,636,472)	(2,696,965)	(12,687,176)
Proceeds received on disposal of equipment	301,518	380,037	310,944
Other assets and deposits	(1,234,575)	(685,817)	3,060,972
Reclamation deposits	209,837	(21,968)	(842,765)
Cash used in investing activities	(12,450,436)	(74,794)	(10,468,048)
Financing activities			
Principal repayments under capital lease obligations	(3,298,941)	(6,175,065)	(6,078,521)
Common shares and warrants issued for cash, net of issue costs	7,990,468	8,045,700	–
Repayment of credit facility	–	(3,170,344)	–
Drawdown of credit facility	1,079,995	–	3,540,880
Cash provided by/(used in) financing activities	5,771,522	(1,299,709)	(2,537,641)
Increase/(decrease) in cash and cash equivalents during the year	2,258,514	(1,485,197)	(15,626,040)
Cash and cash equivalents, beginning of year	2,512,610	3,997,807	19,623,847
Cash and cash equivalents, end of year	4,771,124	2,512,610	3,997,807
Interest paid on facilities during the year	329,717	576,272	3,009,680
Interest paid on capital leases	119,286	969,530	1,592,001
Interest received	101,953	466,688	2,672,021
Income taxes paid during the year	–	–	434,511
Supplemental disclosure of non-cash investing and financing activities			
Issuance of common shares as consideration for acquisition of property (note 8(b))	–	–	7,857,143
Fair value of stock options allocated to shares issued upon exercise	–	808	–

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 28, 2011, 2010 and 2009
(Expressed in Canadian dollar unless otherwise stated)

1. CONTINUANCE OF OPERATIONS AND GOING CONCERN

Rockwell Diamonds Inc. (Rockwell or the Company) is incorporated under the British Columbia *Business Corporations Act* (formerly the *Company Act* of British Columbia) and 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 consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The going concern basis of presentation assumes that Rockwell will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

For the year ended February 28, 2011, the Company incurred consolidated losses of \$5.1 million and has incurred accumulated losses to date of \$54.1 million.

In fiscal 2011, diamond prices have increased gradually from US\$1,010 for fiscal 2010 to US\$1,365 for the year ending February 28, 2011, with an average fourth quarter sales value of US\$1,430.

At February 28, 2011, the Company's current assets exceeded its current liabilities by \$4.2 million and the Company's total assets exceeded its total liabilities by \$83.2 million. The Company has forecasted its cash flows for the fiscal years 2012 and 2013 and these forecasts indicate that the Company will continue as a going concern. The forecasts assume the plant operating at 85% of capacity, prices remaining at current levels and the South African rand remaining at current levels relative to the United States and Canadian dollars.

On the performance of the last two quarters, the operations made a positive contribution towards the cash flow. This is not sufficient to fund the planned capital projects at Wouterspan and Tirisano. These expansion projects will be funded by means of a planned private placement.

Based on the Company's cash resources and the above forecasts, the Company has sufficient working capital and reserves to maintain operations. Accordingly, the financial statements have been prepared on the basis of accounting policies applicable to a going concern. Future events beyond the Company's control may change the Company's ability to continue as a going concern. If the going concern concept was no longer appropriate, significant adjustments would be required to the carrying value of assets and liabilities and would be recorded at that time.

2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These consolidated financial statements include the accounts of the Company, its subsidiaries, equity accounted associate 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.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Revenue from rough diamond sales is recognized when persuasive evidence of an arrangement exists, the significant risks and rewards of ownership of the diamonds have been transferred to the customer, the Company's price to the customer is fixed or determinable and collection of the resulting receivable is reasonably assured. Significant risks and rewards of ownership of the diamonds normally transfer at the moment the sales tender has been awarded and finalized.

(b) Inventories

Rough diamond inventories are valued at the lower of average production cost and net realizable value. Production costs include the cost of consumable materials, direct labour, mine-site overhead expenses and amortization.

Supplies are valued at the lower of cost, at the average purchase cost basis, and net realizable value. Appropriate provisions are made for redundant and slow-moving items. Cost of items that are not ordinarily interchangeable, and goods and services produced and segregated for specific projects, is assigned by using a specific identification of their individual costs.

Consistent use of either first-in first-out or weighted average cost formula to measure the cost of other inventories is applied.

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

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated amortization and accumulated impairment losses. Assets are amortized on a straight-line method over the estimated useful lives of the related assets, which are as follows:

Buildings	12 years
Processing plant and equipment	4 – 10 years
Processing plant and equipment under capital lease obligation	5 – 8 years
Office equipment	6 years
Vehicles and light equipment	5 years

Land is not amortized.

Repairs and maintenance expenditures are charged to operations as incurred. Significant improvements and major replacements which extend the useful life of the asset are capitalized as incurred.

(d) Mineral property interests

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

The acquisition costs of mineral properties are capitalized until the property is placed into production, sold, or abandoned, or when management has determined that there has been impairment in value. Such acquisition costs are amortized over the estimated life of the property, based on the unit of production method, or written off to operations if the property is abandoned, allowed to lapse, or if there is little prospect of further work being carried out by the Company. Under the unit of production method, the yearly depreciation charge is calculated by dividing the actual resources mined into the estimated resources at the beginning of the year and then multiplying the resulting fraction by the net carrying value of the related assets. Mineral resources are estimated by professional geologists and engineers in accordance with recognized industry, professional and regulatory standards. These estimates require inputs such as future diamond 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 which, in turn, could have a material effect on the carrying value of mineral properties. The unit of production method results in a systematic and rational allocation of the cost of the mineral property interests over the year the resources are utilized.

Mineral property acquisition costs are measured at the cash consideration paid and the fair market value of common shares issued for acquiring the mineral property interest. The fair value of the consideration paid through shares is determined based on the trading price of these shares on the effective date of the acquisition transaction.

Exploration expenditures and option payments incurred prior to the determination of the feasibility of mining operations are charged to operations as incurred. Exploration expenditures incurred subsequent to the mining operations which do not increase production or extend the life of operations are expensed in the year incurred. All administrative expenditures that do not directly relate to specific exploration and development activities on mineral properties are expensed in the year incurred.

An impairment review of mineral property interests is carried out when there is an indication that these may be impaired by comparing the carrying amount of the interest to its estimated recoverable amount. Where the recoverable amount is less than the carrying amount an impairment charge is included in expenses in order to reduce the carrying amount of mineral property interest to its recoverable amount.

(e) Financial instruments

All financial instruments, including derivatives, are included on the Company's balance sheet and measured either at fair value or amortized cost. Changes in fair value are recognized in the statements of operations or accumulated other comprehensive income/(loss), depending on the classification of the related instruments.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the asset or liability. All financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current year net earnings/(loss).
- Available-for-sale financial assets are measured at fair value. Changes in fair value are included in other comprehensive income/(loss) until the gain or loss is recognized in net earnings/(loss) or if impairment is determined to be other than temporary.
- Held-for-trading financial instruments are measured at fair value. All gains and losses are included in net earnings/(loss) in the year in which they arise.
- All derivative financial instruments are measured at fair value, even when they are part of a hedging relationship. Changes in fair value are included in net earnings/(loss) in the year in which they arise, except for hedge transactions which qualify for hedge accounting treatment in which case unrealized gains and losses are recognized in other comprehensive income/(loss) until realized.

