

Stornoway Announces FY2017 Third Quarter Results

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LONGUEUIL, Quebec, Nov. 02, 2017 (GLOBE NEWSWIRE) -- [Stornoway Diamond Corp.](#) (TSX:SWY) (the "Corporation" or "Stornoway") announced today its results for the quarter ended September 30, 2017.

Quarter ended September 30, 2017 Highlights

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

- Net loss of \$3.1 million or \$Nil per share on a basic and fully diluted basis.
- 442,154 carats recovered during the quarter from the processing of 506,381 tonnes of ore compared to a plan of 422,475 carats from 540,000 tonnes (at 87 carats per hundred tonnes, "cph", compared to a plan of 78 cph).
- Mining in the Renard 2-3 and Renard 65 open pits comprised 1,074,148 tonnes, or 101% of plan, with 523,257 tonnes of ore extracted. Underground mine development at the end of September comprised 1,206 meters, or 102% of plan.
- Diamond sales of 405,643 carats were completed with gross proceeds¹ of \$48.1 million in the quarter. An additional 32,989 carats were sold during the third quarter for which revenue will be realized in the fourth quarter as proceeds from the sale were not received prior to September 30, 2017. Adjusted EBITDA² was \$15.0 million, or 30.0% of revenues.
- Average diamond pricing achieved at sale of US\$95 per carat (\$119 per carat²⁻³), compared to US\$87 per carat in the second quarter and US\$81 in the first quarter.
- Cash operating costs per tonne processed² of \$57.97 per tonne (\$66.39 per carat) and capital expenditures² of \$22.7 million in the quarter, both within plan.
- During the quarter, a program of plant modification measures centred on a new ore-waste sorting circuit was approved by the Board of Directors, with an extraordinary capital cost of \$22 million to be funded from existing financial resources. Construction on the new circuit commenced in September.
- At quarter end, cash, cash equivalents and short-term investments stood at \$52.6 million. Available liquidity² to the Corporation, comprising cash and cash equivalents and available credit facilities, stood at \$157.8 million.

¹ Before stream and royalty

² See "Non-IFRS Financial Measures" section.

³ Based on an average C\$: US\$ conversion rate of \$1.25.

Matt Manson, president and CEO commented: "Strong production results in the third quarter were matched by continued good performance in cost management. Our average operating cost of \$66.39 per carat compares favourably with an average sales price of \$119 per carat, with a beat on carats produced and grade over our mine plan. This strong underlying operating result in our business is being achieved even as we continue our work to improve the quality of our diamond recoveries. To that end, construction of our new ore-waste sorting circuit is well in hand, with commissioning scheduled for the first quarter of 2018. Our pricing at sale is increasing quarter by quarter, although a correction at the end of the third quarter served to slow the rate of increase, and we foresee a flat outlook for the rest of the year. At quarter-end we reported another strong balance sheet of cash and available credit facilities, positioning us favourably to complete our capital programs in 2017 and the first half of 2018."

Financial Summary

Revenue during the quarter totalled \$50.0 million. This was the third quarter after the declaration of commercial production, and there were no sales in the comparable period. Revenue includes \$6.0 million related to the amortization of upfront proceeds received by the Corporation under the Renard Stream

agreement in consideration for future commitments to deliver diamonds at contracted prices. The Corporation's cost of sales were \$49.2 million related to mining, processing, rough diamond sorting activities, site services and depreciation, with adjusted EBITDA of \$15.0 million, or 30.0% of sales. The increase in adjusted EBITDA as compared to prior years was due to two tender sales in the third quarter of 2017 compared to none in the comparable period of 2016, as the Renard Diamond Mine was in the construction phase. Financial expenses for the second quarter were \$5.4 million. During the quarter, the Corporation recorded interest expense of \$6.9 million which was partially offset by an unrealized gain on the fair value of derivatives embedded in the Corporation's convertible debentures of \$1.9 million. Revenue during the nine months ended September 30, 2017, totalled \$141.0 million.

