The following management discussion and analysis ("MD&A") of the Corporation’s financial condition and results of operations for the two- and eight-month periods ended December 31, 2015 should be read in conjunction with the audited consolidated financial statements ("financial statements") for the eight-month period ended December 31, 2015 and year ended April 30, 2015, together with the notes thereto. These financial statements have been prepared in Canadian dollars, which is the Corporation’s presentation and functional currency, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Additional information on the Corporation, including the most recently filed Corporation’s Annual Information Form ("AIF") and other continuous disclosure documents can be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com and from the Corporation’s website at www.stornowaydiamonds.com. To the extent applicable, updated information contained in this MD&A supersedes older information contained in previously filed continuous disclosure documents. Information contained on the Corporation’s website is not incorporated by reference herein and does not form part of this MD&A. This MD&A contains forward-looking statements that are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may vary materially from management’s expectations. See the “Forward Looking Statements” section later in this MD&A for further information. Unless otherwise noted, all amounts are presented in Canadian Dollars.

To better align financial, operational and regulatory reporting in advance of commencing production, Stornoway has changed its fiscal year-end from April 30th to December 31st. As a result, information contained in the consolidated statements of loss, the consolidated statements of cash flows, consolidated statements of loss, consolidated statements of comprehensive loss, consolidated statements of changes in equity, the consolidated statements of cash flows, and any corresponding notes thereto pertaining to the periods ending December 31, 2015 and April 30, 2015 are for an eight and twelve month period respectively. More information can be found in a notice of change in year-end filed on SEDAR on July 27, 2015.

Disclosure of a scientific or technical nature in this MD&A was prepared under the supervision of Patrick Godin, P.Eng. (Québec), Chief Operating Officer and Robin Hopkins, P.Geol. (NT/NU), Vice President, Exploration, both Qualified Persons ("QP") under National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101"). Darrell Farrow, PrSciNat, P.Geo.(BC), Ordre des geologues du Québec (Special Authorisation # 332) of GeoStrat Consulting Services Inc. is the independent Qualified Person responsible for the preparation of the mineral resource estimate in respect of the Renard Diamond Project.

The Board of Directors approved this MD&A on March 21, 2016.
OVERVIEW

Stornoway is a Canadian diamond exploration and development Corporation listed on the Toronto Stock Exchange ("TSX") and headquartered in Longueuil, Québec. Stornoway’s principal focus is its 100% owned Renard Diamond Project located in north-central Québec, a project in construction and on track to become Québec’s first diamond mine. Stornoway’s strategy is to build a growth-oriented Corporation that succeeds in the business of mining and selling rough diamonds. Stornoway’s long-term view of the rough diamond market is positive, based on its outlook for a tightening mine supply and growing demand, particularly in developing markets, which is expected to support real, long-term price growth. The Corporation has a management team with experience at each stage of the diamond pipeline, from exploration through development, mine construction, operations and marketing.

On July 8, 2014, Stornoway entered into definitive agreements which are intended to provide a comprehensive funding package for the construction of the Renard Diamond Project, with an initial estimated capital cost of $811 million, including contingencies and escalation. Subsequent to the eight-month period ended December 31, 2015, the project’s construction schedule was re-baselined with first ore delivery to the Renard diamond process now expected by the end of September 2016 and commercial production (60% of plant capacity achieved over 30 days) expected by December 31, 2016. This represents a five-month improvement on the previous schedule, which assumed commercial production in the second calendar quarter of 2017. The re-baselined schedule resulted in a commensurate reduction in the forecast cost to complete, from $811 million to $775 million.

In total, gross proceeds of $946 million (assuming a US$1.00:CAD$1.10 conversion) has been funded, or committed for funding, through a combination of senior and subordinated debt facilities, equity issuance, a forward sale of diamonds (the "Stream"), and an equipment finance facility (collectively the “Financing Transactions”). On July 8, 2014, concurrent with the closing of the Financing Transactions, the Corporation received gross proceeds of $458 million1, which after deducting financing and transaction expenses of $27 million paid on the closing date, resulted in net proceeds of $431 million. Under the terms of the Financing Transactions, additional funding of US$250 million from the Stream is expected to be received in three tranches, the first and second of which, in the amount of US$80 million each, were received on March 31, 2015, and September 30, 2015 (Note 15 of the Consolidated Financial Statements). The Corporation commenced borrowing under its equipment finance facility in August 2014 and expects to draw from its $100 million senior secured loan facility during 2016, following the deposit of the third tranche of the Stream and upon the satisfaction of certain conditions precedent. An additional $48 million of cost overrun facilities are also available to the Corporation upon the satisfaction of certain conditions precedent.

CURRENT QUARTER HIGHLIGHTS

- Progress at the Renard Diamond Project continues in line with the planned schedule and budget.
- Incurred costs and commitments at the period-end totalled $548.5 million, or 71% of budget.
- Construction progress stood at 63.3% compared to (an initial) plan of 59.6%, with detailed engineering substantially complete.
- On site manpower during the month of December averaged 384 workers, of which 21% were Crees of the Eeyou Istchee.
- Mining in the Renard 2-3 and Renard 65 open pits stood at 5,975,813 tonnes, or 104% of plan, and underground mining development stood at 887 meters, or 72% of plan.

---

1 As at July 8, 2014, CAD$:US$ conversion rate of $1.0674
• During two-month period ended December 31, 2015, construction focused on secondary steel, mechanical, piping and electrical installation and on the project’s major facilities such as the process plant, liquefied natural gas (“LNG”) storage facility, power plant, primary crusher, water treatment facility and processed kimberlite load-out. All were well advanced at December 31, 2015.
• For the two-month period ended December 31, 2015, the Corporation reported a net loss of $4.3 million or $0.01 per share basic and fully diluted, and for the eight-month period ended December 31, 2015 a net loss of $3.7 million or $Nil per share basic and fully diluted.
• Cash, cash equivalents and short-term investments stood at $209.1 million. Excess financing capacity available to complete the project, comprising surplus cash and available cost-overrun facilities, is now forecast to be $117 million, assuming the satisfaction of all covenants and conditions precedent relating to future funding commitments and a CAD$:US$ conversion rate of $1.35.