In accordance with these policies, the Company has classified its financial instruments as follows:

- Cash and cash equivalents, restricted cash and bank indebtedness are classified as held-for-trading financial instruments and are measured at fair value. Cash and cash equivalents consist of cash and highly liquid investments, having maturity dates of three months or less from the date of purchase, that are readily convertible to known amounts of cash.
- Accounts receivable and trade receivable from a related party are classified as loans and receivables and are measured at fair value and subsequently measured at amortized cost.
- Accounts payable and accrued liabilities, capital lease obligations, amounts owing pursuant to acquisition and balances payable to related parties are classified as other financial liabilities and are measured initially at fair value and subsequently measured at amortized cost.
- Reclamation deposits invested in interest-bearing money market linked investments are classified as available-for-sale assets and are carried at fair market value, with the unrealized gain or loss recorded in shareholders' equity as a component of other comprehensive income/(loss).

The Company also discloses quantitative and qualitative information that enables users to evaluate the significance of financial instruments on the Company's financial performance, and the nature and extent of risks arising from financial instruments to which the Company is exposed during the year and at the balance sheet date. In addition, the Company discloses management's objectives, policies and procedures for managing these risks. These disclosures are presented in note 5.

(f) Site closure and reclamation obligations

The Company recognizes any statutory, contractual or other legal obligation related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made.

These obligations are measured initially at fair value and the resulting costs are capitalized to the carrying value of the related asset. In subsequent years, the liability is adjusted for the accretion of the discount and any changes in the amount or timing of the underlying future cash flows. The asset retirement cost is amortized to operations over the life of the asset. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability, and the related asset retirement cost is capitalized as part of the carrying amount of the related long-lived asset. In the event the required decrease in the asset retirement cost is in excess of the carrying value, the excess amount is recorded as a change in estimate in the statement of operations.

Where the obligation is operational in nature and does not give rise to future economic benefit, the capitalized cost is amortized in the year incurred. Upon settlement of the liability, a gain or loss will be recorded if the actual cost incurred is different from the liability recorded.

Adjustments to environmental and ongoing site reclamation expenditure at operating mines are charged to operations in the year in which they occur.

(g) Impairment of long-lived assets

Long-lived assets, including mineral properties, property, plant and equipment, are reviewed for impairment periodically or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If an indicator for impairment was identified, the Company considers whether the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. In that event, the asset must be written down to its fair value (present value of future cash flows) and an impairment loss is recorded in earnings. Net estimated future cash flows from each long-lived asset are calculated based on anticipated future production, estimated diamond prices, operating costs, capital expenditures and site restoration expenses. The Company will determine fair value from recent transactions involving sales of similar long-lived assets, if deemed more appropriate in the circumstances. Management's estimate of future cash flows is subject to risk and uncertainties and it is reasonably possible that changes could occur with evolving economic conditions, which may affect the recoverability of the Company's long-lived assets and may have a material effect on the Company's results of operations and financial position.

Previously recognized impairment losses are not reversed if the recoverable amount subsequently increases.

Assets to be disposed of would be separately presented in 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.

(h) Variable interest entities

Variable interest entities (VIEs) are entities in which equity investors do not have a controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. The Company consolidates the accounts of VIEs where it has been determined that the Company is the primary beneficiary, defined as the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity's expected losses.

(i) Foreign currency translation

The Company classifies its foreign operations as self-sustaining operations. Self-sustaining operations are foreign operations that are financially and operationally independent of the reporting enterprise such that the exposure to exchange rate changes is limited to the reporting enterprise's net investment in the foreign operation and which have a functional currency different from the entity. Assets and liabilities of self-sustaining operations are translated into the reporting currency at the exchange rate in effect at the balance sheet date. Revenue and expense items (including depreciation and amortization) are translated into the reporting currency at the exchange rate in effect on the dates on which such items are recognized in income during the year or appropriate average rates.

For self-sustaining operations exchange gains or losses arising on the translation from its functional currency to the reporting currency are presumed not to have a direct effect on the activities of the reporting enterprise and are incorporated in the financial statements of the reporting enterprise as a separate component of shareholders' equity. The Company's reporting currency is the Canadian dollar.

(j) Share capital

The Company records proceeds from share issuances net of issue costs. Common shares issued for mineral property interests are recorded at their fair market value based upon the trading price of the shares on the Toronto Stock Exchange (TSX) on the date of issue.

(k) Stock-based compensation

The Company has a share option plan which is described in note 13. The Company accounts for all stock-based payments under the fair value based method.

Under the fair value based method, equity-settled stock-based payments are measured at the fair value of the option on grant date. Compensation costs are charged to operations on a straight-line basis over the relevant vesting period. The counterpart is recognized in contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related amount of contributed surplus is transferred to share capital.

(l) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the

balance sheet and their corresponding tax values, using the enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Future income tax assets also result from unused tax losses carried forward, resource-related pools and other deductions. A valuation allowance is recorded against any future income tax assets if it is more likely that the asset will not be realized.

(m) Loss per share

Basic income/(loss) per share is calculated by dividing the net earnings/(loss) for the year by the weighted average number of common shares outstanding during the year.

Diluted income/(loss) per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted income/(loss) per share assumes that the proceeds receivable upon exercise of dilutive stock-based compensation and warrants are used to repurchase common shares at the average market price during the year.

Diluted loss per share has not been presented separately as the effect of outstanding options and warrants would be anti-dilutive for all years presented.

(n) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the balance sheet date, and the reported amounts of revenues and expenses during the reporting year. Significant areas requiring the use of management estimates relate to the impairment of long-lived assets, rates for depletion and amortization, determination of reclamation obligations and the assumptions used in determining stock-based compensation expense. Actual results could differ from those estimates.

(o) Comparative figures

Prior years' comparative figures have been reclassified to conform to the financial statement presentation in the current year.

(p) Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The investment in an associate is accounted for under the equity method, where the investment is initially recognized at cost and adjusted for the Company's share of the changes in the net assets of the investee after the date of acquisition, and for any impairment in value which includes access to mineral rights identified on acquisition. If the Company's share of losses of an associate exceeds its interest in the associate, the Company discontinues recognizing its share of further losses. Unrealized gains and losses on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Accounting policies of associates have been changed, where necessary, to ensure consistency with the policies adopted by the Company.

4. CHANGES IN ACCOUNTING POLICIES

Accounting policies not yet adopted

(a) International Financial Reporting Standards (IFRS)

The AcSB has announced its decision to replace Canadian generally accepted accounting principles (Canadian GAAP) with IFRS for all Canadian publicly listed companies. The AcSB announced that the changeover date will commence for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company to change over to IFRS will be March 1, 2011. Therefore, the IFRS adoption will require the restatement for comparative purposes of amounts reported by the Company for the year ending February 28, 2011. During the year, the Company has established a formal project plan, allocated internal resources and engaged expert consultants, monitored by a steering committee to manage the transition from Canadian GAAP to IFRS reporting.

(b) Business combinations/Consolidated financial statements/Non-controlling interests

The AcSB issued 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.

5. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Capital management

As at February 28, 2010, the Company is not subject to externally imposed capital requirements other than its restricted cash and its overdraft facility. Refer to note 18.

At February 28, 2011, of the \$4,771,124 (February 28, 2010 – \$2,512,610) cash and cash equivalents held by the Company, \$1,976,678 (February 28, 2010 – \$1,376,073) were held in South African rand (ZAR), \$2,785,215 (February 28, 2010 – \$1,125,905) in Canadian dollar and \$9,231 (February 28, 2010 – \$10,632) in United States dollar. Cash and cash equivalents exclude cash subject to restrictions. Refer to note 18.

