

Rockwell's third quarter results impacted by malicious litigation, however the strategic repositioning programme makes progress as new leadership is appointed

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And non core assets along with related liabilities rationalised

VANCOUVER, Jan. 16, 2017 - [Rockwell Diamonds Inc.](#) ("Rockwell" or the "Company") (TSX:RDI; JSE:RDI) announces results for the three months ended November 30, 2016.

Currency values are presented in Canadian dollars, unless otherwise indicated.

Salient features

- Gross loss - loss of \$(3.4) million before amortisation and depreciation for Q3 F2017.
- Net Loss - net loss of \$(5.5) million for the quarter, compared to \$(10.5) million net loss for Q3 F2016.
- Rough diamond revenues - declined by 65% year-on-year and 77% compared to the previous quarter, due to suspended operations and delays in the Wouterspan development as a result of litigation.
- Middle Orange River ("MOR") total cost of production - up 67% year-on-year on a unit basis, and up 78% on Q2 F2017 as a result of suspended operations and delays in the development of Wouterspan caused by malicious legal activity and sabotage by a previous contractor.
- Wouterspan ("WPC") processing plant - completion of wet plant installation expected in Q1 F2018; mini in-field screening under construction. Ramp-up of monthly processed volumes to 200,000m³ expected early in Q1 F2018. The Holsloot plant will be relocated to the northern part of Wouterspan, at Stoofdraai, to add to processing capacity.
- Saxendrift - operations at Saxendrift suspended in September, as anticipated; asset disposal in progress.
- Remhoogte-Holsloot - operations suspended end-September; asset disposal in progress.
- MOR grades - up 57% year-on-year and 21% quarter-on-quarter, reflecting Wouterspan higher grades recovered during commissioning.
- MOR revenues - declined 50% year-on-year, and 65% from the previous quarter due to operations suspension.
- Average price per carat - marginally up year-on-year at US\$1,368 and down 12% on the previous quarter (from own operations).
- Exploration - drilling and bulk sampling continues around WPC. A drilling programme is planned for the fluvial-alluvial gravel at the nearby Swemkuil property.
- Safety - as at November 30, 2016 Rockwell's MOR operations had recorded 640 654 lost time injury free hours.
- Litigation – WPC development temporarily suspended by a spoliation application from a former contractor which was successfully defended with costs being awarded in favour of the Company. The Company is also engaged in vigorously defending an unfounded application for liquidation by former contractor, which no other creditors have supported.
- Strategic business repositioning - On 20th November the Board passed a special resolution approving additional funding of US\$8 million to finance the completion of the business repositioning plan aimed at bringing the Company back into profitability.
- Staffing – new CEO and interim CFO appointed.

FINANCIAL HIGHLIGHTS

Canadian \$ million unless otherwise stated	Q3 2017	Q3 2016	% Change	Q2 2017	F2016
Total Revenue	3.5	7.1	(51%)	13.4	47.3
Rough diamond sales	2.4	6.9	(65%)	10.6	37.7
Beneficiation	1.1	0.2	444%	2.8	9.6
Average price per carat sold (US\$)	1 368	1 328	3%	1 560	1 513
Gross profit (loss) before amortisation and depreciation	(3.4)	(5.1)	33%	1.7	0.4
MOR total cost of production / m ³ (US\$)	22.81	13.67	67%	12.8	13.87
Cash (used)/generated in operations	(1.9)	0.4	375%	(3.2)	(4.2)
(Loss) attributable to owners of the parent	(5.5)	(9.3)	41%	(0.6)	(28.3)
Net cash and cash equivalents	(1.0)	(1.4)	30%	(0.5)	(1.3)

Commenting on the third quarter financial performance, Tjaart Willemse, Chief Executive Officer said:

"Rockwell completed a challenging quarter which commenced with a review of the practices, strategy and business plans and ended with new financing to complete WPC, whilst having to attend to a series of unfounded and malicious legal attacks from its erstwhile mining and construction contractor. On restarting the operations production ramp-up has been slower than anticipated, mostly as a result of unexpected challenges with earthmoving equipment after it was found to have been tampered with during the period following the interim spoliation ruling in favour of the contractor. Not all challenges have been overcome yet but this is receiving due attention.

