

# Stornoway Announces Bridge Financing

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LONGUEUIL, June 11, 2019 - [Stornoway Diamond Corp.](#) (TSX-SWY; the "Corporation" or "Stornoway") announced today that:

- Stornoway along with its material subsidiaries (the "SWY Parties"), entered into a binding bridge financing agreement (the "Bridge Financing Agreement") with certain secured lenders and key stakeholders (collectively, the "Bridge Lenders") providing for a senior secured bridge credit facility (the "Bridge Facility") to ensure the Corporation continues to operate uninterrupted in accordance with its plan during the strategic review process with a view to seek out proposals for, and pursue, a restructuring transaction; and
- The strategic review process the Corporation initiated earlier this year, aimed at ensuring the long-term viability of the Renard Diamond Mine, continues and a formal sale and investment solicitation process (the "SISP Process") was launched to seek out proposals for a restructuring transaction;

This development is a strong indication of the support of Stornoway's financial partners to the project and their commitment to ensuring that the Renard Diamond Mine operations continue uninterrupted, in accordance with Stornoway's plan during the SISP Process.

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

The key terms and conditions of the Financing Package are as follows:

## *Bridge Facility*

Under the terms of the Bridge Financing Agreement, Diaquem, Inc. ("Diaquem"), an affiliate of Investissement Québec ("IQ"), has agreed to advance to one or more of the SWY Parties an estimated amount of up to \$11.7 million by way of access to the funds available in a senior loan reserve account maintained by Stornoway's subsidiary, [Stornoway Diamond Corp.](#) (Canada) Inc. ("SDCI"). In addition, amounts equivalent to royalty payments to be made by SDCI to Diaquem under the existing royalty agreement, up to an estimated amount of \$1.9 million, and to interest payments accruing under the senior loan agreement between SDCI and Diaquem (the "Senior Loan"), up to an estimated amount of \$2.5 million, have agreed to be advanced by Diaquem. The Bridge Financing Agreement also provides that the buyers under the Amended and Restated Purchase and Sale Agreement entered into on October 2, 2018 (the "Stream Agreement") (collectively, the "Buyers"), in proportion to their respective commitments, will advance an amount equivalent to the stream net proceeds payable under the Stream Agreement to the SWY Parties, up to an estimated amount of \$5.9 million.

The Bridge Facility will be secured by a first-ranking security interest over all present and after-acquired assets and property of the SWY Parties and will accrue interest at a rate equal to 8.25% *per annum*.

Amounts owing under the Bridge Facility will become due and repayable in full upon the maturity date, being the earliest to occur of certain stated events, including (i) the completion of a restructuring or other material transaction pursuant to the SISP Process or the sale of all or substantially all of the property, assets and undertakings of Stornoway, and (ii) September 16, 2019 (the maturity date being subject to 30-day extensions by unanimous consent of the Bridge Lenders).

Launch of Sale and Investment Solicitation Process to Seek Out Proposals for Restructuring Transaction

Concurrently with the Bridge Financing Agreement, and as a condition thereto, the SWY Parties have

formally launched the SISP Process with the objective of seeking out proposals for a restructuring transaction that would involve an investment in, or the acquisition of all or substantially all of the property, assets and undertakings of Stornoway and its direct and indirect subsidiaries. The Corporation has engaged TD Securities Inc. and Scotia Capital Inc. to assist with the SISP Process. The SISP Process contains specific deadlines for the submission of non-binding indications of interest and, if applicable, binding proposals which may be extended under certain circumstances.

The Buyers and Diaquem are expressly permitted to submit a credit bid up to the amount of their secured debt.

The foregoing is a summary only of certain key terms of the various elements of the Bridge Facility and the SISP Process and is qualified in its entirety by reference to the full text of the Bridge Financing Agreement, which will be available on the SEDAR website maintained by the Canadian securities administrators at [www.SEDAR.com](http://www.SEDAR.com). Readers are encouraged to consult the full text of these documents.

#### Cautionary Statements Regarding SISP Process Outcome and Equity Value

Investors are cautioned that there can be no assurance that the SISP Process will either produce or result in one or more bids or, if one or more bids are submitted, that such bid(s) will lead to a successfully completed transaction. In addition, there can be no guarantee that the SISP Process and any transaction completed thereunder will result in the realization by Stornoway's stakeholders of any recoverable value. The failure to receive non-binding indications of interest or qualified phase 2 bids within the deadlines provided in the SISP Process constitutes an event of default under the Bridge Financing Agreement. As a result of all of the foregoing, Stornoway's securityholders (including common shareholders, holders of Convertible Debentures and holders of Warrants) are cautioned that trading in such securities is highly speculative and that the trading prices for such securities may not reflect their underlying value.