CONSTRUCTION HIGHLIGHTS
As at December 31, 2015, overall construction progress stood at 63.3% based on man-hour estimates compared to a plan of 59.6%. Engineering was substantially complete at 99.0% compared to a plan of 99.9%. One loss time incident (“LTI”) was recorded with a contractor during the quarter, for a project-to-date LTI rate of 0.6 for contractors and 0.0 for Stornoway employees.

Construction progress during and subsequent to the quarter has focussed on the project’s major facilities including the diamond-processing plant, natural gas power plant, LNG storage area, primary crusher, processed kimberlite load-out and water treatment plant. At the processing plant secondary steel installation, mechanical and piping, and electrical installation are well advanced. Major equipment installed by the end of February included the dewatering centrifuges, the cone and jaw crushers, the High Pressure Grinding Roll crusher, the rotary scrubber, ore bins and the exterior conveyors. Commissioning of the LNG storage facility, distribution network and power plant began at the end of February.

Daily manpower at site in December averaged 384 workers with a peak of 568, of which 21% were Crees of the Eeyou Istchee. Stornoway employees stood at 320 as at December 31, including 246 in the on-site development team, of which 18% were Crees, 25% were from Chibougamau and Chapais, and 57% were from outside the region.

MINING
As at December 31, 2015, a total of 5,975,813 tonnes of overburden, waste rock and ore had been extracted from the Renard 2-Renard 3 and Renard 65 open pits, compared to a plan of 5,725,429 tonnes (104%). A total of 151,591 tonnes of ore had been delivered to the stockpile compared to a plan of 100,000 tonnes (151%).

Development of the ramp for the underground mine stood at 887 meters on December 31 compared to a plan of 1,234 meters (72%). Progress on the ramp continued to be affected during November and December by water inflows on a fault structure that required extensive grouting. Progress accelerated during January, and slowed again during February as the structure was intersected a second time after the ramp had made its first turn at the 129 meter level. Overall progress in the ramp stood at 1,071 meters, or 73% of plan, at the end of February.

UPDATED MINE PLAN AND NI 43-101 REPORT
Stornoway expects to complete an update to the mine plan for the Renard Diamond Project shortly that will incorporate recent changes to the project’s Mineral Resources and its forecast schedule and cost to complete. The new plan will contemplate extended mine production, a deepening of the Renard 2-Renard
3 open pit, the commensurate deepening of the underground mine infrastructure and the inclusion of Indicated Mineral Resources at Renard 65 for open pit mining. This work will include a revised statement of project Mineral Reserves, and will be accompanied by the filing of an updated National Instrument ("NI") 43-101 technical report.

EXPLORATION UPDATE
Exploration programs are ongoing on generative diamond exploration projects in Canada, which are 100% owned by the Corporation, including the Adamantin Project located approximately 100 km south of the Renard Diamond Project and 25 km west of the Route 167 Extension road. Stornoway’s claim position at Adamantin now stands at 15,080 hectares after recent additional ground acquisition. Till sampling during 2015 confirmed the presence of indicator mineral anomalies interpreted to be sourced from undiscovered kimberlites with diamond potential, with one till sample including a diamond from the +0.25mm-0.50mm size fraction. In December 2015, Stornoway’s board of directors approved a budget allocation of $2.5 million for an exploratory drill program at Adamantin, which was mobilized in mid-March following the receipt of final 2015 surface sampling results and geophysical interpretation.

RESULTS OF OPERATIONS AND FINANCIAL ACTIVITIES

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exploration recovery (expense)</td>
<td>(202)</td>
<td>(130)</td>
<td>(521)</td>
<td>635</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>(1,045)</td>
<td>(2,125)</td>
<td>(5,347)</td>
<td>(9,365)</td>
</tr>
<tr>
<td>Loss on disposal of assets</td>
<td>–</td>
<td>(1,863)</td>
<td>–</td>
<td>(1,922)</td>
</tr>
<tr>
<td>Other income (expenses), net</td>
<td>(3,042)</td>
<td>11,776</td>
<td>2,212</td>
<td>8,663</td>
</tr>
<tr>
<td>Earnings (loss) before Income Taxes</td>
<td>(4,289)</td>
<td>7,658</td>
<td>(3,656)</td>
<td>(1,989)</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>–</td>
<td>(2)</td>
<td>–</td>
<td>1,347</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>(4,289)</td>
<td>7,656</td>
<td>(3,656)</td>
<td>(642)</td>
</tr>
<tr>
<td>Earnings (loss) per share – basic and diluted</td>
<td>(0.01)</td>
<td>0.01</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Current Quarter

Net loss for the two months ended December 31, 2015 ("Current Quarter") of $4.3 million declined by $11.9 million from net earnings during the three months ended January 31, 2015 ("Comparative Quarter") in large part due to a change of $14.8 million in other income (expenses). Other expenses of $3.0 million (Comparative Quarter – income of $11.8 million) are due primarily to foreign exchange gains and losses during each period. The table below highlights the composition of, and change in, other income (expenses).

Exploration expenses of $0.2 million (Comparative Quarter - $0.1 million) consist of work done on the Corporation’s property portfolio (see Exploration Update). General and administrative expenses of $1.0 million (Comparative Quarter - $2.1 million) represent the Corporation’s operating costs in its head and regional offices, as well as salaries, benefits, director fees and share-based compensation that were not capitalized to the cost of the project. Salaries, benefits, director fees and share-based compensation totalled $0.5 million (Comparative Quarter - $1.3 million), while office operating cost totalled $0.5 million (Comparative Quarter - $0.8 million). General and administrative expenses remained stable during the Quarter with a small decrease due to lower share-based compensation expenses. During the Current Quarter there were no asset disposals while in the Comparative Quarter there were resulting in a loss $1.9 million.
A significant portion of the general and administrative costs, salaries, benefits, director fees and share-based compensation, representing $15.3 million (April 30, 2015 - $9.4 million) are being capitalized in Property, Plant and Equipment as part of the construction overhead costs of the Renard Mining Project.

