

TSX: SWY

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STORNOWAY ANNOUNCES FY2017 SECOND QUARTER RESULTS

Stornoway Diamond Corporation (TSX-SWY; the “Corporation” or “Stornoway”) announced today its results for the quarter ended June 30, 2017.

Quarter ended June 30, 2017 Highlights

(All quoted figures in CAD\$ unless otherwise noted)

- Net income of \$2.3 million or \$Nil per share on a basic and fully diluted basis.
- During the course of the quarter, the Corporation achieved the milestone of one million carats of diamonds produced and attained nameplate processing capacity, on schedule.
- 417,362 carats recovered during the quarter from the processing of 512,005 tonnes of ore compared to a plan of 486,591 carats from 513,000 tonnes, due to the processing of lower grade ore (at 82 cpht compared to a plan of 95 cpht).
- Mining in the Renard 2-3 and Renard 65 open pits comprised 1,328,580 tonnes, or 129% of plan, with 500,473 tonnes of ore extracted. Underground mine development at the end of June comprised 2,746 meters, or 103% of plan.
- Diamond sales of 350,159 carats were completed with proceeds of \$40.9 million. Adjusted EBITDA¹ of \$15.1 million, or 35.6% of sales.
- Average diamond pricing achieved at sale of US\$87 per carat (\$117 per carat¹⁻²), compared to US\$81 per carat in the first quarter. An additional 151,135 carats were sold subsequent to quarter end for proceeds of \$19.8 million, at an average price of US\$101 per carat (\$128 per carat³). Overall, pricing for Renard diamonds has increased +19% since sales began (expressed in real terms after accounting for size distribution and quality variations).
- Cash operating costs per tonne processed¹ of \$54.12 per tonne (\$66.39 per carat) and capital expenditures¹ of \$24.0 million in the quarter, both within plan.
- Subsequent to the quarter end, a program of plant modification measures aimed at reducing breakage and producing a higher quality diamond product approved by the Board of Directors, with an expected capital cost of \$22 million to be funded from existing financial resources.
- At quarter end, cash, cash equivalents and short-term investments stood at \$60.4 million. Available liquidity¹ to the Corporation, comprising of cash and cash equivalents and available credit facilities, stood at \$168.1 million.

¹ Refer to “Non-IFRS Financial Measures” section of the MD&A for further discussion of these matters.

² Based on an average C\$: US\$ conversion rate of \$1.34.

³ Based on an average C\$: US\$ conversion rate of \$1.26.

Matt Manson, president and CEO commented: “Our second quarter saw the attainment of full nameplate processing capacity at Renard, achieved by the end of June on schedule. Capital and operating costs continue within plan, and our business has again demonstrated a strong cash operating margin. Grade and carats produced for the quarter reflect the processing of a higher proportion of lower grade ore from our stockpiles. However, we continue to see good overall productivity in mining and processing, and development of the underground mine, which will be the principal source of ore to the plant starting next year, is proceeding comfortably within schedule.” Matt Manson continued: “We are particularly encouraged by the steady increase in pricing for Renard diamonds as the market familiarizes itself with our production. Pricing continues to be impacted by high levels of diamond breakage, and our work to date on this issue has shown that reducing the proportion of hard, country rock waste in the ore feed will have a meaningful impact on our recoveries. To this end the Stornoway board has approved additional capital expenditures of C\$22 million, from existing funds, to add a waste sorting circuit to our process plant. This work, within an overall diamond value improvement action plan, will be conducted over the next three quarters, and is expected to contribute significantly to the volume, quality and value of our diamond production.”

Financial Summary

Revenues during the quarter totalled \$42.6 million. This was the second quarter after the declaration of commercial production, and there were no sales in the comparable period. Revenue includes \$5.1 million related to the amortization of upfront proceeds received by the Corporation under the Stream agreement in consideration for future commitments to deliver diamonds at contracted prices. The Corporation’s cost of sales were \$33.9 million related to mining, processing, rough diamond sorting activities, site services and depreciation, with adjusted EBITDA of \$15.1 million, or 35.6% of sales. The increase in adjusted EBITDA as compared to prior years was due to two tender sales in the second quarter of 2017 and none for the second three months of 2016, as the Renard Diamond Mine was in the construction phase. Financial expenses for the second quarter were \$2.2 million. During the quarter, the Corporation recorded interest expense of \$6.8 million which was partially offset by an unrealized gain on the fair value of derivatives embedded in the Corporation’s convertible debentures of \$4.9 million. Revenue during the six months ended June 30, 2017, totalled \$91.0 million.