#### Indenture Amendments

Concurrently with the entry into of the Bridge Financing Agreement, Stornoway also entered into a binding term sheet with the holders of more than 75% of the outstanding principal amount of the Convertible Debentures (the "Debenture Amendment Term Sheet"), pursuant to which such holders have consented to postpone interest payments on the Convertible Debentures from June 30 to December 31, 2019 (the "Indenture Amendments"). The Indenture Amendments will be binding on all holders of outstanding Convertible Debentures. The Debenture Amendment Term Sheet also provides that the Corporation shall use its commercially reasonable efforts to issue warrants exercisable to acquire 16 million common shares of the Corporation (the "Warrants") to all holders of Convertible Debentures in proportion to their respective holdings, with each whole Warrant exercisable for a period of two years for one common share of the Corporation at an exercise price of \$0.10 per share. The Indenture Amendments and the issuance of the Warrants are both subject to obtaining all necessary regulatory approvals (including Toronto Stock Exchange ("TSX") approval).

#### Other Bridge Arrangements

Concurrently with the entering into of the Bridge Financing Agreement and the Debenture Amendment Term Sheet, the SWY Parties also obtained a waiver from Fonds de Solidarité des Travailleurs du Québec, Fonds Régional de Solidarité F.T.Q. Nord-du-Québec, S.E.C. and Diaquem of the requirement to make interest payments under the *Convention de prêt* dated as of May 3, 2012 from May 1, 2019 until December 31, 2019, inclusively. In addition, the Buyers under the Stream Agreement, Diaquem under the Senior Loan and Caterpillar Financial Services Limited under its master lease agreement with SDCI have each agreed to waive the requirement for the Corporation to have a minimum tangible net worth of \$225 million, calculated on a consolidated basis, until July 15, 2019.

#### Related Party Transaction Analysis

IQ and Caisse de dépôt et placement du Québec ("Caisse") are related parties of Stornoway under Multilateral Instrument 61-101—"Protection of Minority Security holders in Special Transactions" (MI 61-101) since (together with their respective affiliates) each of them

holds more than 10% of Stornoway's issued and outstanding voting shares. Accordingly, the Bridge Facility and the Other Bridge Arrangements, insofar as they involve Diaquem and/or IQ and Caisse constitute "related party transactions" under MI 61-101. The Bridge Facility and the Other Bridge Arrangements are exempt from the formal valuation requirements pursuant to Section 5.4 of MI 61-101, and are exempt from the minority approval requirements pursuant to Section 5.6 of MI 61-101 on the basis that the Corporation's board of directors, acting in good faith, has determined, and at least two-thirds of the Corporation's independent directors, acting in good faith, have determined, that the Corporation is in serious financial difficulty, that the Bridge Facility and the Other Bridge Arrangements are designed to improve the Corporation's financial position, and that the terms of the Bridge Facility and the Other Bridge Arrangements are reasonable in the circumstances.

As previously announced, the performance of the Corporation's business has been significantly impacted by the significant drop in the price of diamonds in world markets. The global diamond market is going through a difficult time and Stornoway's mine sells its product at a lower price than in previous years and much lower than initially anticipated during the construction of the mine. A continued downward pressure on the market price for rough diamonds has inhibited the Corporation's ability to generate positive free cash flow in 2019. Such events or conditions cast significant doubt about the Corporation's ability to continue as a going concern.

The Bridge Facility, the Other Bridge Arrangements, the Indenture Amendments and the implementation of the SISP Process are in furtherance of a previously announced strategic review undertaken by the board of directors (the "Board") of the Corporation to consider all options available to the Corporation while it has continued to take a series of actions to attempt to preserve its liquidity, including, among other things, cost reductions of \$18 million to \$20 million for fiscal year 2019. Following completion of its strategic review, and after careful review of all relevant circumstances and consideration of all available alternatives with due consideration to the interests of all stakeholders, the Board, with the assistance, input and advice from legal and financial advisors, has unanimously determined that the Bridge Facility, the Other Bridge Arrangements, the Indenture Amendments and the implementation of the SISP Process are, viewed and taken as a whole, in the best interests of the Corporation.

#### 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 forecast 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.

#### 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 Montreal. A growth-oriented company Stornoway owns a 100% interest in the world-class Renard Mine, Québec's first diamond mine.

On behalf of the Board  
[Stornoway Diamond Corp.](#)  
/s/ "Patrick Godin"  
Patrick Godin  
President and Chief Executive

For more information, please contact Alexandre Burelle (Manager, Investor Relations and Business Development) at 450-616-5555 x2264 or toll free at 1-877-331-2232

Pour plus d'information, veuillez contacter Alexandre Burelle (Directeur, Relations avec les investisseurs et développement des affaires) au 450-616-5555 x2264, [aburelle@stornowaydiamonds.com](mailto:aburelle@stornowaydiamonds.com).