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.

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 year ended February 28, 2011 and the Company expects it will be able to raise sufficient capital resources to carry out its plans of operations for fiscal 2012 as disclosed in note 1.

(b) Carrying amounts and fair values of financial instruments

The fair value of a financial instrument is the price at which a party would accept the rights and/or obligations of the financial instrument from an independent third party. When determining the fair value of financial assets and liabilities the Company considers its own credit risk as well as the credit risk of its counterparties. Given the varying influencing factors, the reported fair values are only indicators of the prices that may actually be realized for these financial instruments.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

It is not practicable to determine the fair value of amounts due to and from related parties because of the related party nature of such amounts and the absence of a secondary market for such instruments.

	As at February 28, 2011		As at February 28, 2010	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Assets carried at fair value				
Cash and equivalents	4,771,124	4,771,124	2,512,610	2,512,610
Restricted cash	–	–	4,946	4,946
Reclamation deposits	2,759,611	2,759,611	2,898,067	2,898,067
	7,530,735	7,530,735	5,415,623	5,415,623
Assets carried at amortized cost				
Accounts receivable	4,743,034	4,743,034	6,260,717	6,260,717
Liabilities carried at fair value				
Bank indebtedness	1,787,479	1,787,479	698,015	698,015
Liabilities carried at amortized cost				
Accounts payable and accrued liabilities	6,373,382	6,373,382	6,458,751	6,458,751
Capital lease obligations	142,630	142,630	3,336,521	3,336,521
	6,516,012	6,516,012	9,795,272	9,795,272

The following table illustrates the classification of the Company's financial instruments recorded at fair value within the fair value hierarchy as at February 28, 2011:

	Financial assets at fair value			February 28, 2011
	Level 1	Level 2	Level 3	
	\$	\$	\$	
Cash and equivalents	4,771,124	–	–	4,771,124
Restricted cash	–	–	–	–
Reclamation deposits	2,759,611	–	–	2,759,611
	7,530,735	–	–	7,530,735

	Financial liabilities at fair value			February 28, 2011
	Level 1	Level 2	Level 3	
	\$	\$	\$	
Bank indebtedness	1,787,479	–	–	1,787,479

The following table illustrates the classification of the Company's financial instruments recorded at fair value within the fair value hierarchy as at February 28, 2010:

	Financial assets at fair value			February 28, 2010
	Level 1	Level 2	Level 3	
	\$	\$	\$	
Cash and equivalents	2,512,610	–	–	2,512,610
Restricted cash	4,946	–	–	4,946
Reclamation deposits	2,898,067	–	–	2,898,067
	5,415,623	–	–	5,415,623

	Financial liabilities at fair value			February 28, 2010
	Level 1	Level 2	Level 3	
	\$	\$	\$	
Bank indebtedness	698,015	–	–	698,015

The carrying amounts of the Company's other financial instruments approximate their fair values.

(c) *Financial instrument risk exposure and risk management*

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

Credit risk

Credit risk is the risk of potential loss to the 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, restricted cash, accounts receivable and trade receivable from a related party. The carrying values 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 limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents with high-credit-quality financial institutions. The Company does not have financial assets that are invested in asset-backed commercial paper.

The Company minimizes its credit risk by reducing credit terms to 30 days on its sales.

The ageing of receivables at the reporting date was:

	February 28, 2011		February 28, 2010	
	Gross	Impairment	Gross	Impairment
	2011	2011	2010	2010
	\$	\$	\$	\$
Not past due				
Accounts receivables	4,910,448	167,414	6,428,131	167,414
Trade receivable from a related party –				
Not past due	92,398	–	46,108	–
Past due 0 – 30 days	–	–	–	–
Past due 31 – 120 days	–	–	–	–
More than one year	–	–	–	–
	5,002,846	167,414	6,474,239	167,414

During the current year a diamond sale price adjustment of \$Nil (February 28, 2010 – \$1 515 098) was made against diamond revenue recognized. This diamond sale price adjustment relates to the retainer debtor balance with respect to an agreement between the Company and a client purchasing large diamonds. The diamond sale price adjustment was attributable to the decline in diamond prices subsequent to the original sale.

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 raised \$8.0 million in a private placement and rights offering in the first quarter of fiscal 2011. 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 operational requirements for the foreseeable future. Capital expansion projects will be funded by means of a private placement. (Refer to note 1). 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. The Company is subject to currency exchange controls administered by the South African Reserve Bank (SARB), 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 that the Company may not be able to acceptably repatriate such funds once those subsidiaries are able to repay the loans or repatriate other funds such as operating profits, should any develop. The repatriation of cash held in South Africa is permitted upon the approval of the SARB. Cash balances in South Africa are disclosed below.

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

	Carrying amount	Contractual cash flow	2012	2013	2014
February 28, 2011	\$	\$	\$	\$	\$
Non-derivative financial liabilities					
Accounts payable and accrued liabilities	6,373,382	6,373,382	6,373,382	–	–
Due to related parties	496,636	496,636	72,064	424,572	–
Bank indebtedness	1,787,479	1,787,479	1,787,479	–	–
Capital lease obligations	142,630	142,630	142,630	–	–

	Carrying amount	Contractual cash flow	2011	2012	2013
February 28, 2010	\$	\$	\$	\$	\$
Non-derivative financial liabilities					
Accounts payable and accrued liabilities	6,458,751	6,458,751	6,458,751	–	–
Due to related parties	1,055,889	1,055,889	641,323	414,566	–
Bank indebtedness	698,015	698,015	698,015	–	–
Capital lease obligations	3,336,521	3,336,521	3,196,189	140,332	–

Currency risk

In the normal course of business, the Company enters into transactions for the purchase of supplies and services denominated in ZAR. In addition, the Company has cash and certain liabilities denominated in ZAR. As a result, the Company is subject to currency 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.

The exposure of the Company's financial assets to currency risk is as follows:

	February 28, 2011	February 28, 2010
Currency	\$	\$
South African rand		
Cash and cash equivalents	1,976,678	1,376,073
Restricted cash	–	4,946
Accounts receivable	4,743,034	6,260,717
Trade receivable from related party	92,398	46,108
Reclamation deposits	2,759,611	2,898,067
United States dollar		
Cash and cash equivalents	9,231	10,632
Total financial assets	9,580,952	10,596,543

The exposure of the Company's financial liabilities to currency risk is as follows:

Currency	As at	As at
	February 28, 2011	February 28, 2010
	\$	\$
South African rand		
Bank indebtedness	1,787,479	698,015
Accounts payable and accrued liabilities	6,123,849	5,811,039
Due to related parties	496,636	1,055,889
Capital lease obligations	142,630	3,336,521
Total financial liabilities	8,550,594	10,901,464

The following exchange rates applied during the fiscal years ended February 28, 2011 and 2010:

	Annual average rate		Year-end spot rate	
	February 28, 2011	February 28, 2010	February 28, 2011	February 28, 2010
CAD:ZAR	0.1411	0.1386	0.1400	0.1367

Sensitivity analysis

A 10 percent increase/decrease of the Canadian dollar against the ZAR at February 28, 2011 would have a net gain/loss effect of \$226,349 (February 28, 2010 – \$391,238). This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

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

The Company has capital lease obligations with several financial institutions as detailed in note 9. The capital leases bear interest at rates linked to the prevailing prime rate of the relative financial institution, and are subject to interest rate change risk.