I am proud to report that we have seen some significant progress towards achieving key objectives in our strategic repositioning:

- The Company was taken back from being effectively operated by third parties and is now managed by its management – the way it should be;
- After a number of setbacks following an interim spoliation order granted in favour of the contractor, Rockwell is once again in full control of its business. Construction to complete the Wouterspan wet plant has started. Completion of the second and final section is scheduled for March 2017;
- A solution was found to bring adequate infield screening capacity forward to ramp up Wouterspan to full production immediately after completion of the wet plant. This will now be implemented as a matter of urgency;
- Off-mine costs are anticipated to be slashed by 26% and the mines operating model was restructured to bring cash operating costs down by 45% once the 200,000m³/month mark is achieved;
- The Company has entered into an agreement to dispose of its non-core Remhoogte/Holsloot and Saxendrift mines for a reasonable cash consideration and added benefit of reducing its outstanding rehabilitation liabilities by more than 80%;
- We have completed a comprehensive restructuring and rightsizing exercise which will result in a reduction of our total labour complement from 604 to 297 employees. A significant portion of the reduction will be transferred with the sale of Saxendrift and Remhoogte/Holsloot;
- To increase production beyond Wouterspan's full capacity, a decision was taken to move the existing Holsloot plant over to the Stofdraai mining area north of Wouterspan. First production is expected in July and will ramp up to 60,000m³ at full production;
- Focus in the coming months will be on developing a fit for purpose ore resource strategy to increase the Company's overall operating base.

With the Board having approved an US\$8 million funding plan to finance the completion of the business

repositioning strategy and related plans, we can now build a foundation on which the Company can return to profits, repay its debts and start delivering real value for all its stakeholders.

It has been a tough quarter, but I am confident we have turned the corner on our way back to profitability. Our senior management team has pulled together well, our employees continue to give of their best and the Board of Directors are giving us all the support we need".

Financial review

- Revenue: The Group reported a 65% decrease in rough diamond revenues at \$2.4 million (Q3 F2016: \$6.9 million), due to substantially curtailed diamond production following the suspension of operations. The increase in beneficiation revenue to \$1.1 million (Q3 F2016: \$0.2 million) is due to the forward sale of the beneficiation pipeline due to low rough diamond sales. Total revenues decreased by 51% to \$3.5 million (Q3 F2016: \$7.1 million).
- Cost of sales before amortization and depreciation decreased to \$6.9 million (Q3 F2016: \$12.2 million), mainly due to the cessation of operations at Saxendrift and RHC.
- Production costs: The Group's consolidated total cost of production for the third quarter at its MOR operations was US\$22.81 (Q3 F2016: US\$13.67, Q2 F2017: US\$12.84) per cubic metre processed. The average total cash cost (including royalty payments) for all the operations for Q3 F2017 amounted to US\$16.92 per cubic metre processed (Q3 F2016: US\$12.89; Q2 F2017: US\$11.54).
- Gross profit before amortization and depreciation: A gross loss of \$(3.4) million was reported by the Group for Q3 F2017, which compares to a loss of \$(5.1) million for Q3 F2016 (profit of \$1.2 million for Q2 F2017). MOR carats sold were down 51% compared to the previous year, and MOR revenue per carat increased marginally to US\$1,368 (Q3 F2016: US\$1,328; Q2 F2017 US\$1,560), Average MOR grades were up 57% during Q3 F2017 to 0.75 carats per 100m³ of gravel processed compared to last year and up 21% on Q2 F2017, reflecting the higher grades during commissioning at Wouterspan in the quarter.
- Loss attributable to owners of the parent of \$(5.5) million (Q3 F2016: \$(9.3) million loss, Q2 F2017 \$(0.6) million loss) reflecting the drop in revenue due to the cessation of operations at Saxendrift mine and RHC.
- Net cash position: At November 30, 2016 the Group had a net cash position of \$(0.978) million (Q3 F2016: \$(1.401) million).
- Middle Orange River ("MOR") operating performance: Volumes processed at Rockwell's MOR operations during the quarter were down 78% year-on-year at 0.17 million m³ (Q3 F2016: 0.80 million m³). MOR volumes mined were also down 78% year-on-year at 0.18 million m³ (Q3 F2016: 0.82 million m³). The substantial decrease in volumes mined and processed compared to the previous year and quarter reflects the impact of the cessation of operations at Saxendrift and RHC during September 2016.

Market update

The Hong Kong show indicated renewed interest after a very quiet summer. Prices remained stable at the show due to sellers' resistance to sell below rough prices. Polished prices remained under pressure in the subsequent months. The Indian Government's scrapping of high denomination notes caused a liquidity issue and affected both the polished and rough markets. Retail sales in USA showed improvement and sentiment was higher. China also showed possible improvement after dismal results throughout the year.

Rough diamond demand during September was strong, and on the increase ahead of Diwali, the Festive season and Chinese New Year, while rough diamond demand decreased during November. During this quarter De Beers held three sights amounting to US\$640 million, US\$485 million and US\$470 million, the last being the smallest sight of the year in line with historical selling trends. Other producers followed suit with increased sales during September and reducing volumes sold during the following months, with some companies, including De Beers, holding back smaller diamonds due to the Indian governments demonetisation and subsequent reduced demand. Prices remained stable with little to no changes and expectation is for prices to remain stable in the fourth quarter.

