



CONSOLIDATED FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007

(Expressed in Canadian Dollars)

(Unaudited)

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

# ROCKWELL DIAMONDS INC.

## Consolidated Balance Sheets (Expressed in Canadian Dollars)

	November 30 2007 (unaudited)	May 31 2007
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and equivalents	\$ 12,774,973	\$ 32,626,376
Accounts receivable	346,140	1,724,418
Restricted cash (note 11(a))	15,519,569	15,642,120
Trade receivable from a related party (note 10)	3,817,520	839,253
Diamond inventory and supplies (note 4)	3,720,164	2,604,684
Prepays and deposits	644,945	2,705,721
	<hr/> 36,823,311	<hr/> 56,142,572
Deferred financing costs (note 11(b))	300,000	–
Property, plant and equipment (note 5)	56,980,629	44,790,441
Mineral property interests (note 6)	24,928,327	24,121,855
Other assets and deposits	7,480,814	3,513,449
Reclamation deposits (note 8)	1,782,064	1,038,066
	<hr/> \$ 128,295,145	<hr/> \$ 129,606,383
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 7,857,809	\$ 4,460,922
Amounts owing pursuant to acquisition	622,257	13,842,809
Due to related parties (note 10)	541,787	1,609,301
Income taxes	1,146,416	1,677,787
Current portion of capital lease obligations (note 7)	7,004,539	7,808,955
	<hr/> 17,172,808	<hr/> 29,399,774
<b>Long-term liabilities</b>		
Capital lease obligations (note 7)	6,976,410	9,294,581
Future income taxes	13,384,349	11,978,860
Reclamation obligation (note 8)	1,422,026	1,361,557
	<hr/> 21,782,785	<hr/> 22,634,998
<b>Non-controlling interest</b>	8,612,975	5,978,769
<b>Shareholders' equity</b>		
Share capital (note 9)	98,126,339	88,903,530
Warrants (note 9)	1,693,197	1,693,197
Contributed surplus	1,206,856	599,749
Deficit	(20,299,815)	(19,603,634)
	<hr/> 80,726,577	<hr/> 71,592,842
Nature and continuance of operations (note 1)		
Subsequent events (notes 11)		
Contingencies and commitments (note 6 and 12)		
	<hr/> \$ 128,295,145	<hr/> \$ 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

(Unaudited - Expressed in Canadian Dollars)

	Three months ended November 30		Six months ended November 30	
	2007	2006	2007	2006
<b>Revenue</b>				
Rough diamonds sales (note 10(h))	\$ 12,072,363	\$ –	\$ 26,094,337	\$ –
Contract diamond sales (note 10(h))	–	–	179,975	–
Other sales	52,581	–	73,096	–
	12,124,944	–	26,347,408	–
<b>Cost of sales</b>				
Cost of rough diamonds sales	(9,570,978)	–	(15,227,061)	–
Cost of contract diamond sales	–	–	(152,979)	–
Amortization and depletion	(2,141,157)	–	(4,116,170)	–
<b>Operating profit</b>	412,809	–	6,851,198	–
<b>Expenses</b>				
Accretion of reclamation obligation (note 8)	27,857	–	86,400	–
Exploration	126,741	525,952	430,385	700,693
Foreign exchange gain	(126,397)	(394,352)	(767,664)	(388,601)
Legal, accounting and audit	252,611	325,928	318,373	541,286
Office and administration	849,940	407,954	1,549,836	720,259
Shareholder communications	64,357	50,976	134,149	91,413
Stock-based compensation - exploration (note 9(b))	167,109	9,292	173,571	29,301
Stock-based compensation - administration (note 9(b))	449,672	9,102	475,283	27,134
Travel and conferences	147,443	125,299	273,247	261,062
Transfer agent	97,977	52,484	104,870	97,463
	2,057,310	1,112,635	2,778,450	2,080,010
<b>Other items</b>				
Loss (gain) on disposal of equipment	3,323	–	(21,954)	–
Interest income	(185,813)	(51,073)	(671,566)	(52,509)
Interest on capital leases	427,301	–	898,496	–
Convertible note accretion and interest expense	101,618	1,156,255	187,392	1,501,043
Loss on early extinguishment of convertible promissory notes	–	137,957	–	137,957
Write-down of marketable securities	–	–	–	1
	346,429	1,243,139	392,368	1,586,492
<b>Profit (loss) before income taxes</b>	(1,990,930)	(2,355,774)	3,680,380	(3,666,502)
Income tax recovery (expense)	398	–	(26,496)	–
Future income tax recovery (expense)	25,768	–	(1,715,859)	–
<b>Profit (loss) before non-controlling interest</b>	(1,964,764)	(2,355,774)	1,938,025	(3,666,502)
Non-controlling interest	837,374	–	(2,634,206)	–
<b>Loss for the period</b>	(1,127,390)	(2,355,774)	(696,181)	(3,666,502)
Other comprehensive income (loss)	–	–	–	–
<b>Total Comprehensive Loss</b>	\$ (1,127,390)	\$ (2,355,774)	\$ (696,181)	\$ (3,666,502)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.08)	\$ (0.00)	\$ (0.15)
<b>Weighted average number of common shares outstanding</b>	187,816,993	30,322,392	187,225,090	25,282,223

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

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

(Expressed in Canadian Dollars)

	<b>Six months ended November 30</b>		<b>Year ended May 31</b>	
	<b>2007</b>		<b>2007</b>	
	(unaudited)			
	<u>Number of</u>		<u>Number of</u>	
	<u>shares</u>		<u>shares</u>	
<b>Share capital</b>				
Balance at beginning of the period	186,976,219	\$ 88,903,530	23,694,776	\$ 11,857,649
Share purchase options exercised at \$0.40 per share	107,917	43,167	9,167	3,734
Share purchase options exercised at \$0.42 per share	10,000	4,200	–	–
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
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 \$0.60 per share	2,400,000	1,440,000	–	–
Consideration for acquisition of property net of issue cost at \$0.78 per share (note 6)	7,848,663	6,081,842	–	–
Consideration for property finders fees at \$0.78 per share (note 6)	1,676,529	1,307,693	–	–
Fair value of stock options allocated to shares issued on exercise	–	41,747	–	3,294
Balance at end of the period	199,519,328	\$ 98,126,339	186,976,219	\$ 88,903,530
<b>Warrants</b>				
Broker warrants issued as consideration for private placement		1,693,197		1,693,197
		\$ 1,693,197		\$ 1,693,197
<b>Contributed surplus</b>				
Balance at beginning of the period		599,749		523,420
Stock-based compensation (note 9(b))		648,854		79,623
Fair value of stock options allocated to shares issued on exercise		(41,747)		(3,294)
Balance at end of the period		\$ 1,206,856		\$ 599,749
<b>Deficit</b>				
Balance at beginning of the period		(19,603,634)		(13,238,492)
Loss for the period		(696,181)		(6,365,142)
Balance at end of the period		\$ (20,299,815)		\$ (19,603,634)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>\$ 80,726,577</b>		<b>\$ 71,592,842</b>

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

# ROCKWELL DIAMONDS INC.

## Consolidated Statements of Cash Flows

(Unaudited - Expressed in Canadian Dollars)

