

# Earnings Call Transcript

## Rockwell Diamonds Inc.

### Quarter 1 Fiscal 2010 Results Call

EVENT DATE/TIME: JULY 16, 2009 / 10:00AM ET

#### CORPORATE PARTICIPANTS

**Susie Bell** – Investor Relations

**John Bristow** – President & CEO

**Desmond Morgan** - CFO

**Jeffrey Brenner** – Manager, Diamond Marketing and Sales

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

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#### Operator

Good day, ladies and gentlemen, and welcome to Rockwell Diamonds Inc. First Quarter Fiscal 2010 Results Conference Call. Today's call is being recorded. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of the conference.

I would like to turn the conference over to Susie Bell, Investor Relations.

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#### Susie Bell - Investor Relations

Thanks very much. Good day, everyone, and welcome to the Rockwell Diamonds first quarter fiscal 2010 results conference call. I am Susie Bell with Investor Relations. Today with me on the call is John Bristow, our President and CEO of Rockwell; Desmond Morgan, CFO; and Jeffrey Brenner, our Manager of Diamond Marketing and Sales.

After the opening remarks with management where we will be reviewing the first quarter business operational results, we will open the phone line to analysts and investors for a question-and-answer session.

I would also like to remind you, our listeners, that our comments and our 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.

I would like to turn the call over to John Bristow now for his remarks.

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#### John Bristow – Rockwell Diamonds – President & CEO

Good morning or evening, ladies and gentlemen, and welcome to Rockwell's earnings call in which we will report first quarter results for fiscal 2010.

David Copeland, our Chairman, is traveling and given that his travel schedule may prevent him from participating in this call, I am going to proceed with an overview, followed by the presentation of the results. David may join us during the call and in this case he would participate or be able to participate in the question-and-answer session at the end.

As per our previous calls, I am assisted by Jeffrey Brenner, our diamond expert; and Desmond Morgan, our Chief Financial Officer. And as Susie noted, we will have a question-and-answer session at the end of the presentation.

The first quarter of fiscal 2010, which covers the period 1st March to 31st May, 2009, has like the previous quarter, been a challenging period for the company, primarily the consequence of ongoing weakness in the international diamond business and depressed diamond prices related all to the financial crisis.

In spite of the tough trading conditions, Rockwell has nevertheless made progress on a number of fronts and we have in the past two months seen a firming in diamond prices, which is encouraging and bodes well for the future.

Highlights for the period include:

- The granting in March 2009 of ministerial consent and new order rights for the Niewejaarskraal mine, which is located on a high level terrace west of Saxendrift,
- We made continued advances with improving our plant performance at Saxendrift and Holpan,
- Importantly our cash operating costs are well below the US\$3 per tonne mark at US\$2.60 per tonne.

In the period we also faced a proxy contest with shareholder Pala and are happy to have overcome this obstacle, and we appreciate the support of our shareholders in passing this hurdle. As stated before, dilution of management time, unnecessary expenditure of scarce financial resources to defend the bid, and general disruption to management time was regrettable.

Moving onto our most recent sets of results, I will summarize Rockwell's production sales, loss, costs for the quarter and I will then comment on the diamond market and end with a brief overview of our short -and longer-term plans for the company.

In the three-month period ended 31st May, 2009:

- We produced 4,022 carats at Holpan, Klipdam and Saxendrift. This production was lower than budget due to heavy unseasonal rains in the period,
- 5,116 carats of diamonds were sold at an average price of US\$555 per carat
- Profit share of US\$454,953 was received from the sale of diamonds, two stones totaling 68.29 carats from Wouterspan, by our partner Steinmetz
- Revenues from sales were \$3.9 million,
- Our mining costs were \$4.9 million for the period,
- Our general and administrative costs were \$2.6 million which encouragingly were down on the previous equivalent quarter,
- And based on these cash figures, the operating loss for the period was \$3.6 million.

Adjusting for amortization and depletion of about \$1.8 million, the future tax recovery of \$1.8 million and other non-cash items, saw the company report a loss of \$4.1 million or \$0.02 per share.

Our diamond inventory at May 31, 2009 was 2,431 carats. In respect of our cash position at the end of May 2009, we held \$2.2 million in the bank. We went overdraft to \$3.7 million and sat with a net overdraft balance of \$1.5 million.