During the Current Quarter, the Corporation recorded a foreign exchange loss of $2.6 million (Comparative Quarter – gain of $1.4 million) due primarily to a weakening of the Canadian dollar relative to the US dollar, which increased the Canadian equivalent amount of the US dollar dominated convertible debentures. A loss in the fair value of derivatives of $0.3 million (Comparative Quarter – gain of $10.9 million) is attributable to variations in the Canadian / US dollar exchange rate, stock price volatility and credit spreads. For the Current Quarter, finance costs of $0.4 million (Comparative Quarter –$1.4 million) are comprised of standby fees paid in connection with the Corporation’s financing arrangements for the construction of the Renard Mining Project. Standby fees have decreased significantly during the Current Quarter as the Corporation received the first and second Stream deposit. Interest income of $0.3 million (Comparative Quarter –$0.9 million) represents interest earned on cash surpluses and declined as a result of lower interest rates and lower average cash surpluses.

Eight Months Ended December 31, 2015

Net loss for the eight months ended December 31, 2015 (Current Period) of $3.7 million increased by $3.0 million compared to the twelve months ended April 30, 2015 (Comparative Period).

Exploration expenses of $0.5 million (Comparative Period – recovery $0.6 million) consist of work done on the Corporation’s property portfolio (see Exploration Update). In the Comparative period, the Corporation recorded a $1.5 million reimbursement of related tax credits from previous years.

General and administrative expenses of $5.3 million (Comparative Period - $9.4 million) represents the Corporation’s operating costs in its head and regional offices, as well as salaries, benefits, director fees and share-based compensation that were not capitalized to the cost of the project. Salaries, benefits, director fees and share-based compensation totalled $3.0 million (Comparative Period - $5.6 million), while office operating costs totalled $2.3 million (Comparative Quarter - $3.8 million). Adjusting for there being fewer months in the Current Period, Salaries, benefits, director fees, share-based compensation and office operating costs have decreased during the Current Period primarily due to lower share-based compensation expenses and lower office, rent and sundry expenses. During the Current Period there were no asset disposals while in the Comparative Quarter there were resulting in a loss $1.9 million.

Other income of $2.2 million in the Current Period declined by $6.5 million relative to other income in the Comparative Period of $8.7 million due to a number of factors (as summarized in table below). The Current Period gain on the fair value of derivatives of $6.4 million (Comparative Period –$11.9 million) relates to the convertible debentures and variations in the Canadian / US dollar exchange rate, stock price volatility and credit spreads. The Current Period foreign exchange loss of $4.1 million (Comparative Period – gain $5.6 million) is due mainly to a weakening of the Canadian dollar relative to the US dollar exchange rate. Current Period Finance costs of $1.8 million (Comparative Period – $9.1 million) relate mainly to standby fees paid on the Corporation’s financing agreements whereas in the Comparative Period Finance costs included stand-by fees and Transaction fees related to establishing the Corporation’s financing arrangements. Adjusting for there being fewer months in the Current Period, standby fees decreased during the Current Period due to the receipt of deposits under the Stream and stand-by fees related to the Stream being classified as a reduction in deferred revenue. Transaction fees in the Comparative Period of $2.1 million represent non-recurring costs incurred following the Financing Transactions related to the convertible debentures and private equity transaction. Interest income of $1.7 million (Comparative Period –$2.4 million) represents interest earned on cash, cash equivalents and short-term-investments.
Two Months Ended December 31, 2015

Three Months Ended January 31, 2015

Eight Months Ended December 31, 2015

Twelve Months Ended April 30, 2015

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>331</td>
<td>856</td>
<td>1,689</td>
<td>2,410</td>
</tr>
<tr>
<td>Transaction fees – derivatives</td>
<td>317</td>
<td>10,916</td>
<td>6,357</td>
<td>11,906</td>
</tr>
<tr>
<td>Gain (loss) on fair value of derivatives</td>
<td>(317)</td>
<td>(3)</td>
<td>(2,144)</td>
<td></td>
</tr>
<tr>
<td>Foreign exchange gain (loss)</td>
<td>(2,609)</td>
<td>1,425</td>
<td>(4,069)</td>
<td>5,616</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(447)</td>
<td>(1,418)</td>
<td>(1,765)</td>
<td>(9,125)</td>
</tr>
<tr>
<td>Other income (expenses), net</td>
<td>(3,042)</td>
<td>11,776</td>
<td>2,212</td>
<td>8,663</td>
</tr>
</tbody>
</table>

|                           |                                |                                |                                |                                |
| **STATEMENTS OF CASH FLOWS** |                                |                                |                                |                                |

(Expressed in thousands of Canadian dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash provided from (used) in operating activities, before changes in non-cash working capital</td>
<td>(1,707)</td>
<td>(2,355)</td>
<td>100,489</td>
<td>95,987</td>
</tr>
<tr>
<td>Changes in non-cash working capital</td>
<td>(8,473)</td>
<td>(5,623)</td>
<td>(1,560)</td>
<td>(16,905)</td>
</tr>
<tr>
<td>Cash provided (used) in operating activities</td>
<td>(10,180)</td>
<td>(7,978)</td>
<td>98,929</td>
<td>79,082</td>
</tr>
<tr>
<td>Cash provided (used) in investing activities</td>
<td>33,673</td>
<td>(257,661)</td>
<td>(139,340)</td>
<td>(461,274)</td>
</tr>
<tr>
<td>Cash provided (used) in financing activities</td>
<td>(1,126)</td>
<td>(17)</td>
<td>(2,384)</td>
<td>434,193</td>
</tr>
<tr>
<td>Effect of foreign exchange rate changes on cash and cash equivalents</td>
<td>4,432</td>
<td>11,358</td>
<td>11,382</td>
<td>10,521</td>
</tr>
<tr>
<td>Increase (decrease) in cash and cash equivalents</td>
<td>26,799</td>
<td>(254,298)</td>
<td>(31,413)</td>
<td>62,522</td>
</tr>
<tr>
<td>Cash and cash equivalents - Beginning of the Period</td>
<td>31,293</td>
<td>387,989</td>
<td>89,505</td>
<td>26,983</td>
</tr>
<tr>
<td>Cash and cash equivalents – End of the Period</td>
<td>58,092</td>
<td>133,691</td>
<td>58,092</td>
<td>89,505</td>
</tr>
</tbody>
</table>

**Current Quarter**

During the Current Quarter, the Corporation’s cash and cash equivalents increased by $26.8 million, including a $4.4 million foreign unrealized exchange gain on cash and cash equivalents denominated in US dollars.

