



CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MAY 31, 2008 and 2007

(Expressed in Canadian Dollars)

(Unaudited)

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

# ROCKWELL DIAMONDS INC.

## Consolidated Balance Sheets

(Expressed in Canadian Dollars)

	May 31 2008 (unaudited)	Feb 29 2008
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and equivalents	12,581,960	\$ 19,623,847
Amounts receivable	1,159,841	631,446
Restricted cash	3,081,361	13,335,124
Trade receivable from a related party (note 10)	1,067,158	593,434
Diamond inventory and supplies (note 4)	6,056,688	3,465,853
Prepays and deposits	3,243,194	946,858
	27,190,202	38,596,562
Property, plant and equipment (note 5)	70,225,948	64,831,636
Mineral property interests (note 6)	36,591,620	25,247,937
Other assets and deposits	2,535,586	3,200,112
Reclamation deposits (note 8)	1,859,480	1,816,877
	138,402,836	\$ 133,693,124
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	3,712,973	\$ 4,420,212
Amounts owing pursuant to acquisition (Note 6(a))	3,797,259	294,402
Amounts due to related parties (note 10)	82,228	49,604
Income taxes	1,207,396	890,332
Current portion of capital lease obligations (note 7)	6,553,214	6,847,751
	15,353,070	12,502,301
<b>Long-term liabilities</b>		
Capital lease obligations (note 7)	7,329,624	7,955,548
Future income taxes	14,400,296	12,430,100
Reclamation obligation (note 8)	2,898,405	1,755,820
	24,628,325	22,141,468
<b>Non-controlling interest</b>	3,565,246	11,934,548
<b>Shareholders' equity</b>		
Share capital (note 9)	119,952,533	112,095,390
Warrants (note 9(c))	1,693,197	1,693,197
Contributed surplus	3,018,480	2,332,882
Deficit	(29,808,015)	(29,006,662)
	94,856,195	87,114,807
Nature and continuance of operations (note 1)		
Subsequent events (notes 11)		
Contingencies and commitments (note 12)		
	\$ 138,402,836	\$ 133,693,124

# ROCKWELL DIAMONDS INC.

## Consolidated Statements of Operations and Comprehensive Loss

(Unaudited - Expressed in Canadian Dollars)

	Quarter ended May 31	
	2008	2007
<b>Revenue</b>		
Rough diamonds sales (note 11(h))	\$ 7,094,921	\$ 7,680,772
Contract diamond sales	156,220	–
Other sales	79,791	4,061
	<u>7,330,932</u>	<u>7,684,833</u>
<b>Cost of sales</b>		
Cost of rough diamonds sales	(4,608,568)	(7,100,531)
Amortization and depletion	(2,574,231)	(1,679,556)
<b>Operating profit</b>	<u>148,133</u>	<u>(1,095,254)</u>
<b>Expenses</b>		
Accretion of reclamation obligation (note 9)	68,623	55,471
Exploration	304,158	162,523
Foreign exchange gain	(206,122)	(2,856,110)
Interest on capital leases	462,817	433,044
Convertible note accretion and interest expense	86,041	610,331
Legal, accounting and audit	137,327	402,402
Office and administration	972,055	1,651,984
Shareholder communications	79,645	55,730
Stock-based compensation - exploration (note 10(b))	202,624	4,010
Stock-based compensation - administration (note 10(b))	482,975	3,568
Travel and conferences	211,904	285,222
Transfer agent	10,051	56,429
	<u>2,812,098</u>	<u>864,604</u>
<b>Other items</b>		
Write-off of amounts receivable	–	224,942
Loss on disposal of equipment	20,968	82,420
Interest income	(1,381,283)	(222,282)
Write-down of mineral property interests	–	15,648
	<u>(1,360,315)</u>	<u>100,728</u>
<b>Loss before income taxes</b>	<u>1,303,650</u>	<u>2,060,586</u>
Income tax expense	267,996	–
Future income tax recovery	(682,008)	(645,436)
<b>Loss before non-controlling interest</b>	<u>889,638</u>	<u>1,415,150</u>
Non-controlling interest	(88,285)	506,295
<b>Loss for the period</b>	<u>801,353</u>	<u>1,921,445</u>
Other comprehensive (income) loss	–	–
<b>Total Comprehensive Loss</b>	<u>\$ 801,353</u>	<u>\$ 1,921,445</u>
Basic and diluted loss per common share	\$ 0.003	\$ 0.035
<b>Weighted average number of common shares outstanding</b>	<u>237,731,010</u>	<u>55,418,242</u>

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

**ROCKWELL DIAMONDS INC.**  
**Consolidated Statements of Shareholders' Equity**

(Expressed in Canadian Dollars)

	Three months ended May 31		Nine months ended February 29	
	2008		2008	
	(unaudited)		(audited)	
	Number of shares		Number of shares	
<b>Share capital</b>				
Balance at beginning of the period	223,755,854	\$ 112,095,390	186,976,219	\$ 88,903,530
Share purchase options exercised at \$0.40 per share	–	–	107,917	43,167
Share purchase options exercised at \$0.42 per share	–	–	145,000	60,900
Private placement November 2006, net of issue costs at \$0.47 per share	–	–	–	4,160
Private placement January 2008, net of issue costs at \$0.60 per share	–	–	24,101,526	13,860,916
Commission consideration for private placement at \$0.60 per share	–	–	500,000	300,000
Warrants exercised at \$0.60 per share	–	–	2,400,000	1,440,000
Consideration for acquisition of property net of issue cost at \$0.78 per share (note 6)	–	–	7,848,663	6,081,842
Consideration for additional interest net of issue cost at \$0.55 per share (note 6(b))	14,285,715	7,857,143	–	–
Consideration for property finders fees at \$0.78 per share	–	–	1,676,529	1,307,693
Fair value of stock options allocated to shares issued on exercise	–	–	–	93,182
Balance at end of the period	238,041,569	\$ 119,952,533	223,755,854	\$ 112,095,390
<b>Warrants</b>				
Broker warrants issued as consideration for private placement		1,693,197		1,693,197
		\$ 1,693,197		\$ 1,693,197
<b>Contributed surplus</b>				
Balance at beginning of the period		2,332,882		599,749
Stock-based compensation (note 10(b))		685,598		1,826,315
Fair value of stock options allocated to shares issued on exercise		–		(93,182)
Balance at end of the period		\$ 3,018,480		\$ 2,332,882
<b>Deficit</b>				
Balance at beginning of the period		(29,006,662)		(19,603,634)
Loss for the period		(801,353)		(9,403,028)
Balance at end of the period		\$ (29,808,015)		\$ (29,006,662)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		\$ 94,856,195		\$ 87,114,807

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

# ROCKWELL DIAMONDS INC.

Consolidated Statements of Cash Flows  
(Unaudited - Expressed in Canadian Dollars)

Cash provided by (applied to):	Three months ended May 31	
	2008	2007
<b>Operating activities</b>		
Loss for the period	(801,353)	(1,921,445)
Items not affecting cash		
Accretion of reclamation obligation	68,623	55,471
Amortization and depletion	1,831,387	801,823
Amortization of capital lease equipment	742,844	799,490
Write-off of amounts receivable	-	224,942
Write-down of mineral property interests	424,975	-
Non cash convertible note accretion and interest expense	-	862,765
Stock-based compensation (note 10(b))	685,598	7,578
Unrealized foreign exchange gain	414,951	(3,320,085)
Loss on disposal of equipment	20,968	82,420
Future income tax (recovery) expense	(682,008)	(635,773)
Provision for site reclamation	-	(474,024)
Non-controlling interest	(88,285)	506,295
Changes in non-cash working capital items		
Accounts receivable	(528,395)	(879,062)
Amounts due to and from related parties	(473,724)	2,262,843
Inventory	(2,460,035)	(542,815)
Prepays and deposits	(2,296,336)	(2,067,808)
Accounts payable and accrued liabilities	(707,239)	2,697,065
Income taxes	317,064	(1,014,462)
<b>Cash provided by (used in) operating activities</b>	<b>(3,530,965)</b>	<b>(2,554,781)</b>
<b>Investing activities</b>		
Acquisition of Saxendrift Mine (Pty) Limited, net of cash acquired (Note 6(a))	(12,205,245)	-
Overdraft assumed on acquisition of Durmpike Investments, net	-	(1,201,297)
Restricted cash	10,560,902	(15,642,120)
Mineral property acquisitions	(479,619)	377,530
Purchase of equipment	(1,266,359)	(6,234,398)
Proceeds received on disposal of equipment	139,428	244,918
Other assets and deposits	664,526	(1,510,344)
Reclamation deposits	(42,603)	(31,681)
Reclamation obligation	-	(21,294)
<b>Cash provided by (used in) investing activities</b>	<b>(2,628,970)</b>	<b>(24,018,686)</b>
<b>Financing activities</b>		
Principal repayments under capital lease obligations	(2,393,086)	(1,788,079)
Addition of capital lease obligations	1,019,434	-
Common shares and warrants issued for cash, net of issue costs	-	56,448,431
Amounts received (paid) to related parties	32,624	(872,735)
Amounts paid pursuant to property acquisition	459,075	2,885,509
Repayment of credit facility	-	(11,000,000)
Credit facility	-	5,000,000
Repayment of loans payable to related parties	-	(12,474,500)
Loans payable to related parties	-	1,194,518
<b>Cash provided by financing activities</b>	<b>(881,953)</b>	<b>39,393,144</b>
<b>Increase (decrease) in cash and equivalents during the period</b>	<b>(7,041,888)</b>	<b>12,819,677</b>
Cash and equivalents, beginning of period	19,623,848	19,806,699
<b>Cash and equivalents, end of period</b>	<b>\$ 12,581,960</b>	<b>\$ 32,626,376</b>
Cash and equivalents is comprised of:		
Cash and equivalents	\$ 14,477,740	\$ 32,626,376
Cash equivalent (Bank overdraft)	\$ (1,895,780)	\$ -
Interest paid during the period	\$ -	\$ 5,126
Interest received	\$ 1,381,283	\$ 522,016
Income taxes paid during the period	\$ 317,064	\$ 872,950
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Issuance of warrants - consideration for private placement	\$ -	\$ 1,693,197
Issuance of common shares - consideration for private placement	\$ -	\$ 568,588
Issuance of common shares - interest on credit facility	\$ -	\$ 862,769
Issuance of commons shares as consideration for additional interest	\$ 7,857,143	\$ -
Fair value of stock options allocated to shares issued upon exercise	\$ -	\$ 2,078
Equipment acquired under capital lease (note 6)	\$ 1,019,434	\$ 7,316,459

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

# ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2008 and 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

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## 1. NATURE AND CONTINUANCE OF OPERATIONS

Rockwell Diamonds Inc. (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, acquiring and exploring natural resource properties. The Company’s principal mineral property interests are located in South Africa.

Operating results for the three months ended May 31, 2008 are not necessarily indicative of the results that may be expected for the full year ending February 28, 2009.