Sensitivity analysis

A 10 percent increase/decrease of the prime rate for the year ended February 28, 2011 would have a net loss/gain effect of \$7,241 (February 28, 2010 – \$154,580). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

Diamond price risk

The value of the Company's mineral resource properties is dependent on the price and the outlook of diamonds. Diamond demand and prices fluctuate and are affected by numerous factors beyond the control of the 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.

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

6. INVENTORIES

	As at	As at
	February 28, 2011	February 28, 2010
	\$	\$
Rough diamond inventories	824,512	1,283,604
Mine supplies	1,803,578	1,692,454
Total inventories	2,628,090	2,976,058

As at February 28, 2011, rough diamond inventories were valued at net realizable value and mine supplies at cost less accumulative impairment charges. Mine supplies were written down by \$190,700 (2010 – \$588,927) to \$1,803,578 (2010 – \$1,692,454) during the year.

The net realizable value of diamond inventories are estimated at the average price per carat achieved for the most recent diamond tender taking into account the variable factors of clarity, carat, shape and color. As at February 28, 2011, rough diamond inventories were written down by \$708,334 (2010 – \$791,611) from cost to net realizable value.

7. PROPERTY, PLANT AND EQUIPMENT

	As at February 28, 2011		
	Cost	Accumulated amortization and impairments	Carrying value
	\$	\$	\$
Land and buildings	7,502,768	1,149,217	6,353,551
Construction in progress (a)	6,282,698	–	6,282,698
Processing plant and equipment	84,028,081	35,211,834	48,081,237
Processing plant and equipment under capital lease obligation	1,017,514	621,416	1,131,108
Office equipment	1,006,922	615,659	391,263
Vehicles and light equipment	1,594,663	1,006,082	588,581
	101,432,646	38,604,208	62,828,438

(a) Construction in progress includes \$6,149,422 relating to the construction of the plant at Etruscan's Blue Gum diamond operations in the Ventersdorp region. Refer to note 20(a) for additional information regarding the status of this acquisition.

	As at February 28, 2010		
	Cost	Accumulated amortization and impairments	Carrying value
	\$	\$	\$
Land and buildings	7,226,428	598,462	6,627,966
Processing plant and equipment	66,230,352	25,074,689	41,155,663
Processing plant and equipment under capital lease obligation	13,553,529	3,782,247	9,771,282
Office equipment	946,759	492,287	454,472
Vehicles and light equipment	1,675,705	894,352	781,353
	89,632,773	30,842,037	58,790,736

Components of property, plant and equipment are amortized over their estimated useful life. The amortization charge for the year was \$7,509,446 (2010 – \$7,018,998 and 2009 – \$8,903,261).

The Company's bankers have registered two notarial general covering bonds of ZAR10.0 million each (\$1,366,998) over all moveable assets on the property of the farm Holpan, Barkley West, Northern Cape. In 2009 one notarial general covering bond of ZAR10.0 million (\$1,366,998) was registered over moveable assets.

As at February 28, 2011, the Company completed an impairment analysis which considered the indicators of impairment in accordance with Section 3063, *Impairment of Long-lived Assets*. The Company prepared cash flow forecasts for the mine and development projects using price assumptions reflecting prevailing diamond prices and analysts' consensus forecasts, current life-of-mine plans and forecast operating cost profiles. The analysis was based on the life of the individual mining properties, using long-term price assumptions of US\$2,000 for Saxendrift and US\$1,000 for Klipdam and Holpan mines respectively as well as a foreign exchange of US\$1 to ZAR7.0 in the next 12 months. Sales are assumed to remain constant over the year, even though the Bank of Montreal scale indicates increasing demand and prices. Production volumes were set at 85% of operation production capacity with increased efficiencies on diesel in a revised production method. Other assumptions used in determining whether impairment existed include: (a) inflation rate of 5%, (b) prime lending rate of 9%, (c) standard finance lease periods of 36 months; (d) 8% increase in salaries and wages; (e) royalty payments average of 1.7%; and (f) electricity increases of 25%. The undiscounted estimated future cash flows associated with these assets were higher than the carrying values.

The Company identified damaged items of property, plant and equipment which were impaired by \$164,059 to their fair value. In fiscal 2010, items of property, plant and equipment, still in use at year-end, were impaired by \$23,862 (2009 – \$2,590,958).

Prior to year-end the Company entered into an agreement to dispose of land and buildings at a price lower than its carrying values.

As a result, these items of property, plant and equipment were adjusted to its fair value resulting in impairment of \$120,637.

Construction in progress includes projects at the Wouterspan mine (Phase I engineering, scoping, technical data pack and drawings) and the Tirisano mine establishment project at Ventersdorp, which represents the planning, erection, re-configuring and commissioning of the processing and recovery plant and mine infrastructure and establishment costs to date. The Wouterspan design phase and the construction of phase I of the Wouterspan project are to be completed within the 2012 fiscal year.

8. MINERAL PROPERTY INTERESTS

	As at February 28, 2011 \$	As at February 28, 2010 \$
HC Van Wyk Diamonds Limited and Klipdam Mining Company Limited		
Balance, beginning of year	22,128,231	22,373,983
Acquisition	845,773	–
Future income taxation	328,912	
Foreign exchange adjustments	315,219	2,042,252
Depletion of mineral properties during the year	(2,302,318)	(1,630,370)
Writedown of mineral property	–	(657,634)
HC Van Wyk Diamonds Limited and Klipdam Mining Company Limited, end of year	21,315,817	22,128,231
Saxendrift Mine (Pty) Limited		
Balance, beginning of year	8,722,767	6,520,494
Acquisition costs	–	1,703,195
Foreign exchange adjustments	121,993	733,083
Future income tax liability	–	662,354
Depletion of mineral properties during the year	(595,273)	(896,359)
Saxendrift Mine (Pty) Limited, end of year	8,249,487	8,722,767
Balance, end of year	29,565,304	30,850,998

Mineral resources are estimated by professional geologists and engineers in accordance with recognized industry, professional and regulatory standards. These estimates require inputs such as future diamond 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 which, in turn, could have a material effect on the carrying value of mineral properties.

The carrying value of mineral properties is also dependent 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 at acquisition dates.

(a) Acquisition of Saxendrift Mine (Pty) Limited

On March 6, 2007, the Company and Trans Hex Group Limited (Trans Hex) entered into a conditional agreement whereby the Company's wholly owned South African subsidiary, Rockwell Resources RSA (Pty) Limited (Rockwell RSA), would acquire two open-pit alluvial diamond mines and three alluvial diamond exploration projects from Trans Hex (the Transaction). Trans Hex, through its wholly owned subsidiary, Trans Hex Operations (Pty) Limited (THO), was the owner of two open-pit alluvial diamond mines, namely Saxendrift and Niewejaarskraal, and three alluvial diamond exploration projects, namely Kwartelspan, Zwemkuil-Mooidraai and Remhoogte-Holsloot, which are located along the southern bank of the Middle Orange River between Douglas and Prieska in the Northern Cape province of South Africa (Northern Cape) and which are collectively referred to as the Middle Orange River Operations and Projects (or MORO). The MORO includes:

- The rights to prospect, explore and/or mine precious stones and/or other minerals and/or metals held directly or indirectly by THO in the Saxendrift area of the Northern Cape;
- A series of large remnant alluvial diamond terraces;
- The plant, machinery, equipment and other moveable assets owned and/or used by THO;
- Certain employees of THO; and
- A rehabilitation liability which will be taken over by the Company.