Cash provided by (applied to):	Three months ended November 30		Six months ended November 30	
	2007	2006	2007	2006
<b>Operating activities</b>				
Profit (loss) for the period	\$ (1,127,390)	\$ (2,355,774)	\$ (696,181)	\$ (3,666,502)
Items not affecting cash				
Accretion of reclamation obligation	27,857	–	86,400	–
Amortization and depletion	1,381,374	219	2,580,237	219
Amortization of capital lease equipment	759,783	–	1,535,933	–
Write-down of marketable securities	–	–	–	1
Loss on early extinguishment of convertible promissory note	–	137,957	–	137,957
Non cash convertible note accretion and interest expense	–	1,156,255	–	1,501,043
Stock-based compensation	616,781	18,394	648,854	56,434
Unrealized foreign exchange gain	(28,444)	–	(1,078,947)	–
(Profit) loss on disposal of equipment	3,323	–	(21,954)	–
Future income tax expense	(25,768)	–	1,715,859	–
Provision for site reclamation	(4,722)	–	(25,931)	–
Non-controlling interest	(837,374)	–	2,634,206	–
Changes in non-cash working capital items				
Accounts receivable	85,450	(590,839)	1,378,278	(659,281)
Amounts due to and from related parties	(1,022,759)	–	(2,978,267)	–
Inventory	1,723,631	–	(1,115,480)	–
Prepays and deposits	913,442	–	2,060,776	–
Accounts payable and accrued liabilities	3,328,091	(46,807)	3,396,887	(52,284)
Income taxes	(261,320)	–	(531,371)	–
Cash provided by (used in) operating activities	5,531,955	(1,680,595)	9,589,299	(2,682,413)
<b>Investing activities</b>				
Loan to Durnpike Investments (Pty) Limited	–	(3,779,144)	–	(11,559,922)
Restricted cash	21,087	–	122,551	–
Mineral property acquisitions	2,426,673	–	926,071	–
Purchase of equipment	(10,769,428)	(10,500)	(15,192,168)	(10,500)
Proceeds received on disposal of equipment	447,020	–	829,923	–
Other assets and deposits	(1,684,772)	–	(3,967,365)	–
Reclamation deposits	(63,177)	–	(743,998)	–
Cash used in investing activities	(9,622,597)	(3,789,644)	(18,024,986)	(11,570,422)
<b>Financing activities</b>				
Principal repayments under capital lease obligations	(2,846,194)	–	(4,701,019)	–
Common shares and warrants issued for cash, net of issue costs	1,297,167	19,784,254	1,491,527	19,784,587
Amounts received (paid) to related parties	(2,199,094)	(220,213)	(1,067,514)	(944,867)
Amounts paid pursuant to property acquisition	(478,304)	–	(7,138,710)	–
Credit facility	–	6,000,000	–	6,000,000
Repayment of convertible promissory notes	–	(9,500,000)	–	(9,500,000)
Issuance of convertible promissory notes	–	–	–	9,500,000
Cash provided by (used in) investing activities	(4,226,425)	16,064,041	(11,415,716)	24,839,720
<b>Increase (decrease) in cash and equivalents during the period</b>	<b>(8,317,067)</b>	<b>10,593,801</b>	<b>(19,851,403)</b>	<b>10,586,885</b>
Cash and equivalents, beginning of period	21,092,040	185,115	32,626,376	192,031
<b>Cash and equivalents, end of period</b>	<b>\$ 12,774,973</b>	<b>\$ 10,778,916</b>	<b>\$ 12,774,973</b>	<b>\$ 10,778,916</b>
Interest paid during the period	\$ 101,618	\$ –	\$ 187,392	\$ –
Interest received	\$ 185,813	\$ –	\$ 671,566	\$ –
Income taxes paid during the period	\$ 261,320	\$ –	\$ 531,371	\$ –
<b>Supplemental disclosure of non-cash investing and financing activities:</b>				
Issuance of common shares - deferred financing cost (note 11(b))	\$ –	\$ –	\$ 300,000	\$ –
Issuance of common shares - interest on convertible promissory notes	\$ –	\$ 522,500	\$ –	\$ 1,045,000
Issuance of common shares - interest on credit facility	\$ –	\$ 594,000	\$ –	\$ 594,000
Issuance of commons shares as consideration for acquisition of property (note 6)	\$ 6,081,842	\$ –	\$ 6,081,842	\$ –
Issuance of common shares as consideration for property finders fees (note 6)	\$ 1,307,693	\$ –	\$ 1,307,693	\$ –
Fair value of stock options allocated to shares issued upon exercise	\$ 9,040	\$ 337	\$ 41,747	\$ 337
Equipment acquired under capital lease (note 5)	\$ 1,136,242	\$ –	\$ 1,922,159	\$ –

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

# ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three and six months ended November 30, 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

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## 1. NATURE AND CONTINUANCE OF OPERATIONS

Rockwell Diamonds Inc. (the "Company") is incorporated under the British Columbia *Business Corporations Act* (formerly the *Company Act* of British Columbia), and is engaged in the business of diamond production, acquiring and exploring natural resource properties. The Company's principal mineral property interests are located in South Africa and Chile.

These interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. They do not include all the disclosures as required for annual financial statements under generally accepted accounting principles. However, these interim consolidated financial statements follow the same accounting policies and methods of application as the Company's most recent audited annual financial statements except for changes described in note 3 below. These interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements which are available through the Internet on SEDAR at [www.sedar.com](http://www.sedar.com).

Subsequent to the quarter ended November 30, 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. The change in year end is subject to regulatory approval.

Operating results for the three and six months ended November 30, 2007 are not necessarily indicative of the results that may be expected for the year ending February 29, 2008.

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 SIGNIFICANT ACCOUNTING POLICIES

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.

# ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three and six months ended November 30, 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

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## 3. CHANGES IN 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.

### (a) *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.

# ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three and six months ended November 30, 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

(b) *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.

(c) *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 November 30, 2007, the Company had no accumulated other comprehensive income and for the three and six months ended November 30, 2007, comprehensive income (loss) equals net loss.

## 4. DIAMOND INVENTORY AND SUPPLIES

	November 30, 2007	May 31, 2007
Rough diamond inventory	\$ 1,374,894	\$ 644,459
Mine supplies	2,002,950	1,741,412
Fuel, oil and grease	342,320	218,813
Total inventory and supplies	\$ 3,720,164	\$ 2,604,684

## 5. PROPERTY, PLANT AND EQUIPMENT

	As at November 30, 2007		
	Cost	Accumulated amortization	Net book value
Land and building	\$ 7,016,467	\$ –	\$ 7,016,467
Processing plant and equipment	28,548,842	1,660,518	26,888,324
Processing plant and equipment under capital lease	23,761,993	2,236,170	21,525,823
Office equipment	400,628	89,263	311,365
Vehicles and light equipment	1,578,632	471,136	1,107,496
Vehicles and light equipment under capital lease	154,299	23,145	131,154
	\$61,460,861	\$ 4,480,232	\$56,980,629

## ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three and six months ended November 30, 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

	As at May 31, 2007		
	Cost	Accumulated amortization	Net book value
Land and building	\$ 3,823,455	\$ –	\$ 3,823,455
Processing plant and equipment	16,307,635	609,026	15,698,609
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
	<b>\$46,340,914</b>	<b>\$ 1,550,473</b>	<b>\$44,790,441</b>

### 6. MINERAL PROPERTY INTERESTS

Acquisition Costs	Six months ended November 30, 2007	Year ended May 31, 2007
Durnpike Investments (Pty) Limited		
Balance, beginning of period	\$ 24,121,854	\$ –
Acquisition costs	1,241,097	18,696,487
Financial, legal, advisory, and other fees	15,822	527,328
Future income tax liability	424,850	5,421,981
Depletion of mineral properties during the period	(875,296)	(523,942)
Durnpike Investments (Pty) Limited, end of period	24,928,326	24,121,854
Ricardo Property	1	1
<b>Balance, end of period</b>	<b>\$ 24,928,327</b>	<b>\$ 24,121,855</b>

In July 2007, the Company completed the acquisition of all the issued and outstanding shares in the capital of a South African private company with an alluvial diamond property in the Wouterspan project area, for total cash consideration to the acquired company's shareholders of \$2,208,500 which comprised of \$1,465,000 for mineral rights and properties and \$743,500 for land and buildings.

Pursuant to the Definitive Agreement disclosed in note 5(a) of the audited financial statements for year ended May 31, 2007, the Company was committed to issue Common Shares of the Company as consideration for acquiring all of the shares and loans in Durnpike for ZAR39.8 million (\$6.1 million) on the earlier of (i) the date of the Johannesburg Stock Exchange listing ("JSE Listing"); and (ii) within 12 months from signature of the Definitive Agreement.

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 and also 1,676,529 Common Shares as finder fees relating to the Durnpike acquisition.

## ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three and six months ended November 30, 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

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### 7. CAPITAL LEASE OBLIGATIONS

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

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

	<b>As at November 30, 2007</b>	<b>As at May 31, 2007</b>
Liebherr Finance	\$ 18,563	\$ 131,572
ELB Finance	127,093	175,180
Stannic	2,758,609	3,452,953
Wesbank	396,012	557,153
Nedbank	2,759,693	4,383,372
Komatfin	7,920,979	8,403,305
	<b>\$ 13,980,949</b>	<b>\$ 17,103,535</b>

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

Future minimum lease payments are as follows:

	<b>As at November 30, 2007</b>
2008	\$ 7,205,099
2009	5,927,037
2010	2,473,945
Total minimum lease payments	15,606,081
Less interest portion	(1,625,132)
Present value of capital lease obligations	13,980,949
Current portion	(7,004,539)
Non-current portion	\$ 6,976,410

## ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three and six months ended November 30, 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

### 8. 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:

Balance, May 31, 2007	\$ 1,361,557
Changes during the period:	
Reclamation expenses incurred during the period	(25,931)
Accretion expense	86,400
Site closure and reclamation obligations, November 30, 2007	\$ 1,422,026

The estimated amount of the reclamation costs, adjusted for estimated inflation at 6% per year, is \$800,000 for the Klipdam mine in the year 2011, \$1.3 million for the Holpan mine in the year 2013 and \$2.6 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 \$1,422,026. The accretion of \$86,400 (2007 – \$Nil) is charged to the statement of operations.