The Company has estimated that it will have adequate funds from existing working capital to meet its corporate, operational, development, administrative and property obligations for the coming year. The Company will periodically need to obtain additional financing, and while it has been successful in the past, there can be no assurance that it will be able to do so in the future.

The recoverability of the amounts shown for the Company’s mineral property interests, property, plant and equipment and inventory is dependent upon the existence of economically recoverable mineral resources and future profitable production or proceeds from the disposition of the mine. The Company’s continuing operations are also dependent upon the discovery and existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its mineral property interests, and upon future profitable production or proceeds from the disposition of its mineral property interests.

These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

## 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 and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

These interim financial statements do not include all the disclosures required for annual financial statements under generally accepted accounting principles. However, these interim financial statements follow the same accounting policies and methods of application as the Company’s most recent audited annual financial statements except for the changes described in note 3 below. These interim consolidated financial statements should be read in conjunction with the Company’s nine months ending February 29, 2008 audited annual consolidated financial statements which are filed on [www.sedar.com](http://www.sedar.com). Certain comparative information has been reclassified to conform to the presentation adopted in the current period.

# ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2008 and 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

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## 3. CHANGES IN ACCOUNTING POLICIES

### (a) *Newly Adopted Accounting Policies*

#### (i) *Section 1535 – Capital Disclosures*

This standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any externally imposed capital requirements and, if it has not complied, the consequences of such non-compliance.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to explore and develop its projects for the benefit of its shareholders and other stakeholders. The Company considers the components of shareholders' equity, as well as its cash and equivalents, as capital. 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 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. The Company's cash resources at May 31, 2008 are sufficient for its present needs, specifically to continue administrative and exploration operations at current levels through the end of February 28, 2009.

There were no changes to the Company's approach to capital management during the three months ended May 31, 2008. The Company is not subject to externally imposed capital requirements as at May 31, 2008

#### (ii) *Financial Instruments – Disclosure (Section 3862) and Presentation (Section 3863)*

These standards replace CICA 3861, Financial Instruments – Disclosure and Presentation. They increase the disclosures previously required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.

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

#### Financial Instrument Risk Exposure and Risk Management

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

#### *Credit Risk*

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents, accounts receivable and trade receivable

# ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2008 and 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

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

## *Liquidity Risk*

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

The Company operates in South Africa. Like other foreign entities operating there, the Company is subject to currency exchange controls administered by the South African Reserve Bank, that country's central bank. A significant portion of the Company's funding structure for its South African operations consists of advancing loans to its South Africa incorporated subsidiaries and it is possible the Company may not be able to acceptably repatriate such funds once those subsidiaries are able to repay the loans or repatriate other funds such as operating profits should any develop. The repatriation of cash held in South Africa is permitted upon the approval of the South African Reserve Bank. Cash balances in South Africa are the Rand balances disclosed below.

The following are the contractual maturities of financial liabilities:

<b>May 31, 2008</b>	<b>Carrying amount</b>	<b>Contractual cash flow</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Accounts payable and accrued liabilities	\$4,336,445	\$4,336,445	\$4,336,445	\$ -	\$ -
Amounts due to related parties	82,228	82,228	82,228	-	-
Capital lease obligations	13,882,839	15,782,042	8,105,169	5,987,374	1,689,499

## *Foreign Exchange Risk*

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

The exposure of the Company's cash and equivalents, amounts receivable and amounts due from related parties to foreign exchange risk is as follows:



## ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2008 and 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

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<b>Currency</b>	<b>May 31, 2008</b>	<b>February 29, 2008</b>
South African Rand	\$ 12,701,538	\$ 16,362,773
Other	83,454	1,127,790
<b>Total Financial Assets</b>	<b>\$ 12,784,992</b>	<b>\$ 17,490,563</b>

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The exposure of the Company's accounts payable and accrued liabilities, amounts due to related parties and capital lease obligations to foreign exchange risk is as follows:

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<b>Currency</b>	<b>May 31, 2008</b>	<b>February 29, 2008</b>
South African Rand	\$ 18,050,370	\$ 18,909,003
<b>Total Financial Liabilities</b>	<b>\$ 18,050,370</b>	<b>\$ 18,909,003</b>

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Sensitivity analysis:

A 10 percent change of the Canadian dollar against the ZAR at May 31, 2008 would have changed net loss by \$46,945. This analysis assumes that all other variables, in particular interest rates, remain constant.

Sensitivity analysis:

A 10 percent change of the prime rate for the period May 31, 2008 would have changed net loss by \$46,282. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

### *(iii) Amendments to Section 1400 – Going Concern*

CICA 1400, General Standards of Financial Statement Presentation, was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for the Company's 2009 fiscal year. The Company's assessment and disclosure of its ability to continue as a going concern is disclosed in Note 1.

### *(iv) Inventories (Section 3031)*

This standard replaces the existing Section 3030 with the same title and will harmonize accounting for inventories under Canadian GAAP with International Financial Reporting Standards ("IFRS"). This standard requires that inventories be measured at the lower of cost and net realizable value, and includes guidance on the determination of cost, including the allocation of overheads and other costs. The standard also requires that similar inventories within a consolidated group be measured using the same method. It also requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. This new section is effective for the Company's 2009 fiscal year. Upon adoption of this standard, the Company concluded that there were no material differences between the new standard and the Company's current accounting policy for its diamond and supplies inventory.

# ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2008 and 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

## (b) Accounting Policies Not Yet Adopted

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

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of March 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. While the Company has begun assessing the impact of adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## 4. DIAMOND INVENTORY AND SUPPLIES

	As at May 31, 2008	As at February 29, 2008
Rough diamond inventory	\$ 2,916,437	\$ 830,780
Work in progress	534,272	433,074
Mine supplies	2,327,794	1,990,699
Fuel, oil and grease	278,185	211,300
Total inventory and supplies	\$ 6,056,688	\$ 3,465,853

## 5. PROPERTY, PLANT AND EQUIPMENT

	As at May 31, 2008		
	Cost	Accumulated amortization	Net book value
Land	\$ 6,400,833	\$ -	\$ 6,400,833
Processing plant and equipment	39,603,079	2,285,263	37,317,816
Processing plant and equipment under capital lease	28,279,566	4,006,057	24,273,509
Office equipment	827,240	50,715	776,525
Vehicles and light equipment	1,652,534	310,993	1,341,541
Vehicles and light equipment under capital lease	154,324	38,600	115,724
	\$76,917,576	\$ 6,691,628	\$70,225,948

# ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2008 and 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

	As at February 29, 2008		
	Cost	Accumulated amortization	Net book value
Land	\$ 3,936,092	\$ —	\$ 3,936,092
Processing plant and equipment	35,421,362	1,474,746	33,946,616
Processing plant and equipment under capital lease	27,850,217	2,961,508	24,888,709
Office equipment	815,209	8,476	806,733
Vehicles and light equipment	1,389,566	259,538	1,130,028
Vehicles and light equipment under capital lease	154,323	30,865	123,458
	<b>\$69,566,769</b>	<b>\$ 4,735,133</b>	<b>\$64,831,636</b>

## 6. MINERAL PROPERTY INTERESTS

Acquisition Costs	As at May 31, 2008	As at February 29, 2008
<b>Durnpike Investments (Pty) Limited</b>		
Balance, beginning of period	\$ 25,247,936	\$ 24,121,854
Acquisition costs	55,745	1,822,138
Adjustment to mineral property cost	(424,975)	—
Financial, legal, advisory, and other fees	—	4,216
Site closure and reclamation obligation recognized	—	230,622
Future income tax liability	(118,992)	419,050
Change in Future Income Tax rate	(201,415)	—
Depletion of mineral properties during the period	(616,880)	(1,349,944)
Durnpike Investments (Pty) Limited, end of period	23,941,419	25,247,936
<b>Ricardo Property</b>	<b>1</b>	<b>1</b>
<b>Saxendrift Mine (Pty) Ltd</b>		
Balance, beginning of period	\$ —	\$ —
Acquisition costs	9,822,991	—
Financial, legal, advisory, and other fees	76,772	—
Future income tax liability	2,750,437	—
Depletion of mineral properties during the year	—	—
Saxendrift Mine (Pty) Ltd, end of period	12,650,200	—
<b>Balance, end of period</b>	<b>\$ 36,591,620</b>	<b>\$ 25,247,937</b>

In April 2008, the Company completed the acquisition of Saxendrift Mine (Pty) Ltd a South African private company with an alluvial diamond property in the Middle Orange river area. The cash consideration paid of \$15,256,809 comprised of \$9,899,763 for mineral rights, \$6,245,700 for property, plant and equipment, \$130,800 for inventory, \$786 for other assets and a reclamation obligation of \$1,020,240.

## ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2008 and 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

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(a) *Acquisition of Saxendrift Mine (Pty) Ltd.*

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) Ltd. (“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) Ltd. (“THO”), is 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 material plant, machinery, equipment and other movable 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. The substantive conditions to the Transaction have been fulfilled and the Company completed the MORO acquisition. Registration of transfer to Saxendrift Mine Pty (Ltd) of the Saxendrift mining right, as well as prospecting rights in respect of the Kwartelspan, Zwemkuil-Mooidraai and part of the Remhoogte-Holsloot projects has already been obtained. Cession of the Niewejaarskraal mining right is still awaited at this time from the DME, and the Remhoogte prospecting right is in the process of being renewed.

The results of the Saxendrift operations have been included in the consolidated financial statements since April 11, 2008, the date of acquisition. The following table summarizes the total purchase consideration of the Saxendrift assets:

	<b>Amount (ZAR)</b>	<b>Amount (\$)</b>
Cash advanced to fund Rockwell’s acquisition of 100% of Saxendrift	93,312,269	12,205,245
Cash committed to fund	23,330,000	3,051,564
<b>Total purchase consideration</b>	<b>116,642,269</b>	<b>15,256,809</b>

The total acquisition price has been allocated to the net assets acquired and liabilities assumed of Saxendrift as follows:

## ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2008 and 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

	Amount (ZAR)	Amount (\$)
Inventory	1,000,000	130,800
Plant and equipment	47,750,000	6,245,700
Other assets	6,009	786
Mineral property interests	75,686,260	9,899,763
Reclamation obligation	(7,800,000)	(1,020,240)
	116,642,269	15,256,809

The allocation of purchase price is based on management's estimates of the fair value of the assets acquired and liabilities assumed at the date of acquisition, April 11, 2008.

As at May 31, 2008, the Company had the following payment commitments relating to the acquisition of Saxendrift remaining: (a) Payment of ZAR27.5 million (\$3.6 million) in cash to Trans Hex subject to the anticipated grant of Ministerial Consent to the cession of each of the Outstanding Mining Rights to the Company and registration of cession of such rights in its name.

(b) *Assumption of 85% ownership of HC Van Wyk Diamonds Ltd ("HCVW") and Klipdam Mining Company Limited ("Klipdam")*

Effective March 1, 2008, the Company increased its ownership of HCVW and Klipdam by 34% resulting to an 85% interest by issuing 14,285,715 common shares of the Company pursuant to the June 2006 Durnpike Definitive Agreement thereby reducing the non-controlling interest to 15% as at May 31, 2008.