Outlook and priorities

Rockwell is presently engaged in a business repositioning exercise, and although some significant milestones have been achieved, continued focus will be placed on:

- Further reduction of off-mine costs;
- Driving cash operating costs down to ZAR100/m³ and less;
- Commissioning of complete WPC wet plant and installation of infield screening capacity by early Q1 F2018;
- Ramping up WPC production to 200,000m³ per month by Q1 F2018;
- Supplementing WPC production after relocation of Holsloot plant to Stofdraai, to achieve 260,000m³ per month in Q2 F2018;
- Seeking ways to expand production towards the longer term target of 500,000m³ per month;
- Building a resource development strategy for Rockwell to facilitate future production expansion and/or replacement;
- Continuing to rationalise non-core assets and related liabilities;
- Building on our recent successes, and empowering our employees to own them.

Conference Call:

Rockwell will host a telephone conference call on 24 January 2017 at 09:00 a.m. Eastern Time (15:00 p.m. Johannesburg / 14:00 p.m. London) to discuss these results. The conference call may be accessed as follows:

Country	Access Number
Canada and USA (Toll-Free)	1 855 481 5362
South Africa (Toll-Free)	0 800 200 648
South Africa – Johannesburg	011 535 3600
South Africa – Cape Town	021 819 0900
UK (Toll-Free)	0808 162 4061
Other Countries (Intl Toll)	+27 11 535 3600
Other countries – Alternate	+27 10 201 6800

The conference call will be archived for later playback until midnight (ET) January 30, 2017 and can be accessed by dialling the relevant number in the table below and using the pass code 10000276#.

The audio webcast will be available for download on the Company's website: www.rockwelldiamonds.com.

Country	Access Number
South Africa (Telkom)	011 305 2030
Canada and USA (Toll Free)	1 855 481 5363
Other Countries (Intl Toll)	+27 11 305 2030
UK (Toll-Free)	0 808 234 6771

For further details, see Rockwell's complete financial results and Management Discussion and Analysis posted on the website and on the Company's profile at www.sedar.com. These include additional details on production, sales and revenues for the quarter, as well as comparative results for fiscal 2015.

About Rockwell Diamonds:

Rockwell is engaged in the business of operating and developing alluvial diamond deposits. The Company also evaluates consolidation opportunities that have the potential to expand its mineral resources and production profile and provide accretive value to the Company.

Rockwell is known for producing large, quality gem diamonds comprising a major portion of its diamond recoveries. This is enhanced through a beneficiation joint venture that enables Rockwell to participate in the profits on the sale of the polished and certain re-traded diamonds, which are not beneficiated.

Rockwell has set a strategic goal to become a low cost, mid-tier quality gem diamond production company. In pursuit of this goal the Company has embarked on a strategy to grow its Middle Orange River ("MOR") operational base and minimise production and recovery volatility by setting a medium term target to process 500,000m³ of gravels per month from its MOR operations. The decision to re-commission Wouterspan to replace Saxendrift, and the more recent decision to relocate the Holsloot treatment plant to start the new Stofdraai Mine north of Wouterspan by July 2017, continues to implement this strategy.

Rockwell's common shares trade on the Toronto Stock Exchange and the JSE Limited under the symbol "RDI".

No regulatory authority has approved or disapproved the information contained in this news release. Forward Looking Statements

Except for statements of historical fact, this news release contains certain "forward-looking information" within the meaning of applicable securities law. Forward-looking information is frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements.

Factors that could cause actual results to differ materially from those in forward-looking statements include uncertainties and costs related to the transaction and the ability of each party to satisfy the conditions precedent in a timely manner or at all, exploration and development activities, such as those related to determining whether mineral resources exist on a property; uncertainties related to expected production rates, timing of production and cash and total costs of production and milling; uncertainties related to the ability to obtain necessary licenses, permits, electricity, surface rights and title for development projects; operating and technical difficulties in connection with mining development activities; uncertainties related to the accuracy of our mineral resource estimates and our estimates of future production and future cash and total costs of production and diminishing quantities or grades of mineral resources; uncertainties related to unexpected judicial or regulatory procedures or changes in, and the effects of, the laws, regulations and government policies affecting our mining operations; changes in general economic conditions, the financial markets and the demand and market price for mineral commodities such as diesel fuel, steel, concrete, electricity, and other forms of energy, mining equipment, and fluctuations in exchange rates, particularly with respect to the value of the US dollar, Canadian dollar and South African Rand; changes in accounting policies and methods that we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; environmental issues and liabilities associated with mining and processing; geopolitical uncertainty and political and economic instability in countries in which we operate; and labour strikes, work stoppages, or other interruptions to, or difficulties in, the employment of labour in markets in which we operate our mines, or environmental hazards, industrial accidents or other events or occurrences, including third party interference that interrupt operation of our mines or development projects.

For further information on Rockwell, Investors should review Rockwell's home jurisdiction filings that are available at www.sedar.com.

SOURCE [Rockwell Diamonds Inc.](#)

Contact

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