On April 11, 2008 the Company completed the MORO acquisition. Registration and transfer of Saxendrift Mine (Pty) Limited and the Saxendrift mining right, as well as prospecting rights in respect of the Kwartelspan, Zwemkuil-Mooidraai and part of the Remhoogte-Holsloot projects, were obtained. In March 2009, the Niewejaarskraal mining rights were acquired.

On April 11, 2009 all the conditions precedent were met and the Company paid ZAR17.9 million (\$2.4 million) in cash to Trans Hex for the remaining Niewejaarskraal mining rights of which ZAR12.4 million (\$1.7 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.

The results of the operations of Saxendrift Mine (Pty) Limited have been included in the consolidated financial statements since the date of acquisition.

Effective July 1, 2008, a black economic empowerment (BEE) group, Liberty Lane Investments (Pty) Limited (Liberty Lane), acquired a shareholding of 26% by subscribing for shares in Saxendrift Mine (Pty) Limited. The acquisition by Liberty Lane was financed via loans provided by Rockwell RSA to Liberty Lane. The Company has determined that its 74% interest in Saxendrift Mine (Pty) Limited qualifies as a variable interest entity (VIE) due to certain voting arrangements required under the Saxendrift Mine (Pty) Limited shareholders agreement. The Company has also determined that the Company is the primary beneficiary of the VIE as it is most closely related to the activities and has primary exposure to the expected losses of the VIE. Consequently, the Company has consolidated 100% of the results of operations of Saxendrift Mine (Pty) Limited since the date of acquisition.

Upon full repayment of the outstanding loans by Liberty Lane, the Company will increase the non-controlling interest to 26% and consolidate 74% of Saxendrift Mine (Pty) Limited's results of operations. As at February 28, 2011, the status in relation to this transaction and the accounting treatment remain unchanged.

(b) Acquisition of Durnpike Investments (Pty) Limited

On January 31, 2007, the Company completed the acquisition of Durnpike Investments (Pty) Limited (Durnpike), a private South African company (acquisition). Durnpike held interest in the Holpan, Klipdam and Wouterspan properties in South Africa.

On March 1, 2008, the Company ratified an exchange agreement and increased its ownership of HC Van Wyk Diamonds Limited (HCVW) and Klipdam Mining Company Limited (Klipdam) by 34%, resulting in an 85% interest, by issuing 14 285 715 common shares of the Company pursuant to the Definitive Agreement and thereby reducing the non-controlling interest to 15%. On June 1, 2008, the BEE group, African Vanguard Resources (Pty) Limited increased its shareholding from 15% to 26% by subscribing for an additional 11% shares in HCVW and Klipdam, thereby reducing the Company's interest to 74%. This additional 11% is at a subscription price of ZAR17.5 million and is funded by Rockwell Resources RSA (Pty) Limited. Consequently, the Company has effectively consolidated 85% of the results of operations of HCVW and Klipdam until the outstanding loans by the BEE group are fully repaid, at which time the Company will increase the non-controlling interest to 26% and effectively consolidate 74% HCVW and Klipdam's results of operations. As at February 28, 2011, the status in relation this transaction and the accounting treatment remain unchanged.

(c) Kwango River Project – Democratic Republic of Congo

The Company had planned to incur US\$7.0 million on a feasibility study on the Kwango River Project with Midamines SPRL (Midamines), the holder of an exploration permit in the Democratic Republic of Congo.

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 to payment of the abovementioned US\$1,200,000 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 canceled the Midamines Agreement and wrote down the associated mineral properties (2010 – \$657,634, 2009 – \$203,339) as well as 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 determined. Refer to note 19.

(d) Acquisition of Erf 2004 Windsorton

On November 1, 2010, HCVW exercised an option in terms of an agreement with Batla Resources (Pty) Limited, the holder of a prospecting and mineral right, and MJA Boerdery CC, the surface owner, whereby HCVW would acquire the prospect and mining rights to Erf 2004 Windsorton (a portion of Erf 2003) for ZAR6.0 million (\$0.8 million) of which ZAR2.0 million (\$0.3 million) was paid immediately and the balance to be paid in ten equal monthly instalments monthly thereafter. Erf 2004 is adjacent to Klipdam mine and will be explored and bulk sampled during fiscal 2012.

9. CAPITAL LEASE OBLIGATIONS

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

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

Future minimum lease payments are as follows:

	As at February 28, 2011	As at February 28, 2010
	\$	\$
WesBank	–	48,792
Komatfin	142,630	3,287,729
	142,630	3,336,521

Capital lease obligations, as detailed above, are secured over plant and equipment and are repayable, on average, in 36 monthly instalments with the final payment being on June 30, 2011. Interest is charged at rates of between 1.25% and 2.00% less than the prevailing prime rate, which is currently 9.00%, per annum. There are no significant restrictions imposed on the lessee as a result of the lease agreements.

	As at February 2011	As at February 28, 2010
	\$	\$
2011	–	3,301,394
2012	143,997	141,544
Total minimum lease payments	143,997	3,442,938
Less: interest portion	(1,367)	(106,417)
Present value of capital lease obligations	142,630	3,336,521
Current portion	142,630	3,196,189
Non-current portion	–	140,332

10. RECLAMATION OBLIGATION

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

	As at February 28, 2011 \$	As at February 28, 2010 \$
Holpan, Wouterspan and Klipdam mines		
Balance, beginning of year	2,918,102	2,690,335
Changes during the year:		
Net reclamation obligation (utilized)/recognized	(426,066)	8,654
Foreign exchange on reclamation	73,341	219,113
Balance, end of year	2,565,377	2,918,102
Saxendrift mine		
Balance, beginning of year	804,882	1,112,320
Changes during the year:		
Net reclamation obligation (utilized)/recognized	427,875	(403,063)
Foreign exchange on reclamation	16,504	95,625
Balance, end of year	1,249,261	804,882
Total reclamation obligation, end of year	3,814,638	3,722,984

The liability is based on the disturbance of the natural physical environment due to the alluvial mining methods that the Company engages in. The volume of disturbance is quantified on a monthly basis by a professional surveyor through physical observation and technical quantification in cubic meters and is therefore not discounted.

The Company does not make use of a mining contractor and applies an internal costing rate per cubic meter which is based on applying its own resources and equipment in doing such rehabilitation. This costing rate represents the operating cost, including fuel, applying specific mining fleet units to the rehabilitation process and labour usage.

The physical disturbance in the cubic meters multiplied by the costing rate represents the rehabilitation liability at any one stage.

As required by regulatory authorities, at February 28, 2011, the Company had cash reclamation deposits totalling \$2,759,611 (February 28, 2010 – \$2,898,067) comprised of \$1,686,913 (2010 – \$1,238,104) for the Holpan, Wouterspan and Klipdam mines and \$1,072,698 (2010 – \$1,659,963) for the Saxendrift mine. These deposits are invested in interest-bearing money market linked investments at rates ranging from 9.5% to 11.0% per annum. These investments have been ceded as security in favour of the guarantees the bank issued on behalf of the Company. Refer to note 18.