Financial Highlights

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

	Three months ended		Nine months ended	
	Sept. 30, 2017	Sept. 30, 2016	Sept 30, 2017	Sept 30, 2016
Revenues	49,977	─	141,019	─
Cost of goods sold	49,165	─	119,478	─
Selling, general and administrative expenses	4,281	3,151	13,604	8,811
Exploration expenses	179	432	1,760	2,341
Gain on sale of interests in exploration properties	─	─	(400)	─
Financial (income) expenses	5,410	11,069	4,891	25,461
Foreign exchange (gain) loss	(4,312)	896	(8,572)	(4,234)
Net (loss) income before tax	(4,746)	(15,548)	10,258	(32,379)
Income tax expense	(1,673)	─	13,968	─
Net income (loss)	(3,073)	(15,548)	(3,710)	(32,379)
Income (loss) per Share – Basic	Nil	(0.02)	Nil	(0.04)
Income (loss) per share – Diluted	Nil	(0.02)	Nil	(0.04)
Adjusted EBITDA ²	15,018	(3,583)	49,856	(11,152)
Adjusted EBITDA margin (%) ²	30.0 %	N/A	35.4 %	N/A
Capital expenditures ²	22,714	N/A	63,772	N/A

Environment, Health, Safety and Communities

No lost time incidents (“LTI”) were recorded during the quarter, for a year to date LTI rate of 0.6 for contractors and zero for Stornoway employees. No incidents of environmental non-compliance were recorded during the quarter. Daily manpower at site in September averaged 337 workers of which 16.8% were Crees of the Eeyou Istchee. Stornoway employees stood at 492 as at September 30, 2017, including 433 at the mine site, of which 13% were Crees, 26% were from Chibougamau and Chapais, and 61% were from outside the region.

Mining and Processing

During the second quarter 1,074,148 tonnes were mined from the Renard 2-3 and Renard 65 open pits, compared to a plan of 1,067,056 tonnes (+1%), with 523,257 tonnes of ore extracted. 506,381 tonnes of ore were processed with a diamond recovery of 442,154 carats at an attributable grade of 87cpht, compared to a plan of 540,000 tonnes and 422,475 carats at 77 cpht (+5%, -6% and +12% respectively). Processed ore was derived from the Renard 2 and Renard 3 kimberlites, and sourced from the open pit, the ore stockpiles and from development drifts in the underground mine.

Processing rates during the quarter averaged 5,957 tonnes per day excluding a 7 day scheduled annual maintenance shutdown in July compared to a nameplate capacity of 6,000 tonnes per day at 78% utilization.

Cash operating costs per tonne processed were \$57.972 (\$66.39 per carat processed²⁻³) compared to a

plan of \$61.062 (\$78.04 per carat processed²). Cash costs per tonne were in line with plan, while costs per carat processed were lower than plan reflecting the higher volume of carats recovered during the quarter compared to plan.

Diamond Sales

Stornoway sold a total of 405,643 carats during the quarter in 2 tender sales (2017 sales #6 and #7) with gross proceeds¹ of \$48.1 million at an average price of US\$95 per carat (\$119 per carat^{2,3}). These amounts exclude 32,989 carats included in the final tender of the quarter, but for which revenue will be recognized in the fourth quarter as proceeds from the sale were not received prior to September 30, 2017. At quarter-end, the Corporation held no excess diamond inventory other than normal course goods in progress. Stornoway expects to conclude two additional tenders in the fourth quarter.

Capital Projects

Capital expenditures² in the third quarter were \$22.7 million, primarily related to the development of the underground mine.

Development of the underground mine during the quarter focussed on lateral development in kimberlite at the 160 meter level, development of the production drifts at the 240, 270 and 290 meter levels, and on the fresh air raise. Lateral development comprised 1,206 meters compared to a plan of 1,177 meters (+2%). 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. Development in the fourth quarter will focus on stope preparation, blast hole drilling, ramp development and draw point construction. First production ore is expected from the underground mine during the first quarter of 2018, with full production scheduled for the second quarter of 2018.

