

# Earnings Call Transcript

## Rockwell Diamonds Inc.

### Quarter 2 Fiscal 2011 Results Call

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#### CORPORATE PARTICIPANTS

**John Bristow** – President & CEO

**Graham Chamberlain** – Chief Operating Officer

**Johann Oosthuizen** – Financial Manager Operations

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

**Glenn Norton** – Manager, Mineral Resources

*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 Second Quarter Fiscal 2011 Results Conference Call.

Today's call is being recorded. At this time, all participants are in a listen-only mode. After the opening remarks where management will be reviewing the second quarter business operational results the phone lines will be open to analysts and investors for a question-and-answer session.

Please be reminded that comments and answers may contain forward-looking information. This information by its nature is subject to risk and uncertainties and may cause the stated outcome to differ materially from actual outcome. Please refer to the bottom of the latest Rockwell Diamonds news release for more information.

At this time I would like to turn things over to the President and CEO, Mr. John Bristow for his remarks.

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

Thank you very much, and good morning and afternoon ladies and gentlemen. Welcome to Rockwell's earnings call in which we will report our results for the six months to August 31, 2010, representing the first two quarter of fiscal 2011.

I will be assisted Gerhard Jacobs, our CFO; Jeffrey Brenner, our Diamond and Marketing Sales Manager, and we will also have on the line some of our operations managers from Barkly West in the Northern Cape.

In respect of the second quarter fiscal 2011, Rockwell's operation showed a 31% increase in volume production on the previous quarter due to higher throughput at all our mines and a contribution from the Klipdam extension bulk-sampling project.

Production at Saxendrift was above target, an ongoing improvement that this operation continues to yield improvements in throughput and reduction in costs. Overall, the recovered grade was slightly below budget due to the higher sand content to Saxendrift which was commented upon in the last earnings call.

At Saxendrift, the fabrication and civil structures for the new in-pit screening plants were completed by quarter end and construction was well underway. As of today, this plant has been completed and

commissioning will be initiated as soon as the concrete pad on the ramp structure has cured. This commissioning is scheduled late-October early November.

The Klipdam extension bulk sampling project showed improved throughput following enhancements to this low cost modular plant and encouragingly the recovered grade have been better than the predicted grade.

The Wouterspan operation remains on care and maintenance. The re-design of this proposed high volume, low-cost processing plant, which incorporates extensive engineering enhancements derived from the Saxendrift processing plant is complete. Full engineering drawings and equipment specifications and costings will be available at the end of October and the Company is in the process of assessing suppliers and funding options for this modernized low-cost plant.

Based on the engineering improvements implemented at Saxendrift, design and layout of Wouterspan will be considerably enhanced to ensure reduced operating costs. As has been noted previously and in news releases, development and commissioning of the Tirisano acquisition at Ventersdorp has been moved ahead of the Wouterspan modernization and re-commissioning program, with Wouterspan now pushed back to mid-2011 or fiscal 2012.

I will return to the Tirisano acquisition later in this presentation.

In respect of Rockwell's financial performance and the six months ended August 31 2010:

- 14,168 carats were produced at the Hoplan, Klipdam and Saxendrift operations as well as the Klipdam Extension bulk sampling projects.
- 14,203 carats were sold at an average cost of US\$1,243 per carat. The average cost per carat achieved 73% increase above the average cost of about US\$718 per carat realized during the corresponding period in the previous financial year.
- In the case of diamond sales, we achieved US\$17.7 million plus an additional US\$1.6 million representing income from beneficiation profit share through our joint venture with the Steinmetz Group, in this case rough stones were polished and sold and the profit shared between Rockwell and Steinmetz. Overall this resulted in diamond revenues for the six months period of US\$19.3 million (compared to \$8.1 million in the prior year) and in Canadian dollars this equates to \$19.8 million.
- Our cost for sales including amortization, depletion and impairment charges totaled \$18 million.
- An operating profit of \$1.9 million was realized for the period compared to a \$4.7 million loss during the same period last year.
- Our general and administrative expenses were \$600,000 down to \$3.6 million (compared to \$4.2 million in prior year), mainly as a result of lower interest charges and foreign exchange.
- Other items included a fair value adjustments and investments of \$147,779 and a write-down of property, plant and equipment of \$144,658.
- Overall a loss of \$1 million or \$0.002 per share was realized for the period (compared to a \$6.6 million loss in 2009).
- Our diamond inventories at August 31, 2010 totaled 1,875 carats.
- At August 31, 2010, the company has cash and cash equivalents of \$4.6 million and bank indebtedness of \$3.3 million, for the net cash holdings of \$1.3 million.

