

Investors bullish on alluvial diamond deposits as prices take off

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WITH soaring rough diamond prices and no prospect of a significant kimberlite mine coming on stream in the next five to 10 years, investors are increasingly bullish about alluvial mining projects.

This has seen the emergence of new players capable of big advances in the scale and technical capacity of alluvial diamond mining, which was always the poor cousin of kimberlite mining.

Rockwell Diamonds is one such company, with assets under development in Northern Cape. RBC Capital Markets recently gave it an outperform rating based its ability to operate alluvial projects on a large scale, strong growth opportunities and a supply shortage in world markets to meet projected demand.

Investors have often been wary of investing in alluvial mining projects, as it is technically impossible to establish reserves and forecast future production with the same degree of certainty possible with kimberlites. However, alluvial deposits have advantages over kimberlite projects. They go into production faster, provide quick cash flow, and operating and capital costs are far lower than with kimberlite mining, which today outweighs previous reservations.

Diamond quality is also generally higher than that of kimberlite diamonds as it is only the better and larger stones that survive the journey.

Rockwell's average price is now about \$1500 a carat. Its mines predominantly produce diamonds of two carats and bigger, including from time to time some larger than 100 carats.

A helicopter ride over Rockwell's alluvial deposits in Northern Cape gives a clear picture of the major alluvial mining activity currently taking place along the Middle Orange River.

The Orange River flows from the Drakensberg mountains along the border between SA and Lesotho. Some geologists say the Orange River from Lesotho carried some of the Letseng stones down to the middle and lower reaches of SA's largest river course.

Spread over the dry bushy plains of Northern Cape along the banks of the Orange River, Rockwell runs the large-scale Wouterspan alluvial operation on the north bank, and the company is trial mining at the Makoenskloof operation.

On site, yellow dumper trucks and huge earth-moving machines carrying large volumes of ore, drive back and forth between the excavation area and treatment plants.

The mines — Holpan, Klipdam and Wouterspan — are jointly held by Rockwell, African Vanguard Resources (AVR), its black economic empowerment partner, and the Van Wyk family, which operate the mines.

Rockwell is also in the process of acquiring the Saxendrift and Nieuwejaarskraal mines, and a number of other advanced alluvial projects from JSE-listed Trans Hex Group for \$15m.

Early this year, it acquired the Makoenskloof alluvial project for \$2,8m on the north bank of the Orange River.

Rockwell's other assets include prospecting rights in the Democratic Republic of Congo and several alluvial prospects in Northern Cape area.

"There's been a lot of digging alongside the river, but deeper inland (where) the water flowed thousands of years ago there has hardly been any exploration," says Glenn Norton, minerals resource manager at Rockwell, about the potential of the area for mining companies.

He says Rockwell is taking the approach of investing in much larger and more sophisticated heavy-earth moving equipment and improved recovery technology that allows it to operate on a much larger scale and cut costs significantly.

"Ten years ago large-scale mechanised mining was limited to the Trans Hex Group, and there was far less of the modern cost effective technology available," says Norton. "Our strategy is to bring technological expertise and economies of scale to these projects," he says.

As part of the strategy, Rockwell is seeking to consolidate the existing alluvial deposits in Northern Cape area through acquisitions, and to apply for mining licences to explore new deposits. While it remains to be seen if the minerals and energy department will want to distribute the bulk of the land to one player, Rockwell's black economic empowerment partner AVR could serve as a useful partner by acquiring additional deposits.

AVR already has an alluvial deposit of its own, and says it is looking at other "interesting opportunities".

Rockwell, which is listed on the Toronto Stock Exchange (TSX) Venture Exchange, is planning to transfer to the TSX main board as well as listing on the Johannesburg Stock Exchange.

Rockwell produces about 39000 carats a year but over the next three years, the company expects to produce about 79000 carats a year.

Rockwell says it expects to make an announcement soon about a strategic partnership to manufacture selected stones, and to create a Rockwell Diamonds brand.