As required by regulatory authorities, at November 30, 2007, the Company had cash reclamation deposits totaling \$1,782,064 (2007 – \$ 1,038,066) comprised of \$1,622,676 (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%.

### 9. SHARE CAPITAL

#### (a) Authorized share capital

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

#### (b) Share purchase options

The continuity of share purchase options for the period ended November 30, 2007 is as follows:

Expiry date	Exercise price	May 31 2007	Granted	Exercised	Expired/ cancelled	November 30 2007
September 28, 2007	\$ 0.40	107,917	–	107,917	–	–
February 29, 2008	\$ 0.42	190,000	–	10,000	5,000	175,000
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	–	–	5,905,500
November 14, 2012	\$ 0.63	–	1,114,500	–	–	1,114,500
		<b>447,917</b>	<b>7,320,000</b>	<b>117,917</b>	<b>5,000</b>	<b>7,645,000</b>
Weighted average exercise price	\$ 0.44	\$ 0.62	\$ 0.40	\$ 0.42	\$ 0.62	
Weighted average fair value of options granted during the period					\$ 0.62	

# ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three and six months ended November 30, 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

As at November 30, 2007, 325,000 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:

	Three months ended		Six months ended	
	November 30		November 30	
	2007	2006	2007	2006
Exploration and engineering	\$ 167,109	\$ 9,292	\$ 173,571	\$ 29,301
Operations and administration	449,672	9,102	475,283	27,134
<b>Total compensation cost expensed to operations, with the offset credited to contributed surplus</b>	<b>\$ 616,781</b>	<b>\$ 18,394</b>	<b>\$ 648,854</b>	<b>\$ 56,434</b>

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

	Three months ended		Six months ended	
	November 30		November 30	
	2007	2006	2007	2006
Risk free interest rate	4%	4%	4%	4%
Weighted average expected life	2.0 years	1.7 years	1.7 years	1.7 years
Vesting period	3-10 months	3-10 months	3-10 months	3-10 months
Weighted average expected volatility	83%	108%	83%	108%
Expected dividends	nil	nil	nil	nil

## (c) Share purchase warrants

The continuity of share purchase warrants (each warrant exercisable into one common share) for the period ended November 30, 2007 is:

Expiry date	November 22, 2008 <sup>(i)</sup>	May 09, 2009 <sup>(ii)</sup>	May 09, 2009 <sup>(iii)</sup>
Exercise price	\$0.80	\$0.70	\$0.70
Balance, May 31, 2007	42,000,000	116,007,154	5,772,000
Issued	-	-	-
Exercised	2,400,000	-	-
Expired	-	-	-
Balance, November 30, 2007	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 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 values of 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

# ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three and six months ended November 30, 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

estimate the fair value of warrants granted were an expected volatility of 97%, expected dividends of nil, expected life of 2 years and risk free rate of 4%.

## 10. RELATED PARTY BALANCES AND TRANSACTIONS

<b>Balances payable</b>	<b>As at November 30, 2007</b>	<b>As at May 31, 2007</b>
Hunter Dickinson Inc. (a)	\$ 153,341	\$ 37,571
Euro-American Capital Corporation (b)	6,561	2,879
CEC Engineering (c)	10,446	5,558
Durnpike shareholder loans (i)	36,361	1,503,566
Banzi Trading (j)	-	2,191
Jakes Tyres (k)	289,434	10,993
Cashmere Trading (g)	45,644	46,543
	<b>\$ 541,787</b>	<b>\$ 1,609,301</b>
<b>Balances receivable</b>		
Flawless Diamonds Trading House (h)	\$ 3,782,853	\$ 781,928
Banzi Trading (j)	34,667	-
AA Van Wyk (l)	-	57,325
	<b>\$ 3,817,520</b>	<b>\$ 839,253</b>

<b>Transactions</b>	<b>Three months ended November 30</b>		<b>Six months ended November 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Services rendered and expenses reimbursed:</b>				
Hunter Dickinson Inc. (a)	\$ 283,436	\$ 565,291	\$ 504,305	\$ 956,722
Euro-American Capital Corporation (b)	6,208	2,960	14,356	7,400
CEC Engineering (c)	17,641	62,087	32,916	107,420
John Bristow (d)	-	41,188	-	102,096
Jeffrey B Traders CC (e)	13,185	55,386	52,740	55,386
Seven Bridges Trading (f)	19,277	-	38,929	-
Cashmere Trading (g)	119,544	-	239,088	-
Banzi Trade 26 (Pty) Ltd (j)	5,064	-	9,155	-
Jakes Tyres (k)	737,538	-	871,400	-
AA Van Wyk (l)	-	-	150,716	-
<b>Sales rendered to:</b>				
Flawless Diamonds Trading House (h)	\$12,072,363	\$ -	\$26,274,312	\$ -

- (a) Hunter Dickinson Inc. ("HDI") is private company owned equally by nine 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.

## ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three and six months ended November 30, 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

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

# ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three and six months ended November 30, 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

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## 11. 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 between Douglas and Prieska in the Northern Cape Province of South Africa (“Northern Cape”) and which are collectively referred to as the Middle Orange River Operations and Projects (or “MORO”). The MORO includes:

- the rights to prospect, explore and/or mine precious stones and/or other minerals and/or metals held directly or indirectly by THO in the Saxendrift area of the Northern Cape;
- a series of large remnant alluvial diamond terraces comprising approximately 8.7 million cubic meters of indicated resource and 30.4 million cubic meters of inferred resources;
- the material plant, machinery, equipment and other movable assets owned and/or used by THO valued at ZAR53 million (approx. \$8.0 million);
- certain employees of THO; and
- a rehabilitation liability which will be taken over by the Company.

The Company will pay cash consideration to Trans Hex 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)). An independent consultant has been appointed to determine the value of the rehabilitation bonds. All payments and liabilities are expected to total approximately \$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 SPV”), to be acquired by the 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 SPV and the acquisition by the Company of the shares in Saxendrift SPV;
- Satisfactory provision by the Company of certain financial undertakings to THO;
- Approval by the TSX Venture Exchange;
- Completion by the Company of a mineral title due diligence investigation; and
- The audited balance sheet of Saxendrift SPV 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

# ROCKWELL DIAMONDS INC.

Notes to the Consolidated Financial Statements

For the three and six months ended November 30, 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

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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 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 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.

*(b) January 2008, Private Placement of \$14.5 million*

In January 2008 the Company completed a brokered private placement of 24,101,285 Common Shares at a price of \$0.60 per share for total proceeds of Cdn\$14,460,771.

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.

## 12. CONTINGENCIES AND COMMITMENTS

- (a) One of the 50% shareholders of Midamines has, subsequent to the conclusion of the Midamines Agreement (see note 5(a) of the audited financial statements for the year ended May 31, 2007) in accordance with a mandate granted by such shareholder, denied the validity of the Midamines Agreement. The remaining 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 Midamines internal dispute.

The Company remains committed to the Kwango River Project and is confident that the ongoing dispute between the shareholders of Midamines will be resolved. The Company will obtain formal legal advice from both Belgian and DRC legal counsel as soon as possible as the Midamines Agreement is governed by Belgian law and the obligations under the Midamines Agreement are to be implemented, where required, in accordance with the laws of the DRC. Concurrently, the Company will also monitor the resolution of the internal dispute between the Midamines shareholders. If the issue of minimum royalty payments is not settled on or before December 31, 2008, the Company will seek formal legal advice and may consider formally terminating the Midamines Agreement.

## **ROCKWELL DIAMONDS INC.**

Notes to the Consolidated Financial Statements

For the three and six months ended November 30, 2007

(Unaudited - Expressed in Canadian Dollars unless otherwise stated)

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- (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 November 30, 2007 the Company is committed to pay the remaining consideration of ZAR4.2 million (\$622,257) in the following manner:
- ZAR3 million (\$450,300) shall be payable by way of Common Shares of the Company. The shares cannot be exchanged, or traded, or sold in any manner, by the seller for a period of one year after date a listing on the JSE.
  - The remaining balance payable of shall be paid in monthly payments of ZAR500,000 (\$75,050). The monthly payments shall incur interest calculated at the prime rate of the Standard Bank of South Africa.

