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Analyst Note

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Stornoway Diamond Corporation (SWY-T)

Renard Diamond Project – Major Mine in the Making

Event: Stornoway held its AGM on May 16th, 2016 and provided a construction and development update.

Impact: Positive. Renard Diamond Project ahead of schedule and on budget. First diamond production at end of September 2016.

Analysis

- **On May 16, 2016, Stornoway held its Annual General Meeting in Montréal.** Management provided a summary (also via webcast) of progress made over the last 6 months as Stornoway adopted new end-of year date (see October 20, 2015 Analyst Note). President and CEO Matt Manson and Chief Operating Officer Patrick Godin gave key highlights for the Renard project. The project is going very well in terms of construction pace and impact. Recall the Renard Diamond Project is located ~250 km north of the Cree community of Mistissini and ~350 km north of Chibougamau in the James Bay region of north-central Québec. On July 8, 2014, Stornoway announced the completion of a \$946M project financing transaction to fully fund the project to production with the major shareholders now being Investissement Québec, CDPQ and Orion Mine Finance. Construction commenced on July 10, 2014.

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- **Beating schedule and budget:** The main highpoint is that the Renard project construction is ~92% complete and ahead of schedule. The project is still benefitting from the favorable exchange rate (a net foreign exchange gain) and with construction ahead of schedule, the Renard project shall be built below budget (\$811M initial CAPEX now estimated at \$775M), providing a potential \$36M costs saving. An excess financial capacity of \$116M is estimated by December 2016 (cash, available debt facilities, and cost over-run facility not anticipated to be used), truly making the Renard construction phase a success in terms of deliverables and on budget. Construction at Renard is in the final stretch, with much of site infrastructure (processing plant, administrative buildings, water treatment plant, power plant) completed (see Exhibit 1 and 2). The critical path of work is now mining in order to assure supply of ore to the process plant that shall have nameplate capacity of 6,000 tpd (2.16 Mt/a) based on 78% plant utilization and an expansion for 2018 to 7000 tpd (2.52 MT/a) based on 83.5% utilization. Open pits (R2, R3 and R65) are going well with the only speed bump being the progression of the ramp. A structure with water had to be grouted, however ramp deepening is now accelerating. **Stornoway provided first formal production guidance: 0.22M carats in 2016 and 1.7M carats for 2017, with 1.36M carats of sales for year 2017.** First ore is scheduled to be delivered to the plant at the end of September 2016, with commercial production scheduled for December 31, 2016 and 100% nameplate capacity in June 2017.
- **2016 may be a recovery year for diamond prices.** Rough diamond prices may have stabilized with December 2015 perhaps the bottom. As there is no standard price list for rough diamonds and no certification system for individual stones (unlike for polished diamonds), a rough price list can vary over 15,000 price points, as with De Beers, to much simpler 'market' price lists such as provided by RoughPrices.com. In pricing rough it is the combination of an assortment of diamond categories based on their colour, type/shape/form, and quality/clarity with a certain amount of subjectivity as related to the rough price list being used, which is the key to determining the value of a diamond. As values for individual stones can vary dramatically between experts, it is in the review of a large parcel of diamonds where these differences average out. RoughPrices.com Overall Index is currently at 197.40, a month on month change of +3% and a year on year change of -8%. Renard may be well positioned to commence production in a favorable outlook and we highlight that the mill has been built, on the on-set, with a Large Diamond Recovery (LDR) circuit at +19mm -45mm, (scalable to -60mm) through TOMRA XRT equipment, adding a potential bonus.
- **Finally, we highlight that the R2 and R3 (and potentially R4, R9 and R65) have continuity at depth which could lead to a materially longer life mine.** All Renard pipes remain open at depth (see Exhibit 3). The underground mining sequence considers only the mineral reserve case, which encompasses in the next decade the open pit and underground mining of R3 and R2, as well as the open pit mining of low grade R65. Indeed, the mine sequencing does not include the inferred resources nor the non-resource exploration upside. As Renard has been permitted for 20 year mine life, we continue to anticipate that doubling and highlight organic growth potential such as the Adamantin project (see May 6, 2016 Analyst Note and Exhibit 4). A key metric that remains is resource reconciliation, which has recently been successful on R3 at the 490m level with reconcile of actual pipe geology with the geological modelling.
Renard is emerging as a great success in regards to, among other, project execution and acceptability.



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Exhibit 1: Renard Mine Site - Construction progressing very well



Source: Stornoway Diamond Corp.

Exhibit 2: Renard 6,000tpd processing plant



Source: Stornoway Diamond Corp.

