

Earnings Call Transcript

Rockwell Diamonds Inc.

Quarter 2 Fiscal 2009 Earnings Call

EVENT DATE/TIME: OCTOBER 16, 2008 / 10:00AM ET

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 Rockwell Diamonds Inc. Second 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 call. As a reminder, today's call is being recorded.

At this time, I would like to turn the conference over to your host Ms. Susie Bell, Investor Relations. Please go ahead.

Susie Bell – Rockwell Diamonds – Investor Relations

Thanks very much Dana, and good day and welcome to Rockwell Diamonds Second Quarter Fiscal 2009 Earnings Conference Call. I am Susie Bell with Investor Relations. Today with me on the call is John Bristow, President and CEO of Rockwell, Dominique de la Roche, our CFO and Jeffrey Brenner, Manager, Diamond Marketing and Sales.

After the opening remarks by management which will review the second quarter business and operational results we will open the phone line to analysts and investors for a question and answer session.

I would 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 the stated outcome to differ materially from the actual outcome. Please refer to the bottom of our latest news release for more information.

At this point I would like to turn the call over to John for his remarks..

John Bristow – Rockwell Diamonds – President & CEO

Thank you, Susie, and good morning or good afternoon ladies and gentlemen. Many thanks for finding time to share results for our quarter two and the first six months results for fiscal year 2009. The quarter covers the period June to August and the six months March to August 2008.

I will focus on the quarter two and then also comment on the six months period. We have Dominique de la Roche, our CFO, Jeffrey Brenner, Head of Diamond Marketing and Sales, and Susie Bell from Investor Relations on this call.

I will now proceed with an overview of the results and our progress with the existing and new projects and we will then take questions.

Our second quarter was challenging given industrial action which started in late July and ended on September 2, 2008. We initially experienced labor unrest at our Wouterspan operation and this became inter-linked with wage negotiations in a strike which affected all our operations.

In spite of these actions we were able to keep the Klipdam, Wouterspan and Saxendrift operations running safely on a long day shift, thereby limiting our downside in carat production to about 65% of our budgeted target for the quarter.

We also took advantage of this period of industrial action to undertake the refurbishments in maintenance of plants and equipment that we would have otherwise had to do in the course of the next six months.

Importantly, we suffered no slowdown on the construction of the new Saxendrift wet-plant via the use of contractors.

We engaged actively with the National Union of Mine Workers who became our employee union in March of this year, prior to and during the industrial action and resolved the situation constructively and positively in late August.

Normal 24 hour operations resumed on September 3, 2008 and we have had excellent production since then.

All parties involved with the industrial action established a far better understanding of each others needs and objectives during this period and we have ended up with a much improved work relationship. We have put plans in place with our employees which we are confident will be beneficial to the objectives of the company and its employees going forward.

Against the background of lower production due to this industrial action in the second quarter of fiscal 2009, Rockwell showed:

- Revenues from diamond sales of **\$9.9 million**.
- This is achieved from the sale of **5,024 carats** of diamonds.

Our cost of sales and amortization for the period total \$10.3 million, resulting an operating loss of a \$155, 476 for the three months period. Our net general and administrative expenses amounted to \$3.2 million offset by net-tax recovery of \$703,167 and the loss on the sale of a discontinued Chilean copper project, which was originally held in Rockwell, for the amount of \$203,338.

This overall situation resulted in a net loss of \$2.2 million or \$0.01 per share at a consolidated Rockwell level.

If we then move to the six months period ending August 31, 2008:

- Revenue from sales of diamonds for this period was **\$17.4 million**
- During this period, **10,576.83 carats** were produced from our operations; Holpan/Klipdam, Wouterspan and Saxendrift.

The cost of sales and amortization totaled \$17.5 million resulting in an operating loss of \$7,344 for the period.

Our net general and administrative expenses amounted to \$4.6 million in this period which were offset by net-tax recovery of \$1.1 million and the loss on the sale of the discontinued operation, which I had referred to previously, of \$203,338. Overall, we ended up with a net loss of \$3 million at a consolidated level or \$0.01 per share.

Diamonds in inventory at August 31, 2008 totaled 1,641 carats. Importantly, at the end of that period the company held cash reserves of **\$10.1 million**.

Moving on, the average price of diamond sales realized over the second quarter period was **US\$1,709 per carat**, representing an increase on the average price of US\$1,544 per carat achieved during the previous six months period.

Our average price for the first six months of fiscal 2009 is **US\$1,695 per carat** and if we include our latest diamond sale held last month, it is standing at **US\$2,491 per carat**.

Our diamond sales have been robust through the six months period ending August 31, 2008 and in September the company recovered a large white 189.6 carat gemstone diamond from the Klipdam mining operation.

This stone realized a sales price of approximately US\$10.2 million. This exceptional price was achieved against the background of turbulent conditions in world banking and capital markets, which are likely to have an impact on diamond prices going forward.