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**TABLE OF CONTENTS**

<b>1.1</b>	<b>DATE</b> .....	<b>2</b>
<b>1.2</b>	<b>OVERVIEW</b> .....	<b>2</b>
<b>1.3</b>	<b>SELECTED ANNUAL INFORMATION</b> .....	<b>16</b>
<b>1.4</b>	<b>SUMMARY OF QUARTERLY RESULTS</b> .....	<b>17</b>
<b>1.5</b>	<b>RESULTS OF OPERATIONS</b> .....	<b>18</b>
<b>1.6</b>	<b>LIQUIDITY</b> .....	<b>18</b>
<b>1.7</b>	<b>CAPITAL RESOURCES</b> .....	<b>19</b>
<b>1.8</b>	<b>OFF-BALANCE SHEET ARRANGEMENTS</b> .....	<b>20</b>
<b>1.9</b>	<b>TRANSACTIONS WITH RELATED PARTIES</b> .....	<b>20</b>
<b>1.10</b>	<b>FOURTH QUARTER</b> .....	<b>22</b>
<b>1.11</b>	<b>PROPOSED TRANSACTIONS</b> .....	<b>22</b>
<b>1.12</b>	<b>CRITICAL ACCOUNTING ESTIMATES</b> .....	<b>22</b>
<b>1.13</b>	<b>CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION</b> .....	<b>23</b>
<b>1.14</b>	<b>FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS</b> .....	<b>23</b>
<b>1.15</b>	<b>OTHER MD&amp;A REQUIREMENTS</b> .....	<b>23</b>
<b>1.15.1</b>	<b>ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE</b> .	<b>23</b>
<b>1.15.2</b>	<b>DISCLOSURE OF OUTSTANDING SHARE DATA</b> .....	<b>24</b>
<b>1.15.3</b>	<b>DISCLOSURE CONTROLS AND PROCEDURES</b> .....	<b>24</b>

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## **1.1 Date**

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited consolidated financial statements of Rockwell Diamonds Inc. ("Rockwell", or the "Company") for the period ended November 30, 2007.

This MD&A is prepared as of January 9, 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.

## **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**

In fiscal 2007, the Company finalized a transaction with Durnpike Investments (Proprietary) Limited ("Durnpike") to acquire four diamond properties. Of these, the Holpan/Klipdam and Wouterspan properties currently have alluvial diamond operations. The Holpan/Klipdam Property and the Wouterspan Property are located in the Vaal River and Middle Orange River areas of the Northern Cape Province of South Africa.

Rockwell acquired its interest in the Makoenskloof property, also located on the Middle Orange River about 40 km upstream of Wouterspan, via the transaction with Durnpike. Bulk sampling has taken place in both the first and second quarters.

Rockwell has received 51% of the net proceeds from production at these operating properties since January 31, 2007.

In the six month period ended November 30, 2007, total diamond production of 13,385.15 carats was derived from 1,529,775 cubic meters of gravels mined and processed at Holpan/Klipdam and Wouterspan and from bulk sampling at Makoenskloof. The Company sold 13,008.89 carats at an average price of US\$2,298 per carat. Diamonds in inventory at November 30, 2007 totaled 1,334.12 carats.

The Company received revenues from sales of \$26.3 million, inclusive of revenue received from sub-contractors of \$0.2 million. Cost of sales and amortization totalled \$19.5 million, resulting in a loss for the six months ending November 30, 2007 of \$696,181 or \$0.00 per share.

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

In March 2007, the Company announced that it had concluded a conditional agreement to purchase the Middle Orange River Operations (“MORO”) of the Trans Hex Group (“Trans Hex”), a South African corporation. The purchase includes all of the diamond-related prospecting, exploration, mining, recovery and treatment operations conducted by Trans Hex, together with Mvela Exploration (Pty) Limited (held jointly by Trans Hex and Mvela Resources) (“Mvela”). These include the Saxendrift and Niewejaarskraal Mines (currently on care and maintenance) and certain associated prospecting projects in the same area. The MORO are located in the Northern Cape Province of South Africa. Currently, the Company is awaiting Ministerial Consent from the Department of Minerals and Energy (“DME”); a decision is expected in the last quarter of calendar 2008. Documentation required to complete the Ministerial Consent process, and thereby conclude the transaction, has been accepted and approved by the DME Regional Office in Kimberley and submitted to the DME Head Office in Pretoria for final approvals.

Rockwell holds interests two other alluvial diamond exploration projects, the Galputs Minerale project in South Africa and the Kwango River Project in the Democratic Republic of Congo (“DRC”). Programs for these two properties are in the planning stages.

Rockwell also holds the Ricardo Property, a copper prospect in the Calama Mining district of Chile. The Company is looking for new partners to advance exploration at the Ricardo Property.

Rockwell effected an inward secondary listing on the JSE Limited in November 2007, and began trading on November 30, 2007 under the trading symbol of RDI.

### **1.2.2 Financings**

During the 6 month period ended November 30, 2007, the Company did not complete any additional debt or equity financings. In the prior fiscal year ended May 31, 2007 and subsequent to November 30, 2007 the Company completed the following significant equity financings:

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

In November 2006, Rockwell completed a private placement of \$21 million, consisting of 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.

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.

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

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

In April 2007, the Company announced a private placement whereby the Company will issue up to 115.4 million 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 are being offered by a syndicate of agents. Closing of the offering occurred on the May 9, 2007.

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 was announced on November 28, 2007 and issued a total of 24,101,285 Common Shares at a price of \$0.60 per share for total proceeds of Cdn\$14,460,771.

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.

### **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 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, 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").

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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On July 7, 2006, Durnpike completed the acquisition of an initial 49% of the issued and outstanding shares of HCVW and 51% of the issued and outstanding shares of Klipdam (the "Acquisition Interest") for South African Rand ("ZAR") 50 million (\$7.8 million) and agreed to pay an additional ZAR30 million (\$4.5 million) to the Van Wyk Trust on July 7, 2007. The payment of ZAR30 million was made to the Van Wyk Trust during the period. 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 pursuant to which it holds a call option, and has granted a corresponding put option to the Van Wyk Trust, to acquire the remaining shareholding of VWDG for ZAR60 million (\$9 million), payable in Common Shares. The Exchange Agreement shall become effective upon Rockwell having completed a listing of the Company's Common Shares on the Johannesburg Stock Exchange ("JSE"). The Company is currently in discussions with a black economic empowerment ("BEE") group to increase the BEE current 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 need to inject ZAR10.5 million working capital into the VWDG. During the year ended May 31, 2007, a BEE group purchased 15% of the VWDG from the Van Wyk Trust for an amount of ZAR 22.5 million (\$3.4 million). 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 (\$7.8 million). This loan is secured by a pledge of Durnpike's Acquisition Interest.

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;
- 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

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

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 16(b) to the audited financial statements for the year ending May 31, 2007).

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 and appointed three of the Vendors' principals to the Company's Board of Directors.

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

On March 6, 2007, Rockwell and Trans Hex announced that the companies had entered into an agreement whereby Rockwell's wholly owned South African subsidiary, Rockwell Resources RSA, may 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 and three alluvial diamond exploration projects located along the southern bank of the Middle Orange River between Douglas and Prieska in the Northern Cape Province of South Africa, collectively called the Middle Orange River Operations and Projects or "MORO". Rockwell's Wouterspan alluvial diamond operation is located on the north bank of the Middle Orange River immediately adjacent to the Saxendrift and Niewejaarskraal diamond mines.

The MORO include (but are not limited to):

- 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 of the Northern Cape Province of South Africa (see MORO Mineral Rights table below);

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

- a series of large remnant alluvial diamond terraces comprising approximately 8.7 million cubic meters of indicated resource and 30.4 million cubic meters of inferred resources;
- 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 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.

It is proposed that Rockwell will pay a cash purchase consideration to Trans Hex 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 such purchase payments and liabilities are expected to total approximately \$16.2 million, subject to adjustment depending on the final combination of assets acquired.) As noted above, Trans Hex will transfer all its relevant mineral rights and associated assets into a new special purpose vehicle ("Saxendrift SPV"), which Rockwell will acquire via Rockwell RSA for the consideration indicated above.