Financial Highlights

(expressed in thousands of Canadian dollars, except otherwise noted)

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Revenues	42,550	–	91,042	–
Cost of goods sold	33,893	–	70,313	–
Selling, general and administrative expenses	4,203	3,252	9,323	5,660
Exploration expenses	935	1,300	1,581	1,909
Gain on sale of interests in exploration properties	–	–	(400)	–
Financial (income) expenses	2,211	(11,801)	(519)	14,392
Foreign exchange gain	(3,241)	1,470	(4,260)	5,130
Net (loss) income before tax	4,549	5,779	15,004	(16,831)
Income tax expense	2,211	–	15,641	–
Net loss	2,338	5,779	(637)	(16,831)
Loss Per Share – Basic	Nil	(0,01)	Nil	(0,02)
Loss per share – Diluted	Nil	Nil	Nil	(0,02)
Adjusted EBITDA	15,143	(4,552)	34,838	(7,569)
Adjusted EBITDA margin (%)	35.6%	N/A	38.3%	N/A
Capital expenditures	23,975	N/A	41,058	N/A

Environment, Health, Safety and Communities

No lost time incident (“LTI”) were recorded during the quarter, for a year to date LTI rate of 1.0 for contractors and zero for Stornoway employees. No incidents of environmental non-compliance were recorded during the quarter. Daily manpower at site in June averaged 310 workers, of which 19.5% were Crees of the Eeyou Istchee. Stornoway employees stood at 493 as at June 30, 2017, including 438 at the mine site, of which 15% were Crees, 24% were from Chibougamau and Chapais, and 61% were from outside the region.

Mining and Processing

During the second quarter 1,328,580 tonnes were mined from the Renard 2-3 and Renard 65 open pits, compared to a plan of 1,033,459 tonnes (+29%), with 500,473 tonnes of ore extracted. 512,005 tonnes of ore were processed with a diamond recovery of 417,362 carats at 82cpht, compared to a plan of 513,000 tonnes and 486,591 carats at 95cpht (-0.1%, -14% and -14% respectively). Ore processed comprised primarily of lower grade Renard 2 material, sourced from both the open pit and the ore stockpile. Processing rates during the quarter averaged 5,626 tonnes per day compared to a nameplate capacity of 6,000 tonnes per day. In the month of June, the company achieved an average daily processing rate of 6,149 tonnes, representing the successful completion of the project’s production ramp-up on schedule.

Development of the underground mine in the second quarter was 2,746 meters compared to a plan of 2,642 meters (+3%). Work has focussed on lateral development in kimberlite at the 160 meter level, development of the production drifts at the 270 and 290 meter levels, and on the fresh air raise. Ground conditions have been good and there has been no recurrence of the water inflow issues that affected ramp development in late 2015 and early 2016.

Cash operating costs per tonne processed were \$54.12 per tonne¹ (\$66.39 per carat processed¹ compared to a plan of \$52.19 per tonne¹ (\$55.02 per carat processed¹). Cash costs per tonne were in line with plan, with costs per carat processed and per carat sold reflecting the lower volume of carats recovered and sold during the quarter compared to plan. Capital expenditures¹ were \$24.0 million, primarily related to the development of the underground mine.

Process Plant Modifications for Diamond Value Improvement

Since ore processing at Renard began, the project has experienced high levels of diamond breakage. This is manifested most directly in the proportion of larger diamonds recovered, and in the average quality profile. Both factors negatively impact the achieved average diamond price at sale. During the first half of the year, steps have been undertaken to understand the cause of the breakage and to mitigate it to acceptable levels, with attention focussed on crusher operating settings, material balancing in the plant, screen changes, diamond breakage studies and simulant testing.

With the insight gained from the work completed in the first half of 2017, Stornoway’s board of directors has approved a program of plant modifications and operational refinements designed to reduce the breakage to a more acceptable level and produce a higher quality diamond product. Central to this plan is the introduction of waste sorting. High levels of internal country rock dilution is a distinguishing feature of the Renard kimberlites. Total levels of internal and external dilution from hard, gneissic country rock typically exceeds more than 50% of the ore feed to the process plant. The high content of waste in the ore is preventing the correct conditions of diamond liberation to be achieved in the plant’s secondary and



tertiary crushers, and the concentration of the hard waste alongside free diamonds in the crushers and recovery circuits is a principal cause of the breakage.

