

# Earnings Call Transcript

## Rockwell Diamonds Inc.

### Quarter 2 Fiscal 2010 Results Call

EVENT DATE/TIME: OCTOBER 20, 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.*

---

#### Operator

Good day, ladies and gentlemen, and welcome to Rockwell Diamonds Inc. Second 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.

---

#### Susie Bell - Investor Relations

Thanks very much. Good day, everyone, and welcome to the Rockwell Diamonds second 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 second 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 now for his remarks.

---

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

Thanks, Susie and good morning or afternoon ladies and gentlemen, and welcome to Rockwell's earnings call in which we will report six months results for fiscal 2010.

David Copeland, our Chairman, is traveling and given that his time schedule may prevent him from participating in the call, I am going to proceed with an overview, followed by the presentation of results and some additional points. Depending on his schedule David maybe able to join us

and assist and if this is the case he would be able to participate in the call in the question-and-answer session at the end.

As per our previous calls, I will be assisted by Jeffrey Brenner, our Diamond Marketing and Sales Manager; and Desmond Morgan, our Chief Financial Officer.

The six months period which is a subject of today's results covers the period of 1st March, 2009 to 31st of August, 2009. This presentation will cover the company highlights for the period, financial results, our drive to manage costs, the diamond markets, corporate developments and our plans and outlook for the rest of fiscal 2010 and beyond.

The past six months have been a challenging period for the company though we have seen encouraging signs of improvements in demand and prices in the diamond market. We are cautiously optimistic in respect of the remainder of 2009 and maintain that there is likely to be further improvements in prices in the New Year.

Highlights of the period under discussion include the following:

- A progressive increase in both volume throughput and carat production for the period, with 2,800 carats being achieved from three mines in August and in September we exceeded this and went over the 3,000 carat mark.
- We have seen progressive improvements in the performance of the Saxendrift plant and the recovery of regular high class diamonds from this mine, including large white stones of over 100 carats and intense yellow goods was particularly satisfying.
- At an average of US\$2.72 per tonne, our cash operating costs have remained well below our targeted US\$3.00 to \$3.50 dollar per tonne level in spite of high oil prices and a stronger rand dollar exchange rate.

Another positive development was that for the first time in several months, we had no corporate hostilities to deal with and hence the management and operational teams could focus on the business of running the company.

The weak U.S. Dollar, strong South African Rand has unfortunately not helped our revenue stream, but we cannot control such factors and hence must continue to manage our dollar and Rand-based costs and show innovation in running this business.

Moving on to our most recent financial results, in the six months period ended 31st August, 2009:

- 11,957 carats were produced from operations at Holpan/Klipdam and Saxendrift.
- 11,236 of these carats were sold at an average dollar price of US\$718.22 per carat.
- Revenue from sales were C\$9.67 million and we also achieved other sales from beneficiation of \$170,000. This resulted in revenue of \$9.8 million.
- Cost of sales was \$9.6 million
- Amortization cost totaled \$5.0 million resulting in an operating loss of \$4.8 million for the period.
- Our net general and administrative expenses amounted to \$3.2 million. We had an interest expense of \$800,000 offset by a net tax recovery of \$2.0 million resulting in an overall loss \$6.6 million or \$0.03 per share.

At the end of August, Rockwell had short-term call investments of \$900,000 and an overdraft balance of \$3.1 million from a facility of \$4.0 million giving a net cash liability of \$2.2 million.

The overdraft facility available of \$900,000 and the cash on call of \$900,000 allowed our cash resource is still at \$1.8 million to fund operations.

Diamond inventory at August 31, 2009 was 4,247 carats and as of today we have diamond inventory of 5,900 carats including some exceptional stones of over 100 carats and a number of smaller intense yellow diamonds.

Diamond sales for the period were significantly better than in the previous quarter with prices of US\$807 per carat, US\$1,090 per carat, and US\$862 per carat being achieved in the second quarter.

Based on our latest production and sales figures as well as estimates for unsold inventory, we have achieved a break-even position for the Company and depending on diamond prices that may be achieved from the current excellent inventory we hold, we are confident that we will settle our short-term debt facility and rebuild a net positive working capital position from the company from these sales. Jeffrey Brenner has well advanced the sales of some of our largest stones which will be concluded in the next week with the balance of the production or inventory being sold by mid-November.

To ensure we had adequate headroom in respect of our short-term liquidity, we successfully negotiated a lease payment holiday with Komatfin (or Westbank) relating to some of our earth moving equipment and which reduced our monthly outflows by about R4.0 million. This facility runs through the end of October, where after we plan to continue with normal payments and settle outstanding payments from our fund raise proceeds.

Rockwell has in the meantime made payments to cover the interest portion as well as the additional interest charge on the non-reducing capital balance. This has had the effect of preventing penalty interest being charged.

Moving on to the management of costs, this remains a key focus for the Company. Our operational mineral resources, financial, and service teams continue to focus daily on improving productivity and efficiencies at the operations and equally our financial team make sure that they monitor and manage these costs on an equally rigid basis.

Rockwell's management and Board of Directors also continue to monitor the situation and as per the previous quarter, we have introduced additional initiatives aimed at sustainable operation improvements and cost reductions.

