

Business Update Transcript

Rockwell Diamonds Inc.

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PARTICIPANTS

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Dave Copeland – Chairman, Rockwell Diamonds Inc.

John Bristow – President & CEO, Rockwell Diamonds Inc.

Operator

Good day, ladies and gentlemen, and welcome to today's Rockwell Diamonds business update 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 Mr. John Vincic, Barnes & McInerney. Please go ahead, sir.

John Vincic – Barnes McInerney Inc.

Thank you and good morning and welcome to this conference call on behalf of Rockwell Diamonds, Inc.

Today's call will be hosted by David Copeland, Chairman of the Board, and Dr. John Bristow, President and Chief Executive Officer.

Today's call is also being webcast at www.rockwelldiamonds.com. Listeners can also find a copy of this presentation on the Rockwell web site where it can be accessed from the home page. You will also find a separate, more detailed analysis of the Board's position in PowerPoint format at that location.

Following the formal remarks by management, we will have a question and answer session for the analysts and investors.

Before we get started, let me note that our remarks and answers to your questions may contain forward looking statements. This information by its nature is subject to risks and uncertainties that may cause actual events or results to differ materially.

I would now like to turn the call over to David Copeland, Chairman of the Board.

Dave Copeland – Rockwell Diamonds Inc.

Thank you, John. I appreciate it. Good morning, good afternoon for all of the callers from all parts of the globe. We thank you for attending this business update and you'll find it very informative and extremely interesting.

With that, I would like to turn over the formal part of the presentation to Dr. John Bristow and as was said earlier, we'll take questions after the presentation.

John Bristow – Rockwell Diamonds Inc.

Thank you, David and thank you, John and good day to everyone out there. Just like to point out I'm starting on slide three, having skipped over the first two pages of the presentation, if you have that in front of you. As noted, that presentation is also on our web site.

We arranged this call to discuss our response to the hostile takeover bid that has been launched by Pala Investments, our largest shareholder and bear with me then while I go through the presentation.

After careful consideration of the offer and a detailed review of the advice given by our independent financial advisor, the Board of Directors has unanimously recommended to shareholders that they reject the Pala bid, which we consider to be opportunistically timed, inadequately valued, and contrary to the best interests of the majority of this company's shareholders.

If we move onto the fourth slide, to summarize the current situation, I will note that on September 9th, Pala announced the highly-conditional, cash offer of \$0.36 per share for all outstanding shares of this company, which meant that it was valuing RDI at about \$86 million. We will explain in this presentation why this offer significantly undervalues the true worth of Rockwell and gives absolutely no consideration to its high future potential in delivering greater shareholder value.

The offer has been made with a number of conditions, including the requirement that two-thirds of outstanding shares and more than 50% of independently held shares be tendered.

In addition, all provisions of the existing shareholder rights plan are to be waived, access to due diligence must be provided by no later than September 24th and the offer must be taken up by November 10th.

On the following slide, slide five, I'll give you good reasons to reject the Pala offer.

In the short period of time available to us, it is difficult to point out all of the things that are wrong with this offer, but I'll give it my best effort.

The overriding problem with this offer is, of course, that Pala wants to pay less than the company is worth. On top of that, they have added a number of conditions that protect their position, but no one else's and they have attempted to transfer most of the risk involved in their hostile bids to their fellow shareholders.

Moreover, they have set a deadline that makes it virtually impossible for management to identify and investigate and do proper due diligence on alternative approaches to delivering appropriate shareholder value.

Continuing with the fact that we believe this offers inadequate value, let us first consider the question of valuation in slide six, because that's really the elephant in the room today. To put it simply, Pala only wants to only pay about \$86 million to buy a company that owns more than \$1 billion worth of diamonds in the ground, as well as four operational diamond mines, all equipped with modern diamond processing and recovery plants, and a highly efficient earth moving fleet that incorporates state of the art equipment from the world's leading equipment suppliers.

Over and above that, they want to pay a share price that may be at a premium to current prices, but is significantly lower than their earlier so called friendly bid, which was \$0.40 a share and well below the \$0.50 level where our shares traded just a few weeks ago. Clearly, this is a cynical attempt on Pala's part to gain control of Rockwell without paying an appropriate premium that recognizes the true value of your company. The independent assessment of the bid provided by RBC Capital Markets supports our position.

If we move on to the next slide, slide seven and also consider the highly conditional and high risk nature of this Pala offer, anyone who reads the Pala offer closely will realize that it provides them with broad discretion to abandon the bid and little comfort to Rockwell's existing shareholders who may take it up. It is also clear that Pala has absolutely no experience in managing an alluvial diamond mining company in the unique South African operating environment and has presented no lucid indication of how it intends to manage this feat. I think our shareholders are very right to ask themselves: 'What does Pala really have planned in making this hostile bid?'