Cash used in operating activities accounted for $10.2 million of the Current Quarter variation (Comparative Quarter – used $8.0 million) of which $8.5 is attributable to changes in non-cash working capital including $3.1 million relating to an increase in inventory.

Cash provided by investing activities was $33.7 million in the Current Quarter, reflecting $74.1 million used for the acquisition of property, plant and equipment (Comparative Quarter - $70.0 million), and $108.0 million provided from the sale of short-term investments (Comparative Quarter - used $187.5).

During the Current Quarter, cash used in financing activities was $1.1 million relating to the repayment of obligations under finance leases. During the Comparative Quarter, cash used in financing activities was comprised of transaction costs related to the Corporation’s financing arrangements, partially offset by proceeds from the issuance of shares under its share option plan.
Eight Months Ended December 31, 2015

During the Current Period, the Corporation’s cash and cash equivalents decreased by $31.4 million, including a $11.4 million foreign exchange gain on cash and cash equivalents denominated in US dollars.

Cash provided from operating activities accounted for $98.9 million of the Current Period variation in cash and cash equivalents (Comparative Period - $79.1 million) due primarily to the receipt of the second Stream deposit of $105.6 million. Partially offsetting the stream deposit were changes in non-cash working capital of $1.6 million (Comparative Period – used $16.9 million), including $3.1 million related to an increase in inventory, and $5.2 million of operating expenses (Comparative Period – $5.5 million).

Cash used in investing activities accounted for $139.3 million in the Current Period variation, reflecting $260.7 million used for the acquisition of property, plant and equipment (Comparative Period - $183.8 million), $123.1 million of proceeds from the sale of short-term investments (Comparative Period – used $273.7) used to fund these expenditures, and $1.7 million used for other financial assets (Comparative Period - $4.7 million).

During the Current Period, cash used in financing activities of $2.4 million (Comparative Period – provided $434.2 million) related to the repayment of obligations under the finance leases. During the Comparative Period, the Corporation received financing totalling $435.4 million comprised of $83.2 million from the issuance of convertible debentures and $373.9 million from the issuance of subscription receipts by way of a public offering and private placements. Details of the Financing Transactions can be found in the Corporation’s AIF filed on July 31, 2015, and in the audited annual consolidated financial statements for the year ended April 30, 2015.

STATEMENTS OF FINANCIAL POSITION

(expressed in thousands of Canadian dollars)  
<table>
<thead>
<tr>
<th></th>
<th>As at December 31, 2015</th>
<th>As at April 30, 2015</th>
<th>Increase / (decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash, cash equivalents and short-term investments</td>
<td>209,092</td>
<td>363,618</td>
<td>(154,526)</td>
</tr>
<tr>
<td>Receivables and other current assets</td>
<td>14,338</td>
<td>16,267</td>
<td>(1,929)</td>
</tr>
<tr>
<td>Current assets</td>
<td>223,430</td>
<td>379,885</td>
<td>(156,455)</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>831,430</td>
<td>541,481</td>
<td>289,949</td>
</tr>
<tr>
<td>Deferred financing fees, inventories and other assets</td>
<td>28,314</td>
<td>23,688</td>
<td>4,626</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>859,744</td>
<td>565,169</td>
<td>294,575</td>
</tr>
<tr>
<td>Total assets</td>
<td>1,083,174</td>
<td>945,054</td>
<td>138,120</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>69,788</td>
<td>56,536</td>
<td>13,252</td>
</tr>
<tr>
<td>Long-term debts and convertible debentures</td>
<td>219,625</td>
<td>204,992</td>
<td>14,633</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>207,104</td>
<td>101,464</td>
<td>105,640</td>
</tr>
<tr>
<td>Asset retirement obligation</td>
<td>10,698</td>
<td>4,595</td>
<td>6,103</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>437,427</td>
<td>311,051</td>
<td>126,376</td>
</tr>
<tr>
<td>Equity</td>
<td>575,959</td>
<td>577,467</td>
<td>(1,508)</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>1,083,174</td>
<td>945,054</td>
<td>138,120</td>
</tr>
</tbody>
</table>

For the Current Period, total assets increased by $138.1 million to $1,083.2 million. This increase is due primarily to the investment made in property, plant and equipment, which increased by $289.9 million (see table below for details) in line with the construction activities at the Renard Diamond Project while cash, cash equivalents and short-term investments decreased by $154.5 million to $209.1 million, reflecting the proceeds received from the second deposit under the Stream, and the cash outlays made in connection with ongoing construction activities.

The Corporation’s current liabilities of $69.8 million consist of payables and accrued liabilities mostly related to the Corporation’s construction activities. During the Current Period, long-term debt and convertible debentures increased by $14.6 million primarily due to changes in the fair value of the
convertible debentures and the impact of a weaker Canadian dollar relative to the US dollar. Deferred revenues of $207.1 million have increased following the receipt of the second deposit under the Stream, net of standby fees, totalling $105.6 million. Asset retirement obligations have increased by $6.1 million reflecting the impact of the Corporation’s construction activities during the period.

As at December 31, 2015, equity of $576.0 million (April 30, 2015 - $577.5 million) consists of share capital, contributed surplus and an accumulated deficit.

The following table details the increase in Property, Plant and Equipment

<table>
<thead>
<tr>
<th>Total amortized costs per Property, plant and Equipment categories</th>
<th>Two Months Ended December 31, 2015</th>
<th>Eight Months Ended December 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mine under construction</td>
<td>61,998</td>
<td>247,421</td>
</tr>
<tr>
<td>Buildings, Camp and Accommodations</td>
<td>5,148</td>
<td>33,043</td>
</tr>
<tr>
<td>Vehicles and Machinery</td>
<td>3,325</td>
<td>8,138</td>
</tr>
<tr>
<td>Roads &amp; Airstrip</td>
<td>898</td>
<td>732</td>
</tr>
<tr>
<td>Others</td>
<td>106</td>
<td>116</td>
</tr>
<tr>
<td>Mineral Properties</td>
<td>83</td>
<td>499</td>
</tr>
<tr>
<td>Total</td>
<td>71,558</td>
<td>289,949</td>
</tr>
</tbody>
</table>

SELECTED QUARTERLY INFORMATION

The following table sets out selected unaudited consolidated quarterly financial information of Stornoway covering the last eight quarters and is derived from the unaudited consolidated financial statements of the Corporation.