As part of the first half program of work, Stornoway has conducted trials on a spectral waste sorting technology and achieved promising results in the segregation of the white and pink, quartz and feldspar dominated gneissic and granitoid waste from the darker coloured, olivine rich kimberlite. A waste sorting circuit rated at 7,000 tonnes of ore per day, and expandable, will be added to the Renard process plant immediately after the primary jaw crusher and before the secondary cone crusher to extract waste in the +30mm-200mm size range. Extracted waste will be trucked for disposal, and the concentrated, less-dilute kimberlite will be re-introduced to the plant for crushing. An extraordinary capital budget of \$22 million has been allocated for this work, to be funded from existing financial resources. The addition of this circuit is expected to add \$1 per tonne to operating costs, and will have the ancillary benefit of reducing load on the rest of the Renard process plant, allowing future potential plant expansion. Commissioning of the new circuit is scheduled for the first quarter of 2018.

Diamond Sales

Stornoway sold a total of 350,159 carats during the quarter in 2 tender sales (2017 sales #4 and #5) at an average price of US\$87 per carat (\$117 per carat¹⁻²). The sales represent run of mine production and at quarter-end the company held no excess diamond inventory other than normal course goods in progress.

Subsequent to the quarter end, the company completed a sale of an additional 151,135 carats (2017 sale #6) for proceeds of \$19.8 million at an average price of US\$101 per carat (\$128 per carat³). This result was achieved with a standard run of mine sales mix within Stornoway's FY2017 pricing guidance of US\$100 to US\$132 per carat.

The average pricing achieved to date from the sales of Renard diamonds has been significantly impacted by the ongoing issues of diamond breakage in the process plant, which has reduced the proportion of larger diamonds available for sale, and increased the proportion of small diamonds in the sales mix. Small diamonds continue to achieve substantially lower market pricing than was being achieved prior to the Indian de-monetization events of late 2016. However, the average run of mine pricing for Renard diamonds, after accounting for size distribution and quality variations, has increased in real terms by 19% since the first sale was completed in November 2016. While the rough market has strengthened modestly during this period, the size of the increase reflects the growing acceptance of the Renard diamond production by Stornoway's tender sale clientele.

Stornoway expects to conclude one additional sale in the third quarter and two in the fourth quarter.

Exploration Update

Exploration activities by the Corporation are ongoing, including the acquisition, by staking, of three new 100% owned diamond properties targeting specific features of interest identified from a review of proprietary databases (Wabi, CYP and MET). The select properties total about 4,538 hectares, and additional landholdings may be acquired. Applications for access permits are in preparation, and the Company anticipates conducting work programs later this season.

Drilling activities completed in April 2017 on the 28,171 hectare Adamantin property (located approximately 100 km south of the Renard Diamond Mine and 25 km west of the Route 167 Extension road) resulted in the discovery of two new kimberlite occurrences. Diamond results are still pending for these discoveries. Till sampling at Adamantin during 2015 confirmed the presence of indicator mineral



anomalies interpreted to be sourced from undiscovered kimberlites with diamond potential, with one till sample having a diamond in the +0.25mm-0.50mm size fraction. Drilling during March and April of 2016 resulted in the discovery of 11 distinct kimberlite bodies, but no diamonds were recovered from these samples, leaving the source of the diamond in till currently unexplained.

Conference Call and Webcast

Stornoway will host a second quarter earnings conference call for analysts and investors on August 14, 2017 at 1100am EST. This call may be accessed by calling 1-844-215-3287 toll free in North America, or 1-209-905-5939 from international locations, with Conference ID 58480597. A live webcast of the call will be available at <http://edge.media-server.com/m/p/mvni9egd>. A replay of the call, and a copy of the earnings presentation, will be made available on the Stornoway website at www.stornowaydiamonds.com.

About the Renard Diamond Mine

The Renard Diamond Mine is Quebec's first producing diamond mine and Canada's sixth. It is located approximately 250 km north of the Cree community of Mistissini and 350 km north of Chibougamau in the James Bay region of north-central Québec. Construction on the project commenced on July 10, 2014, and commercial production was declared on January 1, 2017. Average annual diamond production is forecasted at 1.8 million carats per annum over the first 10 years of mining. Readers are referred to the technical report dated January 11, 2016, in respect of the September 2015 Mineral Resource estimate, and the technical report dated March 30, 2016, in respect of the March 2016 Updated Mine Plan and Mineral Reserve Estimate for further details and assumptions relating to the project.

