



Expanding the universe of exploration capital.

Analyst Note

By **Éric Lemieux**, MSc, P.Geo
Mining & Exploration Analytics
eric.lemieux@peartreesecurities.com

August 17, 2016

Stornoway Diamond Corporation (SWY-T)

Renard Diamond Project – Nice Mine in the Making

Event: Stornoway reported Q2 results on August 9th, 2016 and a site visit was held on August 16, 2016.

Impact: Positive. Construction activities at the Renard Diamond Project are largely completed and the ramp up of ore processing in the plant has successfully commenced. Work is largely ahead of schedule and on budget. First diamond production expected at the end of September 2016.

Analysis

- **On August 9, 2016, Stornoway reported Q2 results.** The Renard Diamond Project, located ~250 km north of the Cree community of Mistissini in the James Bay region of north-central Québec, continues to make progress in line with the planned schedule and budget. Construction is completed at 97.4% with incurred costs and commitments at the end of Q2 totalling \$682M, or 88% of budget (incurred cost in Q2 totalled \$66.7M). We highlight that ore processing commenced on July 15, 2016. Stornoway intends to schedule its first diamond sale based on the progress of production ramp-up to be achieved over the next few months. Note, commercial production at Renard is defined as the maintenance of ore processing for 30 days at 60% of nameplate capacity (6,000tpd at 78% plant utilization).
- **We conducted a site visit on August 16, 2016 and were able to view the advancements on Renard.** Our access to the project was by a 2-hour air flight from St-Hubert Airport to the Clarence & Abel Swallow Airport near mine site (see Exhibit 1). We were able to go underground via the ramp, visit the current bottom of the Renard 2 open pit, and appreciate comminution activities at the process plant. We believe the Renard operations are going very well and management appeared very satisfied with pace and scope of work. We noted excellent health and safety as well as security policies and execution. Camp facilities appeared catered and built for a long mine life.

www.peartreesecurities.com

This document has been prepared for general information purposes only and should not be considered a solicitation to purchase or sell securities. Any opinions or analysis herein reflect the views of the Analyst as at the date appearing above, and are subject to change without notice. The information contained in this document is derived from sources we deem to be reliable, but cannot be guaranteed. PearTree Securities Inc. ("PT Securities") and/or its affiliates and/or any of their respective officers, directors, and representatives (collectively "PearTree"), shall not be held liable for any loss or damage resulting from the use of the information or the implementation of the recommendations contained herein. PT Securities is registered as an Exempt Market Dealer. PT Securities is a subsidiary of PearTree Financial Services Ltd., an unregistered firm that consults to charities on tax and other matters related to a flow through share donation program. Peartree may, in exchange for remuneration, participate in the financing of companies mentioned in this document. Peartree and members of their families may hold positions in the companies mentioned in this document and may buy and/or sell these stocks on the market or otherwise.



PearTree

- **Mine ramping up:** Mining in the Renard 2-3 and Renard 65 open pits stood, at end of Q2, at 9.54Mt, or 102% of plan, with more than 859,498 tonnes of ore stockpiled and underground mine development stood at 1,842m, or 85% of plan. We understand that there has been no major recurrence of the localised water inflow issue that hampered progress of the underground mine ramp at the start of 2016. We observed some water flow but we understand the situation is under control and noted advancements of the ventilation fresh air raise and in deepening of the ramp (see Exhibit 2). We also noted the scope of the R3 and R2 open pits (see Exhibit 3).
- **Processing plant practically complete:** Fully commissioned during Q2, the process plant, including the crusher, process kimberlite load-out and water treatment facility, were completed. All main plant equipment and control systems have been installed and have been tested with successful hand-over to the plant operating staff by the construction team. Remaining project construction shall focus on completion of the processed kimberlite containment facility which is anticipated during Q4/ 2016. During our visit, the mill was operating at full capacity and we were impressed by the size and quality of the process facility (see Exhibit 4). We anticipate Stornoway to achieve commercial production at Renard with the highest environmental and safety standards.
- **Strong financial position:** In Q2, a total of 91,912,732 common share purchase warrants (representing 97.47% of the July 8, 2014 warrants) were exercised at a price of \$0.90 per share for total proceeds of \$82.7M. Stornoway's cash position now stands at \$137.4M. The company expects to have excess financing capacity available to complete the construction of the Renard project (total project cost \$775M). This excess funding capacity is in the order of \$197M (\$149M in cash, undrawn debt facilities, receivables and in expected mine tax credits, and \$48M of undrawn cost overrun facilities) and assumes the attainment of commercial production on or about December 31, 2016. We believe management shall prudently allocate these funds in due time as to solidify Stornoway as a Canadian producer of quality diamonds.
- **Exploration upside:** An exploration program on the 100% owned Adamantin project (17,790ha) continues with summer activities based on property scale geophysics and sampling. Recall Adamantin is located ~100km south of the Renard Diamond Project and 25km west of Route 167 Ext. (see May 6, 2016 and May 18, 2016 Analysts Notes). Diamond recovery results for the 11 discrete kimberlite bodies are still pending and we understand that a minimum \$2M budget has been allocated for more work. We continue to believe Renard is emerging as a great success in regard to, among other things, project execution and acceptability. We believe Stornoway shall succeed growing organically and in increasing mine life to beyond 25 years.



PearTree

Exhibit 1: Renard Airport



Source: EBL Consultants enr.



PearTree

Exhibit 2: Mine portal and underground ramp



Source: EBL Consultants enr.



PearTree

Exhibit 3: R2 and R3 open pit



R2

Mill



R3

Source: EBL Consultants enr.



PearTree

Exhibit 4: Renard processing plant



Source: EBL Consultants enr.