These have included amongst others:

- A revolving 10 day performance review for each processing plant,
- Ongoing identification of those areas where we can implement improvements in cost savings on our plants, by, for example the standardization of electric motors and utilization of new motors, which use less electricity.
- We have also introduced active enhancements of our financial management and reporting systems for the operations so that they can rapidly identify exceptions and implement immediate remedial action.
- The training program for plant superintendents has had benefits, and

- We have also had the benefit of several site visits by our Directors, particularly our Board Members over the past quarter and this also had positive outcome.

Through these processes and other changes reported on the previous calls, we have been able to steadily reduce our cash costs and in the six month period, as indicated, we have averaged US\$2.72 per tonne. Our total operating costs including rehabilitation, hire purchase payments and royalties amount to US\$4.00 per tonne.

In respect of the diamond market, we have seen encouraging signs of improvements in demand and sales in the past six month period and remain cautiously optimistic ahead of the Christmas season.

Just as other market observers and producers have noted, cutting centre stocks remain on the high side primarily due to lower U.S. imports of polished stones due to weaker U.S. sales and de-stocking within the U.S. diamond jewelry retail trade. However demand for diamond jewelry remains strong in China and India, while the rest of Asia continues to also show resilience.

Prices have also shown increases in the past six months, this in spite of the fact that recently we have seen major diamond producers like De Beers who had cut back production in the first part of the year resume sales of rough diamonds. We have not seen any negative impact on the markets and hence our cautious optimism going forward.

Though diamond prices have shown an uptick since about March, they are considerably below 2008 average prices and hence remain challenging for revenue and cash flow.

In terms of detail, Rockwell has seen improvements in prices in the two to 10 carat rough range with greatest increases in the two to five carat stones. Prices of spotty and poor quality goods remain depressed and trade is still slow in large goods above 10 carats while good quality white stones have attracted buyers.

Rockwell estimates that prices in the two to 10 carat range are probably at about 60 to 70% of prior year prices whereas plus 10 carat stones on average are at about 60% of the prior year figures.

As noted, we are cautiously positive about the diamond market and price trends and the fact that sentiments have improved is also encouraging. Jeffrey Brenner will be happy to answer your questions on the market situation at the end of this presentation.

In respect of corporate matters, the company has appointed two new directors to the company following the resignations of two of our previous independent directors.

We are particularly pleased to have obtained the services of Mr. Richard Linnell and Dr. Willem Jacobs, both of who have a wealth of mining, financial, and corporate experience and who are based in South Africa. The experience in close proximity to the management team has already shown benefits and we expect to be able to show some positive outcomes of the ongoing hard work of our Directors and management team over the next few months.

In line with our plans to bolster the management and operations team, the company has identified excellent candidates to fill the role of Chief Operating Officer and Operations Manager for our processing and recovery plants and new a Financial Manager to overlook our operations in the Northern Cape. Our existing small team has done a great job through the past 12 months but as the market improves and as we start rolling out our growth and expansion plans, we need extra hands on deck to bolster our management and skills base and we have found people who will certainly do that.

We will be making the appropriate announcements as soon as these individuals have completed notice periods and we have started the paper work to ensure that they are formally employed by Rockwell.

As regard to our plan for fiscal 2010, these remain in line with those outlined in previous quarterly results presentations.

By way of short-term priorities the company will continue to show resourcefulness to ensure progress in spite of challenges that remain in respect to the world economic crisis and the decline in international diamond prices. We continue to:

- Diligently manage costs, leverage diamond sales, and increase production to maximize revenues in the company.
- We continue to implement improvements in re-engineering of processing and recovery plants to further add operating efficiencies and lower costs.
- And market improvements permitting, we also will proceed with the modernization and re-commissioning of the Wouterspan operation which has a history of producing high quality gemstones.

Additional carat-age without increasing our base cost too much will ensure important additional revenue for the company and help our profitability going forward.

We are also well advanced with the necessary paper work to proceed with our planned fund raising which will ensure that we can strengthen our balance sheet, settle short-term debt, and position ourselves to reopen Wouterspan and to grow the company in line with further improvements we expect from the diamond market.

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

- Increasing the rates of evaluation of our existing defined resources and the assessment of the viability of other diamond projects in our extensive portfolio of high quality mineral rock holdings.
- Commissioning of the diamond recovery and processing plants of Niewejaarskraal and possible acquisitions which we have been looking at.

In conclusion, Rockwell has proactively addressed the challenges of the past 12 months, and we have emerged stronger from this period. We have seen an improvement in diamond prices, and with lower costs and increased production, we have achieved a breakeven position and foresee Rockwell returning to profitability towards year-end.

The company has laid the groundwork to move forward cautiously with our growth and expansion plans and thereby increase both our production and mix of high-value gemstone diamonds thereby allowing the likes of Jeffrey and our marketing team to add further value.

I would just like to add that we have also in the past two weeks concluded our annual wage negotiations with our employees and the union representatives. Mindful of the financial challenges we still face, all parties worked to achieve a positive and sustainable outcome, and I am pleased to note that we have agreed on a wage increase of 8% for the year.

I thank all of you that have taken time to participate in this call and, again, my thanks to the Rockwell Board of Directors, management, and operational team and all our employees, suppliers, and shareholders who have provided such excellent support to the company during the past rather challenging 12 months. Thank you.