

Earnings Call Transcript

Rockwell Diamonds Inc.

Quarter 1 Fiscal 2009 Earnings Call

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CORPORATE PARTICIPANTS

Susie Bell – Investor Relations

John Bristow – President & CEO

Dominique de la Roche - CFO

Jeffrey Brenner – Manager, Diamond Marketing and Sales

Note: All dollar figures are expressed in C\$ unless otherwise stated.

Operator

Good day, ladies and gentlemen, and welcome to today's Rockwell Diamonds first quarter fiscal 2009 earnings conference call. At this time, all participants are in a listen-only mode and we will conduct a question-and-answer session at the end of the conference. As a reminder, today's call is being recorded. At this time, I'd like to turn the call over to your host, Susie Bell, Investor Relations. Please go ahead.

Susie Bell – Rockwell Diamonds – Investor Relations

Thanks very much, Teresa and welcome to Rockwell Diamonds first quarter fiscal 2009 earnings conference call. My name is Susie Bell with Investor Relations.

Today on the call with me is John Bristow, President and CEO of Rockwell; Dominique De La Roche, our CFO and our Director for Rockwell; and Jeffrey Brenner, Manager Diamond Marketing and Sales.

After the opening remarks by management, which will review the first quarter business and operational results, we will open the phone lines to analysts and investors for a question-and-answer session. I'd also like to remind our listeners that our comments and answers to your questions may contain forward-looking information. This information, by its nature, is subject to risks and uncertainties and may cause a stated outcome to differ materially from the actual outcome. Please refer to the bottom of our latest news release for more information.

I'd like to turn the call over to you, John, for your remarks. Thank you.

John Bristow – Rockwell Diamonds – President & CEO

Thanks, Susie. Good morning or afternoon, ladies and gentlemen, and many thanks for finding time to share our results for Quarter 1 of financial year 2009 which, in the light of changes made to our financial year 2007, covers the period March to end of May 2008.

As before, we also have on line Dominique de la Roche, our CFO and Jeffrey Brenner, head of diamond marketing and you just heard Susie Bell from Investor Relations.

I will proceed with an overview of the results and progress of our company objectives and we will then take questions.

As a starting point, I wish to highlight that as of the first quarter, Rockwell effectively took ownership of 74% of the underlying South African assets compared to the previous 51% that we held up until the end of our last financial year. This will result in improved earnings and accounting outcomes for Rockwell going forward.

In respect to the first quarter of 2009 results, Rockwell recorded revenues from sales of \$7.25million including revenue from contract sales of diamonds sold through the Steinmetz Group of \$156,000. These sales were achieved from 4,943.3 carats of diamonds and the cost of sales and amortization for this period totaled \$7.18million.

The company achieved an operating profit of \$148,133. Our net general and administrative expenses amounted to \$1.45million which were offset by a net tax recovery of \$414,000, resulting in a loss of \$801,353 for the quarter or \$0.003 per share.

I wish to note here that diamonds in inventory at May 31, 2008 totaled 2,398.87 carats. These diamonds are reflected in Rockwell's revenues at a conservative US\$1,150 per carat. Had they been sold via our normal sales methods they would have attracted higher values, improving the profit margin and obviously I'm sure the question will be raised, "Why were they still in stock?" and we'll deal with that at the end of the presentation.

The average price of diamond sales realized over the quarter was US\$1,432.8 per carat, representing an increase on the average price of US\$977 per carat achieved during the quarter ending May 31, 2007.

Our total diamond production for the quarter was 6,310.58 carats, which was derived from 670,981 cubic meters of gravel mined and processed at the company's Wouterspan, Holpan and Klipdam operations. This was marginally behind target, given reduced production in March due to Easter holidays and some high rainfall during the period.

Looking at our mining cash costs we were encouraged to see a downward trend again to US\$3.69 per tonne against average costs of US\$4.32 per tonne for the financial year 2008 – and US \$5.48 per tonne for the equivalent 2007 financial year first quarter.

