ROCKWELL DIAMONDS INC.

(Formerly Rockwell Ventures Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 2007 AND 2006,
AND NINE MONTHS ENDED FEBRUARY 29, 2008
(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Rockwell Diamonds Inc.

We have audited the consolidated balance sheets of Rockwell Diamonds Inc. as at February 29, 2008 and May 31, 2007 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the nine month period ended February 29, 2008 and the years ended May 31, 2007 and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 29, 2008 and May 31, 2007 and the results of its operations and its cash flows for the nine month period ended February 29, 2008 and the years ended May 31, 2007 and 2006 in accordance with Canadian generally accepted accounting principles.

Davidson & Company LLP

Vancouver, Canada

Chartered Accountants

May 20, 2008

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ROCKWELL DIAMONDS INC.

Consolidated Balance Sheets
(Expressed in Canadian Dollars)

	February 29 2008	May 31 2007
ASSETS		
Current assets		
Cash	$ 19,623,847	$ 32,626,376
Amounts receivable	631,446	1,724,418
Restricted cash (note 15(a))	13,335,124	15,642,120
Trade receivable from a related party (note 11)	593,434	839,253
Diamond inventory and supplies (note 5)	3,465,853	2,604,684
Prepaids and deposits	946,858	2,705,721
	38,596,562	56,142,572
Property, plant and equipment (note 6)	64,831,636	44,790,441
Mineral property interests (note 7)	25,247,937	24,121,855
Other assets and deposits	3,200,112	3,513,449
Reclamation deposits (note 9)	1,816,877	1,038,066
	$ 133,693,124	$ 129,606,383
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 4,420,212	$ 4,460,922
Amounts owing pursuant to acquisition (note 7)	294,402	13,842,809
Due to related parties (note 11)	49,604	1,609,301
Income taxes	890,332	1,677,787
Current portion of capital lease obligations (note 8)	6,847,751	7,808,955
	12,502,301	29,399,774
Long-term liabilities		
Capital lease obligations (note 8)	7,955,548	9,294,581
Future income taxes (note 12)	12,430,100	11,978,860
Reclamation obligation (note 9)	1,755,820	1,361,557
	22,141,468	22,634,998
Non-controlling interest (note 7)	11,934,548	5,978,769
Shareholders' equity		
Share capital (note 10)	112,095,390	88,903,530
Warrants (note 10(c))	1,693,197	1,693,197
Contributed surplus	2,332,882	599,749
Deficit	(29,006,662)	(19,603,634)
	87,114,807	71,592,842
Nature and continuance of operations (note 1)		
Subsequent events (note 15)		
Contingencies and commitments (notes 7 and 14)		
	$ 133,693,124	$ 129,606,383

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

Approved by the Board of Directors

/s/ Dr. John Bristow

Dr. John Bristow
Director, Chief Executive Officer

/s/ Dominique de la Roche

Dominique de la Roche
Director, Chief Financial Officer

ROCKWELL DIAMONDS INC.

Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

	Nine months ended February 29	Years ended May 31	
	2008	**2007**	**2006**
Revenue			
Rough diamonds sales (note 11(h))	$ 35,863,214	$ 8,117,647	$ –
Contract diamond sales (note 11(h))	174,892	1,967,889	–
Other sales	111,202	17,792	–
	36,149,308	10,103,328	–
Cost of sales			
Cost of rough diamonds sales	(22,581,613)	(7,206,389)	–
Cost of contract diamond sales	(148,658)	(1,768,353)	–
Amortization and depletion	(6,533,941)	(2,074,415)	–
Operating profit	6,885,096	(945,829)	–
Expenses			
Accretion of reclamation obligation (note 9)	464,316	55,471	–
Exploration	604,169	1,371,351	307,390
Foreign exchange gain	(751,315)	(3,580,364)	(46,881)
Interest on capital leases	1,289,385	433,125	–
Interest expense	270,976	103,031	–
Legal, accounting and audit	790,725	691,759	175,782
Office and administration	2,697,077	2,993,453	489,014
Property investigations	–	–	399,006
Shareholder communications	198,985	200,574	32,129
Stock-based compensation - exploration (note 10(b))	514,892	41,372	36,415
Stock-based compensation - administration (note 10(b))	1,311,423	38,251	47,101
Travel and conferences	654,705	666,194	132,647
Transfer agent	544,232	176,530	20,843
	8,589,570	3,190,747	1,593,446
Other items			
Gain on sale of marketable securities	–	–	(56,585)
Write-off of amounts receivable	18,360	224,942	–
Loss on disposal of equipment	402,411	94,621	–
Interest income	(1,118,396)	(372,149)	(2,172)
Convertible note accretion expense	–	2,363,808	–
Loss on early extinguishment of convertible promissory notes	–	137,957	–
Write-down of mineral property interests	–	–	46,856
Write-down of marketable securities	–	1	19,128
	(697,625)	2,449,180	7,227
Loss before income taxes	1,006,849	6,585,756	1,600,673
Income tax expense (note 12)	179,290	–	–
Future income tax (recovery) expense (note 12)	2,261,110	(635,773)	–
Loss before non-controlling interest	3,447,249	5,949,983	1,600,673
Non-controlling interest	5,955,779	415,159	–
Loss for the period	9,403,028	6,365,142	1,600,673
Other comprehensive loss	–	–	–
Total Comprehensive Loss	$ 9,403,028	$ 6,365,142	$ 1,600,673
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

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

ROCKWELL DIAMONDS INC.

Consolidated Statements of Shareholders' Equity

(Expressed in Canadian Dollars)

	Nine months ended February 29			Year ended May 31			Year ended May 31		
			2008			2007			2006
Share capital	Number of shares			Number of shares			Number of shares		
Balance at beginning of the period	186,976,219	$	88,903,530	23,694,776	$	11,857,649	23,613,943	$	11,815,792
Share purchase options exercised at $0.32 per share	–		–	–		–	27,500		8,800
Share purchase options exercised at $0.40 per share	107,917		43,167	9,167		3,734	3,333		1,333
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	42,000,000		19,784,230	–		–
Private placement May 2007, net of issue costs at $0.47 per share	–		–	116,007,154		54,184,270	–		–
Private placement January 2008, net of issue costs at $0.60 per share	24,101,526		13,860,916	–		–	–		–
Interest consideration for convertible promissory at $0.60 per share notes	–		–	1,734,127		1,045,000	–		–
Interest consideration for credit facility at $0.61 per share	–		–	1,939,562		1,182,869	–		–
Interest consideration for loan at $0.55 per share	–		–	497,993		273,896	–		–
Commission consideration for private placement at $0.52 per share	–		–	1,093,440		568,588	–		–
Commission consideration for private placement at $0.60 per share	500,000		300,000	–		–	–		–
Warrants exercised at $0.40 per share	–		–	–		–	50,000		20,000
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 7)	7,848,663		6,081,842	–		–	–		–
Consideration for property finders fees at $0.78 per share (note 7)	1,676,529		1,307,693	–		–	–		–
Fair value of stock options allocated to shares issued on exercise	–		93,182	–		3,294	–		11,724
Balance at end of the period	223,755,854	$	112,095,390	186,976,219	$	88,903,530	23,694,776	$	11,857,649
Warrants									
Broker warrants issued as consideration for private placement			1,693,197			1,693,197			–
		$	1,693,197		$	1,693,197		$	–
Contibuted surplus									
Balance at beginning of the period			599,749			523,420			451,628
Stock-based compensation (note 10(b))			1,826,315			79,623			83,516
Fair value of stock options allocated to shares issued on exercise			(93,182)			(3,294)			(11,724)
Balance at end of the period		$	2,332,882		$	599,749		$	523,420
Deficit									
Balance at beginning of the period			(19,603,634)			(13,238,492)			(11,637,819)
Loss for the period			(9,403,028)			(6,365,142)			(1,600,673)
Balance at end of the period		$	(29,006,662)		$	(19,603,634)		$	(13,238,492)
TOTAL SHAREHOLDERS' EQUITY		$	87,114,807		$	71,592,842		$	(857,423)

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

ROCKWELL DIAMONDS INC.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

Cash provided by (applied to):	Nine months ended February 29 2008	Years ended May 31 2007	2006
Operating activities			
Loss for the period	$ (9,403,028)	$ (6,365,142)	$ (1,600,673)
Items not affecting cash			
Accretion of reclamation obligation	464,316	55,471	–
Amortization and depletion	4,460,323	1,196,682	–
Amortization of capital lease equipment	2,073,618	877,733	–
Gain on sale of marketable securities	–	–	(56,585)
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
Loss on early extinguishment of convertible promissory note	–	137,957	–
Non cash convertible note accretion and interest expense	–	2,363,808	–
Stock-based compensation (note 10(b))	1,826,315	79,623	83,516
Unrealized foreign exchange gain	(2,967,105)	(3,320,085)	–
Loss on disposal of equipment	402,411	94,621	–
Future income tax (recovery) expense (note 12)	2,261,110	(635,773)	–
Provision for site reclamation	230,622	(474,024)	–
Non-controlling interest	5,955,779	415,159	–
Changes in non-cash working capital items			
Accounts receivable	1,074,612	(920,522)	(23,244)
Amounts due to and from related parties	245,819	6,074,609	–
Inventory	(861,169)	(508,110)	–
Prepaids and deposits	1,758,863	(2,672,073)	–
Accounts payable and accrued liabilities	(40,710)	(3,485,300)	137,624
Income taxes	(787,455)	(872,950)	–
Cash provided by (used in) operating activities	6,712,681	(7,733,373)	(1,393,378)
Investing activities			
Acquisition of Durnpike Investments (Pty) Limited, net of cash acquired (note 7 (a))	–	(8,293,413)	–
Overdraft assumed on acquisition of Durnpike Investments, net	–	(1,201,297)	–
Restricted cash (note 15(a))	–	(15,642,120)	–
Proceeds received on sale of marketable securities	–	–	146,970
Mineral property acquisitions	600,661	(527,328)	–
Purchase of equipment	(21,603,785)	(6,453,942)	–
Proceeds received on disposal of equipment	1,034,620	263,010	–
Other assets and deposits	313,337	(3,481,259)	–
Reclamation deposits	(778,811)	(63,760)	–
Cash provided by (used in) investing activities	(20,433,978)	(35,400,109)	146,970
Financing activities			
Principal repayments under capital lease obligations	(5,964,113)	(2,678,965)	–
Common shares and warrants issued for cash, net of issue costs	15,709,143	76,234,018	30,133
Amounts received (paid) to related parties	(1,559,697)	(872,735)	1,055,629
Amounts paid pursuant to property acquisition	(7,466,565)	2,885,509	–
Repayment of credit facility	–	(11,000,000)	–
Credit facility	–	11,000,000	–
Repayment of convertible promissory notes	–	(9,500,000)	–
Issuance of convertible promissory notes	–	9,500,000	–
Repayment of loans payable to related parties	–	(12,474,500)	–
Loans payable to related parties	–	12,474,500	–
Cash provided by financing activities	718,768	75,567,827	1,085,762
Increase (decrease) in cash during the period	**(13,002,529)**	**32,434,345**	**(160,646)**
Cash, beginning of period	32,626,376	192,031	352,677
Cash, end of period	**$ 19,623,847**	**$ 32,626,376**	**$ 192,031**
Interest paid during the period	$ –	$ 103,031	$ –
Interest received	$ 1,118,396	$ 372,149	$ –
Income taxes paid during the period	$ 787,455	$ 872,950	$ –
Supplemental disclosure of non-cash investing and financing activities:			
Issuance of warrants - consideration for private placement	$ –	$ 1,693,197	$ –
Issuance of common shares - consideration for private placement	$ 300,000	$ 568,588	$ –
Issuance of common shares - interest on convertible promissory notes	$ –	$ 1,045,000	$ –
Issuance of common shares - interest on credit facility	$ –	$ 1,456,764	$ –
Issuance of commons shares as consideration for acquisition of property (note 7)	$ 6,081,842	$ –	$ –
Issuance of common shares as consideration for property finders fees (note 7)	$ 1,307,693	$ –	$ –
Fair value of stock options allocated to shares issued upon exercise	$ 93,182	$ 3,295	$ 11,724
Equipment acquired under capital lease (note 6)	$ 6,408,382	$ 7,316,459	$ –