There are a number of scenarios that come to mind to answer that, but none would appear to serve the interest of Rockwell as an operating company or investors seeking growth.

Added to the highly conditional nature of the offer, if we move to slide eight, we'll also note that the time provided by this offer is insufficient to provide a proper evaluation of the offer that has been made. The issue of timing is one that I believe merits very

careful consideration by our shareholders. It appears to management that Pala is attempting to create a perfect storm that will cause other shareholders to abandon ship.

During a period of considerable volatility for companies across the diamond industry and for just about every listed company at this point in time and amidst some of the most challenging times in capital markets in modern history, they have launched their bid immediately after a quarter characterized by low production due to labor stoppages and not to mention the current turmoil in the world's financial markets.

What shareholders of Rockwell need to know is that this management team has negotiated a labor agreement that provides us with stability and costs certainty going forward and we have already seen the benefits of that. This, in turn, will help us achieve our increased production targets long-term and will ultimately improve our operating results and help drive our valuation.

Rockwell management has decades of experience developing mines and operating in South Africa and Africa for that matter. Like every other mining company in this jurisdiction, we encounter challenges from time to time. What distinguishes us is our ability to meet these challenges head on and advance our projects which are located in one of the most prolific diamond producing regions in the world and which are unique in respect to the size and value of the diamonds produced from these deposits. In spite of these facts, our shareholders are being asked to seek control of their company to a group of no experience operating diamonds in South Africa.

If we then move on to slide nine and look at our strategy to deliver shareholder value, let me just take a moment to outline some of the strategy to deliver enhanced value to our shareholders.

Rockwell is operating in an environment and producing a commodity that has experienced consistent growth in demand and pricing over a long period of time and we are building significant new potential in our production capability to be able to deliver more of our large and scarce diamond products to the markets.

The high-value diamonds that we produce have experienced robust demand in the marketplace and we expect this demand will remain strong in the years ahead. I would dare to say that the high-net worth consumers of these diamonds are to a very large extent immune to the turmoil we have been seeing lately, battering global capital markets.

Aside from our existing operations, we have several other Brownfields projects underway that will be funded from current working capital and cash flow from operations and these are expected to triple our production by our financial year 2011.

Our production profile has been growing with total outputs today of nearly 23,000 carats for fiscal 2008. Within three years, we expect to see our production tripling to nearly 70,000 carats per year delivering significant growth and enhanced value for all of our

shareholders. The Pala bid attempts to deprive our shareholders from the opportunity to share in this growth.

I would also like to point out that our unique agreement with Steinmetz Diamond Group, one of the world's pre-eminent diamantaire groups, generates significant additional dollars straight to our bottom line at absolutely no risk. This is without incurring any infrastructure costs for maintaining cutting and polishing facilities for marketing and for distribution channels and so forth.

Fully 90% of the rough value of our product is paid for upfront, generating immediate cash flow for those special stones that we market through Steinmetz.

In addition, Rockwell benefits from the increase in value of the polished stones that are split between ourselves and Steinmetz and clearly, we have a win/win situation for both companies. Equally important, Steinmetz marketing agreement with Sotheby's provides us with a direct pipeline into the exclusive market of ultra high net worth individuals who are our primary customers and Steinmetz primary customers for these unique diamonds of ours.

Looking forward to our growth and production, if we look at slide 10, you will see some of the drivers for Rockwell going forward and clearly, here are a few clear examples of what I mean about growing our production over the near term and the long term.

We are in the process of completing the construction of a new state-of-the-art wet rotary pan plant that will be a new benchmark for Rockwell and the alluvial diamond industry.

Once commissioned, this new wet plant and the leading-edge final recovery system on Saxendrift will substantially enhance our production and results in significant operational improvements and cost savings. Specifically, we expect to increase production from about the current 90,000 tons per month to 250,000 tons per month in the short term, ramping up to a final output of about 380,000 tons per month in 2009 with further room to expand it.

This plant will be commissioned in November and we have already started pre-commissioning of the final recovery plant. We will be looking to replicate this wet plant on our additional Brownfields expansion projects to further save on capital costs, reduce operating costs and expand our production profile. This is a unique deposit and in the past few months since start-up, we have recovered some spectacular stones from this environment.

Our Wouterspan B plant will be commissioned in the first quarter of 2009 and is expected to nearly double its production. Currently, we have an operation on Wouterspan B and the plan would be to further expand this production.