During the quarter the Corporation commissioned a modified method for the handling and disposal of processed kimberlite (“PK”). From the start of ore processing, PK had been de-watered with centrifuges for trucking to a dry-stack disposal site. High moisture content in the PK reduced its competence for stacking, and made disposal cumbersome. Under the modified disposal system, fine PK will be pumped for disposal into a modified containment facility, with water outflow collected and recirculated to the plant or treated at the existing water treatment facility. A degrit module has been installed in the process plant and civil works modifications completed at the containment facility to accommodate the disposal of the coarse PK. A modification to the mine’s operating permit in support of these changes was received on scheduled, and the new PK handling and disposal method has been operating successfully since the beginning of the quarter.

In early August, the Corporation’s Board of Directors approved an extraordinary capital expenditure of \$22 million for a program of plant improvement aimed at improving the quality profile of Renard production, to be funded from existing financial resources. At the centre of this plan is the introduction of an ore-waste sorting circuit rated at 7,000 tonnes of ore per day, and expandable, designed to extract waste in the +30mm-200mm size range immediately prior to its introduction to the secondary cone crusher. The ore-waste sorting circuit will include covered conveyors, a gravity fed tower containing primary, secondary and scavenging spectral sorters, and a waste rock load out. Work on the concrete foundations began in August, and all steel work and enclosures are schedule to be completed by year end. Commissioning is schedule for the first quarter of 2018. In addition to an improved diamond size and quality profile through diamond breakage mitigation, the addition of this circuit is expected to have an ancillary benefit of reducing load on the rest of the Renard process plant, allowing for future potential plant expansion.

Commentary on Diamond Production and the Rough Diamond Market

Since ore processing at Renard began, diamond production has been influenced by: (1) Better than expected head feed grades derived from a positive geological reconciliation of ore units in the open pits and the underground mine development levels; (2) High levels of diamond breakage impacting the size distribution, quality and grade of diamonds recovered; (3) Higher than expected production of small (-3mm) diamonds derived from a more efficient diamond liberation in crushing and processing than was anticipated; (4) a positive response to Renard diamonds in the rough market demonstrated by a real terms increase (after accounting for size distribution and quality variations) of 19% between the first sale in November 2016

and the seventh in July 2017; and (5) Changing market conditions for certain diamond categories such as smaller and lower quality items which were severely impacted by the Indian demonetization events of late 2016 and for which prices have not yet fully recovered. The positive grade reconciliation experienced at the Renard Mine to date, and the lower than expected pricing at sale, is the net result of each of the above factors.

Stornoway believes that significant value improvement will be achieved with the successful mitigation of the diamond breakage to more acceptable levels. During the first half of 2017, steps were undertaken to understand the cause of the breakage, with attention focussed on crusher operating settings, material balancing in the plant, pumps, ore recirculation and screens. Progress was measured with diamond breakage studies and simulant testing, and diamond breakage conditions were replicated in laboratory bench tests. Following this work, the source of the breakage has been localized, primarily, within the secondary cone crusher and tertiary high pressure grinding roll crusher, and appears associated with the high proportion of hard, internal dilution inherent in Renard ore producing an abrasive environment within the crushers. The Corporation believes that the introduction of ore-waste sorting under the extraordinary capital plan approved by the Board of Directors will contribute to a higher quality, and potentially higher grade, diamond product through the removal of a large proportion of the abrasive dilution from the crushing circuits.

At the same time, Stornoway will seek to continue the better than expected liberation of small (-3mm) diamonds as a source of incremental revenue above that contemplated in the project's Mineral Resources.

Conference Call and Webcast

Stornoway will host a third quarter earnings conference call for analysts and investors on November 3, 2017 at 1100am EST. This call may be accessed by calling 1-844-215-3287 toll free in North America, of 1-209-905-5939 from international locations, with Conference ID 2499129. A live webcast of the call will be available at <https://edge.media-server.com/m6/p/nyed2trz>. 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, Quebec'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 Corp.](#)

/s/ “Matt Manson”
Matt Manson
President and Chief Executive Officer

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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.

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