



Dear Fellow Shareholder,

On behalf of the Board of Directors and Management of Rockwell Diamonds Inc., I am pleased to provide you with a review of Rockwell's activities over the past year. If you have any questions concerning the proxy materials provided, please contact our Investor Relations personnel at 604-684-6365 or toll-free at 1-800-667-2114.

In spite of a challenging fiscal 2010, Rockwell is repositioned to resume its growth and consolidation strategy. Faced with the international credit crunch in late 2008, a precipitous decline in diamond prices, and an economic recession which prevailed through much of 2009, the Rockwell Board, Management Team, and employees demonstrated focus and commitment in addressing the challenges of fiscal 2010 head on.

Through a combination of restructuring, and resourcefulness at its three producing operations, Rockwell was able to reduce costs, increase production and leverage diamond prices in a highly challenging market.

During the past 18 months the Company has also intensively reviewed its mineral resource holdings, operations and past performance and aims to progressively put in place a long term operational and corporate strategy that will allow Rockwell to creatively expand its production base and set the Company above many of its peers.

Highlights from Rockwell's operational and corporate activities during fiscal 2010 include the following:

- excellent performance by the Saxendrift mine and high volume rotary-pan plant;
- sustained lower cash operating cost at the lower end of its target range of \$3 - 3.50 per tonne;
- regular recovery of stones greater than 10 carats including exceptional diamonds of greater than 100 carats;
- receipt of approximately US\$1.9 million of profit share from Rockwell's beneficiation agreement with the Steinmetz Diamond Group in spite of a very depressed diamond market; and
- successful completion of a private placement and fully subscribed rights offer which allowed Rockwell to strengthen its balance sheet, retire short term debt, and reposition itself for organic growth and potential acquisitions to add significant new production.

Operational performance improved through fiscal 2010. Led by the high throughput Saxendrift operation, Rockwell's production for the 2010 fiscal year increased to 2.9 million cubic meters from three operating mines compared to 2.0 million cubic meters from four operations in fiscal 2009. The average operating cost decreased in fiscal 2010 to US\$3.11 per tonne from US\$5.23 per tonne in fiscal 2009.

Rockwell again produced some exceptional stones during fiscal 2010. Nine +30-carat diamonds were recovered during the year, including three excellent gemstones larger than 100 carats (105.62 carats, 120.45 carats, 122.43 carats) from Saxendrift.

During the first fiscal quarter of 2011, Rockwell recovered another three large gemstones: a 66-carat stone was recovered at Holpan in April and 124 and 145-carat stones were recovered at Saxendrift in May 2010. These large stones have been sold into Rockwell's joint venture agreement with Steinmetz Diamond Group and, once manufactured and sold as polished goods, will provide additional profit share to the Company.

Prices received for Rockwell's diamond production increased progressively through the latter part of fiscal 2010 reflecting a steady recovery in international diamond prices following the sharp decline (50% on average) in the fourth quarter of fiscal 2009. The average price received by Rockwell in the fourth quarter of fiscal 2010 was US\$1,154 per carat, a substantial increase from the average price of US\$318.32 per carat in the fourth quarter of fiscal 2009.

Other evidence of this recovery includes an increasing demand for larger stones. Polished diamond prices also showed improvement in calendar 2010. The retail sector has shown a year-on-year increase in trade but has not

yet fully recovered. Importantly debt levels in the industry declined and credit terms have improved from the exceptionally high terms offered to the industry prior to the credit crisis in late 2008, which should increase the purchasing power of the retail sector.

As a consequence of a steady improvement in diamond prices through the last two quarters of fiscal 2010, and ongoing resilience and price improvements into fiscal 2011, Rockwell has re-initiated its growth and acquisition plans to increase its production profile.

In March 2010, Rockwell signed a term sheet to purchase 74% of the Tirisano (Blue Gum) diamond operation, located in the Ventersdorp region of South Africa, from Etruscan Diamonds Ltd. for an amount not exceeding South African Rand 33.5 million (approximately \$4.65 million), payable in Rockwell shares. The Blue Gum property hosts an alluvial diamond deposit with 25 million cubic meters of indicated mineral resources and 15 million cubic meters of inferred mineral resources, both at an estimated grade of 2.37 carats/100 cubic meters¹; operations are currently on care and maintenance. The transaction is expected to be complete in the third quarter of fiscal 2011.