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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 reflect current expectations or beliefs regarding future events and include, but are not limited to, statements with respect to: (i) the amount of Mineral Reserves, Mineral Resources and exploration targets; (ii) the estimated amount of future production over any period; (iii) net present value and internal rates of return of the mining operation; (iv) expectations and targets relating to recovered grade, size distribution and quality of diamonds, average ore recovery, carats recovered, carats sold, internal dilution, mining dilution and other mining parameters set out in the 2016 Technical Report as well as levels of diamond breakage; (v) expectations, targets and forecasts relating to gross revenues, operating cash flows and other revenue metrics set out in the 2016 Technical Report, growth in diamond sales, cost of goods sold, cash cost of production, gross margins estimates, planned and projected diamond sales, mix of diamonds sold, and capital expenditures, liquidity and working capital requirements; (vi) mine and resource expansion potential, expected mine life, and estimated incremental ore recovery, revenue and other mining parameters from potential additional mine life extension; (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 financial obligations or costs incurred by Stornoway in connection with the ongoing development of the Renard Diamond Mine; (x) mining, development, production, processing and exploration rates, progress and plans, as compared to schedule and budget, and planned optimization, expansion opportunities, timing thereof and anticipated benefits therefrom; (xi) future exploration plans and potential upside from targets identified for further exploration; (xii) expectations concerning outlook and trends in the diamond industry, rough diamond production, rough diamond market demand and supply, and future market prices for rough diamonds and the potential impact of the foregoing on various Renard financial metrics and diamond production; (xiii) the economic benefits of using [Liquefied Natural Gas Ltd.](#) rather than diesel for power generation; (xiv) requirements for and sources of, and access to, financing and uses of funds; (xv) the ability to meet Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement; (xvi) the foreign exchange rate between the US dollar and the Canadian dollar; and (xvii) the anticipated benefits from recently approved plant modification measures and the anticipated timeframe and expected capital cost thereof. 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, access to financing, 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) the accuracy of our estimates regarding capital 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, carats recovered, carats sold, internal dilution, mining dilution and other mining parameters set out in the 2016 Technical Report as well as levels of diamond breakage; (iv) the expected mix of diamonds sold, and successful mitigation of ongoing issues of diamond breakage in the Renard Diamond Mine process plant and realization of the anticipated benefits from plant modification measures within the anticipated timeframe and expected capital cost; (v) the stabilization of the Indian currency market and full recovery of prices; (vi) receipt of regulatory approvals on acceptable terms within commonly experienced time frames and absence of adverse regulatory developments; (vii) anticipated timelines for the development of an open pit and underground mine at the Renard Diamond Mine; (viii) anticipated geological formations; (ix) continued market acceptance of the Renard diamond production, conservative forecasting of future market prices for rough diamonds and impact of the foregoing on various Renard financial metrics and diamond production; (x) the timeline, progress and costs of future exploration, development, production and mining activities, plans, commitments and objectives; (xi) the availability of existing credit facilities and any required future financing on favourable terms and the satisfaction of all covenants and conditions precedent relating to future funding commitments; (xii) the ability to meet Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement; (xiii) Stornoway's interpretation of the geological drill data collected and its potential impact on stated [Mineral Resources Ltd.](#) and mine life; (xiv) the continued strength of the US dollar against the Canadian dollar and absence of significant variability in interest rates; (xv) improvement of long-term diamond industry fundamentals and absence of material deterioration in general business and economic conditions; and absence of significant variability in interest rates; (xvi) increasing carat recoveries with progressively increasing grade in LOM plan; (xvii) estimated incremental ore recovery, revenue and other mining parameters from potential additional mine life extension with minimal capital expenditures; (xviii) availability of skilled employees and maintenance of key relationships with financing partners, local communities and other stakeholders; (xix) long-term positive demand trends and rough diamond demand meaningfully exceeding supply; (xx) high depletion rates from existing diamond mines; (xxi) global rough diamond production remaining stable; (xxii) modest capital requirements post-2018 with significant resource expansion available at marginal cost; (xxiii) substantial resource upside within scope of mine plan; (xxiv) opportunities for high grade ore acceleration and processing expansion and realization of anticipated benefits therefrom; (xxv) significant potential upside from targets identified for further exploration; and (xxvi) limited cash income taxes payable over the medium term.