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

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, and the acquiring and exploring natural resource properties. The Company's principal mineral property interests are located in South Africa.

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. 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.

During the year, the Company listed with the Toronto Stock Exchange ("TSX") and also had a listing on the Johannesburg Stock Exchange ("JSE").

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. Certain comparative information has been reclassified to conform to the presentation adopted in the current period.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and equivalents

Cash and equivalents consist of cash and highly liquid investments, having maturity dates of three months or less from the date of purchase, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. At February 29, 2008, of the

$19,623,847 (May 31, 2007 - $32,626,376) cash and equivalents held by the Company, $15,698,068 (ZAR 124,095,041) were held in South African Rand ("ZAR"), $35,772 ($16,553,541) were held in Chilean Pesos and $9,974 ($10,036) in US Dollars.

(b) *Revenue recognition*

Revenue from rough diamond sales is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the Company's price to the customer is fixed or determinable and collection of the resulting receivable is reasonably assured.

(c) *Trade accounts receivables*

Trade accounts receivables are recorded at the invoiced amount less an estimate made for doubtful accounts based on a review of all outstanding amounts on a quarterly basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

(d) *Inventory*

Rough diamond inventory is recorded at the lower of production cost and net realizable value. Production costs include the cost of consumable materials, direct labour, mine-site overhead expenses and amortization.

Supplies inventory is valued at the lower of average cost and replacement cost.

(e) *Plant and equipment*

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

Processing plant and equipment	4 – 10 years
Office equipment	6 years
Vehicles and light equipment	5 years

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

(f) *Reclamation and security deposits*

Reclamation and security deposits are recorded at cost.

(g) *Mineral property interests*

The acquisition costs of mineral properties are capitalized until the property is placed into production, sold, or abandoned, or when management has determined that there has been an impairment in value. Such acquisition costs are amortized over the estimated life of the property, based on the unit of production method, or written off to operations if the property is abandoned, allowed to lapse, or if there is little prospect of further work being carried out by the Company.

Mineral property acquisition costs include the cash consideration and the fair market value of common shares, based on the trading price of the shares, on the date of issue or as otherwise provided under the agreed terms for the mineral property interest.

Exploration costs and option payments are expensed in the period incurred.

Administrative expenditures are expensed in the period incurred.

The amount presented for mineral property interests represents costs incurred to date and accumulated acquisition costs, less write-downs, and does not necessarily reflect present or future values.

(h) Financial instruments

The Company's financial instruments consist of cash, restricted cash, amounts receivable, trade receivables from a related party, reclamation deposit, accounts payable and accrued liabilities, capital lease obligations, amounts owing pursuant to acquisition and balances payable to related parties. It is management's opinion the Company is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

(i) Site closure and reclamation obligations

The Company accounts for site closure and reclamation costs in accordance with Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110, "*Asset Retirement Obligations*" (HB 3110). HB 3110 requires the recognition of any statutory, contractual or other legal obligation related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made.

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

(j) Impairment of long-lived assets

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

(k) Foreign currency translation

All of the Company's foreign operations are considered integrated.

Monetary assets and liabilities of the Company and its integrated foreign operations are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates unless such items are carried at market, in which case they are translated at the exchange rates in effect on the balance sheet date. Revenues, cost of sales and expenses, except amortization, are translated at the average exchange rates for the period. Amortization is translated at the same exchange rate as the assets to which it relates. Gains or losses on translation are recorded in the statement of operations.

(l) Share capital

Common shares issued for mineral property interests are recorded at their fair market value based upon the trading price of the shares on the Toronto Stock Exchange ("TSX") on the date of issue or as otherwise provided under the terms of the agreement to issue the shares. Share issue costs are deducted from share capital.

(m) Stock-based compensation

The Company has a share option plan which is described in note 10(b). The Company records all stock-based payments granted using the fair value method.

Under the fair value method, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable, and are charged to operations over the vesting period, with an offsetting amount to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

(n) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, generally using the enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Future tax assets are recognized to the extent that they are considered more likely than not to be realized. The valuation of future income tax assets is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated realizable amount.

(o) Loss per share

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

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

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

(p) *Use of estimates*

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

4. CHANGES IN ACCOUNTING POLICIES

(a) *Newly Adopted Accounting Policies*

Effective June 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") relating to financial instruments. These new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

(i) *Section 3855 – Financial Instruments – Recognition and Measurement*

This standard sets out criteria for the recognition and measurement of financial instruments for fiscal years beginning on or after October 1, 2006. This standard requires all financial instruments within its scope, including derivatives, to be included on a Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of operations and comprehensive income, depending on the classification of the related instruments.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair values of assets and liabilities prior to June 1, 2007 are recognized by adjusting opening deficit or opening accumulated other comprehensive income.

All financial instruments are classified into one of the following categories: held for trading, held-to-maturity and available-for-sale financial assets. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.

- Available-for-sale financial assets are measured at fair value. Changes in fair value are included in other comprehensive income until the gain or loss is recognized in income.

- Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise.

- All derivative financial instruments are measured at fair value, even when they are part of a hedging relationship. Changes in fair value are included in net earnings in the period in which they arise, except for hedge transactions which qualify for hedge accounting treatment in which case gains and closes are recognized in other comprehensive income.

On adoption of the standards on June 1, 2007, the Company's outstanding financial assets and liabilities were recognized and measured in accordance with the new requirements as if these requirements had always been in effect. However, no adjustments to opening deficit or opening accumulated other comprehensive income were required.

In accordance with this new standard, the Company has classified its financial instruments as follows:

- Cash and restricted cash are classified as held for trading financial; instruments and are measured at fair value due to their short term nature and availability for prompt liquidation.
- Amounts receivables and trades receivable from a related party are classified as loans and receivables and are measured initially at fair value and subsequently measured at amortized cost.
- Accounts payable and accrued liabilities, amounts owing pursuant to acquisition and balances payable to related parties are classified as other financial liabilities and are measured initially at fair value and subsequently measured at amortized cost.
- Reclamation deposits invested in interest bearing money market linked investments are classified as available-for-sale securities and are carried at fair market value, with the unrealized gain or loss recorded in shareholders' equity as a component of other comprehensive income. During the period there were no unrealized gains or losses relating the reclamation deposits as the carrying amounts approximate the fair value. Previously, reclamation deposits were carried at cost, less provision for other than a temporary decline in value.

(ii) *Section 3865 – Hedges.*

This new standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any financial instruments which qualify for hedge accounting.

(iii) *Section 1530 – Comprehensive Income.*

Comprehensive income is the change in the Company's shareholder equity that results from transactions and other events from other than the Company's shareholders and includes items that would not normally be included in net earnings, such as unrealized gains or losses on available-for-sale investments. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in other "comprehensive income" until it is considered appropriate to recognize into net earnings. This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements. Accumulated other comprehensive income is presented as a new category in shareholders' equity. As at February 29, 2008, the Company had no accumulated other comprehensive income and for the period, comprehensive income (loss) equals net loss.

(iv) *Section 1506 - Accounting Changes*

This standard establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. As a result, changes in accounting policies are only permitted when required by a primary source of generally accepted accounting principles or when the change will result in more reliable and more relevant information.

(b) *Accounting Policies Not Yet Adopted*

(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 capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for the Company for interim and annual periods relating to fiscal years beginning on or after January 1, 2008, The Company is currently evaluating the effects of adopting this standard.

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

These standards replace CICA 3861, Financial Instruments – Disclosure and Presentation. They increase the disclosures currently 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. This standard is effective for the Company for interim and annual periods beginning on or after January 1, 2008. The Company expects that its disclosures will be expanded to incorporate the additional requirements.

(Expressed in Canadian Dollars unless otherwise stated)

(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 interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company is currently evaluating the impact of this new standard.