(c) *Galputs Minerale Project*

As provided for in the June 2006 Durnpike Definitive Agreement, the Company executed an agreement in relation to the acquisition of control of the mineral rights relating to the Galputs Minerale Project ("Galputs"). In order for the Company to fully control the Galputs minerals rights, the South African Department of Minerals and Energy ("DME") had to give its final written approval to transfer of the shares of Galputs from Virgilia Investments Inc. to the Company on or before May 31, 2008. Since no written approval had been received from the DME by May 31, 2008, the provisions of the agreement shall not be enforced and as a result all parties have been restored to a position prior to entering the agreement.

### 7. CAPITAL LEASE OBLIGATIONS

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

## ROCKWELL DIAMONDS INC.

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(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

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

	As at May 31, 2008	As at February 29, 2008
ELB Finance	\$ —	\$ 105,418
Stannic	1,864,108	2,093,869
Wesbank	258,069	319,236
Nedbank	1,177,702	1,842,519
Komatfin	10,582,960	10,442,257
	<b>\$ 13,882,839</b>	<b>\$ 14,803,299</b>

Capital lease obligations as detailed above are secured over plant and equipment and are repayable in monthly installments. Interest is charged at rates linked to the prevailing prime rate of the relative financial institution mentioned above.

Future minimum lease payments are as follows:

	As at May 31, 2008
2009	\$ 8,105,169
2010	5,987,374
2011	1,689,499
Total minimum lease payments	15,782,042
Less interest portion	(1,899,203)
Present value of capital lease obligations	13,882,839
Current portion	(6,553,215)
Non-current portion	\$ 7,329,624

## 8. RECLAMATION OBLIGATION

The continuity of the provision for site closure and reclamation costs related to the Holpan, Wouterspan, Klipdam owned by the Durnpike Investments subsidiary and Saxendrift mines, are as follows:

	As at May 31, 2008	As at February 29, 2008
Durnpike Investments (Pty) Limited		
Balance, beginning of period	\$ 1,755,820	\$ 1,361,557
Changes during the period:		
Site closure and reclamation obligation recognized		230,622
Foreign exchange on reclamation	56,122	(300,675)
Accretion expense	55,513	464,316
Durnpike Investments (Pty) Limited, end of period	\$ 1,867,455	\$ 1,755,820

# ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2008 and 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

	As at May 31, 2008	As at February 29, 2008
<hr/>		
Saxendrift Mines (Pty) Limited		
Balance, beginning of period	\$ -	\$ -
Changes during the period:		
Site closure and reclamation obligation recognized	1,021,240	-
Foreign exchange on reclamation	(2,400)	-
Accretion expense	13,110	-
<hr/>		
Saxendrift Mines (Pty) Limited, end of period	\$ 1,030,950	\$ -
<hr/>		
<b>Balance, end of period</b>	<b>\$ 2,898,405</b>	<b>\$ 1,755,820</b>

The estimated amount of the reclamation costs, adjusted for estimated inflation at 9% per year, is \$732,688 for the Klipdam mine in the year 2011, \$1.3 million for the Holpan mine in the year 2013 and \$3.8 million for the Wouterspan mine in the year 2027 and is expected to be spent over periods of approximately three years beginning in 2011, 2013 and 2027. The estimated reclamation costs for Saxendrift is \$1,030,950 which is the amount that had been established by an independent consultant during the acquisition process. As no gravel mining has taken place yet it has not been necessary to adjust this amount. The credit-adjusted risk free rate at which the estimated future cash flows have been discounted is 13%, to arrive at a net present value of \$2,898,405. The accretion of \$68,423 (2008 – \$464,316) is charged to the statement of operations. During the period the Company revised the site closure and reclamation obligation.

As required by regulatory authorities, at May 31, 2008, the Company had cash reclamation deposits totaling \$1,859,781 (2008 – \$ 1,816,877) comprised of \$1,700,393 (2008 – \$ 1,657,489) for the Holpan and Wouterspan mines and \$159,388 (2008 – \$159,388) for the Klipdam mine. These deposits are invested in interest bearing money market linked investments at rates ranging from 9.5% to 11%.

## 9. 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 none have been issued.

### (a) Share purchase options

The Company has a share purchase option 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 option is set by the Board of Directors at the time of grant and cannot be less than the market price (less permissible discounts) on the Toronto Stock Exchange. 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.

# ROCKWELL DIAMONDS INC.

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(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

The continuity of share purchase options for the three months ended May 31, 2008 is as follows:

Expiry date	Exercise price	February 29 2008	Granted	Exercised	Expired/ cancelled	May 31 2008
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	–	–	–	5,903,000
November 14, 2012	\$ 0.63	1,109,000	–	–	2,500	1,106,500
		<b>7,462,000</b>	–	–	152,500	<b>7,309,500</b>
Weighted average exercise price		\$ 0.62				\$ 0.62

As at May 31, 2008, 2,439,833 of the options outstanding with a weighted average exercise price of \$0.62 per share have vested with grantees.

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

	Three months ended May 31	
	2008	2007
Exploration and engineering	\$ 202,624	\$ 4,010
Operations and administration	482,975	3,568
<b>Total compensation cost expensed to operations, with the offset credited to contributed surplus</b>	<b>\$ 685,599</b>	<b>\$ 7,578</b>

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

	Three months ended May 31	
	2008	2007
Risk free interest rate	4%	4%
Expected life	4.8 years	2 years
Expected volatility	112%	97%
Expected dividends	nil	nil

### (c) Share purchase warrants

The continuity of share purchase warrants (each warrant exercisable into one common share) for the period ended May 31, 2008 is:

Expiry date	November 22, 2008 <sup>(i)</sup>	May 09, 2009 <sup>(ii)</sup>	May 09, 2009 <sup>(iii)</sup>
Exercise price	\$0.80	\$0.70	\$0.70
Balance, February 29, 2008	39,600,000	116,007,154	5,772,000
Issued	–	–	–
Exercised	–	–	–
Expired	–	–	–
Balance, May 31, 2008	39,600,000	116,007,154	5,772,000



# ROCKWELL DIAMONDS INC.

## Notes to the Consolidated Financial Statements

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(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

- (i) The share purchase warrants are exercisable over three years with the option to exercise at \$0.60 expiring on November 22, 2007, the option to exercise at \$0.80 expiring on November 22, 2008 and the option to exercise at \$1.00 expiring on November 22, 2009.
- (ii) In May 2007, Rockwell completed a \$60 million private placement financing of 116,007,154 million equity Units at \$0.52 each with each Unit consisting of one common share and one share purchase warrant exercisable over two years at \$0.70.
- (iii) In May 2007, the Company issued 5,772,000 broker warrants exercisable over two years at \$0.70 expiring on May 9, 2009. Using a Black-Scholes option pricing model, the fair value of the 5,772,000 broker warrants granted in the amount of \$1,693,197 have been reflected in the consolidated balance sheet. The weighted-average assumptions used to estimate the fair value of warrants granted were an expected volatility of 97%, expected dividends of nil, expected life of 2 years and risk free rate of 4%.

## 10. RELATED PARTY BALANCES AND TRANSACTIONS

<b>Balances payable</b>	<b>As at May 31, 2008</b>	<b>As at February 29, 2008</b>
Banzi Trading (h)	8,811	–
Jakes Tyres (i)	73,417	49,604
	<b>\$ 82,228</b>	<b>\$ 49,604</b>
<b>Balances receivable</b>		
Hunter Dickinson Services Inc. (a)	\$ 346,166	\$ 78,504
Flawless Diamonds Trading House (g)	685,052	477,298
Banzi Trade 26 (Pty) Ltd (h)	34,932	33,744
Diacor CC (k)	1,008	3,888
	<b>\$ 1,067,158</b>	<b>\$ 593,434</b>

<b>Transactions</b>	<b>Three months ended May 31</b>	
	<b>2008</b>	<b>2007</b>
Services rendered and expenses reimbursed:		
Hunter Dickinson Services Inc. (a)	\$ 249,346	\$ 312,154
Euro-American Capital Corporation (b)	–	5,852
CEC Engineering (c)	–	14,448
Jeffrey B Traders CC (d)	–	41,895
Seven Bridges Trading (e)	30,864	20,416
Cashmere Trading (f)	9,812	43,357
Banzi Trade 26 (Pty) Ltd (h)	7,646	251,942
Jakes Tyres (i)	199,393	267,361
AA Van Wyk (j)	–	173,977
Diacor CC (k)	3,618	–
Sales rendered to:		
Flawless Diamonds Trading House (g)	\$ 7,094,921	\$ 7,680,772

## ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three months ended May 31, 2008 and 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

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- (a) Hunter Dickinson Services Inc. (“HDSI”) is a private company equally owned by several public companies, one of which is Rockwell, and has certain directors 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 basis pursuant to an agreement dated June 1, 2008. There are no specific terms of repayment.
- (b) Euro-American Capital Corporation is a private company controlled by Rene Carrier, a director of the Company, which provides management services to the Company at market rates for those services.
- (c) CEC Engineering Ltd. is a private company owned by David Copeland, Chairman and a director of the Company, which provides engineering and project management services at market rates.
- (d) Jeffrey B Traders CC is a private company controlled by Jeffrey Brenner, a former director and employee of the Company, which provides management and marketing services to the Company at market rates.
- (e) Seven Bridges Trading is a wholly owned subsidiary of Randgold Resources, a public company where Mark Bristow, a director of the Company, serves in an executive capacity. Seven Bridges Trading provides administrative and management services at market rates to the Company’s South African subsidiaries.
- (f) Cashmere Trading is a private company owned by Hennie Van Wyk, an officer of the Company, which provides helicopter services at market rates.
- (g) Flawless Diamonds Trading House (“Flawless”) is a private company where certain directors, former directors and officers of the Company, namely, Messr. Brenner, Bristow and Van Wyk, are shareholders of. Flawless is a registered diamond broker and purchases diamonds from the Company at market prices.
- (h) Banzi Trade 26 (Pty) Ltd (“Banzi”) is 49% owned by HC van Wyk Diamonds Ltd and 51% by Bokomoso Trust. Banzi is a private company focused on providing self sustaining programs to local communities. During the period, Banzi provided the Company with buildings materials at market rates.
- (i) Jakes Tyres is a private company with certain directors and officers in common with the Company that provides consumable materials at market rates.
- (j) AA Van Wyk is a private company owned by a party related to the directors and officers of the Company, which provides contract mining services at market rates.
- (k) Diacor CC is a private company with certain directors and officers in common with the Company that purchases consumable materials at market rates.

# ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

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## 11. SUBSEQUENT EVENTS

- (a) *Acquisition of an additional 11% by the Black Economic Empowerment Group (“BEE”)*

Subsequent to the three months ending May 31, 2008, the BEE group increased its shareholding from 15% to 26% by subscribing for an additional 11% of the shares in the Van Wyk Diamond Group (“VWDG”) at a subscription price of ZAR17.5 million and committing to inject ZAR10.5 million working capital into the VWDG by December 1, 2008.