At Niewerjaarskraal, adjacent to Saxendrift, we will be modernizing and adding a modular rotary pan plants and expect to ramp up production to about 350,000 tons in the financial year 2009.

Beyond that, we have other properties – Brownfield properties which have been evaluated. At Remhoogte, for example, we will execute a longer term plan for modernizing and adding plant that is expected to eventually increase our production at that site to the order of about 350,000 tons per month. All of these expansions are already planned, the deposits in question have been evaluated and we will grow and develop these as part of our growth strategy.

Importantly, of course, is the diamond market and if we turn to slide nine and look at diamond market dynamics, we'll see that we are increasing our production capacity during a period when demand for our product is outstripping supply. I think most people will be aware that in the diamond space there is no new production coming on-stream and existing mines are largely old and in some cases, closing.

Despite the current economic havoc that's going on at the moment, the market for large and real diamonds is showing resilience with seasonal adjustments occurring as usual along with clear declines and speculation of prices. Nevertheless, prices for high end goods have remained firm and interestingly, DeBeers have increased prices three times during 2008.

Importantly and this is where Rockwell has a niche that is of great significance to the company, there is a growing world wide shortage of high value diamonds in the plus two carat range and these are the diamonds that while representing only about 7% of world production by value, they deliver nearly half of the world's production value. These are also the type of diamonds that Rockwell is well suited to deliver to the market.

Nearly 57% of our production volume and 95% of our value in fiscal 2008 was derived from diamonds in the two plus carat range. Rockwell is ideally positioned to benefit from this market dynamic going forward.

Ultra high net worth individuals are also acquiring stones greater than five carats as investments and these are the types of stones that can be found in the sites we are mining.

In our view then, this is not a good time to be selling the stock of a successful and expanding producer of high value diamonds based on short term considerations.

If we look further at our growth opportunities in slide 12, I would like to emphasize that this is a company focused on achieving growth organic and external growth in a prudent and highly strategic basis.

We are prepared to invest in ourselves to increase production and to do so efficiently as has been proven at our Saxendrift mine which has only been operating under our management since late May.

We are working creatively to increase revenue opportunities by taking such innovative actions. Aside from maintaining our agreement with Steinmetz and through that agreement our indirect relationship with Sotheby's, we are also establishing a cutting and polishing factory in Barkly West that not only captures additional revenues, but wins political favor by creating new employment in the region.

We have brought in new leadership to take charge of our growing operational requirements and created a dedicated projects team to focus on projects like the new Saxendrift plant and further development of our pipeline of Brownfield initiatives. The appointment of new management to drive the optimization, maintenance and replacement policies of our large earth moving fleet, processing activities and related services has already had tangible benefits. We have seen a positive impact on cost savings and utilizations of our plants and equipment is improved in all areas.

To achieve external growth, we are concentrating on developing high-value alluvial Brownfield projects over and above the existing projects that we have and which we acquired through the acquisition of the TransHex properties on the south bank of the Middle Orange River. We have acquired five new prospecting permits in South Africa with four again in the extremely high value region of the Middle Orange River. The expansion of our existing mines, coupled with the development of Brownfield projects and valuation of new prospecting permits is part and parcel of the strategy to increase our production profile, reduce costs and realize value for our shareholders.

If we move to slide 13, looking to the future, aside from our well-evaluated Brownfield projects, we have built an outstanding pipeline of projects by virtue of these new prospecting permits and all of them have additional gravel deposits to have recoveries of exceptional diamonds.

As you can see from the table on this chart or the bar charts on this slide, we expect to more than triple the production from our current operations in South Africa over the next five years and that would, obviously, also include new projects.

Beyond 2012, we expect to add new projects which will help us continue the upward trend in this production. And I should just point out here that the table is premised on our 43-101 compliance reports and you might see a tailing off in the latter part of the diagram, that purely relates to the information contained in these reports and given that we have considerably more alluvial gravel in our portfolio which is currently being evaluated, we would in fact see that profile look to grow rather than tail off.

If we move on to slide 14, managing costs in a prudent and sustainable manner is a critical part of our business. We are operating in a high inflation environment with steel prices, fuel, electrical power and labor costs have shown sharp increases in the past year. In spite of these trends, Rockwell has achieved significant cost savings and will continue to do so.

By way of example, at Holpan, it is one of our established mines in fiscal 2008, we produced 7,600 carats with an average sales price of US\$1,201 per carat at an operating cost of US\$3.20 per ton. In Q1 2009, we brought those costs down to US\$3.01 and expect to do even better in the months ahead.