(iv) 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 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 Canada's own 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 January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

5. DIAMOND INVENTORY AND SUPPLIES

	As at February 29, 2008	As at May 31, 2007
Rough diamond inventory	$ 830,780	$ 644,459
Work in progress	433,074	–
Mine supplies	1,990,699	1,741,412
Fuel, oil and grease	211,300	218,813
Total inventory and supplies	$ 3,465,853	$ 2,604,684

(Expressed in Canadian Dollars unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	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
	$69,566,769	$ 4,735,133	$64,831,636

	As at May 31, 2007		
	Cost	Accumulated amortization	Net book value
Land	$ 3,086,948	$ –	$ 3,086,948
Processing plant and equipment	17,044,142	609,026	16,435,116
Processing plant and equipment under capital lease	24,686,561	870,018	23,816,543
Office equipment	299,072	20,515	278,557
Vehicles and light equipment	1,065,396	43,199	1,022,197
Vehicles and light equipment under capital lease	158,795	7,715	151,080
	$46,340,914	$ 1,550,473	$44,790,441

7. MINERAL PROPERTY INTERESTS

Acquisition Costs	Nine months ended February 29, 2008	Year ended May 31, 2007
Durnpike Investments (Pty) Limited		
Balance, beginning of period	$ 24,121,854	$ –
Acquisition costs	1,822,138	18,696,487
Financial, legal, advisory, and other fees	4,216	527,328
Site closure and reclamation obligation recognized	230,622	–
Future income tax liability	419,050	5,421,981
Depletion of mineral properties during the period	(1,349,944)	(523,942)
Durnpike Investments (Pty) Limited, end of period	25,247,936	24,121,854
Ricardo Property	1	1
Balance, end of period	$ 25,247,937	$ 24,121,855

Title to mining properties involves certain inherent risks due to the difficulties in determining the validity of certain claims as well as the potential for problems arising from the often complicated conveyancing history characteristic of many mining properties. The Company does not have title insurance but has investigated title to its Ricardo mineral property and, to the best of its knowledge and belief, title to its property is in good standing.

(a) Acquisition of Durnpike Investments (Pty) Limited

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. These four properties include the Holpan/Klipdam Property in South Africa, Wouterspan Property in South Africa, Kwango River Project in the Democratic Republic of Congo and Galputs Minerale Project in South Africa.

Subsequently, 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, and were collectively referred to as The Van Wyk Diamond Group of companies ("VWDG").

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 had the option to increase its shareholding in HCVW to a 51% controlling interest by (a) subscribing for additional shares in HCVW for the amount of ZAR1 million ($160,000) and (b) introducing a ZAR24 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 ZAR60 million ($7.6 million), payable in Common Shares. The Exchange Agreement became effective upon Rockwell completing its listing of the Company's Common Shares on the JSE. In March 2008, subsequent to the nine months ending February 29, 2008, pursuant to the Exchange Agreement the Company issued Common Shares to the Van Wyk Trust and increased its ownership by 23% to a total of 74% 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 Democratic Republic of Congo ("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 Johannesburg Stock Exchange and hence completed its JSE listing condition. Consequently, the Company issued 7,848,663 Common Shares as settlement of its commitment of ZAR 39.8 million ($6.1 million) and also 1,676,529 Common Shares as finder fees relating to the Durnpike acquisition.

- 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 it seems highly unlikely that the deadline of February 29, 2008 will be met, the Company is currently negotiating 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 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 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 note 14 (a)). During the third quarter of fiscal 2008 the Company paid consideration of $600k to Midamines in order to increase the size of the concession.

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. To date the Company is still awaiting the Department of Minerals and Energy's ("DME") final approval relating to the transfer of the shares of Galputs Minerale Project from Virgilia Investments Inc. to the Company.

(Expressed in Canadian Dollars unless otherwise stated)

During the year ended May 31, 2007, a black economic empowerment ("BEE") group purchased 15% of the VWDG from the Van Wyk Trust for an amount of ZAR 22.5 million (Cdn$3.4 million). Subsequent to the nine months ending February 29, 2008, 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 ZAR17.5 million and the BEE group will also inject ZAR10.5 million working capital into the VWDG. The BEE company is African Vanguard Resources (Pty) Ltd., the holding company of Richtrau No 136 (Pty) Ltd

The results of acquired operations have been included in the consolidated financial statements since January 31, 2007, the date of acquisition. The following table summarizes the total purchase consideration of the acquired assets:

	Amount (ZAR)	**Amount ($)**
Cash advanced to fund Durnpike's acquisition of 51% of VWDG	51,005,000	8,293,413
Cash committed to fund Durnpike's acquisition of 51% of VWDG	30,000,000	4,878,000
Common shares issuable[1]	43,000,000	6,991,800
Total purchase consideration	124,005,000	20,163,213

[1]The Company has issued consideration in common shares amounting to ZAR39.8 million and the remaining ZAR3.2 million consideration will be issuable upon receiving the DME's final approval of the Galputs Minerale Project transfer of shares.

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

	Amount (ZAR)	**Amount ($)**
Cash	593,238	96,460
Receivable and current assets	48,658,813	7,911,923
Inventory	12,894,060	2,096,574
Plant and equipment	202,510,108	32,928,144
Other assets	5,992,042	974,306
Mineral property interests	148,330,065	24,118,469
Bank overdraft	(7,981,287)	(1,297,757)
Accounts payable and accrued liabilities	(72,773,215)	(11,832,925)
Capital lease obligations	(84,854,165)	(13,797,287)
Reclamation obligation	(10,947,787)	(1,780,110)
Future income taxes	(84,200,330)	(13,690,974)
Non controlling interests	(34,216,542)	(5,563,610)
	124,005,000	20,163,213

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, January 31, 2007.

(b) Acquisition of Makoenskloof property

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 ("MOR"). 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 ZAR5.4 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 ZAR21.3 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 ZAR19 million ($2.7 million) and is committed to pay the remaining consideration 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.

In December 2007, Makoenskloof property was placed on care and maintenance in order for management to evaluate the results of the bulk sampling activities which had taken place up until the end of November 2007.

(c) Ricardo Property, Chile

The Company holds a 100% interest in certain mineral exploration and exploitation concessions in the Calama Mining District in Chile. The Company continues to maintain the Ricardo Property in good standing.

(d) Farhom Property, South Africa

On July 30, 2007 H.C. Van Wyk Diamonds acquired 100% of the shares and shareholder loans of Farhom Mining & Construction (Pty) Ltd. for ZAR10 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.

8. CAPITAL LEASE OBLIGATIONS

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

(Expressed in Canadian Dollars unless otherwise stated)

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

	As at February 29, 2008	As at May 31, 2007
Liebherr Finance	$ –	$ 131,572
ELB Finance	105,418	175,180
Stannic	2,093,869	3,452,954
Wesbank	319,236	557,153
Nedbank	1,842,519	4,383,372
Komatfin	10,442,257	8,403,305
	$ 14,803,299	**$ 17,103,536**

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 February 29, 2008
2009	$ 8,385,013
2010	6,087,834
2011	2,389,611
Total minimum lease payments	16,862,458
Less interest portion	(2,059,159)
Present value of capital lease obligations	14,803,299
Current portion	(6,847,751)
Non-current portion	$ 7,955,548

9. RECLAMATION OBLIGATION

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

	As at February 29, 2008	As at May 31, 2007
Balance, beginning of period	$ 1,361,557	$ –
Changes during the period:		
Site closure and reclamation obligation recognized	230,622	1,306,086
Foreign exchange on reclamation	(300,675)	–
Accretion expense	464,316	55,471
Site closure and reclamation obligations, February 29, 2008	$ 1,755,820	$ 1,361,557

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 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 $1,755,820. The accretion of $464,316 (2007 – $55,471) is charged to the statement of operations. During the period the Company revised the site closure and reclamation obligation.

(Expressed in Canadian Dollars unless otherwise stated)

As required by regulatory authorities, at February 29, 2008, the Company had cash reclamation deposits totaling $1,816,877 (2007 – $ 1,038,066) comprised of $1,657,489 (2007 – $ 878,678) for the Holpan and Wouterspan mines and $159,388 (2007 – $159,388) for the Klipdam mine. These deposits are invested in interest bearing money market linked investments at rates ranging from 8% to 9.5%.

10. SHARE CAPITAL

(a) Authorized share capital

The Company's authorized share capital consists of an unlimited number of common shares, without par value, and an unlimited number of preferred shares without par value, of which none have been issued.

(b) 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.

The continuity of share purchase options for the nine months ended February 29, 2008 is as follows:

Expiry date	Exercise price	May 31 2007	Granted	Exercised	Expired/ cancelled	February 29 2008
September 28, 2007	$ 0.40	107,917	–	107,917	–	–
February 29, 2008	$ 0.42	190,000	–	145,000	45,000	–
March 28, 2008	$ 0.50	150,000	–	–	–	150,000
July 10, 2010	$ 0.68	–	300,000	–	–	300,000
September 24, 2012	$ 0.62	–	5,905,500	–	2,500	5,903,000
November 14, 2012	$ 0.63	–	1,114,500	–	5,500	1,109,000
		447,917	**7,320,000**	**252,917**	**53,000**	**7,462,000**
Weighted average exercise price		$ 0.44	$ 0.62	$ 0.41	$ 0.45	$ 0.62
Weighted average fair value of options granted during the period						$ 0.62

As at February 29, 2008, 250,000 of the options outstanding with a weighted average exercise price of $0.57 per share had vested with grantees.

(Expressed in Canadian Dollars unless otherwise stated)

The continuity of share purchase options for the year ended May 31, 2007 is as follows:

Expiry date	Exercise price	May 31 2006	Granted	Exercised	Expired/ cancelled	May 31 2007
September 28, 2007	$ 0.40	115,417	–	5,833	1,667	107,917
February 29, 2008	$ 0.42	210,000	–	3,334	16,666	190,000
March 28, 2008	$ 0.50	150,000	–	–	–	150,000
		475,417	–	9,167	18,333	447,917
Weighted average exercise price		$ 0.44	$ –	$ 0.41	$ 0.42	$ 0.44
Weighted average fair value of options granted during the year						$ Nil

As at May 31, 2007, 327,917 of the options outstanding with a weighted average exercise price of $0.40 per share had vested with grantees.