The implementation of the Transaction is subject to fulfillment of certain conditions precedent including:

- The unconditional approval of South Africa's Competition Commission;
- 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 special purpose vehicle ("Saxendrift SPV") and the acquisition by Rockwell of the shares in Saxendrift SPV;
- Satisfactory provision by Rockwell of certain financial undertakings to THO;
- The approval by the TSX Venture Exchange;
- Completion by Rockwell to its satisfaction of a mineral title due diligence investigation; and
- The audited balance sheet of Saxendrift SPV as at the effective date meeting specified criteria.

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 on care and maintenance with effect from date of signature of the relevant transaction agreements pending fulfillment of the conditions precedent.

These conditions have now been satisfied and the Company is awaiting requisite Ministerial consent.

#### **1.2.4 Production Properties**

A summary of Rockwell's share of diamond production and sales for the six month period to November 30, 2007 is provided in the following table:

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Operation	Volume (cubic meters)	Production (carats)	Sales (carats)	Value of Sales (US\$)	Value of Sales (Cdn\$)	Inventory (carats)
Holpan	508,688	4,119.36	4,153.14	5,586,620	5,746,158	372.00
Klipdam	402,061	3,784.08	3,803.69	6,294,952	6,474,718	382.94
Wouterspan	695,591	4,611.13	4,264.13	9,855,130	10,136,565	496.53
Makoenskloof	199,353	870.58	787.93	3,808,122	3,916,871	82.65
<b>Total</b>	<b>1,805,693</b>	<b>13,385.15</b>	<b>13,008.89</b>	<b>25,544,824</b>	<b>26,274,312</b>	<b>1,334.12</b>

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

*Production and Sales*

Rockwell's Share of Production						
Operation	Q2 fiscal 2008			Q1 fiscal 2008		
	Volume (cubic meters)	Carats	Average grade (carats per 100 cubic meters)	Volume (cubic meters)	Carats	Average grade (carats per 100 cubic meters)
Holpan	232,930	1,673.29	0.72	275,758	2,446.07	0.89
Klipdam	142,534	1,256.06	0.88	259,527	2,528.02	0.97
Wouterspan	341,099	2,016.54	0.59	354,492	2,594.59	0.73
Makoenskloof	136,154	633.28	0.47	63,199	237.30	0.38
<b>Total</b>	<b>852,717</b>	<b>5,579.17</b>	<b>0.65</b>	<b>952,976</b>	<b>7,805.98</b>	<b>0.82</b>

Rockwell's Share of Inventory & Sales								
Operation	Q2 fiscal 2008				Q1 fiscal 2008			
	Sales (carats)	Value of Sales (US\$)	Average value (US\$ per carat)	Inventory (carats)	Sales (carats)	Value of Sales (US\$)	Average value (US\$ per carat)	Inventory (carats)
Holpan	2,683.94	2,437,250	908.09	372.00	1,469.20	3,149,370	2,143.59	1,382.65
Klipdam	2,044.82	1,076,732	526.57	382.94	1,758.87	5,218,220	2,966.80	1,171.70
Wouterspan	2,511.57	4,975,788	1,981.15	496.53	1,752.56	4,879,342	2,784.12	991.56
Makoenskloof	787.93	3,808,122	4,833.07	82.65	0	0	0	237.30
<b>Total</b>	<b>8,028.26</b>	<b>12,297,892</b>	<b>1,531.83</b>	<b>1,334.12</b>	<b>4,980.63</b>	<b>13,246,932</b>	<b>2,659.69</b>	<b>3,783.21</b>

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

Operating costs during September was approximately US\$3.40 per tonne, increasing to approximately US\$4.21 per tonne in October and November. The cost of production has increased from C\$3.05 per tonne in the previous quarter, and largely reflects higher operating costs at Makoenskloof where production levels had not yet reached an optimum level as well as the strengthening of the rand against the dollar. The Klipdam plant was only operating at about 60% capacity during September and offline for most of October while the plant was upgraded thus producing lower volumes compared to the previous quarter.

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

***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 November 30, 2007 was 1,673.29 carats from 232,930 cubic meters (465,860 tonnes) of gravels. This is a decrease in carat production from 2,446.07 carats in the previous quarter.

Sales from Holpan were 2,683.94 carats at an average value of 908.09 per carat, an increase in carats sold 1,469.20 carats but a decrease in the average value per carat of US\$2,143.59 in the previous quarter. The inventory at Holpan is 372.00 carats.

Rockwell achieved a record price of US\$1.054 million or US\$145,000 per carat for a 7.28 carat, intense pink, rounded octahedral diamond produced at the Holpan operation and which was sold at the November tender.

Production at Klipdam was 1,256.06 carats from 142,533 cubic meters (285,066 tonnes) of gravels. This is a decrease in carat production from 2,528.02 carats in the previous quarter.

Sales from Klipdam were 2,044.82 carats at an average value of \$526.57 per carat, an increase from 1,758.87 carats but a decrease in the average value per carat of US\$2,966.80. There is an inventory of 382.94 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 November 30, 2007, the property produced 2,016.54 carats from 341,099 cubic meters (682,198 tonnes) of gravels. This is a decrease in carat production from 2,594.59 carats in the previous quarter.

Sales from Wouterspan were 2,511.57 carats at an average value of US\$1,981.15 per carat, an increase from the 1,752.56 carats sold but a decrease in the average value per carat of US\$2,784.12 from the previous quarter. The inventory at Wouterspan is 496.53 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.

In the second quarter, 633.28 carats were recovered from 136,154 cubic meters (272,308 tonnes) of gravels. This is an increase from the 237.30 carats recovered from bulk sampling at Makoenskloof in the previous quarter.

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

Sales from Makoenskloof were 787.93 carats at an average value of \$4,833.07 per carat, an increase from no carats sold in the previous quarter. The inventory at Makoenskloof is 82.65 carats.

The October tender sale included two diamonds of over 100 carats – one was 110.19 carats and the other 211.87 carats - which were recovered from the Makoenskloof. The 211.87 carat diamond comprised a fancy yellow stone of rounded octahedral shape with impurities around the margin of the stone, whereas the 110.19 carat stone was a J colour flattened octahedron with impurities inside and around the edge of the diamond. The largest diamond sold in the November tender was a 49.73 carat stone, also recovered from Makoenskloof. These large diamonds, and a 48.38 carat intense fancy yellow which achieved \$10,500 per carat, account for the high average value per carat for sales from Makoenskloof for the period.

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

#### ***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 is immediately planned for 2008, as attention is focused on completion of definitive agreements, production at Holpan/Klipdam, Wouterspan and Makoenskloof and acquisition of the Saxendrift properties.

#### ***Kwango River Project, Democratic Republic of Congo***

The Kwango River Project comprises approximately 109 square km within Exploitation Permit Number 331 ("PPE331") held by Midamines SPRL ("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.

Over the past few months, the Company has been advancing the logistical activities for its planned exploration and bulk sampling initiative with Midamines. Rockwell has established a working base in Kinshasa and conducted geophysical and other investigations on site.

One of the 50% shareholders of Midamines has, subsequent to the conclusion of the Midamines Agreement in accordance with a mandate granted by such shareholder, denied the validity of the Midamines Agreement. The remaining 50% shareholder disputes this view and remains committed to the

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

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 Midamines internal dispute.

The Company remains committed to the Kwango River Project and is confident that the ongoing dispute between the shareholders of Midamines will be resolved. The Company will obtain formal legal advice from both Belgian and DRC legal counsel as soon as possible as the Midamines Agreement is governed by Belgian law and the obligations under the Midamines Agreement are to be implemented, where required, in accordance with the laws of the DRC. Concurrently, the Company will also monitor the resolution of the internal dispute between the Midamines shareholders. If the issue of minimum royalty payments is not settled on or before December 31, 2008, the Company will seek formal legal advice and may consider formally terminating the Midamines Agreement.

***Ricardo Property, Chile***

The Company holds a 100% interest in the Ricardo Property, a copper prospect located within the Calama Mining District, Chile. The property is situated on the West Fissure Fault, a structural trend that hosts a number of porphyry copper deposits, including Corporación Nacional del Cobre de Chile's ("Codelco", Chile's national mining company) Chuquicamata Mine. There are targets on the Ricardo property that have yet to be tested and the Company is seeking partners to continue exploration or a potential divestiture of the property.