11. OTHER ASSETS AND DEPOSITS

	As at February 28, 2011 \$	As at February 28, 2010 \$
Refundable security deposits	75,079	152,259
Investments ^(a)	1,199,182	574,086
Deposits on future assets ^(b)	–	101,526
Loans receivable ^(c)	768,030	–
Total other assets and deposits	2,042,291	827,871

^(a) The Company invests in investment policies with endowment benefits on maturity of the policies. Premiums are invested on an initial lump sum and/or monthly annuity premium basis with the insurers and invested in specific investment plans. Policy investment value at any one time represents the value of premiums and growth after deduction of administration and investment fees. Withdrawals could be made against the policies before endowment against the deduction of penalties, which is lower than the investment value. To surrender the policy prior to maturity date will similarly attract penalties at a lower rate, and represents the value accessible at any one stage. Fair value at any one stage represents the surrender value of the investments. The fair value of the policies at February 28, 2011 amounted to \$3,958,793 (February 28, 2010 – \$3,472,153) of which \$2,759,611 (February 28, 2010 – \$2,898,067) has been disclosed as reclamation deposits (Refer note 10).

^(b) This deposit relates to deposits on motor vehicles only delivered in the 2011 fiscal year.

^(c) Loans receivable represents amounts paid to Etruscan Diamonds Limited (Refer note 20).

12. INVESTMENT IN ASSOCIATE

	As at February 28, 2011	As at February 28, 2010
	\$	\$
Investment in associate at cost	95,690	–
Share of profit for the year	34,396	–
Foreign exchange adjustments	(426)	–
Balance at end of year	129,660	–

On April 21, 2010 the Company acquired a 20% shareholding in Flawless Diamonds Trading House (Pty) Limited (Flawless) incorporated in the Republic of South Africa for ZAR700,000 (\$95,690) cash. Flawless is a registered diamond broker which provides specialist diamond valuation, marketing and tender sales services to the Company.

The Company has significant influence over the Flawless operations. It accounts for the investment using the equity method and includes a pro rata share of the Flawless net income/(loss) for the year.

	As at February 28, 2011
	\$
Summarized financial information of associate	
Financial position	
Total assets	9,690,007
Total liabilities	8,969,428
Net assets	703,579
Financial performance	
Total revenue	60,383,011
Total net earnings/(loss) for the year	206,374
Capital commitments and contingent liabilities of associate	Nil

13. 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) Stock-based compensation

The Company has a stock-based compensation plan approved by the shareholders that allows the Company to grant options for up to 10% of the issued and outstanding shares of the Company at any one time, typically vesting over two years, to its directors, employees, officers and consultants. The exercise price of each stock option is set by the board of directors at the time of the grant and cannot be less than the market price (less permissible discounts) on the Toronto Stock Exchange. Stock options have a maximum term of five years and typically terminate 30 days following the termination of the optionee's employment, except in the case of retirement or death.

From time to time, the Company may grant stock 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 fair value stock 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.

The continuity of stock-based compensation for the year ended February 28, 2011 is as follows:

Expiry date	Exercise price	Granted/	Exercised	Expired/	Feb 28, 2011
	Feb 28, 2010	issued		canceled	
	\$	\$	\$	\$	\$
September 24, 2012	0.62	5,896,500	–	(5,000)	5,891,500
November 14, 2012	0.63	1,101,500	–	(15,000)	1,086,500
June 20, 2011	0.45	950,000	–	–	950,000
December 7, 2014	0.06	14,270,890	–	(588,300)	13,682,590
January 18, 2015	0.07	600,000	–	–	600,000
October 8, 2015	0.065	–	15,042,000	–	15,042,000
		22,818,890	15,042,000	(608,300)	37,252,590
Weighted average exercise price		0.25	0.065	–	0.18
Weighted average fair value of stock options granted during the year					0.056

As at February 28, 2011, 17,774,072 of the stock options outstanding with a weighted average exercise price of \$0.06 per share have vested with grantees.

The continuity of stock-based compensation for the year ended February 28, 2010 is as follows:

Expiry date	Exercise price \$	Feb 28, 2009 \$	Granted/ issued \$	Exercised \$	Expired/ canceled \$	Feb 28, 2010 \$
September 24, 2012	0.62	5,901,334	–	(1,500)	(3,334)	5,896,500
November 14, 2012	0.63	1,104,834	–	–	(3,334)	1,101,500
June 20, 2011	0.45	950,000	–	–	–	950,000
December 7, 2014	0.06	–	14,330,890	–	(60,000)	14,270,890
January 18, 2015	0.07	–	600,000	–	–	600,000
		7,956,168	14,930,890	(1,500)	(66,668)	22,818,890
Weighted average exercise price		0.60	0.06	0.62	0.12	0.25
Weighted average fair value of stock options granted during the year						0.054

As at February 28, 2010, 12,620,980 of the stock options outstanding with a weighted average exercise price of \$0.39 per share have vested with grantees.

The continuity of stock-based compensation for the year ended February 28, 2009 is as follows:

Expiry date	Exercise price \$	Feb 29, 2008 \$	Granted/ issued \$	Exercised \$	Expired/ canceled \$	Feb 28, 2009 \$
March 28, 2008	0.50	150,000	–	–	(150,000)	–
July 10, 2010	0.68	300,000	–	–	(300,000)	–
September 24, 2012	0.62	5,903,000	–	–	(1,666)	5,901,334
November 14, 2012	0.63	1,109,000	–	–	(4,166)	1,104,834
June 20, 2011	0.45	–	1,150,000	–	(200,000)	950,000
		7,462,000	1,150,000	–	(655,832)	7,956,168
Weighted average exercise price		0.62	0.45	–	0.57	0.60
Weighted average fair value of stock options granted during the year						0.334

As at February 28, 2009, 4,987,445 of the stock 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 vested have been reflected in the statement of operations as follows:

	Year ended February 28, 2011 \$	Year ended February 28, 2010 \$	Year ended February 28, 2009 \$
Exploration and engineering	270,674	74,008	629,347
Operations and administration	614,212	261,350	1,205,075
Total stock-based compensation cost expensed to operations with the offset credited to contributed surplus	884,886	335,358	1,834,422

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

	Year ended February 28		
	2011	2010	2009
Risk-free interest rate	1.9%	2.5%	4.0%
Expected life	5.0 years	4.8 years	3 years
Expected volatility	128.6%	140.2%	122%
Expected dividends	nil	nil	nil

(c) *Shares issued, March 2008*

On March 1, 2008, the Company issued 14,285,715 common shares at a price of \$0.55 per share for a total of \$7,857,142 (net of issue cost) to increase its ownership of HCVW and Klipdam by 34%, resulting in a total interest holding of 85%, and thereby reducing the non-controlling interest of HCVW and Klipdam to 15%. Refer to note 8(b).

(d) *Private placements between December 2009 and February 2010*

During February 2010, the Company completed private placements of 132,800,000 common shares at \$0.065 per share for a total of \$8,632,000. The Company paid a cash fee of \$587,229 finder's fees relating to the private placements.

(e) *Rights offering*

On March 19, 2010, the Company completed a rights offering whereby each registered holder of the Company's common shares, on the record date, received one right for each common share held. The rights offering was 100% subscribed and applications for additional shares were received but could not be fulfilled because they exceeded the maximum subscription quantity on offer. Pursuant to the rights offering, Rockwell issued 92,710,767 common shares at a subscription price of \$0.05 per common share yielding gross proceeds of approximately \$4,583,644 (ZAR33.2 million).