We subsequently sold 2,500 carats, which included May inventory plus some extra carats from June – in late June of this year from a much improved average diamond price of US\$835 per carat or about US\$2 million which equates to CDN\$2.2 million.

Based on our latest production and sales figures, we have achieved a breakeven position for the company in the current tough market conditions. To further insure we have adequate headroom in respect of our short-term liquidity, we had also successfully negotiated a lease payment holiday relating to some of our earth moving equipments which will reduce our monthly outflow by about R4 million.

We currently have access to \$2.6 million in our short-term facility, a further \$400,000 is due from diamond sales and diamond inventory as of today was 2,061 carats which we aim to sell at the end of July 2009.

The management of our costs remains a key focus for the company. Rockwell's management and Board of Directors continue with regular reviews of all aspects of our business, including market conditions, cash flow positions, costs and other challenges.

Our operational, project, human resource, financial and service teams are all focused on improving productivity and efficiencies at the operation. Most recently we have introduced additional initiatives aimed at sustainable operation improvements and costs reduction. These have included amongst other changes:

- An improved approach to training of operators and communication with our employees,
- Realignment of our operating, maintenance and troubleshooting procedures on all processing plants,
- Restructuring of our maintenance and repair team,
- And, a thorough review in reengineering of our procurements, accounting and financial reporting systems.

Through these processes and other changes reported on previous calls, we have been able to steadily reduce our cash operating costs and in the first quarter we had averaged US\$2.60 per tonne.

In respect to the diamond market you are all aware that through the initial eight months of 2008, prices of gem diamonds reached unprecedented levels, like most other commodity prices.

Subsequent to September 2008 rough diamond market experienced a sharp decrease in trading activity and as a consequence the rough diamond prices fell precipitously in October 2008 on average by as much as 50% from their highs of the previous eight months.

Though diamond prices have shown an uptick since about March 2009, they are still considerably below the 2008 average prices and remain challenging for revenue and cash flow. As I had noted previously Rockwell has seen an improvement in prices in the two to 10 carat rough range with greatest increases in the two to five carat range. Prices are spotty and poor quality goods remain depressed and trade is slow and large goods above 10 carats of the good quality white stones have attracted buyers.

We estimate that prices of the two to 10 carats rough range are probably at about 60% of prior year prices, with plus 10 carat stones on average of about 55% of prior year figures.

We had recently sold a parcel, however, of 2,500 carats at an average price of \$835 per carat, and we're encouraged by greater interest among buyers and a firming of prices but undoubtedly the rest of the year will still be fairly challenging.

In respect of our plans for the fiscal year 2010, by way of short-term priorities, the company is considered – committed to maintaining flexibility and resourcefulness to overcome the challenges of the world economic crisis and the concomitant significant declines in diamond prices:

- In this respect, we continue to diligently manage costs, leverage diamond sales and increase production to maximize the revenues,
- We are also proceeding with continual improvements in reengineering the process and recovery plants to improve efficiencies and further lower costs,
- The rights offering to strengthen the company's balance sheet is also underway and we will shortly issue details of that financing,
- The company is also actively identifying and recruiting suitably qualified and experienced personnel to strengthen our Board of Directors, our management and financial and engineering disciplines.

Over the longer term, the company remains committed to its growth and development plans, which would include:

- Commissioning of a diamond recovery and processing plant at the Niewejaarskraal mine, those rights having been granted earlier in the year,
- Modernization and re-commissioning of the Wouterspan operation which has a history of producing high quality gem stones,
- Raising the rates of evaluation of our existing defined resources and the assessment of the viability of other diamond projects in our extensive portfolio of brownfield projects,
- And equally in the future possible acquisition.

In conclusion, the past quarter and six month period including this quarter has been particularly challenging in the diamond mining business and this is reflected by the loss that Rockwell has posted for the first three months of this fiscal 2010.

We are however, proactively addressing the challenges we face. We have seen an improvement in prices, and with lowered costs and increased production, we have achieved a break-even position and foresee Rockwell returning to profitability towards year-end.

We have laid the groundwork to move forward and look forward to Rockwell's progress and growth as a producer of exceptional gemstone diamonds.

My thanks to all of you that have taken time to participate on this call and likewise, thanks to the entire Rockwell team, both at the operations in Barkley West, our team in Johannesburg and the Board of Directors for their ongoing endeavors and commitment to the company. Thanks to everyone.