<table>
<thead>
<tr>
<th>Quarter Ended</th>
<th>Net Earnings (Loss) (in thousands of Canadian dollars)</th>
<th>Basic Earnings (Loss) per share</th>
<th>Diluted Earnings (Loss) per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2015</td>
<td>(4,289)</td>
<td>(0.01)</td>
<td>(0.01)</td>
</tr>
<tr>
<td>October 31, 2015</td>
<td>10,340</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>July 31, 2015</td>
<td>(9,708)</td>
<td>(0.01)</td>
<td>(0.01)</td>
</tr>
<tr>
<td>April 30, 2015</td>
<td>(8,478)</td>
<td>(0.01)</td>
<td>(0.01)</td>
</tr>
<tr>
<td>January 31, 2015</td>
<td>7,656</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>October 31, 2014</td>
<td>11,695</td>
<td>0.02</td>
<td>0.01</td>
</tr>
<tr>
<td>July 31, 2014</td>
<td>(11,515)</td>
<td>(0.04)</td>
<td>(0.04)</td>
</tr>
<tr>
<td>April 30, 2014</td>
<td>(7,886)</td>
<td>(0.07)</td>
<td>(0.07)</td>
</tr>
</tbody>
</table>

(1) Quarter ended December 31, 2015 comprised of two months.

Quarterly results will vary in accordance with the Corporation’s exploration, development, construction and financing activities. Historically, exploration and evaluation expenses, share-based compensation expenses, changes in the fair value of derivatives, foreign exchange variations and, to a lesser extent exploration and evaluation asset write-offs had the most significant impact on the Corporation’s quarterly results, followed by general and administrative expenses (which include exploration and evaluation expenses). Starting July 10, 2014, the Corporation commenced construction of the Renard Diamond Project, which is expected to continue up until the commencement of commercial production, which is planned for December 31, 2016, as per the re-baselined schedule. It is likely that the Corporation’s quarterly results will continue to fluctuate during the remaining construction period and during its commercial production. In connection with the Financing Transactions, the Corporation received US dollar proceeds from the Stream and the issuance of US dollar denominated convertible debentures, which have an embedded derivative that are revalued at each balance sheet date. Changes in the fair value of the derivative are recorded in the consolidated statements of loss and can reasonably be expected to affect the Corporation’s future quarterly results (see Notes 4 and 14 of the “Consolidated
Financial Statements”). Fluctuations in the Canadian dollar, which is the Corporation’s functional currency, against the US dollar will also continue to affect the Corporation’s quarterly results as a result of its cash and cash equivalents and liabilities denominated in US dollars as well as its revenues being denominated in US dollars.

LIQUIDITY AND CAPITAL RESOURCES

In July 2014, the Corporation completed the Financing Transactions which the Corporation anticipates will be sufficient to fund the estimated capital cost of the Renard Diamond project, meet its contractual obligations under the Financing Transactions and for general working capital purposes. Elements of the Financing Transactions require the Corporation to meet certain financial ratios, as well as positive and negative covenants.

A portion of the funding under the Financing Transactions is denominated in US Dollars, while most of the Corporation’s capital expenditures and operating expenses are in Canadian Dollars. The Corporation monitors this foreign exchange exposure and expects to sell or hedge any US denominated cash balances in excess of its estimated US dollar capital and operating requirements.

Should events or circumstances change, the Corporation may seek to issue additional equity, debt or alternative forms of financing to strengthen its liquidity and capital structure. As at December 31, 2015, the Corporation is not subject to any externally imposed capital requirements other than those contained in the debt agreements previously discussed.

Financing: Use of Proceeds Analysis

The initial estimated capital cost for mine construction at the Renard Diamond Project was $811 million, including contingencies and escalation. Subsequent to the eight-month period ended December 31, 2015, the project’s construction schedule was re-baselined with first ore delivery to the Renard diamond process now expected by the end of September 2016 and commercial production (60% of plant capacity achieved over 30 days) expected by December 31, 2016. This represents a five-month improvement on the previous schedule, which assumed commercial production in the second calendar quarter of 2017. The re-baselined schedule resulted in a commensurate reduction in the forecast cost to complete, from $811 million to $775 million. This re-baselined schedule takes into account an early commissioning of the processing plant, including the earlier hiring of certain personnel and associated construction cost savings. Underground development, preproduction net revenue, financing costs and general administrative costs, previously expected to occur during the last five months of the construction budget, are expected to remain as budgeted but will now fall after the commencement of commercial production and will no longer be capitalized to the cost of the project.

With the closing of the Financing Transactions on July 8, 2014, and the re-baselined schedule of construction, management believes that the Corporation has sufficient financial resources, subject to the satisfaction of certain covenants and conditions precedent under the Financing Transactions’ agreements, to complete the development of the Renard Diamond Project, and also to fund general working capital, interest and financing fees during the construction phase.
The following table presents the anticipated use of proceeds from the Financing Transactions and the Renard Mine Road loan.

<table>
<thead>
<tr>
<th>(all amounts expressed in millions of Canadian dollars)</th>
<th>Initial forecast</th>
<th>Revised forecast</th>
<th>Actual use of proceeds as at December 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Renard Diamond Project</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>811</td>
<td>775</td>
<td>486</td>
</tr>
<tr>
<td>Route 167 Extension [1]</td>
<td>70</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Loan Principal Repayments during Construction</td>
<td>19</td>
<td>17</td>
<td>6</td>
</tr>
<tr>
<td>Interest paid in cash during Construction</td>
<td>20</td>
<td>29</td>
<td>16</td>
</tr>
<tr>
<td>Debt Financing Costs and Stream Commitment Fee</td>
<td>19</td>
<td>17</td>
<td>12</td>
</tr>
<tr>
<td>Preproduction Net Revenue</td>
<td>(26)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Project Costs</strong></td>
<td>929</td>
<td>912</td>
<td>593</td>
</tr>
<tr>
<td><strong>General Corporate Purposes</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity fees and transaction costs</td>
<td>18</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>General working capital, administrative and salary expenses</td>
<td>14</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Mine tax duty refunds</td>
<td>-</td>
<td>(11)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td>961</td>
<td>942</td>
<td>627</td>
</tr>
</tbody>
</table>

[1] The total amount borrowed pursuant to the Renard Mine Road loan was $77 million, of which $70 million was used for construction of the Renard Mine Road and $7 million was used for civil works related to the airstrip. Costs related to the airstrip were included in the initial assumptions of the $811 million capital expenditures line in the table above.