The continuity of share purchase options for the year ended May 31, 2006 is as follows:

Expiry date	Exercise price	May 31 2005	Granted	Exercised	Expired/ cancelled	May 31 2006
May 19, 2006	$ 0.32	27,500	–	27,500	–	–
September 28, 2007	$ 0.40	–	126,250	3,333	7,500	115,417
February 29, 2008	$ 0.42	–	210,000	–	–	210,000
March 28, 2008	$ 0.50	–	150,000	–	–	150,000
		27,500	486,250	30,833	7,500	475,417
Weighted average exercise price		$ 0.32	$ 0.44	$ 0.33	$ 0.40	$ 0.44
Weighted average fair value of options granted during the year						$ 0.50

As at May 31, 2006, 38,750 of the options outstanding with a weighted average exercise price of $0.40 per share had 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:

	Nine Months ended February 29 2008	Year ended May 31 2007	Year ended May 31 2006
Exploration and engineering	$ 514,892	$ 41,372	$ 36,415
Operations and administration	1,311,425	38,251	47,101
Total compensation cost expensed to operations, with the offset credited to contributed surplus	$ 1,826,317	$ 79,623	$ 83,516

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

	2008	2007	2006
Risk free interest rate	4%	4%	4%
Expected life	4.8 years	2 years	2 years
Expected volatility	111%	97%	124%
Expected dividends	nil	nil	nil

(Expressed in Canadian Dollars unless otherwise stated)

(c) Share purchase warrants

The continuity of share purchase warrants (each warrant exercisable into one common share) for the period ended February 29, 2008 is:

Expiry date	**November 22, 2008 (i)**	**May 09, 2009 (ii)**	**May 09, 2009 (iii)**
Exercise price	$0.80	$0.70	$0.70
Balance, May 31, 2007	42,000,000	116,007,154	5,772,000
Issued	–	–	–
Exercised	2,400,000	–	–
Expired	–	–	–
Balance, February 29, 2008	39,600,000	116,007,154	5,772,000

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

(ii) In May 2007, Rockwell completed a $60 million private placement financing of 116,007,154 million equity Units at $0.52 each with each Unit consisting of one common share and one share purchase warrant exercisable over two years at $0.70. All securities are subject to a four month hold period in Canada which expired on September 10, 2007.

(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%.

The continuity of share purchase warrants (each warrant exercisable into one common share) for the year ended May 31, 2007 is:

Expiry date	November 22, 2007 (i)	May 09, 2009	May 09, 2009
Exercise price (note 10(d and e))	$0.60	$0.70	$0.70
Balance, May 31, 2006	–	–	–
Issued (note 10(d and e))	42,000,000	116,007,154	5,772,000
Exercised	–	–	–
Expired	–	–	–
Balance, May 31, 2007	42,000,000	116,007,154	5,772,000

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

(Expressed in Canadian Dollars unless otherwise stated)

The continuity of share purchase warrants (each warrant exercisable into one common share) for the year ended May 31, 2006 is:

Expiry date	Exercise price	May 31 2005	Issued	Exercised	Expired	May 31 2006
December 31, 2005	$ 0.40	8,975,000	–	50,000	8,925,000	–
Weighted average exercise price		$ 0.40	$ –	$ 0.40	$ –	$ –

(d) *Private placement, November 2006*

In November 2006, Rockwell completed a $21 million private placement of 42 million units at $0.50 per unit, with each unit consisting of one common share and one share purchase warrant exercisable over three years at $0.60 in the first year, $0.80 in the second year and $1.00 in the third year. The third year term of the warrants is subject to the Company achieving Tier 1 status on the TSX Venture Exchange within the first two years. All securities are subject to a four month holding period in Canada expiring on March 23, 2007, and a portion will be subject to additional US resale restrictions in the United States. The Company paid cash commissions of $1,215,770.

(e) *Private placement, May 2007*

In May 2007, Rockwell completed a $60 million 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. All securities are subject to a four month hold period in Canada expiring September 10, 2007. In addition, the securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. 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.

(f) *Private Placement, January 2008*

In January 2008 the Company completed a brokered private placement of 24,101,526 Common Shares at a price of $0.60 per share for total proceeds of $13,860,916, net of issue costs. 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 are subject to a hold period expiring on March 31, 2008.

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

(Expressed in Canadian Dollars unless otherwise stated)

11. RELATED PARTY BALANCES AND TRANSACTIONS

Balances payable	As at February 29, 2008	As at May 31, 2007
Hunter Dickinson Inc. (a)	$ –	$ 37,571
Euro-American Capital Corporation (b)	–	2,879
CEC Engineering (c)	–	5,558
Durnpike shareholder loans (i)	–	1,503,566
Banzi Trading (k)	–	2,191
Jakes Tyres (i)	49,604	10,993
Cashmere Trading (g)	–	46,543
	$ 49,604	$ 1,609,301
Balances receivable		
Hunter Dickinson Inc. (a)	$ 78,504	$ –
Flawless Diamonds Trading House (h)	477,298	781,928
Banzi Trading (k)	33,744	–
Diacor CC (n)	3,888	–
AA Van Wyk (m)	–	57,325
	$ 593,434	$ 839,253

	Nine Months ended February 29	Year ended May 31	
Transactions	**2008**	**2007**	**2006**
Services rendered and expenses reimbursed:			
Hunter Dickinson Inc. (a)	$ 863,861	$ 1,988,027	$ 578,134
Euro-American Capital Corporation (b)	14,393	18,765	18,630
CEC Engineering (c)	39,766	187,225	–
John Bristow (d)	–	115,320	–
Jeffrey B Traders CC (e)	52,740	141,318	–
Seven Bridges Trading (f)	57,952	55,534	–
Plateau Resources (Proprietary) Limited (j)	–	–	124,737
Cashmere Trading (g)	353,736	43,357	–
Banzi Trade 26 (Pty) Ltd (k)	47,575	251,942	–
Jakes Tyres (l)	1,141,454	267,361	–
AA Van Wyk (m)	148,658	173,977	–
Diacor CC (n)	3,888	–	–
Sales rendered to:			
Flawless Diamonds Trading House (h)	$ 36,038,106	$ 10,085,536	$ –

(a) Hunter Dickinson Inc. ("HDI") is a private company equally owned by several public companies, one of which is Rockwell, and has certain directors in common with the Company. HDI 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 January 1, 2001. 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) John Bristow, President, Chief Executive Officer and a director of the Company, provided engineering consulting services at market rates to the Company.

(e) 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.

(f) 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.

(g) Cashmere Trading is a private company owned by Hennie Van Wyk, an officer of the Company, which provides helicopter services at market rates.

(h) 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.

(i) Pursuant to the Company' agreement to acquire all of the shares and loans in Durnpike Investments (Pty) Limited from eight individuals (the "Vendors"), of which three individuals from the Vendors were subsequently appointed to the Company's Board of Directors (Messr. Brenner, M.Bristow, J.Bristow).

(j) Plateau Resources (Proprietary) Limited ("Plateau") is a wholly-owned subsidiary of Anooraq Resources Corporation, a Canadian company which has certain directors in common with the Company. Plateau shares certain premises and other facilities with the Company pursuant to a cost-sharing arrangement with no profit element involved.

(k) Banzi Trade 26 (Pty) Ltd ("Banzi") is 50% owned by Hennie Van Wyk Family Trust, 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.

(l) Jakes Tyres is a private company with certain directors and officers in common with the Company that provides consumable materials at market rates.

(m) 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.

(Expressed in Canadian Dollars unless otherwise stated)

(n) Diacor CC is a private company with certain directors and officers in common with the Company that purchases consumable materials at market rates.

12. INCOME TAXES

Income tax expense (recovery differs from the amount which would result from applying the statutory Canadian income tax rates in 2008 of 33.55% (2007 - 34.1%, 2006 - 36.6%). A reconciliation of income taxes calculated at applicable statutory rates is as follows:

	Nine months ended February	Years ended May 31	
	2008	**2007**	**2006**
Loss before income taxes	$ (1,006,849)	$ (6,585,756)	$ (1,600,673)
Expected income tax recovery	$ (338,000)	$ (2,324,000)	$ (555,000)
Difference in foreign tax rates	298,000	101,000	7,000
Permanent differences	1,200,000	309,000	375,000
Change in tax rate	440,000	–	(35,000)
Change in valuation allowance	(477,000)	1,409,433	208,000
Other non-deductible items	1,317,400	(131,206)	–
Net income tax expense (recovery)	$ 2,440,400	$ (635,773)	$ –

As at February 29, 2008 and May 31, 2007, the estimated tax effect of the significant components within the Company's future tax assets and liabilities were as follows:

	As at February 29	As at May 31	
	2008	**2007**	**2006**
Future income tax asset (liability)			
Resource allowances	$ 1,938,000	$ 2,133,000	$ 1,155,000
Loss carry forwards	3,559,000	3,824,000	2,136,000
Other	1,460,000	1,835,000	150,000
Total	6,957,000	7,792,000	3,441,000
Less: valuation allowance	(6,957,000)	(7,434,860)	(3,441,000)
	–	357,140	–
Mineral properties	(3,937,000)	(5,005,000)	–
Equipment	(8,493,100)	(7,331,000)	–
Net future tax asset (liability)	$ (12,430,100)	$ (11,978,860)	$ –

At February 29, 2008, the Company had available for deduction against future taxable income non-capital losses of approximately $12,587,000 (2007 - $10,711,00; 2006 – $3,290,000). These losses, if not utilized, will expire in various years ranging from 2008 to 2027. Subject to certain restrictions, the Company also had Canadian resource expenditures of approximately $5,635,000 (2007 – $5,635,000; 2006 – $5,635,000), which are available to reduce taxable income in future years.

(Expressed in Canadian Dollars unless otherwise stated)

13. SEGMENTED INFORMATION

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

For the nine months ended February 29, 2008	Canada	Chile	South Africa	Total
Revenue	$ –	$ –	$ 36,149,308	$ 36,149,308
Loss for the year	(3,393,226)	(92,767)	(5,917,035)	(9,403,028)
Total assets	4,002,546	70,133	129,620,445	133,693,124
Mineral property interests	–	1	25,247,936	25,247,937
Property, plant and equipment	–	–	64,831,636	64,831,636

For the year ended May 31, 2007	Canada	Chile	South Africa	Total
Revenue	$ –	$ –	$ 10,103,328	$ 10,103,328
Loss for the year	(5,342,557)	(191,800)	(830,785)	(6,365,142)
Total assets	38,281,401	62,857	91,262,125	129,606,383
Mineral property interests	–	1	24,121,854	24,121,855
Property, plant and equipment	–	–	44,790,441	44,790,441

For the year ended May 31, 2006	Canada	Chile	South Africa	Total
Loss for the year	$ (1,340,385)	$ (260,288)	$ –	$ (1,600,673)
Total assets	228,560	60,087	–	288,647
Mineral property interests	–	1	–	1
Property, plant and equipment	–	–	–	–

14. CONTINGENCIES AND COMMITMENTS

(a) In connection with the property described in note 7(a), 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 2008 the Company paid consideration of $600k 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 February 29, 2008 the Company is committed to pay the remaining consideration of ZAR2.3 million ($294,402) 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.

15. SUBSEQUENT EVENTS

(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 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.

