

Stock Data

Share Price:	0.33p
Market Cap.:	£1.5m
Shares in issue:	443.5m

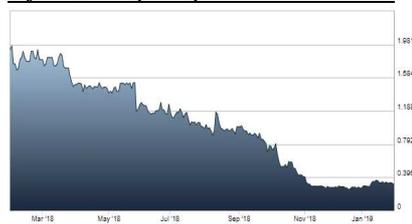
Company Profile

Sector:	Mining
Ticker:	BRD.L
Exchange:	AIM

Activities

BlueRock Diamonds operates the Kareevlei diamond mine in South Africa. Kareevlei consists of five kimberlite pipes and an inferred resource of over 7.7Mt and 367,000 carats from four of the five pipes.

5 year share price performance



Source: LSE

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BlueRock Diamonds plc

BlueRock is an AIM-quoted mining company that operates the Kareevlei diamond mine located 120 km northwest of the city of Kimberley in South Africa. Kareevlei consists of five known kimberlite pipes and produces high quality diamonds which rank in the global top ten in terms of value per carat. The company raised c.£0.7m before expenses in November 2018, with the larger part of the proceeds being utilised to open up the two most advanced kimberlite pipes; KV1 and KV2 and increase production significantly in 2019.

Kareevlei consists of an inferred resource, dated November 2018, of 7.74 million tonnes and 367,000 carats based on four of the five kimberlite pipes; KV1, KV2, KV3 and KV5. With operations underway since 2015, the mine has already generated a globally significant average value of US\$331 per carat and the highest valuation to date for a single 7.76 carat diamond sold for over US\$78,000.

In early November 2018, BlueRock raised £711,000 before expenses through a placing of 237 million new shares at 0.3p per share. The company outlined that most of this cash will be used to open up pipes KV1 and KV2 with the balance to be invested in improvements to the mine's processing plant.

Since 2015, BlueRock has mined nearly 400,000 tonnes of ore from KV2 with an average grade of 3.5 cpht (carats per hundred tonnes of material mined), excluding the low grade surface material. The company expects that future mining will exceed 4.0 cpht as the company targets deeper zones.

Mining at KV1 started in April 2018 and grades have exceeded both the company's expectations and the grades from equivalent depths in KV2. BlueRock expects that future grades will average c.6 cpht as mining reaches increased depths.

With KV1 and KV2 located only 50 metres apart at the closest point, BlueRock has elected to develop both pipes as a single pit thereby gaining operational efficiencies as volumes increase. Within this structure, the company will deploy the bulk of the placing proceeds into opening up KV1 and KV2 further with the target of supplying c.40,000 tonnes per month of ore to its processing plant by Q3 2019.

BlueRock's full year target for 2019 is 300,000 - 350,000 tonnes and the company expects to be operating an annualised run rate of 400,000 tonnes by Q4 2019. Its long term aim is to increase volumes to 500,000 tonnes p.a. implying a mine life of c.15 years assuming that KV3 is also brought into production at a later date.

In the early part of 2018, BlueRock experienced sub-optimal processing plant utilisation of 73% in addition to regular technical problems with the crushing circuit at the mine. However, the company has made significant progress over H2 2018 and has earmarked the balance of available funds to make further improvements to the plant. As such, the company expects that plant utilisation will reach 85% in 2019 as production ramps up.

We believe that the current share price does not fully reflect the progress that BlueRock has made and the potential for significant production increases in the current year. With a high level of cost at Kareevlei fixed, we expect that BlueRock will benefit from increased production in 2019 and the management estimates that operations will be profitable at 40,000 tonnes per month at grades of 2.5 cpht (on the basis that pit development costs are capitalised). Mining activities are expected to be cash generative at grades of 3.75 cpht. With production from KV1 and KV2 already demonstrating grades in excess of this benchmark, we believe that the company will report positive operational and financial progress as tonnage production increases next year.

Introduction to BlueRock Diamonds

BlueRock Diamonds ('BlueRock') is an AIM quoted diamond mining company which has the right to mine and operate the Kareevlei diamond mine located near the city of Kimberley in South Africa. The Kareevlei Tenements, which cover approximately 3,000 ha (hectares) consists of five known 'kimberlite pipes'* and produce diamonds of exceptional quality, ranking in the global top ten in terms of average value per carat.