Qualified Persons

Disclosure of a scientific or technical nature in this press release was prepared under the supervision of M. Patrick Godin, P.Eng. (Québec), Chief Operating Officer. Stornoway's exploration programs are supervised by Robin Hopkins, P.Geol. (NT/NU), Vice President, Exploration. Each of M. Godin and Mr. Hopkins are "qualified persons" under NI 43-101.

About Stornoway Diamond Corporation

Stornoway is a leading Canadian diamond exploration and development company listed on the Toronto Stock Exchange under the symbol SWY and headquartered in Longueuil. Our flagship asset is the 100% owned Renard Diamond Mine, Québec's first diamond mine. Stornoway is a growth oriented company with a world-class asset, in one of the world's best mining jurisdictions, in one of the world's great mining businesses.

On behalf of the Board
STORNOWAY DIAMOND CORPORATION
/s/ "Matt Manson"
Matt Manson
President and Chief Executive Officer



For more information, please contact Matt Manson (President and CEO) at 416-304-1026 x2101 or Orin Baranowsky (Interim CFO and Vice President, Investor Relations and Corporate Development) at 416-304-1026 x2103 or toll free at 1-877-331-2232

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FORWARD-LOOKING STATEMENTS

This document contains forward-looking information (as defined in National Instrument 51-102 – Continuous Disclosure Obligations) and forward-looking statements within the meaning of Canadian securities legislation and the United States Private Securities Litigation Reform Act of 1995 (collectively referred to herein as “forward-looking information” or “forward-looking statements”). These forward-looking statements are made as of the date of this document and, the Corporation does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by law.

These forward-looking statements relate to future events or future performance and include, among others, statements with respect to Stornoway’s objectives for the ensuing year, our medium and long-term goals, and strategies to achieve those objectives and goals, as well as statements with respect to our management’s beliefs, plans, objectives, expectations, estimates, intentions and future outlook and anticipated events or results. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Forward-looking statements made in this document include, but are not limited to, statements with respect to: (i) the amount of Mineral Reserves, Mineral Resources and exploration targets; (ii) the amount of future production over any period; (iii) net present value and internal rates of return of the mining operation; (iv) assumptions relating to recovered grade, size distribution and quality of diamonds, average ore recovery, internal dilution, mining dilution and other mining parameters set out in the 2016 Technical Report as well as levels of diamond breakage; (v) assumptions relating to gross revenues, cost of sales, cash cost of production, gross margins estimates, planned and projected capital expenditure, liquidity and working capital requirements; (vi) mine expansion potential and expected mine life; (vii) expected time frames for completion of permitting and regulatory approvals related to ongoing construction activities at the Renard Diamond Mine; (viii) the expected time frames for the completion of the open pit and underground mine at the Renard Diamond Mine; (ix) the expected time frames for the ramp-up and achievement of plant nameplate capacity of the Renard Diamond Mine (x) the expected financial obligations or costs incurred by Stornoway in connection with the ongoing development of the Renard Diamond Mine; (xi) future exploration plans; (xii) future market prices for rough diamonds; (xiii) the economic benefits of using liquefied natural gas rather than diesel for power generation; (xiv) sources of and anticipated financing requirements; (xv) the effectiveness, funding or availability, as the case may require, of the Senior Secured Loan and the remaining Equipment Facility and the use of proceeds therefrom; (xvi) the Corporation’s ability to meet its Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement; (xvii) the impact of the Financing Transactions on the Corporation’s operations, infrastructure, opportunities, financial condition, access to capital and overall strategy; (xviii) the foreign exchange rate between the US dollar and the Canadian dollar; and (xix) the availability of excess funding for the operation of the Renard Diamond Mine. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as “expects”, “anticipates”, “plans”, “projects”, “estimates”, “assumes”, “intends”, “strategy”, “goals”, “objectives”, “schedule” or variations thereof or stating that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements.