The Company has paid cash consideration to Trans Hex of ZAR100.4 million ($14.8 million) and will assume potential liabilities for staff layoffs of ZAR4.7 million (capped at ZAR5 million ($0.8 million)) and rehabilitation bonds (capped at ZAR4.25 million ($0.6 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 a new special purpose entity ("Saxendrift Mine Pty (Ltd)"), to be acquired by Rockwell RSA. The implementation of the Transaction is subject to fulfillment of certain conditions precedent including:

- The unconditional approval of South Africa's Competition Commission; which has already taken place;
- All requisite consents by South Africa's Minister of Minerals and Energy to the cession and transfer of the underlying mining and prospecting rights pertaining to the MORO to

the Saxendrift Mine Pty (Ltd) and the acquisition by the Company of the shares in Saxendrift Mine Pty (Ltd);

- Satisfactory provision by the Company of certain financial undertakings to THO;
- Approval by the TSX Exchange;
- Completion by the Company of a mineral title due diligence investigation; and
- The audited balance sheet of Saxendrift Mine Pty (Ltd) as at the effective date.

Fulfillment of some of the conditions precedent may be waived, or the date specified for their fulfillment extended, in certain limited circumstances. The MORO will be placed in care and maintenance with effect from date of signature of the relevant transaction agreements pending fulfillment of the conditions precedent.

In January 2007, the Company entered into a credit facility with the Canadian Imperial Bank of Commerce ("CIBC") for a standby letter of credit of $16.5 million for the acquisition of Saxendrift Mine. The Company secured this facility by providing sufficient funds on deposit equal to the amount of the outstanding letter of credit, being $15.6 million as of May 31, 2007. The facility was not utilized and expired on July 31, 2007.

On July 31, 2007 the funds, previously utilized to secure the facility, were transferred to an account held in trust for the Company for acquisition of the Saxendrift Mine.

Subsequent to the nine months ended February 29, 2008 the Company completed the MORO acquisition. The substantive conditions to the Transaction have been fulfilled and the Transaction was completed on April 11, 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.

(b) Shares issued and share options granted subsequent to February 29, 2008.

Subsequent to February 29, 2008, the Company issued 14,285,715 common shares at $0.55 per share and 152,500 share options were cancelled or expired. No additional share options have been granted subsequent to year end.

(c) Assumption of 74% ownership of HCVW and Klipdam

Effective March 1, 2008, the Company took ownership of 74% of HCVW and Klipdam from 51% to 74% as per the agreement announced in June 2006.

(d) Acquisition of an additional 11% by the BEE Group

Subsequent to the nine months ending February 29, 2008, the BEE group is in the process of increasing its shareholding from 15% to 26% by subscribing for an additional 11% of the shares in the VWDG at a subscription price of ZAR17.5 million and injecting ZAR10.5 million working capital into the VWDG.

ROCKWELL DIAMONDS INC.
NINE MONTHS ENDED FEBRUARY 29, 2008
MANAGEMENT'S DISCUSSION AND ANALYSIS

T A B L E   O F   C O N T E N T S

1.1 Date

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of Rockwell Diamonds Inc. ("Rockwell", or the "Company") 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.

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 May 20, 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 February 29, 2008 fiscal period, the Company operated three alluvial diamond mines and one bulk sampling project. Rockwell received 51% of the net proceeds from production at these properties. Subsequent to the nine months ended February 29, 2008, the Company acquired an additional 23% interest in the Holpan/Klipdam and Wouterspan properties thereby increasing their interest to 74%, with the remaining 26% being held by a Black Economic Empowerment ("BEE") consortium as required by the Department of Minerals and Energy Act in South Africa.

In the nine month period ended February 29, 2008, total diamond production of 17,746.40 carats was derived from 2,368,110 cubic meters of gravels mined and processed at Holpan/Klipdam and Wouterspan and from bulk sampling at Makoenskloof. The Company sold 17,667.67 carats at an average price of US$1,984.68 per carat. Diamonds in inventory at February 29, 2008 totaled 1,036.59 carats.

The Company received revenues from sales of $36 million, inclusive of revenue received from sub-contractors of $0.2 million. Cost of sales and amortization totalled $29.2 million, resulting in an operating profit of $6.8 million for the period. Other expenses were $7.8 million, taxation amounting to $2.4 million and, together with an amount of $5.9 million representing the 49% non-controlling interest of the South African operating subsidiaries, this resulted in a loss for the nine months ending February 29, 2008 of $9.4 million or $0.05 per share.

In March 2007, Rockwell and the Trans Hex Group ("Trans Hex") reached a conditional agreement whereby the Company would purchase Trans Hex's Middle Orange River Operations located in the Northern Cape Province of South Africa. The Middle Orange River Operations include the Saxendrift and Niewejaarskraal Mines (currently on care and maintenance) and certain associated prospecting projects in the same area. Subsequent to the nine months ending February 29, 2008, the suspensive conditions to the conditional agreement were fulfilled. Certain mineral rights, including the Saxendrift mining right, have been transferred to Rockwell. Transfer of others is pending issue of final documents by the South African Department of Mineral and Energy ("DME"), which the companies expect in due course. Rockwell's operational staff has mobilized to the Saxendrift property and begun re-commissioning the plant and recovery unit. The objective is to re-open the mine and provide additional carat production in the near future.

In other corporate developments, Rockwell began trading on the Toronto Stock Exchange ("TSX") on February 22, 2008. The Company now trades in Canada on the TSX and in South Africa on the Johannesburg Stock Exchange ("JSE") under the trading symbol of RDI, and in the United States on the Over-the-Counter Bulletin board ("OTCBB") under the symbol RDIAF.

1.2.2 Financings

In the prior fiscal year ended May 31, 2007, the Company completed two significant equity financings. During the nine month period ended February 28, 2008, the Company completed a brokered private placement financing.

$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. During the year, the Company listed on the TSX. All securities are subject to a four month holding period in Canada expiring on March 23, 2007, and a portion will be subject to additional US resale restrictions in the United States. The Company paid cash commissions of $1,215,770.

Rockwell is using, or has used, the net proceeds from the Offering (a) to acquire the interests and/or rights in the four alluvial diamond properties in South Africa and the DRC, (b) to discharge the convertible promissory notes of $9.5 million, (c) to carry out exploration and development, and (d) for general working capital and corporate development purposes.

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").

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 had the option to increase its shareholding in HCVW to a 51% controlling interest by (a) subscribing for additional shares in HCVW for the amount of ZAR1 million ($160,000) and (b) introducing a ZAR24 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. In March 2008, subsequent to the nine months ending February 29, 2008 and pursuant to the Exchange Agreement, the Company issued Common Shares to the Van Wyk Trust and increased its ownership by 23% to a total of 74% 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 it seems highly unlikely that the deadline of February 29, 2008 will be met, the Company is currently negotiating 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 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. To date the Company is still awaiting the final approval from the DME relating to the transfer of the shares of Galputs Minerale Project from Virgilia Investments Inc. to the Company.

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). Subsequent to the nine months ending February 29, 2008, 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 ZAR17.5 million and the BEE group will also inject ZAR10.5 million in working capital into the VWDG. The BEE company is African Vanguard Resources (Pty) Ltd., the holding company of Richtrau No 136 (Pty) Ltd.

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 ZAR5.4 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 ZAR21.3 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 ZAR19 million ($2.7 million) and is committed to pay the remaining consideration 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.

In December 2007, Makoenskloof property was placed on care and maintenance in order for management to evaluate the results of the bulk sampling activities which had taken place up until the end of November 2007. No work is planned in 2009.

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 ZAR53.3 million ($8.0 million);
- the employees of THO in terms of Section 197 of South Africa's Labour Relations Act of 1995; and

- 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 ZAR100.4 million ($14.8 million) and assumed potential liabilities for staff layoffs of ZAR4.7 million (capped at ZAR5 million ($0.8 million)) and rehabilitation bonds (capped at ZAR4.25 million ($0.6 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 ZAR26.8 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 ZAR10 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 – Fiscal 2008 Year

A summary of diamond production and sales for the nine month period to February 29, 2008 (fiscal 2008 year) is provided in the following table:

Operation	Volume (cubic meters)	Production (carats)	Sales (carats)	Value of Sales (US$)	Value of Sales (Cdn$)	Inventory (carats)
Holpan	676,026	5,385.82	5,425.29	7,218,906	7,383,320	366.28
Klipdam	584,643	5,018.88	5,061.47	7,264,657	7,430,113	360.01
Wouterspan	890,059	6,398.00	6,237.59	16,067,663	16,433,611	309.92
Makoenskloof	217,382	943.70	943.32	4,513,376	4,616,170	0.38
Total	**2,368,110**	**17,746.40**	**17,667.67**	**35,064,602**	**35,863,214**	**1,036.59**

A summary of Rockwell's share of diamond production and sales for fiscal 2007 (during the four month period of February 1 to May 31) is provided in the table below:

Operation	Volume (cubic meters)	Production (carats)	Sales (carats)	Value of Sales (US$)	Value of Sales (Cdn$)	Inventory (carats)
Holpan	487,535	2,850.57	2,947.27	2,936,597	3,329,223	405.78
Klipdam	257,900	1,883.85	1,762.04	1,388,938	1,588,261	402.55
Wouterspan	370,888	2,272.86	2,435.99	2,859,328	3,200,163	149.53
Total	**1,116,323**	**7,007.28**	**7,145.30**	**7,184,863**	**8,117,647**	**957.86**

Production and Sales – Quarter by Quarter Comparison

Rockwell did not acquire its interest in the alluvial diamond projects until January 31, 2007, so there are not any comparative results for the prior nine month period. Instead, the current quarter's production is compared to the previous quarter.