- (b) *Outstanding Niewejaarskraal mining rights*

On April 11<sup>th</sup>, 2008 all the conditions precedent to the Saxendrift acquisition had been met, however the Niewejaarskraal new mining order rights were still outstanding and are subject to the approval of the South African Department of Minerals and Energy.

## 12. CONTINGENCIES AND COMMITMENTS

- (a) In connection with the property described in the Company’s audited annual consolidated financial statements for the nine months ending February 29, 2008, one of the 50% shareholders of Midamines has, subsequent to the conclusion of the Midamines Agreement denied the validity of that agreement. The other 50% shareholder disputes this view and remains committed to the Midamines Agreement. Due to this dispute, Midamines has not afforded Durnpike access to the site, and assistance as regards its proposed operations on the site, in the manner contemplated in the Midamines Agreement. This failure has significantly delayed the Company’s proposed operations on the site, and it is consequently the Company’s position that the required royalty payments have become suspended for the duration of the dispute.

The Company will obtain formal legal advice from counsel and evaluate its available remedies. Although the outcome is not currently determinable the project is not a material operation of the Company. During the third quarter of fiscal 2008 the Company paid consideration of \$600,000 to Midamines in order to increase the size of the concession.

- (b) In April 2007 the Company, entered into an agreement in relation to its Makoenskloof property to purchase plant and equipment in the amount of ZAR21.3 million (approximately \$3.2 million) from Folmink Delwery CC. As at May 31, 2008 the Company is committed to pay the remaining consideration of ZAR996,203 (\$130,005) in the following manner:
- The balance shall be paid in monthly payments of ZAR500,000 (\$63,000). The monthly payments shall incur interest calculated at the prime rate of the Standard Bank of South Africa.

**ROCKWELL DIAMONDS INC.**  
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## **1.1 Date**

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited consolidated financial statements of Rockwell Diamonds Inc. ("Rockwell", or the "Company") for the three months ended May 31, 2008 and the audited consolidated financial statements for the nine months ended February 29, 2008,, prepared in accordance with Canadian generally accepted accounting principles, and publicly available on SEDAR at [www.sedar.com](http://www.sedar.com).

In December 2007, the Company's Board of Directors approved a resolution to change the Company's year end from May 31, 2008 to February 29, 2008.

This MD&A is prepared as of July 10, 2008. All dollar figures stated herein are expressed in Canadian dollars, unless otherwise specified.

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

### **Cautionary Note to Investors Concerning Estimates of Indicated Resources**

This section uses the term "indicated resources". The Company advises investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. **Investors are cautioned not to assume that any part or all of mineral deposits in this category will ever be converted into reserves.**

### **Cautionary Note to Investors Concerning Estimates of Inferred Resources**

This section uses the term "inferred resources". The Company advises investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. "Inferred resources" have a great amount of uncertainty as to their existence, and as to their economic and legal feasibility. It cannot be assumed that all or any part of a mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of economic studies, except in rare cases. **Investors are cautioned not to assume that any part or all of an inferred resource exists, or is economically or legally mineable.**

## **1.2 Overview**

Rockwell Diamonds Inc. ("Rockwell" or the "Company") is engaged in the business of alluvial diamond production. The Company is focused on acquiring additional operating diamond properties or projects that have near-term potential for alluvial diamond production.

### **1.2.1 Summary**

During the three months ended May 31, 2008, the Company operated four alluvial diamond mines. Rockwell received 51% of the net proceeds from production at these properties during fiscal 2008. During the period, the Company acquired an additional 34% interest in the Holpan/Klipdam and Wouterspan properties thereby increasing their interest to 85%, with the remaining 15% being held by a

**ROCKWELL DIAMONDS INC.**  
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Black Economic Empowerment (“BEE”) consortium as required by the Department of Minerals and Energy Act in South Africa.

In the three month period ended May 31, 2008, total diamond production of 6,310.58 carats was derived from 671,981 cubic meters of gravels mined and processed at Holpan/Klipdam and Wouterspan. The Company sold 4,943.30 carats at an average price of US\$1,458.78 per carat. Diamonds in inventory at May 31, 2008 totalled 2,398.87 carats.

The Company received revenues from sales of \$7,251,141, inclusive of revenue received from contract diamond sales of \$156,220. Cost of sales and amortization totalled \$ 7,182,799, resulting in an operating profit of \$148,133 for the period. Net general and administrative expenses amounted to \$1,451,783, offset by a net tax recovery of \$414,012, resulting in a loss of \$801,353 for the quarter or \$0.003 per share.

In March 2007, Rockwell concluded an agreement with the Trans Hex Group (“Trans Hex”) to purchase Trans Hex’s Middle Orange River Operations (“MORO”). The MORO includes the Saxendrift and Niewejaarskraal mines, (on care and maintenance since 2006) and certain associated prospecting projects; all of the properties are located in the Northern Cape Province of South Africa near the Wouterspan operation. Certain mineral rights, including the Saxendrift mining right, have been transferred to Rockwell during April 2008. Transfer of the remaining mineral rights is pending issue of final documents by the South African Department of Mineral and Energy (“DME”), which the companies expect in due course.

Re-commissioning of the plant and recovery unit at Saxendrift is largely complete. Approximately 275 carats were recovered during the re-commissioning as shown in the Table in section 1.2.4. However, the objective is to re-open the mine and provide additional carat production in the second quarter. A new Rotary Pan plant is also being constructed at Saxendrift that is expected to be operational in the third quarter of fiscal 2009.

### **1.2.2 Financings**

In fiscal year ended May 31, 2007, the Company completed two significant equity financings. During the nine month period ended February 29, 2008, the Company completed a brokered private placement financing. There were no financings completed during three months ended May 31, 2008.

#### ***\$21 million private placement financing***

In November 2006, Rockwell completed a private placement of \$21 million, consisting of 42 million units at \$0.50 per unit (the “Offering”). Each unit consists of one common share (“Share”) in the capital of the Company and one Share purchase warrant. Each warrant entitles the holder to buy one common share in the capital of the Company at the exercise price of \$0.60 during the first year from completion of the financing, or at an exercise price of \$0.80 during the second year or at an exercise price of \$1.00 during the third year. The third year term of the warrants is conditional upon Rockwell achieving Tier 1 status on the TSX Venture Exchange within the first two years. The Company listed on the TSX in fiscal 2008. A portion of the securities is subject to additional US resale restrictions in the United States. The Company paid cash commissions of \$1,215,770.

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***Financing to raise up to \$60 million***

In May 2007, the Company completed a private placement and issued 116,007,154 million equity units at a price of \$0.52 per unit for aggregate proceeds of up to \$60 million, comprised of approximately \$50 million to be issued to investors under the brokered offering and \$10 million to be issued in a non-brokered offering. Each unit consists of one common share and one share purchase warrant exercisable at \$0.70 for a 24 month period from completion. Units issued under the brokered offering were being offered by a syndicate of agents. Closing of the offering occurred on the May 9, 2007.

The Company paid cash commissions of \$3,877,665, issued 1,093,440 common shares fair valued at \$568,588 as compensation to agents as well as 5,772,000 broker warrants fair valued at \$1,693,197 to the agents, bringing the total issued common shares to 117,100,594 and total commissions to \$6,139,450.

The net proceeds from the offerings will be used to fund Rockwell's acquisition of the MORO from Trans Hex, expand production capacity at its Wouterspan operation across the river from the MORO, implement improvements at its other operations, and for general corporate purposes.

***January 2008, Private Placement of \$14.5 million***

In January 2008, the Company completed a brokered private placement, which had been announced on November 28, 2007, and issued a total of 24,101,526 Common Shares at a price of \$0.60 per share for total proceeds of \$14,460,916. The Company issued 500,000 Common Shares and paid a cash fee of \$300,000 as finder's fees relating to the private placement. All shares issued pursuant to the private placement were subject to a hold period that expired on March 31, 2008.

Proceeds from the financing will be used to fund Rockwell's diamond operations and new project evaluation and development.

**1.2.3 Agreements**

***Durnpike Agreement***

On June 30, 2006, the Company entered into an Agreement-in-Principle to acquire interests and/or rights in four alluvial diamond properties in South Africa and the Democratic Republic of Congo ("DRC"). These four properties include the Holpan/Klipdam Property in South Africa, Wouterspan Property in South Africa, Kwango River Project in the DRC and Galputs Minerale Project in South Africa.

Subsequently and pursuant to the terms of the Definitive Agreement, the Company acquired all of the shares and loans in Durnpike, a private South African company, from eight vendors (the "Vendors") for consideration set forth below, payable in common shares of the Company ("Common Shares") related to the closing price of the Common Shares on the TSX Venture Exchange on the specified dates described below. Durnpike holds an interest in respect of and/or rights in the four alluvial diamond properties.

The Holpan/Klipdam Property and the Wouterspan Property were indirectly owned by the H.C. Van Wyk Diamante Trust ("Van Wyk Trust"), a business trust registered in South Africa. The Van Wyk Trust held 99% of HC Van Wyk Diamonds Ltd ("HCVW"), a private South African company, and 99% of Klipdam Mining Company Limited ("Klipdam"), a private South African company. The remaining 1% of HCVW and Klipdam was owned by nominees of the Van Wyk Trust. HCVW and Klipdam were collectively referred to as The Van Wyk Diamond Group of companies ("VWDG").

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On July 7, 2006, Durnpike completed the acquisition of an initial 49% of the issued and outstanding shares of HCVW and 51% of the issued and outstanding shares of Klipdam (the "Acquisition Interest") for South African Rand ("ZAR") 50 million (\$7.8 million) and agreed to pay an additional ZAR30 million (\$4.5 million) to the Van Wyk Trust on July 7, 2007.

To facilitate Durnpike's payment of ZAR50 million to the Van Wyk Trust on July 7, 2006, the Company advanced a non-interest bearing loan to Durnpike of ZAR50 million (Cdn\$7.8 million). This loan is secured by a pledge of Durnpike's Acquisition Interest. The payment of ZAR30 million was made to the Van Wyk Trust in June 2007.

Durnpike increased its shareholding in HCVW to a 51% controlling interest by (a) subscribing for additional shares in HCVW for the amount of ZAR 1 million (\$160,000) and (b) introducing a ZAR 24 million (\$3.9 million) working capital loan into VWDG. These conditions were met in January 2007.

The Company also entered into an Exchange Agreement with the Van Wyk Trust to acquire the remaining shareholding of VWDG for ZAR 60 million (\$9 million), payable in Common Shares. The Exchange Agreement became effective upon Rockwell completing its listing of the Company's Common Shares on the JSE Limited ("JSE") stock exchange. In March 2008, the Company issued Common Shares to the Van Wyk Trust and increased its ownership by 34% to a total of 85% of the VWDG assets.