Forward-looking statements are made based upon certain assumptions by Stornoway or its consultants and other important factors that, if untrue, could cause the actual results, performances or achievements of Stornoway to be materially different from future results, performances or achievements expressed or implied by such statements. Such statements and information are based on numerous assumptions regarding present and future business prospects and strategies and the environment in which Stornoway will operate in the future, including the recovered grade, size distribution and quality of diamonds, average ore recovery, internal dilution, and levels of diamond breakage, the price of diamonds, anticipated costs and Stornoway’s ability to achieve its goals, anticipated financial performance, regulatory developments, development plans, exploration, development and mining activities and commitments, and the foreign exchange rate between the US and Canadian dollars. Although management

considers its assumptions on such matters to be reasonable based on information currently available to it, they may prove to be incorrect. Certain important assumptions by Stornoway or its consultants in making forward-looking statements include, but are not limited to: (i) required capital investment and estimated workforce requirements; (ii) estimates of net present value and internal rates of return; (iii) recovered grade, size distribution and quality of diamonds, average ore recovery, internal dilution, mining dilution and other mining parameters set out in the 2016 Technical Report as well as levels of diamond breakage, (iv) receipt of regulatory approvals on acceptable terms within commonly experienced time frames; (v) anticipated timelines for ramp-up and achievement of nameplate capacity at the Renard Diamond Mine, (vi) anticipated timelines for the development of an open pit and underground mine at the Renard Diamond Mine; (vii) anticipated geological formations; (viii) market prices for rough diamonds and their potential impact on the Renard Diamond Mine; (ix) the satisfaction or waiver of all conditions under the Senior Secured Loan and the remaining Equipment Facility to allow the Corporation to draw on the funding available under those financing elements; (x) Stornoway's interpretation of the geological drill data collected and its potential impact on stated Mineral Resources and mine life; (xi) future exploration plans and objectives; (xii) the Corporation's ability to meet its Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement; and (xiii) the continued strength of the US dollar against the Canadian dollar.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that estimates, forecasts, projections and other forward-looking statements will not be achieved or that assumptions do not reflect future experience. We caution readers not to place undue reliance on these forward-looking statements as a number of important risk factors could cause the actual outcomes to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates, assumptions and intentions expressed in such forward-looking statements. These risk factors may be generally stated as the risk that the assumptions and estimates expressed above do not occur, including the assumption in many forward-looking statements that other forward-looking statements will be correct, but specifically include, without limitation: (i) risks relating to variations in the grade, size distribution and quality of diamonds, kimberlite lithologies and country rock content within the material identified as Mineral Resources from that predicted; (ii) variations in rates of recovery and levels of diamond breakage; (iii) the uncertainty as to whether further exploration of exploration targets will result in the targets being delineated as Mineral Resources; (iv) developments in world diamond markets; (v) slower increases in diamond valuations than assumed; (vi) risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar; (vii) increases in the costs of proposed capital, operating and sustainable capital expenditures; (viii) increases in financing costs or adverse changes to the terms of available financing, if any; (ix) tax rates or royalties being greater than assumed; (x) uncertainty of results of exploration in areas of potential expansion of resources; (xi) changes in development or mining plans due to changes in other factors or exploration results; (xii) risks relating to the receipt of regulatory approvals or the implementation of the existing Impact and Benefits Agreement with aboriginal communities; (xiii) the effects of competition in the markets in which Stornoway operates; (xiv) operational and infrastructure risks; (xv) execution risk relating to the development of an operating mine at the Renard Diamond Mine; (xvi) failure to satisfy the conditions to the funding or availability, as the case may require, of the Senior Secured Loan and the Equipment Facility; (xvii) changes in the terms of the Forward Sale of Diamonds, the Senior Secured Loan or the Equipment Facility; (xviii) the funds of the Senior Secured Loan or the Equipment Facility not being available to the Corporation; (xix) the Corporation being unable to meet its Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement; (xx) future sales or issuances of Common Shares lowering the Common Share price and diluting the interest of existing shareholders; and (xxi) the additional risk factors described herein and in Stornoway's annual and interim MD&A's, most recently filed AIF, its other disclosure documents and Stornoway's anticipation of and success in managing the foregoing risks. Stornoway cautions that the foregoing list of factors that may affect future results is not exhaustive and new, unforeseeable risks may arise from time to time. and (xxi) the additional risk factors described herein and in Stornoway's annual and interim MD&A's, most recently filed AIF, its other disclosure documents and Stornoway's anticipation of and success in managing the foregoing risks. Stornoway cautions that the foregoing list of factors that may affect future results is not exhaustive and new, unforeseeable risks may arise from time to time.