PRODUCTION						
Operation	3 months ending February 29, 2008			3 months ending November 30, 2007		
	Volume (cubic meters)	Carats	Average grade (carats per 100 cubic meters)	Volume (cubic meters)	Carats	Average grade (carats per 100 cubic meters)
Holpan	167,338	1,266.46	0.76	232,930	1,673.29	0.72
Klipdam	182,583	1,234.80	0.68	142,534	1,256.06	0.88
Wouterspan	194,468	1,786.87	0.92	341,099	2,016.54	0.59
Makoenskloof	18,029	73.12	0.41	136,154	633.28	0.47
Total	**562,418**	**4,361.25**	**0.78**	**852,717**	**5,579.17**	**0.65**

SALES, REVENUE AND INVENTORY								
Operation	3 months ending February 29, 2008				3 months ending November 30, 2007			
	Sales (carats)	Value of Sales (US$)	Average value (US$ per carat)	Inventory (carats)	Sales (carats)	Value of Sales (US$)	Average value (US$ per carat)	Inventory (carats)
Holpan	1,272.18	1,645,214	1,293.22	366.28	2,683.94	2,437,250	908.09	372.00
Klipdam	1,257.73	946,534	752.57	360.01	2,044.82	1,076,732	526.57	382.94
Wouterspan	1,973.48	6,222,776	3,153.20	309.92	2,511.57	4,975,788	1,981.15	496.53
Makoenskloof	155.39	705,254	4,538.60	0.38	787.93	3,808,122	4,833.07	82.65
Total	**4,658.78**	**9,519,778**	**2,043.41**	**1,036.59**	**8,028.26**	**12,297,892**	**1,531.83**	**1,334.12**

The above table does not include minor contract diamond revenue sales from properties.

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 ending February 29, 2008 was 1,266.46 carats from 167,338 cubic meters (334,676 tonnes) of gravels processed, compared with 1,673.29 carats from 232,930 cubic meters (465,860 tonnes) of gravels processed in the previous quarter. The decrease on the previous quarter is mainly due to the mine closure over part of December and January for the Christmas holidays.

Sales from Holpan were 1,272.18 carats at an average value of US$1,293.22 per carat, a decrease in carats sold but increase in value per carat sold from 2,683.94 carats at an average value of US$908.09 per carat in the previous quarter. The inventory at Holpan is 366.28 carats.

Production at Klipdam was 1,234.80 carats from 182,583 cubic meters (365,166 tonnes) of gravels, compared to 1,256.06 carats from 142,533 cubic meters (285,066 tonnes) of gravels produced in the previous quarter.

Sales from Klipdam were 1,257.73 carats at an average value of 752.57 per carat, a decrease in carat sales but increase in value per carat sold from 2,044.82 carats at an average value of US$526.57 per carat in the previous quarter. There is an inventory of 360.01 carats for Klipdam.

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 ended February 29, 2008, the property produced 1,786.87 carats from 194,468 cubic meters (388,936 tonnes) of gravels, a decrease from 2,016.54 carats from 341,099 cubic meters (682,198 tonnes) of gravels in the previous quarter. The decrease on the previous quarter is mainly due to the mine closure over part of December and January for the Christmas holidays

Sales from Wouterspan were 1,973.48 carats at an average price of US$3,152.20 per carat, a decrease in carats sold but increase in value per carat sold from 2,511.57 carats at an average value of US$1,981.15 per carat sold in the previous quarter. The inventory at Wouterspan is 309.92 carats.

Makoenskloof Property

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.

During the quarter ended February 29, 2008, the volume of bulk sampling was 18,029 cubic meters (36,058 tonnes) of gravels from which 73.12 carats were recovered. Sales from Makoenskloof were 155.39 carats at an average value of US$4,538.60 per carat, a decrease in number of carats sold and a decrease in value per carat from 787.93 carats at an average value of US$4,833.07 per carat in the previous quarter. The inventory at Makoenskloof is 0.38 carats.

Production Costs

Production was lower for during the December to February quarter because of the annual shutdown over the Christmas period. The average operating cost during the period of December through February was approximately US$4.66 per tonne. Operating costs have also decreased from US$5.48 per tonne in the comparative last quarter of the financial year ending May 31, 2007. The overall higher costs previously were related to costs for bulk sampling at Makoenskloof, downtime related to maintenance in the plant at Klipdam and the effect of exchange rates.

Mineral Resource Estimates and Plans for 2009

Holpan/Klipdam

The inferred mineral resources at February 29, 2008 after depletion from mining since the prior estimate at March 31, 2007 are 8.86 million m^3 grading 0.84 carats per 100 m^3. The estimate was completed by Rockwell's Manager, Resources, G. Norton, Pr.Sci.Nat., a qualified person who is not independent of the Company.

A program of 400 boreholes (6,000 m) is currently underway to delineate the edges of the Klipdam Channel and to identify palaeo-channel remnants on Holpan. Once the information from this program is compiled, a new resource estimate will be reported. A further $300,000 drilling and trenching program is planned for 2009.

Wouterspan

Mineral resources based on work to October 31, 2007 were estimated by T. Marshall, PhD, Pr.Sci.Nat., a qualified person who is independent of the Company. Depletion from mining since that time was determined by Rockwell's Manager, Resources, G. Norton, Pr.Sci.Nat., a qualified person who is not independent of the Company.

The mineral resources at Wouterspan as of February 29, 2008 are 5.26 million m^3 grading 0.71 carats per 100 m^3 in the indicated category and 37.77 million m^3 grading 0.71 carats per 100 m^3 in the inferred category.

Some 20,000 m of additional drilling was planned for fiscal 2008. A second phase 15,000 m program is currently underway. Once the information from this program is completed, a new resource estimate will be done.

1.2.5 Exploration and Development Properties

Middle Orange River Operations

The MORO include the Saxendrift mine (being re-commissioned) and 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.

The Saxendrift area has had a long history of diamond production dating back to the mid 1920's. An estimated 96,000 carats of diamonds were extracted from the area between 1928 and 1964. Trans Hex commenced exploration and mining in the area in 2000, after a merger with GEM Diamond Mining Limited, which held the mineral rights to Saxendrift at that time. Production on Saxendrift was achieved by open cast mining methods with processing and recovery being achieved by a combination of rotary pan plants, dense media separation and flow-sort X-ray recovery. From commissioning to the end of 2005, the Saxendrift mine produced a total of 76,803 carats. The average diamond price realized by THO for Saxendrift during the period May 2001 to the end of 2005 was US$1,400 per carat.

THO 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. An average price of US$1,375 per carat was achieved for Niewejaarskraal for the period September 2001 to the end of 2005.

THO 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 Vieglandsput, Zwemkuil-Mooidraai and Remhoogte-Holsloot properties, located to the south-west of Niewejaarskraal. The exploration work included reverse circulation drilling, trenching and bulk sampling. Inferred Mineral Resources were estimated based on this work, indicating the development potential of the projects.

Mineral Resource Estimates and Plans for 2009

The Indicated and Inferred Mineral Resources as of March 2007 were estimated by the South African consulting company Venmyn. C.A. Telfer, Pr.Sci.Nat., of Venmyn is an independent qualified person as defined by National Instrument 43-101.

MORO INDICATED RESOURCES			
MINE/PROJECT	**MINING AREA**	**VOLUME (cubic meters)**	**GRADE (carats/100 cubic meters)**
Saxendrift	Saxendrift Terrace A	1,824,000	0.83
	Saxendrift Terrace B	422,000	1.15
	Stockpiles	385,539	0.46
Total Saxendrift Indicated		**2,631,539**	**0.82**
Niewejaarskraal	Niewejaarskraal	4,164,745	0.80
	Viegulandsput	1,802,822	1.16
Total Niewejaarskraal Indicated		**5,967,567**	**0.91**
GRAND TOTAL		**8,599,106**	**0.88**

MORO INFERRED RESOURCES			
MINE/PROJECT	**MINING AREA**	**VOLUME (cubic meters)**	**GRADE (carats/100 cubic meters)**
Saxendrift	Saxendrift Terrace A	5,723,000	0.48
	Saxendrift Terrace B	1,821,000	0.68
	Stockpiles	263,000	0.29
Total Saxendrift Inferred		**7,807,000**	**0.52**
Niewejaarskraal	Niewejaarskraal	1,696,000	0.48
	Viegulandsput	1,465,000	0.47
	Nieweskraal TB2	4,919,000	0.90
Total Niewejaarskraal Inferred		**8,080,000**	**0.73**
Zwemkuil-Mooidraai	N/A	1,640,000	0.95
Remhoogte-Holsloot	N/A	11,503,000	1.15
Kwartelspan	N/A	1,385,000	1.50
Total Exploration Projects Inferred		**14,528,000**	**1.16**
GRAND TOTAL		**30,415,000**	**0.88**

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.

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.

A program was proposed in 2006 for further exploration and bulk sampling operations. No work was done in 2007 or 2008, or is immediately planned for fiscal 2009, as attention is focused on production at Holpan/Klipdam and Wouterspan and initiating production on the recently acquired MORO properties.

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.

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 2008 the Company paid consideration of $600k 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 Company continues to maintain the Ricardo Property in good standing.

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.

1.2.6 Market Trends

The Diamond Market

Over the nine month fiscal period ending February 29, 2008, prices for rough diamonds increased by 5-30%, varying from 5% for 0-2 carat stones to 15-20% for 2-10 carat stones to 30% or more for plus 10 carat diamonds. Prices for polished stones have also increased by 20%.

Overall, the average dollar per carat prices received by Rockwell have increased more because of 65% of its production was plus 2-carat stones (see table below), and a significant proportion was plus 5-carat stones. The international shortage in supply of plus 5-carat diamonds led to increased prices.

SIZE	% CARATS OF PRODUCTION	% US$ REVENUE
0.05 - 2.00 carats	43%	5%
2.00 - 5.79 carats	25%	12%
5.80 -10.79 carats	12%	13%
10.80 carats+	20%	70%

The table shows general prices increases for the different size ranges; however, clarity and colour are major factors in prices received.

Diamond clarity is rated using the following scale:

GIA DIAMOND CLARITY GRADING SCALE												
Category	Flawless	Internally Flawless	Very Very Slightly Included		Very Slightly Included		Slightly Included		Included		
Grade	**FL**	**IF**	**VVS_1**	**VVS_2**	**VS_1**	**VS_2**	**SI_1**	**SI_2**	**I_1**	**I_2**	**I_3**

- Diamonds with clarity of SI1 or better have experienced the greatest increase in prices increases.
- Diamonds with a grade of less than SI1 have remained relatively stable with smaller increases and a lack in demand. Polished diamonds that have black inclusions are difficult to sell.

The full range of colours have experienced an increase in price, but major price increases occurred from D-K colour range and predominantly in the D to F colors. Prices for D colors increased the most; an overall percentage increase for this colour range is hard to determine because of scarcity and extreme demand. Similar increases have been experienced for fancy colour diamonds i.e. pinks and blues. Fancy yellows are relatively common in Rockwell production. These have also experienced increases in price, as demand is high for the dark yellow (intense to vivid) range. All of these coloured and rare D colour diamonds have become regarded as investment pieces, comparable to art from a known artist.