*Named after the city of Kimberley, kimberlite is an igneous rock that commonly occurs in the Earth's crust in vertical structures known as pipes. The consensus on kimberlite pipes is that they are formed at considerable depths of between 150km and 450 km in the Earth's mantle and are subsequently erupted rapidly and violently towards the surface. With a high carbon content, usually in the form of carbon dioxide, combined with intense heat and pressure at play during the process of volcanic activity, these structures provide the conditions for the creation of diamonds. As such, kimberlite pipes are a very important source of commercial diamonds.

Group structure

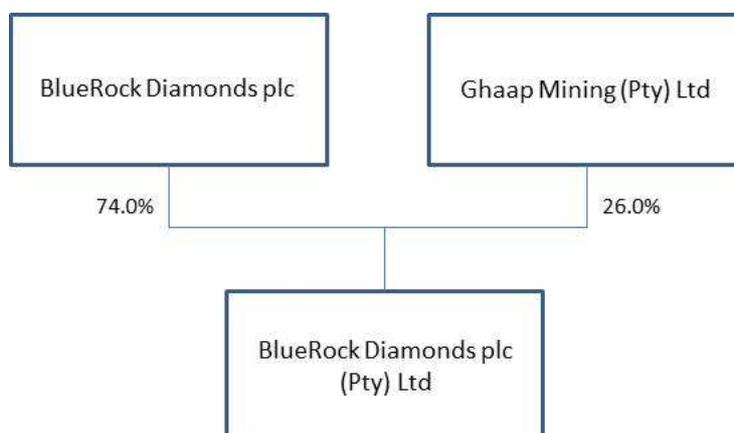
BlueRock, incorporated in England and Wales, was established in October 2012 to acquire or invest with the goal of targeting underexploited diamond mining opportunities in South Africa and sub-Saharan Africa. The company was subsequently admitted to trading on AIM in September 2013 under the ticker 'BRD'.

The South African mining industry is subject to black economic empowerment requirements which arise from the equality provisions of the Constitution and the Mineral and Petroleum Resources Development Act. Consequently, an important element of the government's Mining Charter is the ownership requirement which stipulates that mines must commit to obtaining 26.0% effective ownership by historically disadvantaged South Africans (HDSA).

As such, Kareevlei is 74.0% owned by BlueRock, with the remaining 26% owned by a Kimberley based company, Ghaap Mining (Pty) Limited, a private South African company wholly owned by Mr William Alexander van Wyk who, under South African legislation qualifies as an HDSA.

Mr van Wyk is a member of BlueRock's experienced board which possesses a significant breadth of expertise in the mining and financial sectors. Further details regarding the board, which was strengthened recently by the appointment of new Chairman Michael Houston in mid-November, can be viewed in the appendix at the end of this report.