- The company's overall working capital position was \$7.1 million compared to an \$8.2 million deficit at August 31, 2009.

The management of costs remains a key focus for the company:

- The average operating cash costs over the six months period to August 31, 2010 for the three operations was US\$6.21 per cube, which was at the low end of US\$6 to US\$7 per cube range that was forecasted for financial 2011.
- The average total cash cost for all the operations over the first six months of fiscal 2011, including rehabilitation, lease payments and royalties was US\$8.41 per cube.

Further reduction of costs are expected once the Saxendrift in-pit screening unit is commissioned, and the Company continues to review all its financial and operational systems, procurement procedures, and repair and maintenance program to continue to reduce costs and improve performance.

During the past 6 month period, Rockwell also implemented a robust review of its financial procedures through a comprehensive SOX, Sarbanes Oxley update program, and is now implementing procedural improvements as part of this worthwhile initiative.

In terms of financial matters the Company is also actively dealing with the consequences of the strong gains in Rand strength against the US Dollar, a trend which has affected most emerging markets. The consequences of Rand strength are not insignificant in terms of costs and revenues and the Company is actively assessing the situation.

In respect of diamond production, Rockwell produced a number of good quality stones during the second quarter of fiscal 2011 Rockwell.

Five stones of over 50 carats were recovered from Holpan, Klipdam and Saxendrift operations, bringing the total number of plus 50-carat stones recovered in the current fiscal year to eleven.

At Holpan, a 136-carat clean white, broken octahedral stone was recovered. At Klipdam, a 69-carat pinkish stone with a brown overtone and a blocky shape.

The remaining three large stones were recovered from Saxendrift and included:

- 58-carat white diamond of octahedral shape
- 81-carat fancy yellow with rounded octahedral shape
- 104-carat clean Cape yellow stone.

These stones were sold into the Company's joint venture with Steinmetz Diamond Group. We have seen some of those stones are already going through the factory and clearly indicate that the yellow stone should fetch additional extra revenue in the polished form and thereby add to Rockwell's bottom line.

The international diamond market has continued the recovery to 2008 levels. Rough diamond prices have shown some further increases in certain of the better categories. Overall the market has shown good resilience through calendar 2010 which has been encouraging. While producers production levels remain low compared to the highs of 2007 and 2008 further improvement in polished prices is required to meet prices paid for rough diamonds.

The June to August 2010 polished index showed a slight increase which was encouraging. Stability of rough diamond prices as well as liquidity is key to the continued recovery of the diamond industry.

Rockwell has since its inception highlighted the importance of growth to create critical mass and stability in the Company. In this respect the Company has secured a very large footprint of high quality alluvial diamond deposits that yield an exceptional range of large and unique gemstone diamonds.

Following the recession of 2009 the Company has cautiously re-initiated its plans to develop new production capability, re-commission Wouterspan and where possible expand existing operations.

In March 2010, the Company announced that it had signed a term sheet with Etruscan Diamonds Limited whereby the Company proposes to purchase Etruscan's Blue Gum or Tirisano diamond operation in the Ventersdorp region, South Africa. At the same time Rockwell also signed a contractors agreement with Etruscan so that it could actively manage care and maintenance aspects, conduct site improvements, and initiate de-commissioning of certain plants and fabrication of key plant components.