Pursuant to the Definitive Agreement:

- The Company acquired from the Vendors all of their shares and loans in Durnpike for consideration of ZAR 39.8 million (\$6.1 million), payable in common shares of the Company on the earlier of (i) the date of the JSE listing; and (ii) within approximately 12 months from signature of the Definitive Agreement. By virtue of such acquisition, the Company acquired Durnpike's interests in the four alluvial diamond properties in South Africa and the DRC. The ZAR consideration does not include payment in respect of the Kwango River Project, which payment stands to be made by the Company only when (and if) the feasibility study referred to below has been completed and approved by the board of directors of the Company.

On November 30, 2007, the Company began trading on the JSE and hence completed its JSE listing condition. Consequently, the Company issued 7,848,663 Common Shares as settlement of its commitment and also 1,676,529 Common Shares as finder fees relating to the Durnpike acquisition.

- The Company will spend US\$7 million on a feasibility study on the Kwango River Project by August 31, 2007. This deadline may be extended to February 29, 2008 at no cost and be further extended to December 31, 2008 by payment of US\$1 million in Common Shares. As the deadline of February 29, 2008 was not met, the Company negotiated an extension to such deadline. If the Company wishes to retain the Kwango River Project following completion of the feasibility study, the Company must (i) pay to the Vendors an amount equal to 60% of the net present value of the Kwango River Project Valuation (as determined in terms of the feasibility study and subject to a minimum acquisition cost of US\$13 million and a maximum acquisition cost of US\$26 million), which payment shall be effected by the issuance of Common Shares and (ii) commit to incur an additional amount of up to US\$6 million in expenditures for development of the Kwango River Project within 16 months from the date of completion of the feasibility study. If the Company does not wish to retain the Kwango River Project following completion of the feasibility study, the Definitive Agreement provides for



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Durnpike being divested of such project on certain terms, with the Company nevertheless retaining 100% of the shares in Durnpike (and therefore the indirect interests in the Holpan/Klipdam, Wouterspan and Galputs properties). In such event, the full and final purchase consideration for Durnpike will be limited to the ZAR Consideration.

Durnpike's interest in the Kwango River Project is constituted by an agreement ("Midamines Agreement") with Midamines SPRL ("Midamines"), the holder of the exploration permit on the Kwango River Project, to act as contractor on behalf of Midamines to manage and carry out exploration and mining. Durnpike will be 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. These royalties take the form of a series of recurring annual minimum royalty payments of US\$1,200,000 per annum (commencing on December 31, 2007). (As to the enforceability of this commitment in light of developments pertaining to the Midamines Agreement, see note 15(a) to the audited financial statements for the nine months ending February 29, 2008). During the third quarter of 2008 the Company paid consideration of \$600,000 to Midamines in order to increase the size of the concession (Permit 331).

All of the Common Shares issued to the Vendors pursuant to the acquisition, other than the Common Shares issued to extend the feasibility study deadline, will be held in escrow for at least nine months from the date of issuance, provided that a limited portion of those escrowed Common Shares may be released to enable the Vendors to meet certain specified obligations.

On January 31, 2007, all the conditions precedent to implementation of the Acquisition as per the Definitive Agreement, were fulfilled. The Company also received the necessary regulatory approvals in Canada and South Africa.

As provided for in the Definitive Agreement, the Company executed an agreement in relation to the acquisition of control of the mineral rights relating to the Galputs Minerale Project. For the Galputs deal to be fulfilled the condition precedent was that the South African Department of Minerals and Energy had to give its written approval to transfer the shares from the vendor to the purchaser by no later than May 31, 2008. Due to the fact that no written approval had been obtained on or before May 31, 2008, the provisions of the agreement shall not be of any force and all parties have been restored to a position as if the agreement had not been entered into.

During the year ended May 31, 2007, a BEE group purchased 15% of the VWDG from the Van Wyk Trust for an amount of ZAR22.5 million (\$3.4 million). The BEE company is African Vanguard Resources (Pty) Ltd., the holding company of Richtrau No 136 (Pty) Ltd. The BEE group is in the process of increasing its shareholding from 15% to 26% by subscribing for an additional 11% shares in the VWDG. This additional 11% will be at a subscription price of ZAR 17.5 million and the BEE group will also inject ZAR 10.5 million in working capital into the VWDG.

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***Makoenskloof property acquisition***

In conjunction with the acquisition of Durnpike, HCVW had an option agreement to acquire the Makoenskloof alluvial diamond project. The Makoenskloof property is located on the north bank of the Middle Orange River, approximately 20 km from the town of Douglas, South Africa, and 40 km upstream from the Wouterspan diamond operation. As a result of the acquisition of HCVW by Durnpike, and concurrent acquisition of Durnpike by Rockwell, the Company assumed the option to purchase the Makoenskloof property.

In November 2006, HCVW exercised its option to purchase the property and the company that held the mineral rights of the Makoenskloof property. HCVW paid ZAR 5.4 million (\$880,000) in January 2007 for the property and mining permits. Pursuant to this option exercise, HCVW also entered into a sub-contracting agreement with Folmink Delwery CC to perform bulk sampling, commencing in March 2007. In April 2007, HCVW entered into an agreement to purchase ZAR 21.3 million (approximately \$3 million) in plant and equipment from the sub-contractor and to terminate the sub-contracting arrangement. The Company has paid a total consideration of ZAR 19 million (\$2.7 million) and is committed to pay the remaining consideration in monthly payments of ZAR 500,000 (\$63,000). The monthly payments shall incur interest calculated at the prime rate of the Standard Bank of South Africa.

The Makoenskloof property is currently on care and maintenance.

***Middle Orange River Operations (“MORO”) Agreement***

In March 2007, Rockwell and Trans Hex, through its wholly owned subsidiary Trans Hex Operations (Pty) Ltd (“THO”), announced that the companies had entered into an agreement whereby Rockwell’s wholly owned South African subsidiary, Rockwell Resources RSA (Pty) Ltd (“Rockwell RSA”), would acquire two open pit alluvial diamond mines (Saxendrift and Niewejaarskraal) currently on care and maintenance, and three alluvial diamond exploration projects (Kwartelspan, Zwemkuil-Mooidraai, and Remhooget-Holsloot) referred to collectively as the Middle Orange River Operations from Trans Hex (“the Transaction”). Pursuant to the terms of the Transaction, Trans Hex will transfer all its relevant mineral rights and associated assets into a new special purpose vehicle (“Saxendrift Mine Pty (Ltd)”) which Rockwell acquired via Rockwell RSA.

The MORO include:

- the rights to prospect and explore for and/or mine precious stones and/or other minerals and/or metals held directly or indirectly by THO in the Saxendrift area (described above);
- substantial indicated and inferred mineral resources (see Table in section 1.2.5 below);
- the material plant, machinery, equipment and other movable assets owned and/or used by THO - These operating assets were independently valued by Manhattan Mining Equipment (Pty) Limited in April 2005 at ZAR 53.3 million (\$8.0 million);
- the employees of THO in terms of Section 197 of South Africa’s Labour Relations Act of 1995; and

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- a rehabilitation liability which will be taken over by Rockwell on the basis that the tailings and other heaps of unprocessed diamond bearing middlings gravel and Rooikoppie gravels will be reprocessed by Rockwell to recover contained diamonds. The plan is to process the material and simultaneously rehabilitate these areas.

The Company has paid cash consideration to Trans Hex of ZAR 93.3 million (\$12.2 million) and assumed potential liabilities for staff layoffs of ZAR 5 million (\$0.6 million) and rehabilitation bonds of ZAR 7.8 million (\$1 million). An independent consultant has been appointed to determine the value of the rehabilitation bonds. All payments and liabilities are expected to total \$16.2 million, subject to certain final adjustments. Trans Hex will transfer all its relevant mineral rights and associated assets into Saxendrift Mine Pty (Ltd) to be acquired by the Rockwell RSA.

The Transaction was completed in April 2008. Registration of transfer to Saxendrift Mine Pty (Ltd) of the Saxendrift mining right, as well as prospecting rights in respect of the Kwartelspan, Zwemkuil-Mooidraai and part of the Remhoogte-Holsloot projects has already been obtained. Cession of the Niewejaarskraal mining right is still awaited at this time from the DME, and the Remhoogte prospecting right is in the process of being renewed. Both companies are confident that these rights will be awarded pending which the funds of ZAR 26.8 million allocated for their purchase will continue to be retained in an interest-bearing Trust account. Once the DME has issued the necessary cession and renewal documents, these rights will also be transferred to Rockwell RSA via the Saxendrift Mine Pty (Ltd) and the funds in Trust released to Trans Hex.

***Farhom Property***

On July 30, 2007, H.C. Van Wyk Diamonds acquired 100% of the shares and shareholder loans of Farhom Mining & Construction (Pty) Ltd for ZAR 10 million (\$1.5 million). This company holds the mineral rights over the Farhom farm property. This transaction was concluded in terms of an option granted to HCVW on February 24, 2005 and later amended on July 10, 2007.

**1.2.4 Production Properties**

***Production and Sales – Quarter by Quarter Comparison***

The following is a comparison of the current quarter (ending May 31, 2008) with the quarter ending May 31, 2007.

<b>PRODUCTION</b>						
<b>Operation</b>	<b>3 months ending May 31, 2008</b>			<b>3 months ending May 31, 2007</b>		
	<b>Volume (cubic meters)</b>	<b>Carats</b>	<b>Average grade (carats per 100 cubic meters)</b>	<b>Volume (cubic meters)</b>	<b>Carats</b>	<b>Average grade (carats per 100 cubic meters)</b>
Holpan	206,466	1,805.35	0.87	396,175	2,205.76	0.56
Klipdam	218,670	2,609.88	1.19	196,941	1,468.32	0.75
Wouterspan	242,240	1,620.30	0.67	284,796	1,621.59	0.57
Saxendrift gravel	4,601	130.70	2.84	-	-	-
Saxendrift bantoms	2,325	144.35	6.21	-	-	-
<b>Total</b>	<b>674,302</b>	<b>6,310.58</b>	<b>0.93</b>	<b>877,912</b>	<b>5,295.67</b>	<b>0.47</b>

The Saxendrift Bantoms are derived from re-processed tailings from the X-ray processing unit.

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<b>SALES, REVENUE AND INVENTORY</b>								
<b>Operation</b>	<b>3 months ending May 31, 2008</b>				<b>3 months ending May 31, 2007</b>			
	<b>Sales (carats)</b>	<b>Value of Sales (US\$)</b>	<b>Average value (US\$ per carat)</b>	<b>Inventory (carats)</b>	<b>Sales (carats)</b>	<b>Value of Sales (US\$)</b>	<b>Average value (US\$ per carat)</b>	<b>Inventory (carats)</b>
Holpan	1,662.60	2,629,335	1,581.46	509.03	2,177.86	1,914,954	879.28	405.78
Klipdam	2,013.80	2,449,541	1,216.38	956.09	1,330.53	1,042,846	783.78	402.55
Wouterspan	1,266.90	2,003,902	1,581.74	658.32	1,714.42	2,145,247	1,251.29	149.53
Saxendrift	-	-	-	275.05	-	-	-	-
Makoenskloof	-	-	-	0.38	-	-	-	-
<b>Total</b>	<b>4,943.30</b>	<b>7,082,778</b>	<b>1,432.80</b>	<b>2,398.87</b>	<b>5,222.81</b>	<b>5,103,047</b>	<b>977.07</b>	<b>957.86</b>

*Holpan/Klipdam*

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

Production at Holpan in the quarter was 1,805.35 carats from 206,466 cubic meters (412,932 tonnes) of gravels processed, compared with 2,205.76 carats from 396,175 cubic meters (792,250 tonnes) of gravels processed in the quarter ending May 31, 2007.