BlueRock Diamonds' group structure



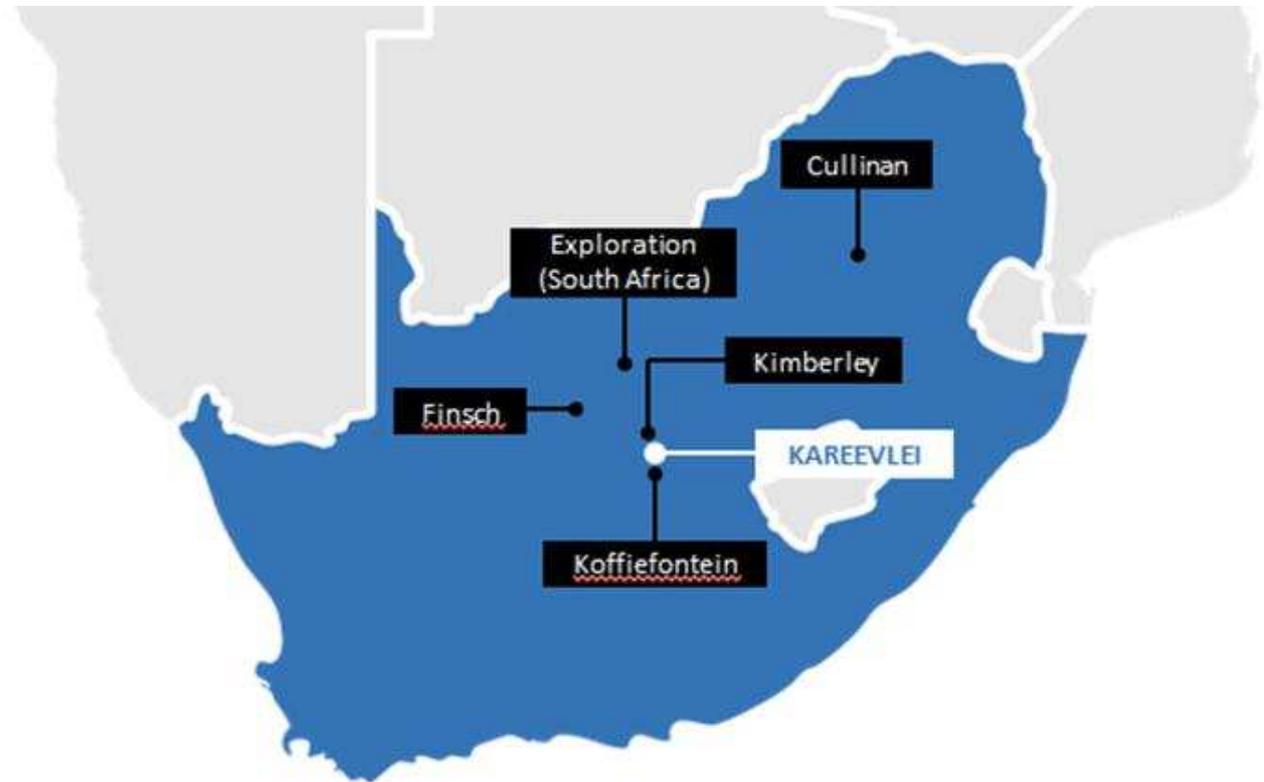
Source: Company

The Kareevlei project

Kareevlei Mining holds the Mining Right over 3,000 hectares in the Northern Cape Province of central South Africa, located approximately 120 km northwest of Kimberley, the capital of Northern Cape. Kareevlei was discovered in 1991 by De Beers Group and today consists of open pit mining up to 100 metres below surface. The site employs approximately 50 people.

Kareevlei processing plant throughput was 75,000 tonnes of ore in the first six months of 2018, an 81% increase on the same period in 2017 and to date, the mine has generated an average value of US\$350 per carat which ranks Kareevlei as one of the world's top ten kimberlite mines. The highest valuation to date for a single 7.76 carat diamond sold for over US\$78,000.

Location map of the Kareevlei project



Source: Company

Inferred resources at Kareevlei

There are five known diamondiferous kimberlite pipes ranging from less than 0.5 ha to 5.6 ha at Kareevlei. The Inferred Mineral Resource is estimated to be 7.74m tonnes and 367,000 carats based on four of the pipes: KV1, KV2, KV3 and KV5. It should be noted that KV4 is smaller and has had limited work carried out to date. Consequently, it is not included in the table below.

BlueRock has estimated that the in-ground value of its resource at Kareevlei could be worth in excess of US\$120 million in the event of a full mine development programme.

Resources update

The table below is derived from the Resources Update completed by Z Star Mineral Resource Consultants in November 2018 and prepared for BRD on 16 January 2019. In particular, it demonstrated an increase in the average grade and only 3% depletion in the resource volume since operations. We believe that this highlights the early stage status of mining activities at Kareevlei. Although not outlined in this table, the report also confirms that the US\$/carat at for KV5 is US\$411, in excess of the current average for the wider mine.

Inferred Resource at Kareevlei

Pipe	Volume (m ³)	Tonnes	Carats	Grade (cpht)
KV1	605,800	1,561,000	97,000	6.2
KV2	734,000	1,909,700	86,600	4.5
KV3	1,461,000	3,626,200	152,000	4.2
KV5	253,400	644,300	31,400	4.9
Total	3,054,200	7,741,200	367,000	4.7

Source: Z Star Mineral Resource Consultants

*carats per hundred tonnes of material mined

Mining operations summary

Mining operations commenced on KV2 in 2015 following an open pit mining plan to mine to a depth of 70m below surface. Operations at KV1, which is only 50 metres from KV2, started in April 2018 and operations are being conducted in conjunction with KV2. To date, only 3% of the total in situ resource has been mined and the company is now developing plans to mine a higher grade section of KV3. This is complemented by further evaluation work on KV5 which is currently underway.

The aerial photograph below depicts very clearly the relative locations of the Kareevlei's main mining operations in addition to the ore processing plant and the tailings and waste dumps.