Rockwell will acquire 74% of the operation while the balance of the Tirisano project will be owned by the local Magopa Community pursuant to South Africa's Black Economic Empowerment requirements. The price to be paid to Etruscan is an amount not exceeding ZAR33.5 million (approximately \$4.83 million) payable in Rockwell shares valued at \$0.068 each. The Company will also assume certain non-material and non-refundable property maintenance obligations effective immediately as we have taken over the care and maintenance and other financial obligations upon completion of the acquisition.

The Company has submitted a Section-11 application to our Department of Mineral Resources to transfer the Mineral Rights from Etruscan to Rockwell and a developing trustee is as working closely with its BEE partner and the DMR to expedite this process.

The Sale of Shares Agreement was signed by both parties on 9 September 2010 and Rockwell will take full ownership of the project as soon as the Section-11 transfer is granted.

In the meantime the Company has fully redesigned the Tirisano processing plant, completed much of the essential fabrication, undertaken a review of the geological and resource model, and has contracted SRK to complete a slope stability geotechnical study to assist in the optimization of the open pit at Tirisano.

The Tirisano alluvial diamond deposit hosts indicated mineral resources of about 25 million cubic meters with a grade of 2.37 carats/100 cubic meters and 15 million cubic meters of inferred resources with a grade of 2.37 carats/100 cubic meters.

An important consideration in respect of the Tirisano acquisition is the higher and more consistent grades of this deposit as compared to the far lower grades of the Company's Northern Cape operations, this direct comparison, the 2.37 carats/100 cubic meters for Tirisano, is almost two times higher than our average grade in the Northern Cape of about 0.8 carats/100 cubic meters.

Another important consideration is that during the plant that existed at Tirisano as well as the third plant that we hold in the Northern Cape, the capital cost of modernizing and re-commissioning Tirisano will be considerably lower probably about \$2.5 million. The production from Tirisano will assist in smoothing the monthly production and revenue flow for the company and also lever the product which is ideally suited to the Chinese Bridal-diamond range.

As noted in the previous quarter and on the news releases, Rockwell acquired a 20% ownership in Flawless Diamond Trading House in May 2010. Flawless provides a unique marketing and sales platform for Rockwell's diamond production that will provide some additional revenue, and allows the company to gain additional insight into diamond sales trends thereby assisting our short and long term production and growth plans. I should add too that Rockwell will however remain or contain – or continue to focus on mining and as I say in the purchase of Flawless, you could see that as a mixture into the markets and to gather market intelligence from that ownership.

Finally Rockwell has committed to building a unique gemstone diamond producer in a five to six year time horizon. To achieve this objective our plan is as follows:

- To keep an open evaluation of our existing and defined resources on the assessment of the viability of other diamond projects in our extensive portfolio of Mineral Right holdings.
- As indicated we also plan to commission further production capacity by way of Tirisano and Wouterspan and once these operations are fully operational, we plan to undertake further expansion by means of in-pit screening plants and other creative low cost expansion programs.
- The company will also in the longer term look to commission a further mine at its Niewejaarskraal property to the west of Saxendrift, once Tirisano and Wouterspan are fully operational.
- The company is confident that Rockwell will be able to expand its production profile and indeed grow through its monthly and annual production and revenue profile and create an operating entity that can add additional value from its internal cash flow.

With the international diamond business showing a progressive decline in existing mine supply and no new discoveries of consequence in the horizon, Rockwell's strategy of targeting high end gemstone production fits the market fundamental of declining supply and increasing demand driven by the growth of the Chinese and Indian markets and overall improvements in the long-term in the U.S. markets.

I thank all of you for taking time to participate in the call and we extend out thanks again to Rockwell shareholders, our directors and management and other stakeholders, for their committed and continued support of Rockwell's growth and development plans.

Thank you.