Sales from Holpan were 1,662.60 carats at an average value of US\$1,581.46 per carat, a decrease in carats sold but an increase in value per carat sold from 2,177.86 carats at an average value of US\$820.57 per carat in the quarter ending May 31, 2007. The inventory at Holpan is 509.03 carats.

Production at Klipdam was 2,609.88 carats from 218,670 cubic meters (437,340 tonnes) of gravels, compared to 1,468.32 carats from 196,941 cubic meters (393,882 tonnes) of gravels produced in the quarter ending May 31, 2007.

Sales from Klipdam were 2,013.80 carats at an average value of US\$1,216.38 per carat, a decrease in carat sales and value per carat sold from 1,330.53 carats at an average value of US\$793.82 per carat in the quarter ending May 31, 2007. There is an inventory of 956.09 carats for Klipdam.

Subsequent to the end of the quarter, a new resource estimate was completed for the Holpan/Klipdam Property based on drilling during fiscal 2008 and including depletions as a result of mining to the end of May 31, 2008. The results of the new estimate are tabulated below:

<b>Category</b>	<b>Volume (cubic Meters)</b>	<b>Grade (carats per 100 cubic meters)</b>
Inferred	8,334,000	0.83

The estimate was done by independent qualified person Tania R. Marshall, Pr.Sci.Nat., with depletions from mining done by Glenn Norton, Pr.Sci.Nat., a qualified person who is Rockwell's Mineral Resources Manager. A technical report will be filed on [www.sedar.com](http://www.sedar.com).

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*Wouterspan*

The Wouterspan Property is located near Douglas, South Africa. It comprises portions, totalling 969.4 hectares, of the Lanyon Vale 376 farm. Operations are taking place on two portions of the property called the Farhom and Okapi farms, exploiting the Rooikoppie and Primary gravel units.

During the quarter, the property produced 1,620.30 carats from 242,240 cubic meters (484,480 tonnes) of gravels, an increase from 1,621.59 carats produced but a decrease from 284,796 cubic meters (569,592 tonnes) of gravels processed in the quarter ended May 31, 2007.

Sales from Wouterspan were 1,266.90 carats at an average price of US\$1,581.74 per carat, an increase in carats sold but a decrease in value per carat sold from 1,714.42 carats at an average value of US\$1,153.82 per carat in the quarter ending May 31, 2007. The inventory at Wouterspan is 658.32 carats.

*Saxendrift Property*

The Saxendrift property is located on the south bank of the Middle Orange River and adjacent to the Wouterspan diamond operation.

Since completion of the Saxendrift mineral rights subsequent to year end, a Project Team has been deployed at that site to re-commission the existing diamond processing plants and start-up mining operations. Good progress has been made, and Phase 1 of the two-phase development plan was largely completed by late May. Phase 1 included re-commissioning of a 35 tonne per hour Dense Media Separation Plant; gravel screening and rotary-pan plants; the Flow-sort X-ray final recovery unit; and setting in place mining and earth moving equipment with sufficient capacity to deliver gravels to the two metallurgical plants. Once the above plants are fully operational, the Company expects to achieve a through-put of approximately 60,000 tonnes of mined gravel per month. Phase two comprises the construction and commissioning of a new Wet Plant at Saxendrift.

During the quarter, 275.05 carats were recovered from 6,926 cubic meters (13,852 tonnes) of gravels during re-commissioning. Of this, 144.35 carats were recovered of bantoms were recovered from 2,325 cubic meters (4,650 tonnes) of gravels and 130.70 carats were recovered from 4,601 cubic meters (9,202 tonnes) of other gravels.

There were no sales from Saxendrift as the Company was focused on re-commissioning the Saxendrift site. All of the diamonds recovered were held in inventory at the end of the quarter. There are also no comparative results for Saxendrift, as the Company only acquired the property during the quarter.

*Production Costs*

The average operating cost during the period was US\$3.69 per tonne, a decrease from US\$5.48 per tonne in the quarter ending May 31, 2007.

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### **1.2.5 Exploration and Development Properties**

#### ***Middle Orange River Operations***

The MORO include the Saxendrift mine (being re-commissioned, with some production reported above), the Niewejaarskraal mine (currently on care and maintenance) and certain associated prospecting projects, totaling approximately 14,950 hectares.

Saxendrift and Niewejaarskraal are located across the Middle Orange River from the Wouterspan operation. The Wouterspan diamond bearing gravel sequence constitutes a large alluvial diamond deposit, which is a remnant of an extensive braided river system represented by coarse gravel deposits, sand rich lenses, an upper calcrete layer and surface deflation layer typically referred to as the 'Rooikoppies'. Deposits found at Wouterspan are contiguous with the Saxendrift and Niewejaarskraal deposits located on the south bank of the river.

Saxendrift operated intermittently since the 1920's and continuously by Trans Hex from 2000-2005. Trans Hex began development of the Niewejaarskraal Mine with a bulk sampling program in mid-2001. A dense media separation plant was erected on site and full-scale production commenced in April 2002. This operation was suspended in late 2006.

Trans Hex also conducted exploration and evaluation work on several large alluvial gravel terraces on the Kwartelspan property, located to the north-east of Saxendrift, and on the Vieglandspuit, Zwemkuil-Mooidraai and Remhoogte-Holsloot properties, located to the south-west of Niewejaarskraal. The exploration work included reverse circulation drilling, trenching and bulk sampling.

Once the final permitting has been acquired for Niewejaarskraal, the Project Team currently responsible for the re-commissioning of Saxendrift operations will be tasked with the re-start at this mining site.

#### ***Galputs Minerale Project, Northern Cape Province, South Africa***

The Galputs Minerale Project consists of the mining rights to the Galputs 104 farm on which diamondiferous gravels have been identified. The project is indirectly owned by Virgilia Investments Inc, a British Virgin Islands corporation. Virgilia's wholly-owned subsidiary, Galputs Minerale (Pty) Limited, a private South African company, holds mining rights to the Galputs Project. At the end of May 2008, the Galputs deal did not fulfil the requirements and lapsed.

#### ***Kwango River Project, DRC***

The Kwango River Project comprises approximately 109 square km within Exploitation Permit Number 331 ("PPE331") held by Midamines, a DRC company. Durnpike has an option agreement with Midamines ("Midamines Agreement") to manage and carry out exploration and mining on a portion of PPE331, as contractor for and on behalf of Midamines, and is entitled to an 80% share of the net revenue from the sale of any diamonds produced from the contract area. PPE 331, issued in December 2003, is valid until January 2017 (and is renewable for a second term) and allows the holder to conduct exploration, develop and exploit the deposit as well as market the diamonds produced from the deposit according to local government requirements and the Kimberley process.

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The Project encompasses over 75 km of river frontage and also extends across elevated, palaeo-river terraces. Alluvial diamond deposits occur as gravel assemblages within the modern Kwango River, underlying its banks and in the adjacent terraces, which are being mined by small scale operations.

In 2007, the Company advanced the logistical activities for its planned exploration and bulk sampling initiative with Midamines, established a working base in Kinshasa and conducted geophysical and other investigations on site. No work was done in fiscal 2008.

One of the 50% shareholders of Midamines has, subsequent to the conclusion of the Midamines Agreement denied the validity of that agreement. The other 50% shareholder disputes this view and remains committed to the Midamines Agreement. Due to this dispute, Midamines has not afforded Durnpike access to the site, and assistance as regards its proposed operations on the site, in the manner contemplated in the Midamines Agreement. This failure has significantly delayed the Company's proposed operations on the site, and it is consequently the Company's position that the required royalty payments have become suspended for the duration of the dispute.

The Company will obtain formal legal advice from counsel and evaluate its available remedies. Although the outcome is not currently determinable the project is not a material operation of the Company. During the third quarter of fiscal 2008 the Company paid consideration of \$600,000 to Midamines in order to increase the size of the concession

***Ricardo Property, Chile***

The Company holds a 100% interest in the Ricardo Property, a copper prospect located within the Calama Mining District, Chile.

The property is situated on the West Fissure Fault, a structural trend that hosts a number of porphyry copper deposits, including Corporación Nacional del Cobre de Chile's ("Codelco", Chile's national mining company) Chuquicamata Mine. There are targets on the Ricardo property that have yet to be tested and the Company is seeking partners to continue exploration or a potential divestiture of the property. The Company continues to maintain the Ricardo Property in good standing.

**1.2.6 Market Trends**

*The Diamond Market Update*

The last quarter saw the continued rise in prices of rough and polished diamonds as well the continued demand for high quality diamonds as experienced over the final quarter of 2008 financial year.

The highest price increases were evident in the fancy color and D/E/F color ranges (see definitions below); VS2 and better purity, and predominantly in the range of five carats or larger in size.

Rockwell has continued its sales via sealed bid tender basis as well adding a few special diamonds (single, large, high value stones) that will be cut and polished by Steinmetz Diamond Group on behalf of the Steinmetz Diamond Group /Rockwell Diamonds Inc joint venture. The polished results of such 'specials' are promising and are expected to provide good returns over the next few quarters.

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Rockwell's marketing of its diamonds will continue in the same fashion as the past but will further investigate the options to diversify its beneficiation program for selected rough diamonds from Rockwell's production that prove viable based on the skills and the costs of polishing within South Africa.

*Background*

Diamond clarity is rated using the following scale:

<b>GIA DIAMOND CLARITY GRADING SCALE</b>											
<b>Category</b>	Flawless	Internally Flawless	Very Very Slightly Included		Very Slightly Included		Slightly Included		Included		
<b>Grade</b>	<b>FL</b>	<b>IF</b>	<b>VVS<sub>1</sub></b>	<b>VVS<sub>2</sub></b>	<b>VS<sub>1</sub></b>	<b>VS<sub>2</sub></b>	<b>SI<sub>1</sub></b>	<b>SI<sub>2</sub></b>	<b>I<sub>1</sub></b>	<b>I<sub>2</sub></b>	<b>I<sub>3</sub></b>

- Diamonds with clarity of VS2 or better have experienced the greatest increase in prices increases.
- Diamonds with a grade of less than VS2 have achieved relatively smaller increases in price.

There has been price increases for the full range of coloured diamonds, but the major price increases are for those in the D-K colour range and, predominantly, for the D to F colours. The greatest price increase was for D-coloured stones; however, an overall percentage for the increase in price is hard to determine because of the scarcity and extreme demand for these stone. Similar increases have been experienced for fancy coloured diamonds, i.e. pink, blue or yellow stones. All coloured and rare D-colour diamonds are regarded as investment pieces, comparable to art from a known artist.