Our mining and recovery unit cash costs over the six months periods to August 31, 2008 were higher than due to the lost production and reduced throughput during our period of industrial action.

The average operating cost during the quarter ended August 31, 2008 was US\$5.62 per tonne which is inclusive of the Saxendrift start-up operation. By Saxendrift, which is currently in a ramp-up phase, we arrive at cost of US\$4.65 per tonne.

The increased costs per tonne, as I have indicated, are largely due to the loss of production and throughput related to our industrial actions, which have now been resolved.

The average operating cost over the six months period at the end of August was US\$4.77 per tonne again including Saxendrift, and if we exclude Saxendrift, the operating cost decreases to US\$4.16 per tonne.

During the past six months period, the company focused on identifying and implementing cost savings throughout the business. Sustainable cost savings have been achieved through the revision of mine plans, optimization of our mining methods and earth moving fleet, the modernization of processing plants, training and improved productivity and reductions in headcounts.

As a consequence of these optimization programs, the company was able to re-commission operations at Saxendrift during this past six months, without having to resort to additional staff recruitments, nor did we have to purchase new earth moving fleet with the exception of a new bulldozer.

Cost savings have been reflected in quarterly operating cash costs which have been relatively flat for the past six quarters, in spite of considerable price increases in steel, fuel and oil, electricity and labor. The benefits of cost savings implemented by the company during the past six months will be apparent in terms of our unit costs and that's dollars per ton in forthcoming quarters.

In terms of the sale and beneficiation of our product, we continue to progress and benefit from our marketing strategy which is aimed at progressively diversifying our method of sales and

marketing. Though the tender system has worked well for us, it has its limitations. We are very mindful of the current turbulence and world financial markets and impacts this will have on diamond prices.

We continue to see real positive benefits from our Steinmetz beneficiation agreement and we are pursuing other initiatives to sell and add value to our unique products.

In terms of our plans for the next quarter and six months period, we remain focused on the optimization of our existing operations, commissioning and expanding new projects in the Middle Orange River and managing costs. The company has established a significant footprint on alluvial deposits which consistently yield high-value gemstone diamonds, with plus 2-carat stones comprising more than 65% of our production and are of the exceptional quality and value. Our focus is to build on this competitive edge.

During the six month period ending August 31, 2008, the company expanded its operations from three to four mines with the re-commissioning of a small plant at Saxendrift on the south bank of the Middle Orange River.

We are advancing production at the new Middle Orange River operations acquired from the Trans Hex Group beginning with Saxendrift. Aside from the re-commissioning of the existing small scale plants during the six month period to August 31st, the company has remained on target and on budget with the construction of a new state-of-the-art, low-cost, high-volume wet Rotary pan-plant on the Saxendrift terrace.

Hennie Van Wyk and his project team have done a great job with the new Saxendrift plant, and we are on track for commissioning in early November. The plant is an integral part of the company's plans to double production over the next six to nine months.

We have already run the screening trommels and pans and started directional testing of equipment on the new Saxendrift plant. Wet commissioning will begin at the end of this week and we will start building screened stockpile during the week of October 20th.

The capital spend on the front end, processing and recovery plant at Saxendrift was approximately R60 million or about \$7.5 million most of which has been paid out.

Going forward, our capital expenditure will slow considerably, given that we already have a large amount of the equipment required for the planned Wouterspan B expansion plant and other projects on the Middle Orange River.

The fully refurbished new Saxendrift final recovery plant and hands-off sorting unit has been pre-commissioned well ahead of the scheduled date for its commissioning as well. We have also taken the lead by incorporating an optical sorter into this facility which is a first in the alluvial industry in South Africa.

We have other plans to optimize this state-of-the-art recovery plant and bring more concentrate from surrounding operations to be processed through it, thereby making significant cost savings in the unnecessary developments of new final recovery units on different sites. The optical sorter machine will process concentrate in the size range 30 to 70 millimeters and hence allow us to recover stones larger than about 200 carats. We look forward to finding our first very large stone out of this machine.

We remain committed to and focused on expanding the company and creating value by organic growth and acquisitions, mindful of the highly volatile and uncertain nature of the world's financial markets. Our immediate focus is on growth of existing operations and commissioning and growing the high quality brown-fields project pipeline that we have on the Middle Orange River.

In the Middle Orange River, we have a number of projects which have been drilled and evaluated and which have existing infrastructure. We believe that these projects outrank many of the projects held by our peers and competitors, in terms of resource size, resource quality, in-situ value and obviously, diamond value. These projects are in our backyard and we are duly positioned to develop them.

In this respect, we have the added benefits of an operating and project team with:

- A proven track record
- We have cash flow
- Importantly, we have cash reserves.

Thanks very much everyone. Thanks for making the time to attend our call and we look forward to the next one. And for those of you who can, we look forward to getting you down on site sometime to see our new developments at our operations. Appreciate your interest and look forward to talking to you again in the future. Thanks everyone.