Diamond Sales by Tender Process

The diamond tender system continues to be the preferred form of sales by producers throughout the world, particularly in the junior mining segment, because of the transparency in the process, which gives investors comfort, and the opportunity for producers to expose their stone to a larger variety of diamonds dealers. Larger diamond mining companies also adopted the use of tender system as a form of sales of segments of their diamonds production.

Rockwell was involved in 10 tenders during the 2008 financial year, held in the offices of Flawless Diamond Trading House, Johannesburg, South Africa. There was an average of 60 buyers at these tenders. During the nine month period, three plus 100-carat diamonds were recovered and sold, which is in-line with production forecasts based on size frequency calculations, and compared to charts with the recovery of different sizes of diamonds relating the number of tonnes produced. The recently acquired Middle Orange River projects are expected to add to production of carats, with comparable size and quality to the Company's past production.

Beneficiation

The Steinmetz/Rockwell joint venture for beneficiating 'special' diamonds has proved extremely successful. We expect that the gross dollar value percentages will greatly increase once further income has been accounted for after the sales of such polished diamonds. Further to this, Rockwell expects that our gross average dollar value per carat will increase by at least 5% once accounting for these post sales is completed.

Rockwell is presently establishing a diamond cutting facility in South Africa, which will specialize in cutting and polishing of a specific segment of its diamond production. A plan to investigate which diamonds can be manufactured viably and professionally within the South African economic structure has been formulated and will be carried out in fiscal 2009.

Summary

Due the shortages of supply of rough diamonds to the international diamond industry it is very clear that the industry has become dominated by specialists. The rough diamond trader is no longer effective in purchasing the diamonds that have experienced major price increases; the latter diamonds are now purchased by manufacturers with specialized knowledge in sales of specific items.

The Company expects the diamond market to remain strong in fiscal 2009, particularly for diamonds in the plus 5 carats.

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.

	Nine months ended	Years ended	
Balance Sheets	**February 29, 2008**	**May 31, 2007**	**May 31, 2006**
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
Total assets	133,693,124	129,606,383	288,647
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)
Total liabilities and shareholders’ equity	$ 133,693,124	$ 129,606,383	$ 288,647

	Nine months ended	Years ended	
Statement of Operations	**February 29, 2008**	**May 31, 2007**	**May 31, 2006**
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)	–
Operating profit (loss)	6,885,096	(945,829)	–
<u>**Expenses**</u>			
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
Subtotal	7,029,208	2,654,591	1,593,446
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
	862,736	2,985,336	1,600,673
Loss before income taxes	1,006,848	6,585,756	1,600,673
Income tax expense	179,290	–	–
Future income tax (recovery) expense	2,261,110	(635,773)	–
Loss before non-controlling interest	3,447,248	5,949,983	1,600,673
Non-controlling interest	5,955,779	415,159	–
Loss for the year ended	$ 9,403,027	$ 6,365,142	$ 1,600,673
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

1.4 Summary of Quarterly Results

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

	Feb 29 2008	Nov 30 2007	Aug 31 2007	May 31 2007	Feb 28 2007	Nov 30 2006	Aug 31 2006	May 31 2006
Current assets	$38,597	$36,823	$46,861	$ 56,143	$ 25,751	$ 23,063	$ 8,397	$ 257
Mineral properties	25,248	24,928	25,589	24,122	18,788	–	–	–
Other assets	69,848	66,544	55,997	49,342	36,884	42	32	32
Total assets	**133,693**	**128,295**	**128,447**	**129,606**	**81,423**	**23,105**	**8,429**	**289**
Current liabilities	12,502	17,173	23,899	29,400	43,261	6,149	9,599	1,146
Other liabilities	34,076	30,395	32,297	28,613	21,966	–	–	–
Shareholders' equity (deficiency)	87,115	80,727	72,251	71,593	16,196	16,956	(1,169)	(857)
Total liabilities and shareholders' equity	**133,693**	**128,295**	**128,447**	**129,606**	**81,423**	**23,105**	**8,429**	**289**
Working capital (deficit)	26,905	19,650	22,962	26,743	(17,510)	16,914	(1,202)	(890)
Revenue	9,802	12,125	14,222	7,684	2,419	–	–	–
Mine site operating costs	(7,350)	(9,571)	(5,809)	(7,100)	(1,874)	–	–	–
Amortization	(2,418)	(2,141)	(1,975)	(1,680)	(395)	–	–	–
Operating profit (loss)	34	413	6,438	(1,096)	150	–	–	–
Expenses								
Accretion of reclamation obligation	378	28	59	55	–	–	–	–
Exploration	174	127	304	162	508	526	175	120
Foreign exchange	16	(126)	(641)	(2,856)	(336)	(394)	6	3
Legal, accounting and audit	472	253	66	403	(252)	326	215	118
Office and administration	1,147	850	700	1,651	621	409	313	227
Property investigation	–	–	–	–	–	–	–	139
Shareholder communications	65	64	69	57	53	51	40	11
Stock-based compensation	1,177	617	32	8	16	18	38	63
Travel and conference	382	147	126	285	120	125	136	30
Transfer agent filings	439	98	7	56	23	52	45	3
Subtotal	4,250	2,058	721	(179)	754	1,113	968	714
Gain on sale of marketable securities	–	–	–	–	–	–	–	–
Gain on investments	–	–	–	16	(16)	–	–	–
Write-off of amounts receivable	18	–	–	225	–	–	–	–
Loss (gain) on disposal of equipment	424	3	(25)	82	12	–	–	–
Interest income	(447)	(186)	(486)	(222)	(97)	(51)	(2)	(1)
Interest on capital leases	391	427	471	433	–	–	–	–
Accretion and interest expense	84	102	86	610	356	1,156	345	–
Loss on early retirement of convertible note	–	–	–	–	–	138	–	–
Write-down of mineral property interests	–	–	–	–	–	–	–	47
Profit (loss) before income taxes	(4,687)	(1,991)	5,671	(2,061)	(859)	(2,356)	(1,311)	(760)
Future income tax recovery (expense)	698	26	(1,768)	646	(10)	–	–	–
Profit (loss) before non-controlling interest	(5,385)	(1,965)	3,903	(1,415)	(868)	(2,356)	(1,311)	(760)
Non-controlling interest	(3,322)	837	(3,472)	(506)	91	–	–	–
Profit (loss) for the period	$ (8,707)	$ (1,128)	$ 431	$(1,921)	$(777)	$(2,356)	$(1,311)	$(760)
Basic and diluted profit (loss) per share	$ (0.04)	$ 0.00	$ 0.00	$ (0.03)	$ (0.01)	$ (0.08)	$ (0.05)	$ (0.03)
Weighted average number of common shares outstanding (thousands)	223,891	187,817	187,132	99,614	68,307	30,322	24,191	23,675

1.5 Results of Operations

The Company had a loss of $9,403,027 for the nine month period ended February 29, 2008 compared to a net loss of $6,365,142 for the year ended May 31, 2007. The biggest component of this loss is attributable to the non-controlling interest of $5,955,779 for this year compared to the $415,159 for the year ended May 31, 2007. Of this $5,955,779 an amount of $4,463,261 related to an exchange gain as a result of the 49% non-controlling interest being held at the South African operating subsidiaries rather than at the consolidated entity level whereby they would have shared in a net foreign exchange gain of only $751,358 thereby reducing the loss by $4,095,096 to $5,307,931. The further increase in net losses during the period resulted from stock based compensation expenses recognized on stock options granted during the nine months ending February 29, 2008, lower foreign exchange gains, interest expense on the Company's capital leases, increased accretion of reclamation obligations, loss on disposal of assets and future income tax expenses which was offset by lower exploration and convertible note accretion expenses incurred in the year ending May 31, 2007. The Company recorded a loss of $0.05 per share for the nine months ended February 29, 2008, compared to a loss of $0.11 per share for the year ended May 31, 2007.

During the nine months ended February 29, 2008 the Company realized rough diamond sales of $36,038,106 of which $9,802,308 was earned during the third quarter of fiscal 2008 compared to $12,125,363 for the second quarter of fiscal 2008 and to $nil for the comparable period in the prior year. Mine site operating costs for the nine months ended February 29, 2008 amounted to $29,264,212 (three months ended February 29, 2008 - $9,768,420, three months ended November 30, 2007 - $11,712,135), which includes amortization and depletion charges of $6,533,941 (six months ended November 30, 2006 – nil).

Exploration expenses (excluding stock-based compensation) decreased to $604,169 for the nine months ended February 29, 2008 compared to $1,371,351 for the year ending May 31, 2007. This decrease is due to higher exploration activities incurred during the year ended May 31, 2007 performed on the African diamond properties which included the Holpan/Klipdam property. The exploration expenses for the nine months ended February 29, 2008 were mainly incurred on the Kwango River Project in the DRC and the Ricardo property in Chile.

The Company incurred a foreign exchange gain of $751,318 for the nine months ended February 29, 2008 compared to a foreign exchange gain of $3,580,364 for the year ended May 31, 2007 due to a higher amount of South African denominated liabilities and the strengthening of the Canadian dollar. Foreign exchange gains to the amount of $11,900,802 were realized in Durnpike and in Minera Ricardo (of which the non-controlling interest's share of this gain was $4,463,261), while foreign exchange losses of $11,149,484 were accounted for in Rockwell RSA, Cayman Islands and Rockwell Canada (the non-controlling interest did not share in these losses) for the period ended February 29, 2008. Because the non-controlling interest did not share in the loss, this increased the loss for the consolidated company.

Administrative costs for the nine months ended February 29, 2008 amounted to $2,697,077 in comparison to $2,993,453 incurred in for the year ended May 31, 2007, the variance is primarily due to reduced consulting and salary expenses as the Company has completed its major corporate financing, acquisition, operational management and property investigation activities. Travel and conference expenses amounted to $654,705 for the nine months ended February 29, 2008 compared to $666,194 for the year ended May 31, 2007, largely due to reduced travel as the acquisition activities have been completed. Legal, accounting and audit expenses for the nine months ended February 29, 2008 amounted to $790,725 compared to $691,759 incurred for the year ended May 31, 2007. This increase was primarily due to increased legal and accounting services related the listing on both the Johannesburg Stock Exchange and the TSX, these increases were however partially offset by reduced legal and accounting services as the Company's acquisition activities of Durnpike and HC Van Wyk have been completed.