As at December 31, 2015, the Corporation had current assets of $223.4 million to settle current liabilities of $69.9 million, resulting in working capital of $153.5 million (April 30, 2015 - $323.3 million).

At completion of construction, the Corporation currently forecasts excess funding in connection with its Renard Diamond Project of approximately $117 million comprised of $69 million of cash, undrawn debt facilities, receivables and expected mine tax credits, and $48 million of undrawn cost overrun facilities. This forecast assumes the attainment of commercial production by December 31, 2016, a project cost of $775 million (which includes assumed levels of escalation and contingencies), the satisfaction of all covenants and conditions precedent for future funding, and a CAD$:US$ exchange rate of $1.35 for unfunded US dollar denominated financing commitments. The above forecast excludes US$26 million of revenue previously forecast to fall within the pre-production period and which, given the acceleration of the expected date of commercial production, will now fall outside of the capital expenditure period. It further excludes the proceeds from the potential exercise of the Corporation’s outstanding warrants and share purchase options. As construction of the Renard Diamond Project progresses, this forecast is expected to change quarter to quarter based on the timing of expenditures and receipts, volatility in the CAD$:US$ exchange rate, and any change to the forecast cost of the project (see “Forward-Looking Statements” in this MD&A and the most recently filed Corporation’s AIF). Capital expenditures incurred during the two-month and eight-month periods were of $71.6 million and $289.9 million, respectively, with capital expenditures to date of $548.5 million having been incurred and committed against the total project cost.

Failure to obtain additional financing (if required) or failure to meet the covenants or satisfy all conditions precedent in any of the Corporation’s Financing agreements, which in turn prevents the Corporation from drawing on these facilities, could result in the delay or indefinite postponement of the development of the mine and related infrastructure at the Renard Diamond Project and ultimately the loss of the Corporation’s exploration and development properties, including the Renard Diamond Project.
The Corporation has no history of profitable operations and its present business is at the development stage. The Corporation has no source of operating cash flow and no assurance that additional funding will be available to it for further exploration and development of its projects when required. As such, the Corporation is subject to many risks common to such enterprises, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources, and a lack of revenues (see “Risks and Uncertainties”).

**COMMITMENTS AND OBLIGATIONS**

In the normal course of business, the Corporation enters into contracts that give rise to commitments. The following table summarizes the Corporation’s contractual obligations (see Notes 3 and 15 of the financial statements):

<table>
<thead>
<tr>
<th></th>
<th>Unsecured debt facilities (1)</th>
<th>Renard Obligations mine road debt facility</th>
<th>Leases, operating, and other commitments</th>
<th>Finance costs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year ending December 31, 2016</td>
<td>3,094</td>
<td>(2)</td>
<td>6,000</td>
<td>6,359</td>
<td>7,029</td>
</tr>
<tr>
<td>Year ending December 31, 2017</td>
<td>37,148</td>
<td>(2)</td>
<td>6,000</td>
<td>6,372</td>
<td>7,029</td>
</tr>
<tr>
<td>Year ending December 31, 2018</td>
<td>8,123</td>
<td>(2)(3)</td>
<td>6,000</td>
<td>6,372</td>
<td>7,029</td>
</tr>
<tr>
<td>Year ending December 31, 2019</td>
<td>7,546</td>
<td></td>
<td>6,000</td>
<td>6,219</td>
<td>7,029</td>
</tr>
<tr>
<td>Year ending December 31, 2020</td>
<td>6,973</td>
<td></td>
<td>6,000</td>
<td>6,053</td>
<td>7,029</td>
</tr>
<tr>
<td>Thereafter</td>
<td>13,873</td>
<td>67,450</td>
<td>2,766</td>
<td>116,099</td>
<td>29,869</td>
</tr>
<tr>
<td></td>
<td>76,757</td>
<td>97,450</td>
<td>34,141</td>
<td>151,244</td>
<td>58,753</td>
</tr>
</tbody>
</table>

(1) Unsecured debt facilities are comprised of unsecured debt facilities #1, unsecured debt facilities #2 and other unsecured debt facilities in the consolidated financial statements.

(2) Interest payments related to unsecured debt facilities #1 are payable 100% in cash or 50% in cash and 50% in the Corporation’s common shares, at the Corporation’s option, prior to commencement of commercial production. The assumption in the table above is that 100% is paid in cash in 2016 and 2017.

(3) Maturity of this debt will occur on the earlier of: i) closing of Tranche A of the Senior Secured Loan and ii) June 30, 2017. Upon closing of Tranche A of the Senior Secured Loan, the principal and all cumulated capitalized interest will be rolled over into the Senior Secured Loan facilities and therefore will be subject to the repayment schedule of the Senior Loan thereafter.

**Other Operating Commitments**

During the eight-month period ended December 31, 2015, the Corporation concluded a long-term contractual agreement for the supply of liquefied natural gas (“LNG”). The supply of LNG is scheduled to start concurrently with the commissioning of the power plant. The future minimum payments are based on the estimated minimum obligations over the term of the contractual agreement. The first delivery of LNG occurred in the first quarter of 2016.

**Impact and Benefits Agreement**

In March 2012, the Corporation entered into an impact and benefits agreement (the “Mecheshoo Agreement”) for the Renard Diamond Project with the Cree Nation of Mistissini and the Grand Council of the Crees (Eeyou Istchee)/Cree Regional Authority. The Mecheshoo Agreement is a binding agreement that will govern the long-term working relationship between the Corporation and the Cree parties during all phases of the Renard Diamond Project. It provides for training, employment and business opportunities for the Cree during project construction, operation and closure, and sets out the principles of social, cultural and environmental respect under which the project will be managed. The Mecheshoo Agreement includes a mechanism by which the Cree parties will benefit financially from the success of the project on a long term basis, consistent with the mining industry’s best practices for engagement with First Nations communities.
Royalty

The Renard Diamond Project is subject to a 2% royalty interest on diamond production (calculated as 2% of the actual gross selling price in Canadian dollars, minus the lesser of: 3% marketing costs and the actual diamond selling costs) and a 2% NSR on other mineral production.

