STOCKWATCH

Rockwell Diamonds steps up production plan

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by Will Purcell

John Bristow's Rockwell Diamonds Inc. expects to increase its alluvial gem production over the next year. The company continues to expand its carat haul from three existing mines on the Middle Orange River in South Africa. As well, the company expects to place two neighbouring mines it is buying from the Trans Hex Group back into production in the second half of 2008. Those mines are on care and maintenance, but Rockwell is confident it can run them at a good profit.

The plan

Mr. Bristow said that all five mines were tapping into the same orebody, a large pancake of alluvial gravels within the Middle Orange River. As a result, Rockwell believes the Saxendrift and Niewejaarskraal mines will have the same grade as its three operating projects, Wouterspan, Holpan and Klipdam.

Through the last six months of 2007, Rockwell averaged a minuscule grade of about 0.004 carat per tonne from its three mines. The diamonds sold for nearly $1,750 (U.S.) per carat. That suggests an average rock value of about $6.75 (U.S.) per tonne. There are monthly variations in both grade and diamond values at the three mines, but the average gross gravel values at each appear similar. That supports expectations for comparable values at Saxendrift and Klipdam.

Rockwell's diamond values have been increasing steadily in value, and the first two sales of 2008 posted significant price jumps. The company's sales this year are averaging $2,400 (U.S.) per carat. As well, the company is selling about 20 per cent of its diamonds by value through the Steinmetz Group, which is adding to expected revenues.

Mr. Bristow said the enormous values are the result of an "amazing geological freak" that yields a steady supply of large diamonds with exceptional colour and quality characteristics. Those few stones typically account for about one-half of Rockwell's revenues.

The huge values present a special security issue. A diamond worth $4-million may be less than three centimetres in diameter, tempting Rockwell's miners to risk tucking away the more valuable gems in a pocket, or some other, perhaps less obvious, hiding spot. Diamond mines typically screen the comings and goings of employees, but as with border crossings, things often slip through.

As a result, Rockwell does its best to keep the diamonds out of human hands. Mr. Bristow said his company had an array of television camera to watch the mine. As well, Rockwell employs double locks on its diamond boxes and rooms, with no single employee holding both the keys. The system works well to safeguard nuclear weaponry, but there clearly is more enticement to liberate a multimillion-dollar gem than there is to nuke a foreign target.

The encouragement

Rockwell is facing cost increases as well, as fuel accounts for about one-third of its expenses. Nevertheless, the company is running its mines for about $3.50 (U.S.) per tonne, about one-half of the company's revenues. The two new mines should have comparable operating costs as they are in the same area, and Rockwell thinks increased production rates will help it reduce per-tonne expenses.

Mr. Bristow said he believed Rockwell's current mines could achieve monthly production rates of up to 2,500 carats per month. The company expects to begin production at the two new sites at 1,000 carats per month later this year. It will then ramp up the carat harvest to about 2,000 carats over the next year.

Even at a total of 4,000 carats per month, Rockwell could achieve total revenues approaching $100-million (U.S.) per year. With expenses presumably running at one-half that rate, the company would have a hefty cash flow to invest in new projects.

Rockwell closed down one-half penny to 46.5 cents Friday on 57,500 shares.