

DIAMONDS

Surviving the Meltdown

Diamond juniors must merge to stay on the map
– Rockwell chief

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The diamond industry will go through a period of “consolidation and rationalisation” over the next year or so, and small producers must consider merger-and-acquisition activity if they want to survive the pruning, said Rockwell Diamonds CEO **John Bristow**.

Vancouver-based Rockwell produces high-value diamonds from alluvial mines in South Africa.

The company has had approaches from other juniors, and is talking to potential partners, Bristow said in an interview, in Toronto.

There is a lot more pragmatism in the market, and companies are prepared to talk to each other to find ways to create value, he commented.

There is especially pressure on junior producers, the market capitalisations of which have shrunk to the point where they are no longer on the radar for many investors.

“People lose interest, it’s just too small,” Bristow said.

“So, we are very firmly of the view that there needs to be consolidation in this market.”

Last week, Gryphon Partners managing partner **Gordon Bogden** told an audience at the Prospectors and Developers Association of Canada conference that many junior and smaller midtier companies will need to consider mergers if they are to survive the difficult economic climate.

Rockwell will firstly consider tie-ups with diamond-miners which have alluvial operations in South Africa, although it might consider looking further north, to countries like Angola and the Democratic Republic of Congo, as well as to West Africa, he said.

Although any transaction would of necessity be paper based, Rockwell is considering a private placement – probably of at least C\$5-million – to cover things like lawyers’ and advisers’ fees for a potential deal.

The financing would also provide an additional cushion in case the market dips further, Bristow said, although he emphasised that the firm, which has between C\$4-million and C\$5-million on hand, including inventory, is by no means in distress.

“But it is going to be a challenging year,” he added.

“There will be consolidation in the industry and the business; a lot of weak players, be they miners, be they beneficiaries, be they retail stores, will certainly disappear.”

While the long-term forecast of a shortage of gem-quality rough diamonds appeared intact, the next year or two will remain “challenging”, RBC Capital Markets analyst **Des Kilalea** predicted in a research note on the industry.

“Industry operators are feeling the pinch of lower sales volumes and lower prices, with most companies now in ‘cash preservation’ mode,” he commented.

The diamond market had an exceptionally strong first three quarters of 2008, but in October, November and December trade ground to a standstill as a market surplus and slowing economic activity translated into severely depressed sales, said Rockwell marketing and sales manager **Jeffrey Brenner**.

By now, however, any oversupply in the market has been cleared out into the retail sector, after diamond-miners slashed output levels, and the wheels of trade have



JOHN BRISTOW

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begun to turn again.

Rockwell, with its high-value gems, has not been as hard-hit by price declines as some other producers, Brenner said.

Overall, prices for the company’s diamonds have probably declined by about 30% to 40% last year’s values.

In response to the market downturn at the tail end of 2008, the company opted to extend its Christmas shutdown period, and kept its mines closed for the duration of December and January.

In February, it restarted the Holpan, Klipdam and Saxendrift operations, but decided to put the Wouterspan mine, where an older plant and higher labour requirements translate into higher operating costs, on care and maintenance. The firm has retrenched about 140 people, and did not renew the contracts of another 40, Bristow said.

Rockwell still plans to reopen Wouterspan in the medium term, but not before it has the cash needed to modernise and refurbish the plant to reduce costs at the operation.

The firm recently commissioned a new low-cost, high-volume wet rotary pan plant at Saxendrift, and would like to have a similar operation running at Wouterspan.

Groupwise, unit costs are currently at around \$3,50/t, and Bristow is hoping to see the figure come down further, as it takes advantage of lower input costs for things like fuel.

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projects were near to the surface and would not require excessive capital to develop. They were also close to transport, power and water infrastructure.

In addition to the R200-million that Platfields intended raising in July, the company planned to

return to the market again in 2010 to raise a further R250-million.

Platfields’ operations director, **Joshua Hattingh**, said the company was “halfway” towards completion of a 12-month exploration drilling programme to define a resource at its 6 000-ha Berg PGE project located at the south-

ern end of the eastern limb of the Bushveld Complex. Berg exploration data to date indicated a total potential target of up to 16-million ounces.

At Leeuwkop, the first phase of a two-phase drilling programme comprising 29 boreholes had begun in December

2008, Hattingh said, while at the Grootfonteinberg gold project, in the Transvaal Drakensberg goldfields, a two-phase drilling programme comprising 13 boreholes had been initiated.

Grootfonteinberg exploration data indicated a target of up to 3,43-million ounces.