(f) *Private placement*

In March 2010, the Company completed a private placement of 54,631,402 common shares at a price of \$0.065 per share for total proceeds of \$3,406,824 (net of issue cost). The Company paid a cash fee of \$0.1 million finder's fees relating to the private placement.

Proceeds from the financing activities were used to repay short-term debt finance lease obligations fund diamond operations and to fund capital developments.

14. LOSS PER SHARE

	Year ended February 28, 2011	Year ended February 28, 2010	Year ended February 28, 2009
Number of common shares			
Basic weighted average shares outstanding:	518,185,238	267,164,309	237,924,152
Weighted average shares dilution adjustments:			
Dilutive stock options ^(a)	–	–	–
Common share purchase warrants ^(a)	–	–	–
Diluted weighted average shares outstanding	518,185,238	267,164,309	237,924,152

^(a) These adjustments were excluded, as they were anti-dilutive. Diluted loss per share has not been presented separately on the statements of operations and comprehensive loss as the effect of outstanding options and warrants would be anti-dilutive.

15. RELATED-PARTY BALANCES AND TRANSACTIONS

	As at February 28, 2011	As at February 28, 2010
Balances payable	\$	\$
Banzi Trade 26 (Pty) Limited ^(e)	34,385	603
Hunter Dickinson Services Inc. ^(a)	34,113	627,435
Flawless Diamonds Trading House ^(d)	3,566	–
Seven Bridges Trading ^(c)	–	13,285
Current balances payable	72,064	641,323
Liberty Lane ^(g)	424,572	414,566
Long-term balances payable	424,572	414,566
Balances receivable		
Banzi Trade 26 (Pty) Limited ^(e)	92,398	46,108
Current balances receivable	92,398	46,108

	Year ended February 28, 2011	Year ended February 28, 2010	Year ended February 28, 2009
Transactions	\$	\$	\$
Services rendered and expenses reimbursed:			
Hunter Dickinson Services Inc. ^(a)	467,151	961,042	1,280,316
CEC Engineering ^(b)	23,331	17,818	26,904
Seven Bridges Trading ^(c)	134,483	139,789	–
Cashmere Trading ^(h)	–	–	18,808
Banzi Trade 26 (Pty) Limited ^(e)	165,077	17,688	29,768
Jakes Tyres ^(f)	–	–	440,283
Diacor CC ⁽ⁱ⁾	–	–	39,510
Flawless Diamonds Trading House ^(d)	420,006	316,081	346,768
Sales rendered to:			
Banzi Trade 26 (Pty) Limited ^(e)	879	1,989	884

All related-party transactions are arm's length transactions in the normal course of business.

- (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 Limited is a private company owned by Mr D Copeland, chairman and a director of the Company, which provides engineering and project management services at market rates.
- (c) Seven Bridges Trading 14 (Pty) Limited (Seven Bridges Trading) is a wholly owned subsidiary of Randgold Resources Limited, a public company where Dr DM Bristow, a director of the Company, serves in an executive capacity. Seven Bridges Trading provides office, conferencing, information technology, and other administrative and management services at market rates to the Company's South African subsidiaries.
- (d) Flawless Diamonds Trading House (Pty) Limited (Flawless) is a private company where certain directors, former directors and officers of the Company, namely, Mr JW Brenner and Dr DM Bristow and Mr HC van Wyk, are shareholders. During fiscal 2011 the Company acquired a 20% shareholding in Flawless Diamonds Trading House (Pty) Limited (refer note 12). 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.
- (e) Banzi Trade 26 (Pty) Limited (Banzi) is 49% owned by HC Van Wyk Diamonds Limited and 51% by Bokomoso Trust. Banzi is an empowered private company established to provide self-sustaining job creation programmes 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 building materials at market rates.
- (f) Jakes Tyres is a private company with former directors and officers (HC 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.
- (g) Liberty Lane is the BEE partner of the Saxendrift property and has certain directors in common with the Company.
- (h) Cashmere Trade 19 (Pty) Limited (Cashmere Trade) is a private company owned by Mr HC van Wyk, a former officer of the Company, which provides helicopter services for the movement of products 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.
- (i) Diacor CC is a private company of which Mr HC van Wyk, a former director and officer of the Company, is a director from which the Company has purchased consumable materials at market rates.

16. INCOME TAXES

Income tax expense/(recovery) differs from the amount which would result from applying the statutory income tax rates in 2011 of 28.18% (2010 – 29.76%, 2009 – 30.75%) for the following reasons:

	Year ended February 28, 2011 \$	Year ended February 28, 2010 \$	Nine months ended February 28, 2009 \$
Loss before income taxes and non-controlling interest	(3,194,033)	(11,282,350)	(16,864,986)
Expected income tax recovery	(900,000)	(3,357,000)	(5,186,000)
Difference in foreign tax rates	13,000	156,000	(253,000)
Permanent differences	369,000	912,000	1,232,000
Change in tax rate	47,000	(195,946)	671,000
Change in valuation allowance	1,932,000	(185,000)	(390,000)
Other non-deductible items	560,000	6,000	586,000
Net income tax recovery/(expense)	2,021,000	(2,626,054)	(3,340,000)

As at February 28, 2011 and 2010, the estimated tax effect of the significant components within the Company's future tax assets and liabilities are as follows:

	As at February 28, 2011 \$	As at February 28, 2010 \$
Future income tax asset/(liability)		
Resource allowances	1,173,000	1,173,000
Loss carry forwards	7,595,000	7,332,000
Other	1,454,000	2,057,000
Total	10,222,000	10,562,000
Less: valuation allowance	(8,312,000)	(6,380,000)
	1,910,000	4,182,000
Mineral properties	(8,278,000)	(8,638,000)
Equipment	(7,750,000)	(7,089,000)
Net future tax liability	(14,118,000)	(11,545,000)

At February 28, 2011, the Company had available for deduction against future taxable income non-capital losses in Canada of approximately \$21,112,000 (2010 – \$18,380,000). These losses, if not utilized, will expire in various years ranging from 2014 to 2031. Subject to certain restrictions, the Company also had Canadian resource expenditures of approximately \$4,691,000 (2010 – \$4,691,000), which are available to reduce taxable income in future years.

The Company has losses in South Africa of \$8,223,000 (2010 – \$9,773,000) which are available for deduction against future taxable income.

The valuation allowance is a full valuation allowance against the net future income tax allowance (FITA) under Canadian Tax Law. The FITA primarily arises from the resource pools carried forward and the losses carried forward.

The rationale for placing a full valuation allowance against these FITAs is as follows:

- The Company has cumulative losses in recent years.
- The Company has a history of tax losses expiring unused.
- The Company's resource pools are not likely to be utilized as the Company would only be able to use its resource pools to offset income from the mine from which the expenses were incurred.

17. SEGMENTED INFORMATION

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operation decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. All of the Company's operations are within the mineral exploration and diamond mining sector. The Company's resource properties are currently located only in the Northern Cape region of the Republic of South Africa.