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**1.3 Selected Annual Information**

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

<b>Balance Sheets</b>	<b>Nine months ended</b>		<b>Years ended</b>	
	<b>February 29, 2008</b>	<b>May 31, 2007</b>	<b>May 31, 2006</b>	
Current assets	\$ 38,596,562	\$ 56,142,572	\$ 256,456	
Mineral properties	25,247,937	24,121,855	1	
Other assets	69,848,625	49,341,956	32,190	
<b>Total assets</b>	<b>133,693,124</b>	<b>129,606,383</b>	<b>288,647</b>	
Current liabilities	12,502,301	29,399,774	1,146,070	
Other liabilities	34,076,016	28,613,767	–	
Shareholders' equity (deficiency)	87,114,807	71,592,842	(857,423)	
<b>Total liabilities and shareholders' equity</b>	<b>\$ 133,693,124</b>	<b>\$ 129,606,383</b>	<b>\$ 288,647</b>	
<b>Statement of Operations</b>	<b>Nine months ended</b>		<b>Years ended</b>	
	<b>February 29, 2008</b>	<b>May 31, 2007</b>	<b>May 31, 2006</b>	
Revenue	\$ 36,149,308	\$ 10,103,328	\$ –	
Mine site operating costs	(22,730,271)	(8,974,742)	–	
Amortization and depletion	(6,533,941)	(2,074,415)	–	
<b>Operating profit (loss)</b>	<b>6,885,096</b>	<b>(945,829)</b>	<b>–</b>	
<b>Expenses</b>				
Accretion of reclamation obligation	464,316	55,471	–	
Exploration	604,169	1,371,351	307,390	
Foreign exchange loss (gain)	(751,318)	(3,580,364)	(46,881)	
Legal, accounting and audit	790,725	691,759	175,782	
Office and administration	2,697,077	2,993,453	489,015	
Property Investigations	–	–	399,006	
Shareholder communications	198,985	200,574	32,130	
Stock-based compensation	1,826,317	79,623	83,516	
Travel and conference	654,705	666,194	132,645	
Transfer agent filings	544,232	176,530	20,843	
<b>Subtotal</b>	<b>7,029,208</b>	<b>2,654,591</b>	<b>1,593,446</b>	
Gain on sale of marketable securities	–	–	(56,585)	
Loss on disposal of equipment	402,411	94,621	–	
Interest income	(1,118,396)	(372,149)	(2,172)	
Interest on capital leases	1,289,385	433,125	–	
Convertible note accretion and interest expense	270,976	2,466,839	–	
Loss on early extinguishment convertible promissory notes	–	137,957	–	
Write-off of amounts receivable	18,360	224,942	–	
Write-down of marketable securities	–	1	19,128	
Write-down of mineral property interests	–	–	46,856	
	<b>862,736</b>	<b>2,985,336</b>	<b>1,600,673</b>	
<b>Loss before income taxes</b>	<b>1,006,848</b>	<b>6,585,756</b>	<b>1,600,673</b>	
Income tax expense	179,290	–	–	
Future income tax (recovery) expense	2,261,110	(635,773)	–	
<b>Loss before non-controlling interest</b>	<b>3,447,248</b>	<b>5,949,983</b>	<b>1,600,673</b>	
Non-controlling interest	5,955,779	415,159	–	
<b>Loss for the year ended</b>	<b>\$ 9,403,027</b>	<b>\$ 6,365,142</b>	<b>\$ 1,600,673</b>	
Basic and diluted loss per common share	\$ (0.05)	\$ (0.11)	\$ (0.07)	
Weighted average number of common shares outstanding	196,428,551	55,418,242	23,640,123	

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**1.4 Summary of Quarterly Results**

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

	May 31 2008	Feb 29 2008	Nov 30 2007	Aug 31 2007	May 31 2007	Feb 28 2007	Nov 30 2006	Aug 31 2006
Current assets	\$27,190	\$38,597	\$36,823	\$46,861	\$ 56,143	\$ 25,751	\$ 23,063	\$ 8,397
Mineral properties	36,592	25,248	24,928	25,589	24,122	18,788	–	–
Other assets	74,621	69,848	66,544	55,997	49,342	36,884	42	32
<b>Total assets</b>	<b>138,403</b>	<b>133,693</b>	<b>128,295</b>	<b>128,447</b>	<b>129,606</b>	<b>81,423</b>	<b>23,105</b>	<b>8,429</b>
Current liabilities	15,353	12,502	17,173	23,899	29,400	43,261	6,149	9,599
Other liabilities	28,194	34,076	30,395	32,297	28,613	21,966	–	–
Shareholders' equity (deficiency)	94,856	87,115	80,727	72,251	71,593	16,196	16,956	(1,169)
<b>Total liabilities and shareholders' equity</b>	<b>138,403</b>	<b>133,693</b>	<b>128,295</b>	<b>128,447</b>	<b>129,606</b>	<b>81,423</b>	<b>23,105</b>	<b>8,429</b>
Working capital (deficit)	11,837	26,905	19,650	22,962	26,743	(17,510)	16,914	(1,202)
Revenue	7,331	9,802	12,125	14,222	7,684	2,419	–	–
Mine site operating costs	(4,609)	(7,350)	(9,571)	(5,809)	(7,100)	(1,874)	–	–
Amortization	(2,574)	(2,418)	(2,141)	(1,975)	(1,680)	(395)	–	–
<b>Operating profit (loss)</b>	<b>148</b>	<b>34</b>	<b>413</b>	<b>6,438</b>	<b>(1,096)</b>	<b>150</b>	<b>–</b>	<b>–</b>
<b>Expenses</b>								
Accretion of reclamation obligation	69	378	28	59	55	–	–	–
Exploration	304	174	127	304	162	508	526	175
Foreign exchange	(206)	16	(126)	(641)	(2,856)	(336)	(394)	6
Legal, accounting and audit	137	472	253	66	403	(252)	326	215
Office and administration	972	1,147	850	700	1,651	621	409	313
Shareholder communications	80	65	64	69	57	53	51	40
Stock-based compensation	686	1,177	617	32	8	16	18	38
Travel and conference	212	382	147	126	285	120	125	136
Transfer agent filings	10	439	98	7	56	23	52	45
Subtotal	2,263	4,250	2,058	721	(179)	754	1,113	968
Gain on investments	–	–	–	–	16	(16)	–	–
Write-off of amounts receivable	–	18	–	–	225	–	–	–
Loss (gain) on disposal of equipment	21	424	3	(25)	82	12	–	–
Interest income	(1,381)	(447)	(186)	(486)	(222)	(97)	(51)	(2)
Interest on capital leases	463	391	427	471	433	–	–	–
Accretion and interest expense	86	84	102	86	610	356	1,156	345
Loss on early retirement of convertible note	–	–	–	–	–	–	138	–
Write-down of mineral property interests	–	–	–	–	–	–	–	–
Profit (loss) before income taxes	(1,304)	(4,687)	(1,991)	5,671	(2,061)	(859)	(2,356)	(1,311)
Future income tax recovery (expense)	414	698	26	(1,768)	646	(10)	–	–
Profit (loss) before non-controlling interest	(890)	(5,385)	(1,965)	3,903	(1,415)	(868)	(2,356)	(1,311)
Non-controlling interest	88	(3,322)	837	(3,472)	(506)	91	–	–
<b>Profit (loss) for the period</b>	<b>\$ (801)</b>	<b>\$ (8,707)</b>	<b>\$ (1,128)</b>	<b>\$ 431</b>	<b>\$(1,921)</b>	<b>\$(777)</b>	<b>\$(2,356)</b>	<b>\$(1,311)</b>
Basic and diluted profit (loss) per share	\$ (0.003)	\$ (0.04)	\$ 0.00	\$ 0.00	\$ (0.03)	\$ ( 0.01)	\$ (0.08)	\$ (0.05)
Weighted average number of common shares outstanding (thousands)	237,731	223,891	187,817	187,132	99,614	68,307	30,322	24,191

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### **1.5 Results of Operations**

The Company had a loss of \$801,353 for the three month period ended May 31, 2008 compared to a net loss of \$1,921,445 for the comparable period in the prior year. The decrease in net losses during the period is primarily due to increased production and an increase in the management of expenditure.

During the three months ended May 31, 2008, the Company realized rough diamond sales of \$7,094,921 compared to \$7,680,772 for the comparable period in the prior year. Mine site operating costs for the three months ended May 31, 2008 amounted to \$4,608,568 (three months ended May 31, 2007 - \$7,100,531), which excludes amortization and depletion charges of \$2,574,231 (three months ended May 31, 2007 - \$1,679,556).

Exploration expenses (excluding stock-based compensation) increased to \$304,158 for the three months ended May 31, 2008 compared to \$162,523 for the same period in the prior year. This increase is due to higher engineering activities and property assessment fees performed during the three month period ended May 31, 2008 on South African diamond properties and the Kwango River Project in the DRC.

A foreign exchange gain of \$206,122 was recorded for the three months ended May 31, 2008 compared to a foreign exchange gain of \$2,856,110 for the same period in the previous year due to a higher amount of South African denominated liabilities and the weakening of the Canadian dollar.

Administrative costs for the three months ended May 31, 2008 decreased to \$972,055 in comparison to \$1,651,984 incurred in for the same period in the prior year, primarily due to centralized administration and salary expenses which are in line with those in the market. Travel and conference expenses amounted to \$211,904 for the three months ended May 31, 2008 compared to \$285,222 for the same period in the previous year. Legal, accounting and audit expenses for the three months ended May 31, 2008 amounted to \$137,327 compared to \$402,402 incurred for the same period in the prior year. This decrease was primarily due to reduced legal and accounting services in the current period compared to the Company's acquisition activities of Durnpike and HC Van Wyk which were ongoing during the 3 month period ending May 31, 2007.

Stock-based compensation increased to \$685,599 for the three months ending May 31, 2008 in comparison to \$7,578 for the same period in the previous year due to an increase in the number of options granted during fiscal 2008.

Interest expenses decreased to \$86,041 for the three months ended May 31, 2008, compared to \$610,331 for the three months ended May 31, 2007, mainly due to the accretion and interest charges relating to the issuance of the convertible promissory notes incurred during the period ended May 31, 2007.

### **1.6 Liquidity**

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

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At May 31, 2008, the Company had a working capital of \$11,827,792 compared to working capital of \$26,094,261 at February 29, 2008.

Effective March 1, 2008, the Company increased its ownership of HCVW and Klipdam by 34% resulting to an 85% interest by issuing 14,285,715 common shares of the Company pursuant to the June 2006 Durnpike Definitive Agreement, thereby reducing the non-controlling interest to 15% as at May 31, 2008.