Aerial view of Kareevlei



Source: Company

Current mining operations

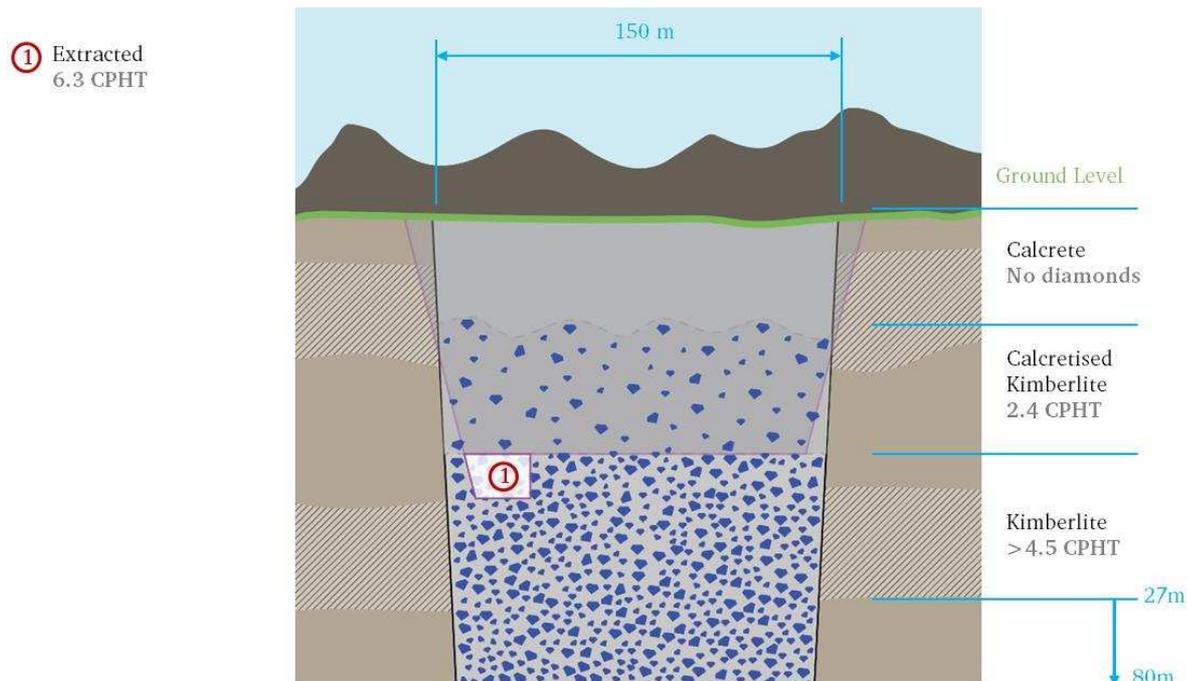
KV2 mining activities

To date, BlueRock has mined nearly 400,000 tonnes of ore from KV2 of which approximately 100,000 tonnes was very low grade located some 0m-10 m from surface with a grade of less than 1 cpht. A further 230,000 of calcretised kimberlite from 10m-20m from surface was of a higher grade in the range 2-3 cpht and 50,000 of undiluted kimberlite mined 20m-30m from surface showed an improved grade of 4-6 cpht.

BlueRock notes that, assuming a zero grade in the 0m-10m range, the average grade from KV2 is 3.5 cpht and the company anticipates that future mining will be in the 4.5+ cpht grade as indicated by the summarised conclusions of the Inferred Resource data table outlined previously.

This view is supported by recent indications of grades between 1.1 cpht and 6.3 cpht so far, a variation that is to be expected whilst mining near the surface section. The company is confident that grades will increase as mining activities target the undiluted kimberlite at the sub-20m level. The company's expectation of increasing grades with depth is depicted clearly in the illustration below.

Grades increase as kimberlite pipe is mined deeper



Source: Company

KV1 mining activities

Stripping activities commenced in April 2018 at the KV1 location with the removal of 160,000 tonnes of waste material and to date, in excess of 50,000 tonnes of kimberlite has been processed from 10-20m below surface resulting in grades of 2.8 cpht to 5.9 cpht at an average grade of 4.3 cpht.

This has exceeded the company's initial expectations given that when mining exclusively from KV2 the average grade was 2.45 cpht in 2017 and 3.28 cpht in 2018 from the equivalent depths. The company notes that KV1 has an inferred grade of 6.2 cpht (see earlier Inferred Resource table) indicating improving grades as mining activities reach increased depths.

The company recovered its second largest stone by size and value from KV1 being a 10.58 carat diamond selling for US\$7,047 per carat or US\$74,557 in total.