**1.2.6 Acquisitions**

***The Middle Orange River Operations***

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 through a merger with GEM Diamond Mining Limited, which held the mineral rights to Saxendrift at that time.

The Saxendrift Mine comprises three mining areas: Brakfontein, Saxendrift Terrace A and Saxendrift Terrace B. From commissioning to the end of 2005, the Saxendrift Mine produced a total of 76,803 carats. The largest gem quality stone ever produced by Trans Hex – a 216 carat octahedron – was from the Saxendrift operation in 2001. Saxendrift also held the Trans Hex record for the highest dollar per ct price with a 9.22-carat blue stone that was sold in 2003 for in excess of US\$45,000/carats. 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 ("DMS"), and Flow-sort X-ray recovery.

THO began its development of the Nieuwejaarskraal Mine with a bulk sampling program in mid-2001. A DMS plant was erected on site and full-scale production commenced in April 2002. This operation was suspended in late 2006.

During its tenure of the MORO, THO also conducted exploration and evaluation work on several large alluvial gravel terraces to the north east of Saxendrift, namely Kwartelspan, and to the south west of Nieuwejaarskraal, namely Vieglandsput, Zwemkuil-Mooidraai and Remhoogte-Holsloot. Exploration

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

work conducted on the adjacent properties included reverse circulation drilling, trenching and bulk sampling. Resource information obtained from these activities, including gravel volumes, grades, diamond resources, and diamond value estimates are included in the "MORO Diamond Resources" table.

The mineral rights holding of the properties which would be acquired by Rockwell on successful completion of the Transaction are indicated in the table below. The majority of the mineral rights listed below have already been converted by Trans Hex to new order rights under South Africa's Mineral and Petroleum Development Act, 2002. Saxendrift mine rights are currently the subject of a conversion process by Trans Hex. Trans Hex Group will transfer all its relevant mineral rights and associated assets into Saxendrift SPV, which Rockwell will acquire via Rockwell RSA.

***MORO Mineral Rights***

<b>PART 1 – SAXENDRIFT MINING OPERATIONS</b>				
	<b>FARM NAME</b>	<b>PORTION</b>	<b>SIZE (Ha)</b>	<b>HOLDER AT SIGNATURE DATE</b>
<b>TRANS HEX RIGHTS</b>	Saxendrift 20	Ptn of Rem	1368.2940	Trans Hex Operations
	Saxendrift 21	Remainder		
	Saxendrift 21	Ptn of Ptn 1		
<b>MVELA RIGHTS</b>	Saxendrift 20	Ptn of Rem	359.0000	Mvela Exploration
<b>PART 2 – NIEWEJAARSKRAAL MINING OPERATIONS</b>				
<b>TRANS HEX RIGHTS</b>	Niewejaarskraal 40	Ptn of Ptn 6	1766.3900	Trans Hex Operations
	Niewejaarskraal 40	Ptn of Ptn 4		
	Niewejaarskraal 40	Ptn of Ptn 2		
	Viegulands Put 39	Ptn of Rem		
<b>MVELA RIGHTS</b>	Viegulands Put 39	Ptn of Rem	324.1050	Mvela Exploration
	Niewejaarskraal 40	Ptn of Ptn 6	995.2000	Mvela Exploration
<b>PART 3 - PROSPECTING PROJECTS</b>				
<b>KWARTELSPAN PROJECT</b>	Kransfontein 19	Ptn 1	903.6500	Mvela Exploration
	Kwartelspan 25	Remainder		
<b>REMHOOGTE-HOLSLOOT PROJECT</b>	Remhoogte 152	Ptn of Ptn 1	2798.5110	Pioneer Minerals
	Holsloot 47	Ptn of Rem		
			Ptn of Ptn 3	1049.5900
<b>ZWEMKUIL-MOODRAAI PROJECT</b>	Zwemkuil 37	Ptn of Rem	2488.1240	Mvela Exploration
	Moodraai 36	Ptn of Rem	2901.0000	

Ptn - portion; Rem - remainder

***MORO Mineral Resources***

The indicated and inferred mineral resources as of March 2007 are summarized in the following table. The estimates were completed for Rockwell by G. D. Stacey, B.Sc.Eng. and C. A. Telfer, Pr.Sci.Nat. of the consulting company Venmyn. Ms Telfer is an independent qualified person as defined by National Instrument 43-101.

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Indicated Mineral Resources				
MINE/PROJECT	MINING AREA	VOLUME (cubic meters)	GRADE (carats/100 cubic meters)	CARATS
Saxendrift	Saxendrift Terrace A	1,824,000	0.83	15,051
	Saxendrift Terrace B	422,000	1.15	4,850
	Stockpiles	385,539	0.46	1,755
<b>Total/Average Saxendrift Indicated</b>		<b>2,631,539</b>	<b>0.82</b>	<b>21,656</b>
Niewejaarskraal	Niewejaarskraal	4,164,745	0.80	33,289
	Viegulandsput	1,802,822	1.16	20,939
<b>Total/Average Niewejaarskraal Indicated</b>		<b>5,967,567</b>	<b>0.91</b>	<b>54,228</b>
<b>GRAND TOTAL – INDICATED RESOURCES</b>		<b>8,599,106</b>	<b>0.88</b>	<b>75,884</b>

Inferred Mineral Resources				
MINE/PROJECT	MINING AREA	VOLUME (cubic meters)	GRADE (carats/100 cubic meter)	CARATS
Saxendrift	Saxendrift Terrace A	5,723,000	0.48	27,344
	Saxendrift Terrace B	1,821,000	0.68	12,334
	Stockpiles	263,000	0.29	763
<b>Total/Average Saxendrift Inferred</b>		<b>7,807,000</b>	<b>0.52</b>	<b>40,441</b>
Niewejaarskraal	Niewejaarskraal	1,696,000	0.48	8,132
	Viegulandsput	1,465,000	0.47	6,911
	Nieweskraal TB2	4,919,000	0.90	44,066
<b>Total /Average Niewejaarskraal Inferred</b>		<b>8,080,000</b>	<b>0.73</b>	<b>59,109</b>
Zwemkuil-Mooidraai	N/A	1,640,000	0.95	15,643
Remhoogte-Holsloot	N/A	11,503,000	1.15	131,781
Kwartelspan	N/A	1,385,000	1.50	20,838
<b>Total/Average of Exploration Projects Inferred</b>		<b>14,528,000</b>	<b>1.16</b>	<b>168,262</b>
<b>GRAND TOTAL – INFERRED RESOURCES</b>		<b>30,415,000</b>	<b>0.88</b>	<b>267,812</b>

Note that mineral resources that are not mineral reserves do not have demonstrated economic viability.

Studies by THO indicated densities or specific gravities at the Saxendrift operations: 2.2 for Basal gravels, and 1.90 for Middlings gravels. The deposits are similar at all the mines and projects described above and an average density or specific gravity of 2.1 is to be used to convert cubic meters to tonnes. The total indicated mineral resources would be 18.1 million tonnes and the total inferred mineral resources would be 63.9 million tonnes.

Average diamond prices realized by THO through Trans Hex tender sales for Saxendrift during the period May 2001 to the end of 2005 were US\$1,400 per carat, and an average price of US\$1,375 per carat was achieved for Niewejaarskraal for the period September 2001 to the end of 2005.

Rockwell's Wouterspan alluvial operation is located on the north bank of the Middle Orange River across from Saxendrift and Niewejaarskraal. 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

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

Niewejaarskraal deposits located on the south bank of the river. At Rockwell's Wouterspan operation, an average price of about US\$2,508 per carat was achieved by means of tender sales in the 11 month period from March 1, 2006 to January 31, 2007. This high average value was strongly influenced by the recovery of a number of large diamonds in this period, including three stones of over 100 carats.

It is expected that the value of the MORO will be realized better by Rockwell as a consequence of its ability to exploit the deposits on a high volume, low cost basis. This approach at Saxendrift and Niewejaarskraal will emulate the volume-based development and mining strategy as applied at its Wouterspan operation, and Rockwell's other operations at Holpan-Klipdam operations, north of Kimberley, thereby achieving economies of scale, lower unit costs, and realizing latent value in the ground.