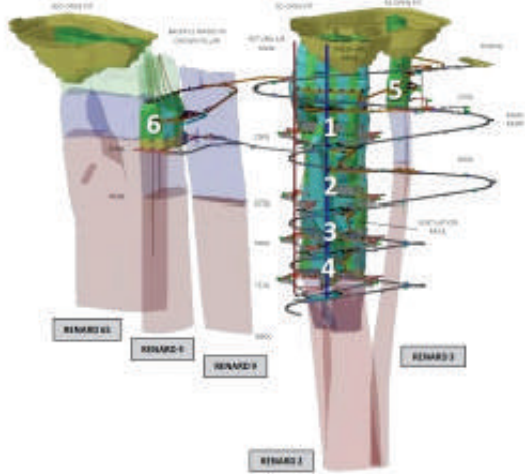


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Exhibit 3: Mining sequence and upside

Underground Mining Sequence

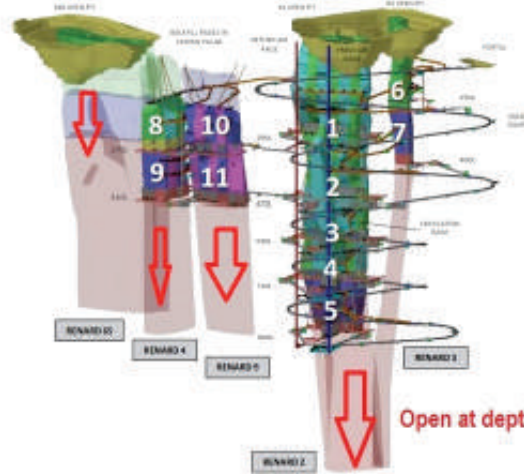
Mineral Reserve Case Only, March 30, 2016



- ✔ Combined open pit and underground mining
- ✔ 2015-2018 Open pit R2, R3
- ✔ 2014-2029 Open pit R65
- ✔ 2018-2027 Underground R2, blasthole shrink stoppage with panel retreat
- ✔ 2026-2029 Underground R3, R4, longhole stoping and blasthole stoppage respectively

Underground Mining Sequence

Business Case, Including Inferred Mineral Resources, March 30, 2016



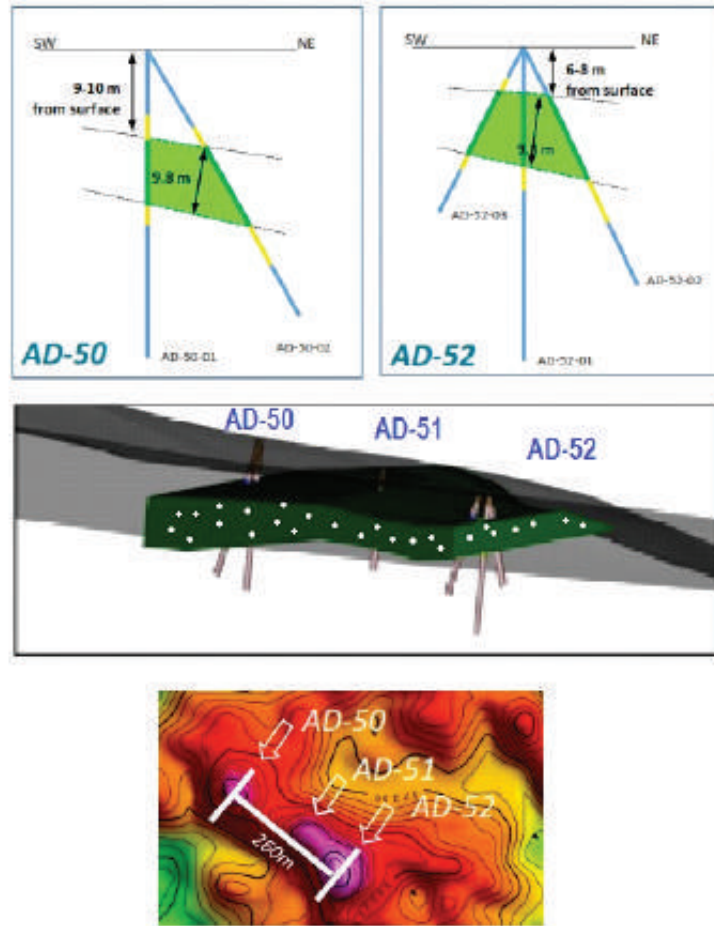
- ✔ Extension of UG at Renard 2 to 860L (stope 5)
- ✔ Deferral of UG at Renard 3 (stope 6) and its extension to 400L (stope 7)
- ✔ Deferral of UG at Renard 4 (stope 8) and its extension to 410L (stope 9)
- ✔ New UG at Renard 9 to 410L (stopes 10 and 11)

Source: modified from Stornoway Diamond Corp.



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Exhibit 4: Interpretation of D50/51/52 as one body dipping 5-10 degrees on Adamantin.



Source: modified from Stornoway Diamond Corp.