



Expanding the universe of exploration capital.

Analyst Note

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Stornoway Diamond Corporation (SWY-T)

Encore Voilà!... Renard Project on track and getting better

Event: Updated Renard mine plan and mineral resource estimate.

Impact: Positive. Commercial diamond production on track with 25% increase in the probable mineral reserves from 17.9 to 22.3M carats (representing 33.4Mt @ 67cpt), enabling 3 additional years of production (14 year mine life from previous 11 years). Stornoway seizing opportunities that have developed in the schedule, operating profile, and processing capacity. The new mine plan displays incremental improvements in the project's cost, average carat production, mine life, and mineral reserves.

Analysis

• **On March 30, 2016, Stornoway provided an updated mine plan and mineral reserve estimate for the Renard Diamond Project in Northern Québec.** Stornoway is a Canadian diamond development company with 100% interest in its flagship Renard diamond mine in the Otish Mountains of the eastern James Bay. The project is road accessible year-round and is set to become Québec's first-ever diamond mine (see Exhibit 1). With only 6 months before the scheduled commencement of first diamond production at Renard, Stornoway has revised the project's mine plan to incorporate updates to the mineral resources completed in 2015 (see September 25, 2015 Analyst Note) and capture opportunities that have developed in the schedule, operating profile, and processing capacity. Notably, mineral reserves, that incorporate revised estimates of ore recovery and mining and internal dilution, increase from 17.9 carats (23.8Mt @ 0.75 cpt) to 22.3M carats (33.4Mt @ 0.67cpt) with grade reduction reflecting the addition of new lower grade material within the open pit and underground mining envelopes. First ore processing is forecast for the end of September 2016 and commercial production by December 31, 2016, a five month improvement on the starting project execution schedule and much before our estimated 2018 date. We understand that nameplate capacity (defined as 6,000tpd or 2.16Mt per annum based on 78% plant utilization) is scheduled to be achieved by June 2017.

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- **The new mine plan displays incremental improvements in the project's cost, average carat production, mine life, and mineral reserves.** The average diamond production in years 1 to 10 has been increased by 0.2M carats permitting production of 1.8M carats per year compared to 1.6M carats per year previously (an increase of 24%). A scheduled increase in processing rate from 2.2 Mt per annum (6,000 tpd) to 2.52 Mt per annum (7,000 tpd), starting in 2018, is planned based on achieving 83.5% utilization and an additional 2% throughput (see Exhibit 2). Starting in 2018 to 2029, the additional ore feed should be derived from the Renard 65 kimberlite, where open pit mining operations for sourcing construction aggregate have been underway since 2014. The open pit should be developed to a depth of 155m with a stripping ratio of 2.11 (waste to ore). The projected carat production to the end of 2017 shows a substantial increase compared to the previous estimates, improving NPV (7%) on an after tax basis to \$974M (as of January 1st, 2016), all the while excluding inferred resources (13.3M carats) and targets for further exploration (TFFE) (42M carats). Also omitted are considerations for potential large diamond recovery. The Renard project continues to demonstrate a robust valuation despite a substantial recent reduction (14%) in rough diamond prices.

- **Renard Project on track for production and on budget.** As part of the \$946M project financing (July 8th, 2014), Stornoway recently completed the drawdown of the third and final US\$90M tranche (cash gain of \$17.6M following conversion) of the US\$250M upfront stream payments committed by Orion Mine Finance and the Caisse de dépôt et placement du Québec (CDPQ). This follows an independent certification of construction progress at Renard. The Renard Diamond project is being completed according to plan with a capital cost estimate totalling \$1,045M. We understand Stornoway's current cash resources and committed funds are sufficient to cover planned mine development expenses and corporate and financing costs during calendar 2016, meaning the project is on-time and on budget. **The Renard Diamond project consists of nine diamondiferous kimberlite pipes, four of which have an economic mineral reserve of 23M carats – Renard 2, 3, 4, and 65 (33.4Mt @ 0.67cpt). We believe upside potential is stellar.**

- **We also highlight that Stornoway announced appointments that strengthen and reward the team.** Effective April 1, 2016, Mr. Robert Chausse has been named as new CFO. Mr. Chausse, a CA, brings significant operating experience, having worked at Barrick Gold Corp., Kinross Gold Corp. and, more recently, as Executive VP and CFO of AuRico Gold Inc. until its acquisition by Alamos Gold Inc.

Exhibit 1: Renard Mine Site - mill construction progressing



Source: modified from Stornoway Diamond Corp.



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