The Company has the following payment commitments: (a) payment of ZAR996,203 (\$130,005) in cash to Folmink Delwery CC (Makoenskloof) for plant and equipment (b) minimum lease payments of ZAR106 million (\$13.8 million) in installments up to the year 2011 to various financial institutions for plant and equipment (c) Remaining acquisition payment of ZAR27.5 million (\$3.6 million) to Trans Hex following the acquisition of Saxendrift Mine (Pty) Ltd. subject to the anticipated grant of Ministerial Consent to the cession of each of the Outstanding Mining Rights to the Company and registration of cession of such rights in its name.

Other than described above the Company has no "Purchase Obligations" defined as any agreement to purchase goods or services that is enforceable and legally binding on the Company that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

## **1.7 Capital Resources**

As described in *1.2.2 Financings*, the Company did not complete any debt financings during the period, however the Company has sufficient funds available to meet its capital expenditure requirements.

In January 2008, the Company completed a \$14.5 million private placement which will be used to fund Rockwell's diamond operations and new project evaluation and development (described in item *1.2.2 Financings*).

As at May 31, 2008, the Company has the following capital expenditure commitments:

- a) Pursuant to the Definitive Agreement, the Company is required to spend US\$7 million on a feasibility study on the Kwango River Project by August 31, 2007. This deadline may be extended to February 29, 2008 at no cost and be further extended to December 31, 2008 by payment of US\$1 million in Common Shares. In addition, Under the Midamines Agreement, Durnpike agreed to certain minimum royalty payments being made to Midamines. These royalties take the form of a series or recurring annual minimum royalty payments of US\$1,200,000 per annum (commencing on December 31, 2007). (As to the enforceability of this commitment in light of developments pertaining to the Midamines Agreement, see Kwango River Discussion at *1.2.5 Exploration and Development Properties – Kwango River Project*);

In April 2007 the Company, entered into an agreement in relation to Makoenskloof property to purchase plant and equipment in the amount of ZAR21.3 million (approximately \$3.2 million) from Folmink Delwery CC. As at May 31, 2008 the Company is committed to pay the remaining consideration of ZAR996,203 (\$130,005) and is committed to pay the remaining consideration in monthly payments of ZAR (\$63,000). The monthly payments shall incur interest calculated at the prime rate of the Standard Bank of South Africa

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Pursuant to the Exchange Agreement (described in item 1.2.2 *Financings*), the Company issued Common Shares to the Van Wyk Trust and increased its ownership by 34 % to a total of 85% of the VWDG assets.

Subsequent to the three months ending May 31, 2008, the BEE group increased its shareholding from 15% to 26% by subscribing for an additional 11% shares in the VWDG at a subscription price of ZAR17.5 million and are to inject ZAR10.5 million in working capital into the VWDG before the end of December 1, 2008.

Other than already described, the Company had no commitments for capital expenditures and no lines of credit or other sources of financing which have been arranged but as yet unused as at May 31, 2008.

**1.8 Off-Balance Sheet Arrangements**

None.

**1.9 Transactions with Related Parties**

<b>Balances payable</b>	<b>As at May 31, 2008</b>	<b>As at February 29, 2008</b>
Banzi Trading (h)	8,811	–
Jakes Tyres (k)	73,417	49,604
	\$ 82,228	\$ 49,604
<b>Balances receivable</b>		
Hunter Dickinson Services Inc. (a)	\$ 346,166	\$ 78,504
Flawless Diamonds Trading House (g)	685,052	477,298
Banzi Trading (h)	34,932	33,744
Diacor CC (k)	1,008	3,888
	\$ 1,067,158	\$ 593,434

<b>Transactions</b>	<b>Three months ended May 31,</b>	
	<b>2008</b>	<b>2007</b>
Services rendered and expenses reimbursed:		
Hunter Dickinson Services Inc. (a)	\$ 249,346	\$ 312,154
Euro-American Capital Corporation (b)	–	5,852
CEC Engineering (c)	–	14,448
Jeffrey B Traders CC (d)	–	41,895
Seven Bridges Trading (e)	30,864	20,416
Cashmere Trading (f)	9,812	43,357
Banzi Trade 26 (Pty) Ltd (h)	7,646	251,942
Jakes Tyres (i)	199,393	267,361
AA Van Wyk (j)	–	173,977
Diacor CC (k)	3,618	–

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<b>Transactions</b>	<b>Three months ended May 31,</b>	
	<b>2008</b>	<b>2007</b>
Sales rendered to:		
Flawless Diamonds Trading House (g)	\$ 7,094,921	\$ 7,680,772

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- (a) Hunter Dickinson Services Inc. (“HDSI”) is a private company equally owned by several public companies, one of which is Rockwell, and has certain directors 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 basis pursuant to an agreement dated June 1, 2008. There are no specific terms of repayment.
- (b) Euro-American Capital Corporation is a private company controlled by Rene Carrier, a director of the Company, which provides management services to the Company at market rates for those services.
- (c) CEC Engineering Ltd. is a private company owned by David Copeland, Chairman and a director of the Company, which provides engineering and project management services at market rates.
- (d) Jeffrey B Traders CC is a private company controlled by Jeffrey Brenner, a former director and employee of the Company, which provides management and marketing services to the Company at market rates.
- (e) Seven Bridges Trading is a wholly owned subsidiary of Randgold Resources, a public company where Mark Bristow, a director of the Company, serves in an executive capacity. Seven Bridges Trading provides administrative and management services at market rates to the Company’s South African subsidiaries.
- (f) Cashmere Trading is a private company owned by Hennie Van Wyk, an officer of the Company, which provides helicopter services at market rates.
- (g) Flawless Diamonds Trading House (“Flawless”) is a private company where certain directors, former directors and officers of the Company, namely, Messr. Brenner, Bristow and Van Wyk, are shareholders of. Flawless is a registered diamond broker and purchases diamonds from the Company at market prices.
- (h) Banzi Trade 26 (Pty) Ltd (“Banzi”) is 50% owned by HC Van Wyk Diamonds Ltd, 30% by Ronnie Visagie, a member of the van Wyk family and 20% by Bokomoso Trust. Banzi is a private company focused on providing self sustaining programs to local communities. During the period, Banzi provided the Company with buildings materials at market rates.
- (i) Jakes Tyres is a private company with certain directors and officers in common with the Company that provides consumable materials at market rates.

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- (j) AA Van Wyk is a private company owned by a party related to the directors and officers of the Company, which provides contract mining services at market rates.
- (k) Diacor CC is a private company with certain directors and officers in common with the Company that purchases consumable materials at market rates.

#### **1.10 Fourth Quarter**

Not applicable

#### **1.11 Proposed Transactions**

Please refer to the discussion of the proposed transaction in Section 1.2.3 *Acquisitions*.

#### **1.12 Critical Accounting Estimates**

The Company's accounting policies are presented in note 3 of the consolidated financial statements for the nine month period ended February 29, 2008, which have been publicly filed on SEDAR at [www.sedar.com](http://www.sedar.com) and as presented in changes in accounting policies item 1.13. The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to select accounting policies and make estimates. Such estimates may have a significant impact on the financial statements. These estimates include:

- mineral resources and reserves,
- the carrying values of property, plant and equipment,
- restoration costs following completion of the mining activities, and
- the valuation of stock-based compensation expense.

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

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

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

##### *Site restoration costs*

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

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

*Stock-based compensation expense*

From time to time, the Company may grant share purchase options to employees, directors, and service providers. The Company uses the Black-Scholes option pricing model to estimate a value for these options. This model, and other models which are used to value options, require inputs such as expected volatility, expected life to exercise, and interest rates. Changes in any of these inputs could cause a significant change in the stock-based compensation expense charged in a period.

**1.13 Changes in Accounting Policies including Initial Adoption**

(a) The following accounting policies were adopted during the 3 months ended May 31, 2008:

*(i) Section 1535 – Capital Disclosures*

This standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any externally imposed capital requirements and, if it has not complied, the consequences of such non-compliance.

*(ii) Financial Instruments – Disclosure (Section 3862) and Presentation (Section 3863)*

These standards replace CICA 3861, Financial Instruments – Disclosure and Presentation. They increase the disclosures previously required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.

*(iii) Amendments to Section 1400 – Going Concern*

CICA 1400, General Standards of Financial Statement Presentation, was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for the Company's 2009 fiscal year. The Company's assessment and disclosure of its ability to continue as a going concern is disclosed in Note 1 of the interim consolidated financial statements for the period ended May 31, 2008.

*(iv) Inventories (Section 3031)*

This standard replaces the existing Section 3030 with the same title and will harmonize accounting for inventories under Canadian GAAP with International Financial Reporting Standards ("IFRS"). This standard requires that inventories be measured at the lower of cost and net realizable value, and includes guidance on the determination of cost, including the allocation



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of overheads and other costs. The standard also requires that similar inventories within a consolidated group be measured using the same method. It also requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. This new section is effective for the Company's 2009 fiscal year. Upon adoption of this standard, the Company concluded that there were no material differences between the new standard and the Company's current accounting policy for its diamond and supplies inventory.

(b) *Accounting Policies Not Yet Adopted*

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

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of March 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. While the Company has begun assessing the impact of adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## **1.14 Financial Instruments and Other Instruments**

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

### Financial Instrument Risk Exposure and Risk Management

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

#### *Credit Risk*

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

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*Liquidity Risk*

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

The Company operates in South Africa. Like other foreign entities operating there, the Company is subject to currency exchange controls administered by the South African Reserve Bank, that country's central bank. A significant portion of the Company's funding structure for its South African operations consists of advancing loans to its South Africa incorporated subsidiaries and it is possible the Company may not be able to acceptably repatriate such funds once those subsidiaries are able to repay the loans or repatriate other funds such as operating profits should any develop. The repatriation of cash held in South Africa is permitted upon the approval of the South African Reserve Bank. Cash balances in South Africa are the Rand balances disclosed below.

*Foreign Exchange Risk*

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

**1.15 Other MD&A Requirements**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**1.15.1 Additional Disclosure for Venture Issuers Without Significant Revenue**

Not applicable. The Company is not a venture issuer.

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**1.15.2 Disclosure of Outstanding Share Data**

The following details the share capital structure as at July 10, 2008, which is the date of this MD&A. These figures may be subject to minor accounting adjustments prior to presentation in future consolidated financial statements.

	Expiry date	Exercise price	Number	Number
Common shares				238,041,569
Share purchase options				
	July 10, 2010	\$ 0.68	300,000	
	September 24, 2012	\$ 0.62	5,903,000	
	November 14, 2012	\$ 0.63	1,106,500	7,309,500
Warrants				
	November 22, 2008	\$0.80	39,600,000	
	May 9, 2009	\$0.70	<u>121,779,154</u>	161,379,154

**1.15.3 Internal Controls over Financial Reporting Procedures**

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

There have been no significant changes in internal controls over financial reporting during the quarter ended May 31, 2008 that could have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

**1.15.4 Disclosure Controls and Procedures**

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

There have been no significant changes in the Company's disclosure controls during the quarter ended May 31, 2008 that could significantly affect disclosure controls subsequent to the date the Company carried out its last evaluation.