The company is committed to controlling and reducing costs in an environment of rampant increases in steel, fuel and oil, electricity and other areas. During the past quarter we focused strongly on our mining methods and optimization of the earth-moving fleet and have seen the benefits of this in reduced costs, particularly at Holpan and Klipdam. During the current quarter – that's this one we are now in – our focus has shifted to the mining and earth-moving fleet and mining methods at the Middle Orange River operations.

In respect to our earth moving, which is a very large part of the company's activities, we have been fortunate to recruit the services of an experienced open cast miner with considerable experience in open cast coal, platinum and alluvial diamond mining. Bruce Cubitt is his name and we look forward to further improvements and cost savings from Bruce and his team.

One of our key objectives is to be a low-cost alluvial diamond miner and ensure that we can successfully operate on diamond deposits that other companies cannot mine successfully. Maintaining low cost is challenging in the current conditions and when a company is also in growth mode and evaluating and developing new projects, we will from time to time not achieve the benefits of mining both economies of scale and all the more reason why we look at all the operating mines to ensure that we keep the costs down and at acceptable levels.

In terms of sales and beneficiation of our product, we continue to progress and benefit in terms of our marketing strategy and this is something Jeffrey Brenner, who's on the call, will answer questions on. Though the company continues to sell a large part of its production via the tender system, we are diversifying our sales methods and pursuing beneficiation models which add value to Rockwell's unique, high-value diamond production at minimal risk.

We already have an agreement with the Steinmetz Diamond Group to beneficiate and sell exceptional Rockwell products and we are pleased to report that we now have a steady flow of high-quality stones moving down this pipeline and are beginning to see margins on stones for which polished sales have been concluded. For two stones we have achieved an average of about 14% add value to Rockwell over and above the rough diamond price.

In terms of our plans for the second quarter, we are strongly focused on the fabrication and construction of a new high-volume rotary pan plant on the Saxendrift terrace. This plant will emulate but be larger than the very low-cost plant that we have operating on Klipdam. We are making good progress with its installation and at this point we are on track for commissioning in the third quarter of fiscal 2009 or November of this calendar year.

We have also commissioned the existing 4-Pan rotary plant on Saxendrift left behind there by Transhex and though we've had to make some changes and improvements we are managing, at this point, to generate small production levels through this plant.

In addition, we are well advanced with the construction of a second rotary-pan plant on the western side of the large Wouterspan terrace. We have moved the plant that we previously had at Makoenskloof to Wouterspan and are busy adding two new trommel screen units and a larger final recovery section to take the higher throughput concentrate that is typically found and recovered at Wouterspan. The plan is to have this second plant commissioned in August. It will give us increased throughput on Wouterspan and produce more carats and allow us to also undertake progressive refurbishment of key components of the existing Wouterspan plant which, for those of you who have been there, is located on the eastern side of the terrace and was commissioned in early 2005.

Aside from giving us extra production capacity, the construction and installation of the new second plant at Wouterspan is also very much in line with reducing tramming costs or the costs of transporting ore from one end of the terrace to the other and this way we can effectively ensure that the existing plant acquires and processes ore from a radius of about 1.5 meters around it and the other plants will do likewise on the west side of the terrace.

Aside from these initiatives to expand production and grow the company, which are part of our stated growth path, we are committed to expanding the company via other possible growth opportunities and acquisitions. I have provided an update in respect to Saxendrift and that's on its way. And outside of the Middle Orange River projects we have identified and are completing with our team the evaluation of good opportunities which we believe will allow the company to secure additional diamond production and, at the same time, potentially diversify geological and political risk. We believe that in the current tough and volatile financial markets other opportunities will also present themselves and Rockwell is well positioned to assess these and possibly even look towards acquiring those that add real value.

I also wish to note that our focus remains on high quality alluvial production, though we would not exclude kimberlites, which would add value to our production profile and profitability.

Thanks for sharing time with us on the Rockwell results and thanks to the Rockwell team for their hard work in keeping the company focused on what we're doing and getting the results out on a regular, quarterly basis. Thanks, everyone.