The Company is well advanced with the design, re-engineering of the Wouterspan processing plant to build a high volume low cost mining and processing operation with greater production capacity than Saxendrift. This operation was placed on care and maintenance in January 2009. The Company has delayed the construction and re-commissioning of Wouterspan to ensure that front end and other engineering enhancements made at Saxendrift are incorporated into the new Wouterspan plant design. These enhancements will ensure greater throughput capacity and lower operating costs once the Wouterspan plant is operational.

Rockwell's short term plan is to increase its monthly carat production from about 2,500 carats per month to about 4,000 carats per month by re-commissioning Tirisano; the phase one target for Tirisano is production of approximately 1,500 carats per month in the last quarter of fiscal 2011. The Tirisano project, together with the proposed modernization and re-commissioning of the Wouterspan project - now scheduled for the second quarter of fiscal 2012 - will provide Rockwell with important additional new high quality gemstone production and help smooth the Company's revenue and cash flow.

We are pleased to have welcome new members to our Management team during fiscal 2010. Graham Chamberlain was appointed Chief Operating Officer in November 2009 and brings over 26 years of engineering, operational and management experience in the mining industry to his new role. Johan Oosthuizen, who has prior experience with the Eskom pension fund and the De Beers Group joined as Financial Manager responsible for the Company's operations in the Northern Cape Province thereby adding experience and skills gained from working in South Africa's diamond mining industry. More recently Leon Meyer, a highly experienced Process Engineer who has considerable experience in constructing and operating processing plant, and managing production teams, has joined us as the Manager for Tirisano, heading up the team that will reconstruct and re-commission this operation. The Company has also appointed Gerhard Jacobs, a Chartered Accountant with extensive mining experience, and management of public companies including experience of TSX listed entities, as Chief Financial Officer. These new appointments have been made to ensure that the Company has adequate strength in its management team to meet its growth objectives.

The Directors and Management of Rockwell recognize the importance of creating an entity with adequate scale and production levels. To achieve this the Company continues to optimize its existing operations, develop key new projects in its excellent project pipeline, and undertake well considered acquisitions to create multiple alluvial mining operations and development projects in well known and widespread alluvial South African alluvial diamond provinces. This will help ensure a spread of geological and technical risk. In this respect, the Company will produce an exceptional range and mix of gemstone diamonds ideally suited to the top end high net worth luxury niche market, and the burgeoning Chinese and Indian diamond businesses.

In terms of its long term strategic plan, Rockwell's objective is to create a gemstone producer of about 10,000 carats per month. Rockwell has its own advanced project pipeline to achieve a large part of its growth plan and

¹ As at October 2009, Qualified Person is Tania Marshall, Pr.Sci.Nat.

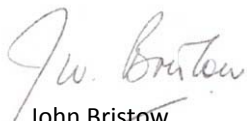
has also identified further acquisition targets to add additional high quality gemstone production which will boost production to achieve the long term growth target. The Company is actively reviewing its options in respect of funding models that will allow it to achieve its long term strategy and will be sharing its objectives and plans with our shareholders.

In the past fiscal year Rockwell was fortunate to identify new strategic funding partners who share our vision of a larger and better capitalized world class alluvial mining entity focused on production of high quality gemstone diamonds. Likewise the Company received excellent support from existing shareholders. We are grateful for the on-going support that has been provided by all our shareholders and look forward to your continued support in the next phase of Rockwell's development.

In conclusion, Rockwell undoubtedly faces another challenging year but has a clear view of the hurdles and requirements to achieve its objectives. The Company is confident that it has the capabilities to meet its short and long term challenges and objectives, and deliver value to all its stakeholders.

Rockwell's Annual General Meeting, to be held on Thursday September 9, 2010 at 2 pm eastern at Suite 2500, 181 Bay Street, Toronto, Ontario, will provide another opportunity to discuss the Company's corporate objectives for the year ahead. I look forward to speaking further with you then.

On behalf of the Board,



John Bristow
President and CEO