Potential upside

It should be noted that the Inferred Resource of 1.56m tonnes for KV1 has been modelled to a depth of only 50m below surface and as such, BlueRock believes that the total mineable resources could be considerably larger should mining exceed levels deeper than 50m. As outlined previously, KV1 is less than 50 metres from KV2 at its closest point which implies that both pipes can be mined as a single pit thereby reducing operating expenditure as volumes increase.

Recent fund raising

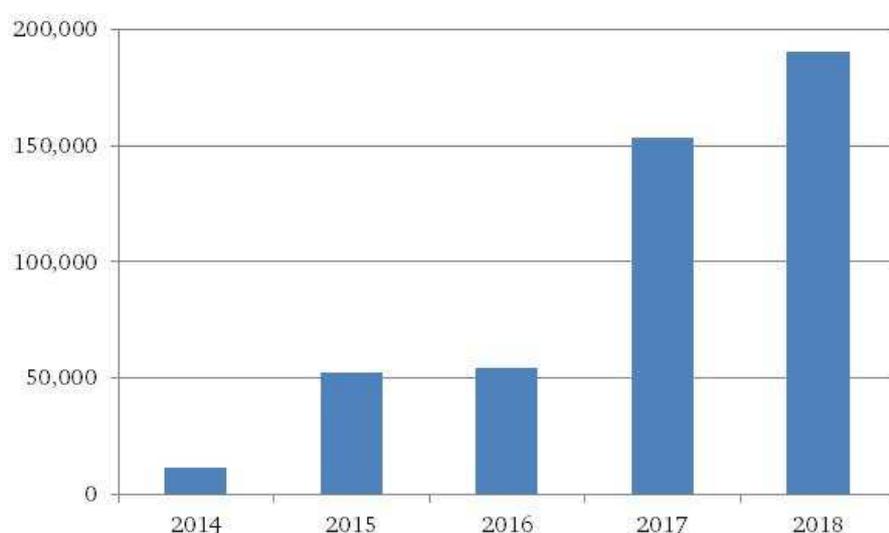
On 2 November 2018, BlueRock raised £626,000 before expenses through the issue of 208.7 million new shares at 0.3p per share. In addition to this, a further £85,000 was raised by certain directors subscribing to an additional 28.3 million shares at the placing price of 0.3p. Following the issue of 4.2 million shares for services received during the placing, BlueRock has a total of 443.5 million shares in issue.

Use of funds – Investment in KV1 and KV2

BlueRock is focusing the majority of its new capital on continuing to open up the KV1 and KV2 kimberlite pipes. Consequently, the company intends to supply approximately c.40,000 tonnes per month of ore to its processing plant by Q3 2019.

The annual target tonnage for 2019 is 300,000 - 350,000 tonnes although BlueRock expects to be operating at an annualised run rate of 400,000 tonnes by Q4 2019 with a longer term aim to increase output to 500,000 tonnes p.a. This would provide Kareevlei with a mine life of approximately 15 years from KV1, KV2, KV3 and KV5.

The chart below indicates that an annual tonnage run rate in excess of 300,000 tonnes would represent a major uplift on previous years (2014-2017) and the full year volume of almost 190,000 tonnes in 2018.

Historic tonnage processed (2014 - 2018)


Source: Company

Full year 2018 production update

As announced on 10 January 2019, BlueRock sold 5,805 carats of diamonds in Q4 2018, representing a 71% increase on the comparable period in 2017. This was on the back of a 24% uplift in production volumes to 189,900 tonnes last year.

The full year average grade was 3.28 carats per hundred tonnes (cpht) in 2018, up from 2.45 in 2017. It is also pertinent to note that the Q4 2018 grade increased to over 4.0 cpht, representing a 63% improvement on the average grade of 2.45 cpht recorded in 2017.

The company notes that the results from KV1 which came on stream in mid-2017 and the output from the undiluted levels of KV2 demonstrated a significant increase in grade which the company expects to continue into 2019.

BlueRock anticipates that a move to 365-day operations will commence in February 2019 and is expected to give the company c.40% additional plant availability. Coupled with a consistently improving grade profile as outlined on the table below, the company is confident regarding the outlook for 2019.