Merits of the MORO include:

- the scarcity of well developed and well understood diamond projects in South Africa, and prevailing market conditions of high demand and high stone prices;
- the high stone prices for which the Saxendrift Mine is renowned, which have been achieved on a regular basis - the Niewejaarskraal Mine has also produced diamonds of similar values;
- the rights to additional exploration projects adjacent to the current operations; these projects represent future upside potential which could be developed using the established mining infrastructure;
- the existing processing and final recovery plant on Saxendrift and Niewejaarskraal including pan plants, DMS plants, and X-ray recovery units, as well as a limited amount of serviceable earth moving equipment,
- the well established infrastructure that is in place on the Saxendrift and Niewejaarskraal mines including offices, service bays, accommodation and catering facilities, electrical power, and water reticulation which will support simultaneous operation on all properties; and
- Security infrastructure implemented by Trans Hex and the ability to link these into systems run by Rockwell.

Acquiring the MORO properties will allow Rockwell to combine its Wouterspan operation with that of the Saxendrift and Niewejaarskraal mines and thereby optimize the utilization of its management and operating teams and infrastructure at Wouterspan, which is located directly across the Middle Orange River from Saxendrift and Niewejaarskraal.

### **1.2.7 Market Trends**

The rough diamond market showed steady growth in demand in 2005. Prices for polished stones increased, including large stones (>2 carats with better colour and quality) and smaller diamond segments.

In 2006, diamond prices increased 4-5% in the first three quarters, but softened in the latter part of the year as a consequence of increased debt levels in manufacturing centers and high energy prices, depressing discretionary spending in key markets such as the United States of America. Prices of larger solid diamonds continued to show solid gains on a year-over-year basis.

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

During 2007 the international diamond market showed continued strong demand and concomitant increases in diamond prices. Worldwide diamond supply showed a flat or downward trend in terms of carats. As a consequence of demand effectively starting to outstrip supply, prices of rough goods greater than 2 carats in size showed strong increases in the first part of the year which was also reflected in polished prices for large goods. For example round polished diamonds, 4 carats and 5 carats in size, and representing about 1% of the market by value, continue to post solid price gains, year-over-year.

The continued price appreciation of large stones is significant in respect to the production mix from the projects being acquired by Rockwell in the Kimberley area of South Africa, which comprises a significant component of greater than 2-carat and including 10-carat stones. Demand for large high quality diamonds such as those produced by Rockwell remains particularly strong.

Interestingly there has also been appreciation in the price of smaller diamonds. This reflects growing shortages in these qualities and sizes due to declining world production as long standing mines in Russia, South Africa and West Australia reach the end of their lives and either have to go underground with reduced production, or close down as has been in the case for the Kimberley (South Africa) underground mines.

Rockwell is confident that given the growing world wide shortage in diamonds, particularly in large diamonds, that it will continue to benefit from price appreciation in the large and high value goods that it produces from its alluvial mining operations in South Africa.

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**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.

	As at May 31		
<b>Balance Sheets</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Current assets	\$ 56,142,572	\$ 256,456	\$ 580,530
Mineral properties	24,121,855	1	46,857
Other assets	49,341,956	32,190	32,190
<b>Total assets</b>	<b>129,606,383</b>	<b>288,647</b>	<b>659,577</b>
Current liabilities	29,399,774	1,146,070	29,976
Other liabilities	28,613,767	-	-
Shareholders' equity (deficiency)	71,592,842	(857,423)	629,601
<b>Total liabilities and shareholders' equity</b>	<b>\$ 129,606,383</b>	<b>\$ 288,647</b>	<b>\$ 659,577</b>
	Years ended May 31		
<b>Statement of Operations</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Revenue	\$ 10,103,328	\$ -	\$ -
Mine site operating costs	(8,974,742)	-	-
Amortization and depletion	(2,074,415)	-	-
<b>Operating profit (loss)</b>	<b>(945,829)</b>	<b>-</b>	<b>-</b>
<b>Expenses</b>			
Accretion of reclamation obligation	55,471	-	-
Exploration	1,371,351	307,390	920,902
Foreign exchange loss (gain)	(3,580,364)	(46,881)	3,105
Legal, accounting and audit	691,759	175,782	80,078
Office and administration	2,993,453	489,015	285,618
Property Investigations	-	399,006	-
Shareholder communications	200,574	32,130	19,896
Stock-based compensation	79,623	83,516	11,513
Travel and conference	666,194	132,645	30,293
Transfer agent filings	176,530	20,843	22,795
<b>Subtotal</b>	<b>2,654,591</b>	<b>1,593,446</b>	<b>1,374,200</b>
Gain on sale of marketable securities	-	(56,585)	(6,138)
Loss on disposal of equipment	94,621	-	-
Interest income	(372,149)	(2,172)	(17,854)
Interest on capital leases	433,125	-	-
Convertible note accretion and interest expense	2,466,839	-	-
Loss on early extinguishment of convertible promissory notes	137,957	-	-
Write-off of amounts receivable	224,942	-	-
Write-down of marketable securities	1	19,128	135,486
Write-down of mineral property interests	-	46,856	-
	<b>2,985,336</b>	<b>1,600,673</b>	<b>1,485,694</b>
<b>Loss before income taxes</b>	<b>6,585,756</b>	<b>1,600,673</b>	<b>1,485,694</b>
Future income tax recovery	(635,773)	-	-
<b>Loss before non-controlling interest</b>	<b>5,949,983</b>	<b>1,600,673</b>	<b>1,485,694</b>
Non-controlling interest	415,159	-	-
<b>Loss for the year ended</b>	<b>\$ 6,365,142</b>	<b>\$ 1,600,673</b>	<b>\$ 1,485,694</b>
Basic and diluted loss per common share	\$ (0.11)	\$ (0.07)	\$ (0.06)
Weighted average number of common shares outstanding	55,418,242	23,640,123	23,376,122

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**1.4 Summary of Quarterly Results**

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

	Nov 30 2007	Aug 31 2007	May 31 2007	Feb 28 2007	Nov 30 2006	Aug 31 2006	May 31 2006	Feb 28 2006
<b>Current assets</b>	\$36,823	\$46,861	\$ 56,143	\$ 25,751	\$ 23,063	\$ 8,397	\$ 257	\$ 197
Mineral properties	24,928	25,589	24,122	18,788	—	—	—	47
Other assets	66,544	55,997	49,342	36,884	42	32	32	32
<b>Total assets</b>	<b>128,295</b>	<b>128,447</b>	<b>129,606</b>	<b>81,423</b>	<b>23,105</b>	<b>8,429</b>	<b>289</b>	<b>276</b>
<b>Current liabilities</b>	17,173	23,899	29,400	43,261	6,149	9,599	1,146	446
Other liabilities	30,395	32,297	28,613	21,966	—	—	—	—
Shareholders' equity (deficiency)	80,727	72,251	71,593	16,196	16,956	(1,169)	(857)	(170)
<b>Total liabilities and shareholders' equity</b>	<b>128,295</b>	<b>128,447</b>	<b>129,606</b>	<b>81,423</b>	<b>23,105</b>	<b>8,429</b>	<b>289</b>	<b>276</b>
<b>Working capital (deficit)</b>	19,650	22,962	26,743	(17,510)	16,914	(1,202)	(890)	(250)
<b>Revenue</b>	12,125	14,222	7,684	2,419	—	—	—	—
Mine site operating costs	(9,571)	(5,809)	(7,100)	(1,874)	—	—	—	—
Amortization	(2,141)	(1,975)	(1,680)	(395)	—	—	—	—
<b>Operating profit (loss)</b>	413	6,438	(1,096)	150	—	—	—	—
<b>Expenses</b>								
Accretion of reclamation obligation	28	59	55	—	—	—	—	—
Exploration	127	304	162	508	526	175	120	134
Foreign exchange	(126)	(641)	(2,856)	(336)	(394)	6	3	(54)
Legal, accounting and audit	253	66	403	(252)	326	215	118	32
Office and administration	850	700	1,651	621	409	313	227	134
Property investigation	—	—	—	—	—	—	139	87
Shareholder communications	64	69	57	53	51	40	11	9
Stock-based compensation	617	32	8	16	18	38	63	15
Travel and conference	147	126	285	120	125	136	30	49
Transfer agent filings	98	7	56	23	52	45	3	12
Subtotal	2,058	721	(179)	754	1,113	968	714	418
Gain on sale of marketable securities	—	—	—	—	—	—	—	(57)
Gain on investments	—	—	16	(16)	—	—	—	—
Write-off of amounts receivable	—	—	225	—	—	—	—	—
Loss (gain) on disposal of equipment	3	(25)	82	12	—	—	—	—
Interest income	(186)	(486)	(222)	(97)	(51)	(2)	(1)	—
Interest on capital leases	427	471	433	—	—	—	—	—
Accretion and interest expense	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	(1,991)	5,671	(2,061)	(859)	(2,356)	(1,311)	(760)	(361)
Future income tax recovery (expense)	26	(1,768)	646	(10)	—	—	—	—
Profit (loss) before non-controlling interest	(1,965)	3,903	(1,415)	(868)	(2,356)	(1,311)	(760)	(361)
Non-controlling interest	837	(3,472)	(506)	91	—	—	—	—
<b>Profit (loss) for the period</b>	<b>\$ (1,128)</b>	<b>\$ 431</b>	<b>\$(1,921)</b>	<b>\$(777)</b>	<b>\$(2,356)</b>	<b>\$(1,311)</b>	<b>\$(760)</b>	<b>\$(361)</b>
Basic and diluted profit (loss) per share	\$ 0.00	\$ 0.00	\$ (0.03)	\$ ( 0.01)	\$ (0.08)	\$ (0.05)	\$ (0.03)	\$(0.02)
Weighted average number of common shares outstanding (thousands)	187,817	187,132	99,614	68,307	30,322	24,191	23,675	23,658