As relates to the financing arrangements described herein specifically, this press release contains material assumptions concerning the implementation of the SISP Process and the reorganization or restructuring of the assets, business and financial affairs of the Corporation; the availability and terms and impact of the Bridge Facility and the use of proceeds therefrom; the ability of Stornoway to continue the performance of the operations of the Renard Mine in accordance with plan and to make further improvements to support the long term viability of the Renard Mine during the SISP Process; the ability of Stornoway to meet obligations to customers, suppliers and employees during the SISP Process; the level of interest Stornoway may receive during the SISP Process; the availability and reasonableness of qualified bids under the SISP Process and the successful outcome of the SISP Process; that the Bridge Facility will be sufficient to meet Stornoway's forecasted and budgeted expenses and that such expenses will not exceed the level of financing received; continuity in the management of the Corporation; and the satisfaction or waiver of all conditions precedent to the advance of funds under the Bridge Facility and receipt of required regulatory approval within the anticipated timeframe.

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 not 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 Ltd.](#) 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 Ltd.](#); (iv) risks associated with our dependence on the Renard Diamond Mine and the limited operating history thereof; (v) unfavourable developments in general economic conditions and in world diamond markets; (vi) variations in diamond valuations and fluctuations in diamond prices from those assumed; (vii) insufficient demand and market acceptance of our diamonds; (viii) risks associated with the production and increased consumer demand for synthetic gem-quality diamonds; (ix) risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar and variability in interest rates; (x) inaccuracy of our estimates regarding future financing and capital requirements and expenditures, significant additional future capital needs and unavailability of additional financing and capital, on reasonable terms, or at all; (xi) uncertainties related to forecasts, costs and timing of the Corporation's future development plans, exploration, processing, production and mining activities; (xii) increases in the costs of proposed capital, operating and sustainable capital expenditures; (xiii) increases in financing costs or adverse changes to the terms of available financing, if any; (xiv) tax rates or royalties being greater than assumed; (xv) uncertainty of mine life extension potential and results of exploration in areas of potential expansion of resources; (xvi) changes in development or mining plans due to changes in other factors or exploration results; (xvii) risks relating to the receipt of regulatory approvals or the implementation of the existing Impact and Benefits Agreement with aboriginal communities; (xviii) the failure to secure and maintain skilled employees and maintain key relationships with financing partners, local communities and other stakeholders; (xix) risks associated with ongoing issues of diamond breakage in the Renard Diamond Mine process plant and the failure to realize the anticipated benefits from plant modification measures within the anticipated timeframe and expected capital cost, or at all; (xx) the negative market effects of recent Indian demonetization and continued impact on pricing and demand; (xxi) the effects of competition in the markets in which Stornoway operates; (xxii) operational and infrastructure risks; (xxiii) execution risk relating to the development of an operating mine at the Renard Diamond Mine; (xxiv) the Corporation being unable to meet its Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement; (xxv) future sales or issuances of Common Shares lowering the Common Share price and diluting the interest of existing shareholders; (xxvi) the risk of failure of information systems; (xxvii) the risk that our insurance does not cover all potential risks; (xxviii) the risks associated with our substantial indebtedness and the failure to meet our debt service obligations; and (xxix) the additional risk factors described herein and in Stornoway's annual and interim MD&A, 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.

As relates to the financing arrangements described herein specifically, this press release contains risks related to the level of indebtedness of the Corporation; the implementation and impact of any reorganization or restructuring of the assets, business and financial affairs of the Corporation; future co-operation of the creditors of the Corporation and the ongoing willingness of the Bridge Facility Lenders to provide funds to the Corporation; the possibility that the Corporation will be unable to implement the SISP Process or obtain advances under the Bridge Facility due to the failure of one or more of the conditions precedent to be satisfied or waived, or that the SISP Process will be unsuccessful; the unavailability of qualified bids under the SISP Process and the unsuccessful outcome of the SISP Process; delays in receiving and assessing bids under the SISP Process; the Corporation's ability to generate sufficient cash-flow from operations or to obtain adequate financing to fund capital expenditures and working capital needs and to meet the Corporation's ongoing obligations during the SISP Process and thereafter; the ability to maintain relationships with suppliers, customers, employees, shareholders and other third parties in light of the Corporation's current liquidity situation and the SISP Process; strategic alternatives not being available on reasonable terms, or at all; the Corporation's inability to maintain key personnel necessary to manage the business; the pursuit of the SISP Process may divert management time and attention away from other business matters; significant and negative impact of the foregoing on the liquidity and market price of Stornoway's securities and uncertainty as to Stornoway's ability to continue to meet the listing requirements of the TSX; the Corporation's ability to comply with its financial and other covenants; and the failure to receive required regulatory approval in a timely manner, or at all.

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