Key performance indicators (2017-18)

Period	Volume (Tonnes)	Carats	Cpht	US\$/carat
Q1 2017	9,310	92	1.92	161
Q2 2017	31,033	451	1.66	352
Q3 2017	63,163	1,275	2.26	344
Q4 2017	49,641	1,567	3.16	391
FY 2017	153,147	3,385	2.45	362
Q1 2018	38,781	1,563	3.80	378
Q2 2018	34,247	875	2.45	305
Q3 2018	63,621	1,834	3.13	341
Q4 2018	53,341	1,533	4.01	316
FY 2018	189,990	5,805	3.28	332

Source: Company

Potential profitability in 2019

At 40,000 tonnes per month production, BlueRock expects its mining operations to be profitable at a grade of 2.5 cpht (on the basis that pit development costs are capitalised). This is similar to the company's mining operations to date and with the exclusion of the mining of the very low grade material in the higher levels of the pit in the early months of operation the company estimates that the average grade so far is c.3.5 cpht.

Achieving scale is a very important factor in moving the company into profitability given that a high element of Kareevlei's plant costs are fixed which implies lower unit operating expenditure as volumes increase.

Investment in the mining plant

Prior to the recent fund raising, BlueRock outlined that its processing plant utilisation was 73%, a sub optimal level as a consequence of poor design layout and non-standardisation of components. In addition, the company reported regular problems with the crushing circuit.

However, plant availability has increased significantly over 2018 with volumes of tonnage processed up by 28% year-on-year to 133,050 tonnes over the first nine months of the year and record quarterly volumes of 63,621 tonnes in Q3 2018 despite technical problems with the crusher in the early part of the quarter.

With improvements during 2018 to overall utilisation, BlueRock has indicated that the balance of available cash raised will be used to fund some minor improvements to the operating plant focusing on increasing the reliability and therefore utilisation rates. With the plant operational team also being strengthened and further improvements being identified, BlueRock intends to increase utilisation rates to closer to industry normal of 85% during 2019.

Financial summary, FY 2013 – H1 2018

Year ended Dec (£'000)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	H1 2018
Revenue	0	65,084	264,372	239,646	945,924	555,842
Profit (loss) before tax	-590,100	-594,642	-1,053,699	-495,493	-1,179,529	-1,293,931
Basic EPS (p)	-0.03	-0.01	-0.02	-0.02	-0.01	-0.01
Cash	674,574	247,986	175,755	291,555	268,128	244,217
Borrowings	0	255,255	596,123	583,548	885,228	895,943

Source: Company, RNS

Note to reader: Unless otherwise stated, factual information in the note has been sourced from the company and opinions are those of the author.

Appendix - Management biographies

Michael Houston – Non Executive Chairman

Michael is a mining veteran with over 30 years' experience in Africa having worked in executive roles with companies including Anglo American, Shanta Gold (CEO) and Zimplats Holdings (CEO/COO). He has also worked on a consultancy basis supporting a number of companies with various project reviews and due diligence.

Adam Waugh – Chief Executive Officer

Adam was the Head of Sales and Trading at Brewin Dolphin Plc until 2008 and is currently a Non-Executive Director of Atlas Cloud Ltd, a cloud computer service provider and Chairman of the Northern Counties Children's Benevolent Society.

David Facey – Finance Director and Company Secretary

David is a Fellow of the Institute of Chartered Accountants of England and Wales and has over 20 years' experience in Corporate Finance and Equity Capital Markets. After working at PwC, David spent 10 years at HSBC Investment Bank where he specialised in raising funds in the UK for companies all over the world, particularly in the EMEA region.

Throughout his career David has advised governments, large corporates and smaller enterprises on public fund raising, private fund raising and mergers and acquisitions. David was also a founding partner in SP Angel, an investment banking boutique specialising in advising SMEs on raising funds in the London market, both public and private.

Tim Leslie – Non Executive Director

Tim has worked in the financial markets for over 25 years. He joined Paribas in 1986 and since has worked for JP Morgan, HSBC and Donaldson Lufkin & Jenrette (DLJ). In 2000, DLJ was bought by Credit Suisse and Tim left to join the hedge fund Moore Capital Management LLC as a portfolio manager. In 2003, Tim launched a new fund at Moore Capital; the Moore Credit Fund, for which he was the Chief Investment Officer. Tim left Moore Capital in 2008 and launched James Caird Asset Management LLP with assets under management of US\$3.6bn as at launch. In 2011, Tim founded JCAM investments Ltd to run a family office and make longer term investments. Tim is Chairman of the Audit, Remuneration and Nomination Committees.

William van Wyk – Director, Kareevlei Mining

Kareevlei Mining's Black Empowerment Partner is Ghaap Mining, a company wholly owned by Mr van Wyk. William is an experienced diamond mining plant engineer with 26 years' service with De Beers. He has particular expertise in the manufacturing, design, and maintenance of diamond recovery machinery and is actively involved in Kareevlei Mining's operations.

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