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

### **1.5 Results of Operations**

The Company had a loss of \$696,181 for the six month period ended November 30, 2007 compared to a net loss of \$3,666,502 for the comparable period in the prior year. The decrease in net losses during the period is primarily due to increased production and sales levels.

During the six months ended November 30, 2007, the Company realized rough diamond sales of \$26,274,312 of which \$12,072,363 was earned during the second quarter of fiscal 2008 compared to \$14,201,949 for the first quarter of fiscal 2008 and to \$nil for the comparable period in the prior year. Mine site operating costs for the six months ended November 30, 2007 amounted to \$19,496,210 (three months ended November 30, 2007 - \$11,712,135, three months ended August 31, 2007 - \$7,784,075), which includes amortization and depletion charges of \$4,116,170 (six months ended November 30, 2006 – nil).

Exploration expenses (excluding stock-based compensation) decreased to \$430,385 for the six months ended November 30, 2007 compared to \$700,693 for the same period in the prior year. This decrease is due to higher engineering activities and property assessment fees performed during the six month period ended November 30, 2006 on the African diamond properties which includes the Holpan/Klipdam property and the Kwango River Project in the DRC.

Foreign exchange gain increased to \$767,664 for the six months ended November 30, 2007 compared to a foreign exchange gain of \$388,601 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 six months ended November 30, 2007 increased to \$1,549,836 in comparison to \$720,259 incurred in for the same period in the prior year, primarily due to increased consulting and salary expenses required to support the increase in corporate financing, acquisition, operational management and property investigation activities. Travel and conference expenses amounted to \$273,247 for the six months ended November 30, 2007 compared to \$261,062 for the same period in the previous year. Legal, accounting and audit expenses for the six months ended November 30, 2007 amounted to \$318,373 compared to \$541,286 incurred for the same period in the prior year. This decrease was primarily due to 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 \$648,854 for the six months ending November 30, 2007 in comparison to \$56,435 for the same period in the previous year due to an increase in the number of options granted during fiscal 2008.

Interest expenses decreased to \$187,392 for the six months ending November 30, 2007, compared to \$1,501,043 for the same period in the previous year, mainly due to the accretion and interest charges relating to the issuance of the convertible promissory notes incurred during the same period of the prior year.

### **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

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

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 November 30 2007, the Company had a working capital of \$19,650,503 compared to working capital of \$26,742,798 at May 31, 2007.

During the period of the six months ending November 30, 2007, 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 ZAR4.2 million (\$622,257) in cash to Folmink Delwery CC (Makoenskloof) for plant and equipment (b) minimum lease payments of ZAR95 million (\$14 million) in installments up to the year 2010 to various financial institutions for plant and equipment.

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 or equity financings during the period, however the Company has sufficient funds available to meet its capital expenditure requirements.

As at November 30, 2007, 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*);
- b) 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 November 30, 2007 the Company is committed to pay the remaining consideration of ZAR4.2 million (\$622,257) in the following manner:
  - ZAR3 million (\$450,300) shall be payable by way of Common Shares of the Company. The shares cannot be exchanged, or traded, or sold in any manner, by the seller for a period of one year after date a listing on the JSE.

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

- The remaining balance payable shall be paid in monthly payments of ZAR500,000 (\$75,050). The monthly payments shall incur interest calculated at the prime rate of the Standard Bank of South Africa;
- c) 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 \$16.2 million, subject to certain final adjustments.

In January 2008, subsequent to the six months ended November 30, 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*).

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 November 30, 2007.

### 1.8 Off-Balance Sheet Arrangements

None.

### 1.9 Transactions with Related Parties

<b>Balances payable</b>	<b>As at November 30, 2007</b>	<b>As at May 31, 2007</b>
Hunter Dickinson Inc. (a)	\$ 153,341	\$ 37,571
Euro-American Capital Corporation (b)	6,561	2,879
CEC Engineering (c)	10,446	5,558
Durnpike shareholder loans (i)	36,361	1,503,566
Banzi Trading (j)	–	2,191
Jakes Tyres (k)	289,434	10,993
Cashmere Trading (g)	45,644	46,543
	<b>\$ 541,787</b>	<b>\$ 1,609,301</b>
<b>Balances receivable</b>		
Flawless Diamonds Trading House (h)	\$ 3,782,853	\$ 781,928
Banzi Trading (j)	34,667	–
AA Van Wyk (l)	–	57,325
	<b>\$ 3,817,520</b>	<b>\$ 839,253</b>

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

<b>Transactions</b>	<b>Three months ended November 30</b>		<b>Six months ended November 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Services rendered and expenses reimbursed:</b>				
Hunter Dickinson Inc. (a)	\$ 283,436	\$ 565,291	\$ 504,305	\$ 956,722
Euro-American Capital Corporation (b)	6,208	2,960	14,356	7,400
CEC Engineering (c)	17,641	62,087	32,916	107,420
John Bristow (d)	–	41,188	–	102,096
Jeffrey B Traders CC (e)	13,185	55,386	52,740	55,386
Seven Bridges Trading (f)	19,277	–	38,929	–
Cashmere Trading (g)	119,544	–	239,088	–
Banzi Trade 26 (Pty) Ltd (j)	5,064	–	9,155	–
Jakes Tyres (k)	737,538	–	871,400	–
AA Van Wyk (l)	–	–	150,716	–
<b>Sales rendered to:</b>				
Flawless Diamonds Trading House (h)	\$12,072,363	\$ –	\$26,274,312	\$ –

- (a) Hunter Dickinson Inc. (“HDI”) is private company owned equally by nine 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.

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

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

#### **1.10 Fourth Quarter**

Not applicable.

#### **1.11 Proposed Transactions**

Please refer to the discussion of the proposed transaction in Section 1.2.4 *Acquisitions, The Middle Orange River Operations*.

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

Not applicable. The Company is a venture issuer.

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

### **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](http://www.sedar.com).

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

(a) capitalized or expensed exploration and development costs;

The required disclosure is presented in the consolidated schedules of exploration expenses of the accompanying financial statements.

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

(b) expensed research and development costs;

Not applicable.

(c) deferred development costs;

Not applicable.

(d) general and administration expenses;

The required disclosure is presented in the consolidated statements of operations.

(e) any material costs, whether capitalized, deferred or expensed, not referred to in (a) through (d);

None.

**1.15.2 Disclosure of Outstanding Share Data**

The following details the share capital structure as at January 9, 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				223,620,613
Share purchase options	February 29, 2008	\$ 0.42	175,000	
	March 28, 2008	\$ 0.50	150,000	
	July 10, 2010	\$ 0.68	300,000	
	September 24, 2012	\$ 0.62	5,905,500	
	November 14, 2012	\$ 0.63	1,114,500	7,645,000
Warrants	November 22, 2008	\$0.80	39,600,000	
	May 9, 2009	\$0.70	<u>121,779,154</u>	161,379,154

**1.15.3 Disclosure Controls and Procedures**

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

There have been no changes in the Company's internal controls over financial reporting during the period ended November 30, 2007 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

The Company has disclosure controls and procedures in place to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed,

**ROCKWELL DIAMONDS INC.**  
**THREE AND SIX MONTHS ENDED NOVEMBER 30, 2007**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to the Company's management, so that decisions can be made about timely disclosure of that information.

There have been no significant changes in the Company's disclosure controls during the period ended November 30, 2007 that could significantly affect disclosure controls subsequent to the date the Company carried out its evaluation.