Operating costs for fiscal 2008 at Klipdam were much the same and we have achieved a similar cost reduction in the first quarter of this year. These sites are performing well and we are achieving significantly higher diamond values at both locations.

At a group level, we have implemented far reaching cost savings, largely as a result of the more efficient plant construction, on-going improvements and optimization of the earth-moving fleet and mining methods and other sustainable cost savings.

As you can see from slide 14, during the period of rising prices for the goods and services we utilize in our operations, we have been able to maintain, and even reduce, our quarterly operating costs over the past 12 months and again, I should point out that in this period, we have also started a fourth site: Saxendrift. So again the fourth operation has been brought on track with significant overall cost savings to the company.

If we then move on and start wrapping up to the investment highlights of this company and if you look at slide 15. As you can appreciate, we have a great deal going on at the moment and much more to come in our efforts to meet the medium and long term expectations of our shareholders.

We are a leading producer of high-value diamonds that is conducting mining operations at several proven sites. We have established ourselves as a low-cost operator and producer and developer and we are maintaining cash flow to fund an ambitious growth strategy.

We are focused on taking full advantage of both organic and external growth opportunities through careful and prudent management of our financial resources and technical expertise. And I should point out that the expertise which we have on our team is unique in the business and certainly unique internationally.

We have also added value to diamond sales through the Steinmetz beneficiation agreement which allows us to generate additional margins on our high-value stones and we will continue to do this to generate more added value.

We have developed both the management experience internally and the strategic relationships externally to grow our company, serve our customers, reward our employees and build additional value for our shareholders.

In summary on slide 16, I would like to conclude my remarks by emphasizing once again that Rockwell Diamonds is a well-managed company with excellent prospects. We are selling an extremely rare high-value product that is eagerly sought by the

world's rich and famous and not so famous. Be they Russian oligarchs, Middle Eastern oil barons who have run out garage space for their Rolls and Bentleys or new members of the South East Asian elite who believe that diamonds can be their best friends, as well.

In brief, Rockwell Diamonds is well positioned to deliver enhanced shareholder value over the medium to long-term and we have the team in place to make it happen.

Rockwell's Board of Directors believes Pala's bid is inadequate and opportunistic and unanimously recommends that shareholders reject it.

Anyone who knows this company well will recognize that Rockwell's Board and management has always acted in the best long-term interest of its shareholders and we continue to do so. In making this hostile bid to take over a healthy company, it is clear to me that Pala is taking an action to benefit only one of our shareholders.

Our objective is to maximize value for all shareholders. Pala is obviously attempting to deprive shareholders of value with its cynical, inadequate bid for our company. The strategy we have outlined today and discussed in brief is the best option available for all shareholders of Rockwell to participate fully in the future growth of the company.

I thank you and look forward to questions from the floor or from participants in the conference call. Back to you, David.

Dave Copeland – Rockwell Diamonds Inc.

Thank you. John, that was great summary of material. I guess just in closing before we take questions and answers, I'd like to remind all of the listeners that this industry is made up of a number of very critical key components and it is not just a question of moving gravel and dirt. It is very much having good technical expertise on the ground, geological to understand the paleo-river channels, good mechanical and engineering ability to understand how to keep all of the equipment and processing moving and online and most importantly, valuing the actual raw diamonds and determining what the best bid process...

(Mr. Copeland was disconnected from the conference call)

John Bristow – Rockwell Diamonds Inc.

So yes, David, we lost you there. The important thing for us, obviously is our product and we have a unique group of people who are involved in the evaluation and marketing of our product and added to that, the benefits of Steinmetz give us a unique window into the diamond market to further add value. I guess we should then go back and start with the question and answer session.

QUESTION AND ANSWER SESSION

Des Kilalea of Royal Bank of Canada: Could you comment on your mineral right – the position of your mineral rights on your various properties? The conversions and the kind of time table you expect?

John Bristow – Rockwell Diamonds Inc.

Yes, thanks very much. Nearly all of our properties are new order mineral rights. Certainly the properties on the south bank of the Middle Orange River, the ones we acquired from Saxendrift across the river Wouterspan. Klipdam has been converted to a new order rights and the Holpan operation, the process of doing a conversion is well advanced in the Department of Minerals and Energy.

Thanks very much, ladies and gentlemen, for attending the conference. We really appreciate the fact that you've taken the time today to listen to our presentation. As we have indicated, we look forward to a long and successful history for Rockwell.

We have a very distinct and focused growth strategy and I just remind you that our recommendation is that people should reject the Pala bid.

Thank you.