For the year ended February 28, 2011	Canada \$	Chile \$	South Africa \$	Total \$
External revenue	–	–	42,507,747	42,507,747
Loss for the year	(2,251,967)	–	(2,874,969)	(5,126,936)
Total assets	2,552,926	–	107,630,788	110,183,714
Mineral property interests	–	–	29,565,304	29,565,304
Property, plant and equipment	–	–	62,828,438	62,828,438

For the year ended February 28, 2010	Canada \$	Chile \$	South Africa \$	Total \$
External revenue	–	–	29,776,933	29,776,933
Loss for the year	(2,767,485)	–	(4,270,208)	(7,037,693)
Total assets	1,232,734	–	104,010,652	105,243,386
Mineral property interests	–	–	30,850,998	30,850,998
Property, plant and equipment	–	–	58,790,736	58,790,736

For the year ended February 28, 2009	Canada \$	Chile \$	South Africa \$	Total \$
External revenue	–	–	34,330,078	34,330,078
Loss for the year	(5,590,213)	(135,528)	(7,250,221)	(12,975,962)
Total assets	575,275	–	105,787,141	106,362,416
Mineral property interests	–	–	28,894,477	28,894,477
Property, plant and equipment	–	–	59,569,186	59,569,186

18. BANK INDEBTEDNESS AND RESTRICTED CASH

Consistent with the prior financial year, the Company has an overdraft facility in the amount of ZAR28.0 million (\$3.9 million) available for its operations (current balance of \$1,787,479). This facility has an interest cost of prime (currently 9% per annum) plus 0.6%. The security for the ZAR28.0 million consists of two notarial bonds of ZAR10.0 million (\$1.4 million) each over loose assets and property of the farm Holpan.

At February 28, 2011, HC Van Wyk Diamonds Limited, Klipdam Mining Company Limited and Saxendrift Mine (Pty) Limited held guarantees with the bank towards Eskom (electricity provider) of ZAR4,856,100 (\$679,850) and the Department of Minerals and Energy (DME) of ZAR21,367,228 (\$2,759,611) towards rehabilitation expenses.

At February 28, 2010, HC Van Wyk Diamonds Limited, Klipdam Mining Company Limited and Saxendrift Mine (Pty) Limited held guarantees with the bank towards Eskom (electricity provider) of ZAR1,419,660 (\$194,059) and the Department of Minerals and Energy (DME) of ZAR21,200,228 (\$2,898,067) towards rehabilitation expenses.

Restricted cash of \$Nil (2010 – \$4,946) relates to monies held in trust by the Group's lawyers.

19. CONTINGENCIES

Kwango River Project, Democratic Republic of Congo

Rockwell's subsidiary, Durnpike Investments (Pty) Limited's (Durnpike), interest in the Kwango River project that was constituted by an agreement (Midamines Agreement) which was concluded between Durnpike and Midamines SPRL (Midamines), the holder of the permit for the Kwango River Project, during 2006, in terms of which Durnpike was to act as independent contractor on behalf of Midamines to manage and carry out exploration activities and potentially, mining activities. 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 certain 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\$1.2 million per annum, as escalated in accordance with the Midamines Agreement (commencing on December 31, 2007). During the first quarter of 2008, pursuant to an amendment to the Midamines Agreement (contained in the Fifth Addendum thereto), Durnpike paid consideration of US\$600,000 to Midamines as compensation for access to the entire concession area (Permit 331), as opposed to the limited contract area. As part of such amendment, Midamines waived its right to payment of the abovementioned US\$1.2 million royalty payment due 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 and/or Rockwell canceled the Midamines Agreement and/or the Fifth Addendum thereto. Midamines thereafter disputed the entitlement of Durnpike and/or Rockwell to cancel the Midamines Agreement. It has referred to arbitration a dispute against Durnpike and Rockwell, in which it claims payment by Rockwell and Durnpike of compensation in the amount of US\$41.8 million (while reserving the right to increase the claim to US\$68.073 million if the DRC authorities cancel Midamines' permit for the Kwango Project) plus interest. Durnpike and/or Rockwell have defended the claim and have, in turn, instituted a counterclaim in the estimated and provisional amounts of approximately ZAR25.4 million for equipment purchased to undertake exploration and feasibility work, C\$1.6 million for start-up and acquisition costs in the DRC, and US\$20 million (while reserving the right to increase the counterclaim to at least \$164.3 million) as an initial estimate of possible lost earnings.

Comprehensive documentation has been filed by the parties and arbitration proceedings are pending in Belgium.

20. SUBSEQUENT EVENTS

(a) *Etruscan Diamonds Limited*

On September 9, 2010, Rockwell Resources RSA (Pty) Limited has signed a sale of shares and claims agreement with Etruscan Diamonds Bermuda Limited, Etruscan Diamonds Limited and Etruscan Resources Inc. whereby the Company proposes to purchase Etruscan's Blue Gum diamond operation in the Ventersdorp region of South Africa. The acquisition is for 74% of the operation with the balance owned pursuant to South Africa's BEE regime. The price to be paid to Etruscan is an amount not exceeding ZAR33.5 million (approximately \$4.7 million) payable in Rockwell shares valued at \$0.068 each. The Company will also assume certain non-material property maintenance obligations effective immediately and other financial obligations upon completion of the acquisition.

The Company is still awaiting transfer of the mineral right, which is a suspensive condition, to proceed with the transaction. No recognition has been given to this future transaction in these consolidated financial statements.

(b) *Holpan/Klipdam operations*

The Holpan operation was faced with significant challenges resulting from heavy and unseasonal rainfall during the fourth quarter. As a result, the deposit was saturated and the plant's ability to produce at its full designed capacity was negatively affected. This, in turn, led to higher unit costs due to lower efficiencies and rendered the mine to be unprofitable in the fourth quarter. In order to address these issues and return the mine to profitability in fiscal 2012, Rockwell entered into negotiations during fiscal 2011 with the recognized trade union to implement full calendar operations (continuous operations); however, the Company was unable to reach an agreement. Management is in the process of restructuring the Holpan and Klipdam operations, which are adjacent to each other. In its first step to rationalize the two operations, notice was given to the Union on April 5, 2011, that management is placing the Holpan operation on care and maintenance.

A process has commenced to consolidate the operations of Holpan and Klipdam, which will result in a mine with a combined life of four years. The target date for completion of the revised mine plan is the end of June 2011.

END OF AUDITED FINANCIAL STATEMENTS

LOSS PER SHARE (UNAUDITED)**Reconciliation of loss for the period to basic loss**

	Year ended February 28, 2011 \$	Year ended February 28, 2010 \$	Year ended February 28, 2009 \$
Total comprehensive loss	(3,511,131)	(1,607,993)	(26,385,345)
Adjusted for:			
Non-controlling interest	88,087	1,618,603	549,025
Basic profit/(loss) attributable to owners of the Company	(3,599,218)	(3,226,596)	(26,934,370)
Diluted loss per share is equal to loss per share because there are no dilutive potential ordinary shares in issue.			
Headline profit/(loss) per share			
Reconciliation between basic profit/(loss) and headline profit/(loss)			
Basic loss	(3,599,218)	(3,226,596)	(26,934,370)
Adjusted for:			
Exchange differences on translating foreign operations	1,615,805	5,429,700	(13,409,383)
Fair value adjustments	31,920		
Loss in disposal of assets	296,510	36,720	364,918
Write down of property plant and equipment	284,696	23,862	2,590,958
Write off of Etruscan receivable		167,414	291,063
Loss on disposal of mineral property		657,634	203,339
Headline loss attributable to owners of the Company	(5,828,149)	(9,541,926)	(6,975,265)
Basic loss per share was calculated based on a weighted average number of ordinary shares			
	518,185,238	267,164,309	237,924,152
Basic and diluted loss per common share	(0.01)	(0.01)	(0.11)
Headline loss per common share	(0.01)	(0.04)	(0.07)

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