Financing Costs

The Corporation and SDCI have agreed to pay a 1% per annum standby fee upon undisbursed amounts pursuant to each of the Stream and the COF and a 1.75% per annum standby fee is payable upon the undrawn principal amount of the Senior Secured Loan. A standby fee is also payable upon undisbursed amounts under the equipment finance facility. In addition, SDCI has agreed to pay an upfront fee of 2.75% of the Senior Secured Loan amount, 25% of which was paid on July 8, 2014 ($0.8 million) and the balance of which will be payable at the initial funding date of the Senior Secured Loan (anticipated to occur in 2016) and an arrangement fee pursuant to the terms of the equipment finance facility, 25% of which was paid at closing on July 25, 2014 ($0.4 million); the balance of $0.8 million was paid upon the first borrowing under the facility, which occurred in August 2014.

Financial Guarantee

SDCI is required to provide a financial guarantee to the Québec government of $15.2 million with respect to the Closure Plan for the Renard Diamond Project which was approved in December 2012. The first instalment of $7.6 million was satisfied in August 2014 by way of a surety bond. On August 2015, the surety bond was increased by $3.8 million and now stand at $11.4 million. The third instalment of $3.8 million is due in August 2016. In connection with the surety bond, SDCI provided cash collateral of $2.3 million to the underwriter of the surety bond. This amount is recorded in Other Financial Assets on the Consolidated Statements of Financial Position.

Other Commitments

As at December 31, 2015, SDCI has signed commitments of $55.5 million for the purchase of property, plant and equipment, of which, the vast majority is expected to be incurred in 2016.

OUTSTANDING SHARE CAPITAL

Stornoway’s authorized capital is an unlimited number of common shares. In certain circumstances, the Corporation may be required to issue common shares upon conversion of the Convertible Debentures (see Note 18 of the consolidated financial statements for the eight-month period ended December 31, 2015 for further details).

As at March 21, 2016, there were 733,187,206 common shares, 28,781,667 Stock Options and 122,664,900 warrants issued and outstanding.

Stock Option Plan

The maximum number of common shares issuable pursuant to the Corporation’s Stock Option Plan is 10% of the issued and outstanding common shares and non-voting convertible shares. On October 21, 2014, the Corporation’s shareholders approved the Stock Option Plan for a further three years.
As at March 21, 2016, the following stock options are outstanding:

<table>
<thead>
<tr>
<th>Range of Exercise Prices</th>
<th>Number of Options Outstanding</th>
<th>Weighted Average Exercise Price (per share/option)</th>
<th>Weighted Average Remaining Contractual Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.51–$0.71</td>
<td>24,616,667</td>
<td>0.70</td>
<td>3.4 years</td>
</tr>
<tr>
<td>$0.73–$1.04</td>
<td>4,065,000</td>
<td>0.92</td>
<td>2.5 years</td>
</tr>
<tr>
<td>$2.08–$2.50</td>
<td>100,000</td>
<td>2.19</td>
<td>0.5 years</td>
</tr>
<tr>
<td></td>
<td><strong>28,781,667</strong></td>
<td><strong>0.73</strong></td>
<td><strong>3.3 years</strong></td>
</tr>
</tbody>
</table>

As at March 21, 2016, the following warrants are outstanding:

<table>
<thead>
<tr>
<th>Number of Warrants</th>
<th>Exercise Price (per warrant)</th>
<th>Expiry Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>93,664,900</td>
<td>0.90</td>
<td>July 8, 2016</td>
</tr>
<tr>
<td>15,000,000</td>
<td>1.21</td>
<td>May 3, 2017</td>
</tr>
<tr>
<td>14,000,000</td>
<td>0.95</td>
<td>July 8, 2019</td>
</tr>
<tr>
<td><strong>122,664,900</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TRANSACTIONS WITH RELATED PARTIES**

The Corporation entered into the following arm’s length transactions with related parties not otherwise disclosed in these financial statements:

(i) For the year ended April 30, 2015, the Corporation received financing from Diaquem, RQ and their parent company Investissement Québec (“IQ”). For the eight-month period ended December 31, 2015, the Corporation incurred interest, commitment fees and standby fees of $3.7 million relating to this financing (April 30, 2015 –$5.9 million). In addition, for the year ended April 30, 2015, the Corporation reimbursed IQ for legal fees of $0.9 million incurred in connection with the Financing Transactions. Collectively, as at December 31, 2015, Diaquem, RQ and IQ own 28.7% of the Corporation’s issued and outstanding common shares and therefore have significant influence over the Corporation;

(ii) For the year ended April 30, 2015, the Corporation received financing from Orion. For the eight-month period ended December 31, 2015, the Corporation incurred interest and standby fees of $1.9 million (April 30, 2015 - $3.1 million) payable to Orion. In addition, for the year-ended April 30, 2015, the Corporation reimbursed Orion’s legal expenses of $1.7 million incurred in connection with the Financing Transactions. As at December 31, 2015, Orion owns 19.5% of the Corporation’s issued and outstanding common shares and US$20.5 million of the US$81.3 million Convertible Debentures issued and therefore has significant influence over the Corporation;

(iii) Between February 2012 and December 2014, a partner at Norton Rose Fulbright Canada LLP (“NRC”) served as the Corporation’s Corporate Secretary. For the year ended April 30, 2015, the Corporation incurred legal fees of $4.5 million payable to NRC; and

(iv) Between July 2011 and October 2014, a partner at Lavery de Billy served as a Director of the Corporation. For the year ended April 30, 2015, the Corporation incurred legal fees totalling $0.5 million payable to Lavery de Billy. Lavery de Billy represented CDPQ in connection with the Financing Transactions which closed on July 8, 2014. The Corporation paid CDPQ’s legal fees related to the Financing Transactions. These legal fees were paid directly to Lavery de Billy, rather than as a reimbursement to CDPQ.
CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to apply accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. There is full disclosure of the Corporation's critical accounting policies and accounting estimates in notes 2 and 4 of the audited consolidated financial statements for the eight-month period ended December 31, 2015 and year-ended April 30, 2015.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation’s financial instruments consist of cash and cash equivalents, short-term investments, receivables, other financial assets, publicly traded securities, accounts payables and accrued liabilities, long-term debts, and convertible debentures. The Corporation’s financial instruments and risk management disclosure can be found in note 5 of the audited consolidated financial statements for the eight-month period ended December 31, 2015.