Stock-based compensation increased to $1,826,317 for the nine months ended February 29, 2008 in comparison to $79,623 for the year ended May 31, 2007 due to an increase in the number of options granted during fiscal 2008.

Interest expenses decreased to $270,976 for the nine months ended February 29, 2008, compared to $2,466,839 for the year ended May 31, 2007, mainly due to the accretion and interest charges relating to the issuance of the convertible promissory notes incurred during the year 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.

At February 29, 2008, the Company had a working capital of $26,094,261 compared to working capital of $26,742,798 at May 31, 2007.

During the period of the nine months ended February 29, 2008, the Company, as part of the Durnpike acquisition, completed the remaining payment of $6.12 million by issuing 7,848,663 Common Shares of the Company to the Vendors. In addition the Company completed the payment of ZAR30 million ($4.5 million) in cash to the Van Wyk Trust during the first quarter of fiscal 2008.

The Company has the following payment commitments: (a) payment of ZAR2.3 million ($294,402) in cash to Folmink Delwery CC (Makoenskloof) for plant and equipment (b) minimum lease payments of ZAR117 million ($14.8 million) in installments up to the year 2010 to various financial institutions for plant and equipment.

In March 2008, subsequent to the nine months ending February 29, 2008, pursuant to the Exchange Agreement the Company issued Common Shares to the Van Wyk Trust and increased its ownership by 23% to a total of 74% of the VWDG assets.

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 February 29, 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 February 29, 2008 the Company is committed to pay the remaining consideration of ZAR2.3 million ($294,402) and is committed to pay the remaining consideration 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

b) In relation to the acquisition of Saxendrift Mine (Pty) Ltd., the Company will pay cash consideration of approximately ZAR100.4 million ($14.8 million) and will assume potential liabilities for staff layoffs (capped at ZAR5 million ($0.8 million)) and rehabilitation bonds (capped at ZAR4.25 million ($0.6 million)). All payments and liabilities are expected to total approximately ZAR109.9 million ($16.2 million), subject to certain final adjustments.

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 23 % to a total of 74% of the VWDG assets.

Subsequent to the nine months ending February 29, 2008, 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 at a subscription price of ZAR17.5 million and injecting ZAR10.5 million in working capital into the VWDG.

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 February 29,2007.

1.8 Off-Balance Sheet Arrangements

None.

1.9 Transactions with Related Parties

Balances payable	As at February 29, 2008	As at May 31, 2007
Hunter Dickinson Inc. (a)	$ –	$ 37,571
Euro-American Capital Corporation (b)	–	2,879
CEC Engineering (c)	–	5,558
Durnpike shareholder loans (i)	–	1,503,566
Banzi Trading (j)	–	2,191
Jakes Tyres (k)	49,604	10,993
Cashmere Trading (g)	–	46,543
	$ 49,604	$ 1,609,301
Balances receivable		
Hunter Dickinson Inc. (a)	$ 78,504	$ –
Flawless Diamonds Trading House (h)	477,298	781,928
Banzi Trading (j)	33,744	–
Diacor CC (n)	3,888	–
AA Van Wyk (l)	–	57,325
	$ 593,434	$ 839,253

Transactions	Nine Months ended February 29 2008	Year ended May 31 2007	Year ended May 31 2006
Services rendered and expenses reimbursed:			
Hunter Dickinson Inc. (a)	$ 869,861	$ 1,988,027	$ 578,134
Euro-American Capital Corporation (b)	14,393	18,765	18,630
CEC Engineering (c)	39,766	187,225	–
John Bristow (d)	–	115,320	–
Jeffrey B Traders CC (e)	52,740	141,318	–
Seven Bridges Trading (f)	57,952	55,534	–
Plateau Resources (Proprietary) Limited (j)	–	–	124,737
Cashmere Trading (g)	353,736	43,357	–
Banzi Trade 26 (Pty) Ltd (k)	47,575	251,942	–
Jakes Tyres (l)	1,141,454	267,361	–
AA Van Wyk (m)	148,658	173,977	–
Diacor CC (n)	3,888	–	–
Sales rendered to:			
Flawless Diamonds Trading House (h)	$ 36,038,106	$ 10,085,536	$ –

(a) Hunter Dickinson Inc. ("HDI") is private company equally owned by several public companies, one of which is Rockwell, and has certain directors in common with the Company. HDI 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 January 1, 2001. 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) John Bristow, President, Chief Executive Officer and a director of the Company, provided engineering consulting services at market rates to the Company.

(e) 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.

(f) 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.

(g) Cashmere Trading is a private company owned by Hennie Van Wyk, an officer of the Company, which provides helicopter services at market rates.

(h) 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.

(i) Pursuant to the Company' agreement to acquire all of the shares and loans in Durnpike Investments (Pty) Limited from eight individuals (the "Vendors"), of which three individuals from the Vendors were subsequently appointed to the Company's Board of Directors (Messr. Brenner, M.Bristow, J.Bristow).

(j) Plateau Resources (Proprietary) Limited ("Plateau") is a wholly-owned subsidiary of Anooraq Resources Corporation, a Canadian company which has certain directors in common with the Company. Plateau shares certain premises and other facilities with the Company pursuant to a cost-sharing arrangement with no profit element involved.

(k) Banzi Trade 26 (Pty) Ltd ("Banzi") is 50% owned by Hennie Van Wyk Family Trust, 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.

(l) Jakes Tyres is a private company with certain directors and officers in common with the Company that provides consumable materials at market rates.

(m) 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.

(n) 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 Third Quarter

The Company had a net loss of $8,706,846 for the quarter ended February 29, 2008 compared to a net loss of $1,921,445 for the same period in the prior year. The increase in net loss during the period is primarily due to the stock based compensation expense, the foreign currency movements which resulted in a loss for the quarter and slightly increased operating expenses.

During the quarter ended February 29, 2008, the Company realized rough diamond sales of $9.8 million (quarter ended May 31, 2007 - $7.7 million). Mine site operating costs were $7.3 million (quarter ended May 31, 2007 - $7.1 million), and amortization and depletion charges were $2.4 million (quarter ended May 31, 2007 - $1.7 million).

Exploration expenses for the third quarter ended May 31, 2007 amounted to $173,784 compared to $162,523 for the same period in the prior year. The increase is mainly due to increased engineering activities, geological activities and site activities incurred on the Kwango River Project in the DRC and the Ricardo property in Chile.

The Company incurred a foreign exchange loss of $16,346 for the third quarter of fiscal 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 strengthening of the Canadian dollar.

Administrative costs for the quarter ended February 29, 2008 decreased to $1,147,241 compared to $1,651,984 incurred in the same period in the previous year, primarily due to reduced consulting and salary expenses as the Company has completed its major corporate financing, acquisition, operational management and property investigation activities. Travel and conference expenses increased to $381,458 for the quarter ended February 29, 2008 compared to $285,222 for the same period in the previous year due to more travel by the Company’s expanded personnel base and to more properties in South Africa and the DRC.

Legal, accounting and audit expenses for the quarter ended February 29, 2008 was $472,352 compared to $402,402 in the same quarter in the prior year. The increase was due to the listing on both the Johannesburg Stock Exchange and the TSX.

Stock-based compensation increased to $1,177,352 for the quarter ending February 29, 2008 in comparison to $7,578 for the same period in the previous year due to an increase in options vesting in fiscal 2008.

Interest expenses decreased to $83,584 (quarter ended May 31, 2007 - $610,331) for the third quarter of fiscal 2008 as a result of the Company’s no longer relying on bridge loans or other lending facilities.

1.11 Proposed Transactions

Please refer to the discussion of the proposed transaction in Section 1.2.3 *Acquisitions*, *The Middle Orange River Operations*.

1.12 Critical Accounting Estimates

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

- mineral resources and reserves,
- the carrying values of 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 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

The CICA issued Section 3855, Financial Instruments –Recognition and Measurement, Section 3861, “Financial Instruments – Disclosure and Presentation”, Section 3865, “Hedges”, and Section 1530, “Comprehensive Income”, all applicable to the Company for annual or interim accounting periods beginning on June 1, 2007.

Section 3855 requires all financial assets, financial liabilities and non-financial derivatives to be recognized on the balance sheet and measured based on specified categories. Section 3861 identifies and details information to be disclosed in the financial statements.

Section 3865 sets out when hedge accounting can be applied and builds on existing Canadian GAAP guidance by specifying how hedge accounting is applied and disclosed.

Section 1530 introduces new standards for the presentation and disclosure of the components of comprehensive income. Comprehensive income is defined as the change in net assets of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources.

The CICA also issued Section 1506, Accounting Changes, which revises the current standards on changes in accounting policy, estimates or errors as follows: voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information; changes in accounting policy are to be applied retrospectively unless doing so is impracticable; changes in estimates are to be recorded prospectively; and prior period adjustments are to be corrected retrospectively. In addition, this standard calls for enhanced disclosure about the effects of changes in accounting policies, estimates and errors on the financial statements.

1.14 Financial Instruments and Other Instruments

The Company's financial instruments consist of cash and equivalents, restricted cash, amounts receivable, security deposit, reclamation deposit, accounts payable and accrued liabilities, reclamation obligation, capital leases, amounts owing pursuant to acquisition and balances receivable from or due to related parties. It is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

1.15 Other MD&A Requirements

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

1.15.1 Additional Disclosure for Venture Issuers Without Significant Revenue

Not applicable. The Company is not a venture issuer.

1.15.2 Disclosure of Outstanding Share Data

The following details the share capital structure as at May 20, 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	March 28, 2008	$ 0.50	150,000	
	July 10, 2010	$ 0.68	300,000	
	September 24, 2012	$ 0.62	5,903,000	
	November 14, 2012	$ 0.63	1,109,000	7,462,000
Warrants	November 22, 2008	$0.80	39,600,000	
	May 9, 2009	$0.70	121,779,154	161,379,154

1.15.3 Internal Controls over Financial Reporting Procedures

The management of the Company is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company’s internal control system was designed to provide reasonable assurance to the Company’s management and the board of directors regarding the preparation and fair presentation of published financial statements. Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company’s management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of internal control over financial reporting based on the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that internal control over financial reporting was effective as of December 31, 2007 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

1.15.4 Disclosure Controls and Procedures

As of the end of the period covered by this report, our management carried out an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the *Securities*

Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in reports that we file or submit under the Exchange Act.

It should be noted that while our Chief Executive Officer and our Chief Financial Officer believe that our disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met.

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