For the two and eight months ended December 31, 2015, no material changes were identified in respect of the Corporation’s risk management. Details of changes in financial instruments can be found on Note 5 of the audited consolidated financial statements.

RISKS AND UNCERTAINTIES

The Corporation’s securities should be considered a speculative investment and involves significant risks and prospective investors should carefully consider, in light of their own financial circumstances, the risk factors and all of the other information disclosed in the Corporation’s Canadian regulatory filings (available on SEDAR at www.sedar.com) prior to making an investment in the Corporation. If any of the events described in the risk factors below actually occur, our business, financial condition, prospects, results of operations or cash flow could be materially and adversely affected. The risks described herein and in other documents forming part of the Corporation’s disclosure record are not the only risks facing the Corporation. Additional risks and uncertainties not currently known to the Corporation, or that the Corporation currently deems immaterial, may also materially and adversely affect its business.

Operational Risks

There is a risk that the development of the Renard Diamond Project into commercial production will not be completed on time or on budget

The project development schedule is subject to the receipt of various permits in the ordinary course and the availability of the financing commitments when required. The development and construction schedule of the Renard Diamond Project mine is based on management’s current expectations and may be delayed by a number of factors, some of which are beyond the Corporation’s control. It is common in new mining operations to experience unexpected costs, problems and delays during construction, development and mine start-up. Most, if not all, projects of this kind suffer delays in start up and commissioning due to changes in plant design or mine plan, engineering or scope changes, delays in the procurement process of components, including process plant and mining equipment long lead items, the inadequate availability of skilled labour and mining equipment, adverse weather or equipment failures, the rate at which expenditures are incurred, delays in construction schedules, or delays in obtaining the required permits or consents. In addition, delays in the early stages of mineral production often occur. During this time, the economic feasibility of production may change.

Cost and progress to completion estimates for major projects, including the Renard Diamond Project, involve uncertainties and evolve in stages, resulting in risks associated with project cost estimates, progress to completion estimates and scheduling. Progress to completion estimates for the Renard
Diamond Project are dependent upon the Corporation’s ability to make an accurate assessment of a variety of factors, including engineering progress, quantities of materials required, timely achievement of milestones, labor productivity, scope or design changes and others. Such estimates are based on various professional judgments management makes with respect to those factors and are subject to change as the project proceeds and new information becomes available, including as a result of completion of detailed engineering work, the performance of additional studies and updates and adjustments to the project and plant design and/or mine plan. While cost, progress to completion and scheduling estimates are reviewed and revised during the construction period, there can be no assurances that these estimates are accurate. Capital and operating costs are estimates based on the interpretation of geological data, feasibility studies and other conditions, and there can be no assurance that they will prove to be accurate. The costs, timing and complexities of developing and operating the Renard Diamond Project may be significantly higher than anticipated, due to its location in a remote, undeveloped area and therefore the availability of infrastructure such as surface access, skilled labour, fuel and power at an economic cost, cannot be assured. Accordingly, actual costs and progress to completion can vary from current and future estimates, and these differences can be material. In addition none of our mineral properties have an operating history upon which we can base estimates of future operating costs.

Pursuant to the Purchase and Sale Agreement and the Senior Secured Loan Agreement, the payment of the remaining portion of the Deposit (D3) and the funding of the Senior Secured Loan, Tranche A will each be subject to the satisfaction of certain conditions precedent, including evidence that, at the relevant time, the Renard Diamond Project construction budget is reasonably within the scope of the funds available from the Financing Transactions. Accordingly, in the event that the costs of developing the Renard Diamond Project are higher than anticipated, certain proceeds of the Financing Transactions may not be available to the Corporation or SDCI, as applicable, in which case the Corporation would not have sufficient financing to meet the anticipated development expenditures required to advance the Renard Diamond Project to the commencement of commercial production and would need to seek additional sources of financing to finish the development and construction work. There is no assurance that additional sources of financing would be available, or available on commercially reasonable terms.

If there are delays in the construction or commissioning of the Renard Diamond Project or unanticipated increases in capital and operating costs, the Corporation may require additional third party financing or seek to complete further offerings of equity and/or debt securities to make required payments under its various credit facilities, to complete construction and commissioning of the Renard Diamond Project and to fund future working capital, capital expenditures, operating and exploration costs and other general corporate requirements.

The success and the pricing of any such capital raising and/or debt financing will be dependent upon the prevailing market conditions at that time and upon the ability of a company without a significant project already in production and with significant amounts of existing indebtedness to attract significant amounts of debt and/or equity. There is no assurance that such financing will be obtained or on terms satisfactory to the Corporation and, if raised by offering equity securities, any additional financing may involve substantial dilution to existing shareholders. Any lack of financing could result in the delay or indefinite postponement of further exploration and development of the Renard Diamond Project, which in turn would materially and adversely affect the financial and operating results of the Corporation and its subsidiaries and the market price of the Corporation’s securities and, ultimately, could result in the loss of its properties.
Accordingly, there is no assurance that the Renard Diamond Project will be brought into a state of commercial production on time or on budget.

Construction and Start-Up of New Mine
The development of the Renard Diamond Project requires the construction of significant new mining facilities. The success of construction projects, plant installations or expansions and the start-up of a new mine by the Corporation and its subsidiaries is subject to a number of risks and challenges including the availability and performance of engineering and construction contractors, suppliers and consultants, unforeseen geological formations, the implementation of new mining processes and process plant design with optimal rates of recovery and limited risk of diamond breakage or damage, the receipt of required governmental approvals and permits in connection with the construction of mining facilities and the conduct of mining operations, including construction, environmental and operating permits, price escalation on all components of construction and start-up, changes in engineering and plant or mine design adjustments or changes, the underlying characteristics, quality and unpredictability of the exact nature of mineralogy of a deposit and the consequent accurate understanding of ore or concentrate production, and the successful completion and operation of haulage ramp and conveyors to move ore and other operational elements. Any delay in the performance of any one or more of the contractors, suppliers, consultants or other persons on which the Corporation and its subsidiaries are dependent in connection with its construction activities, a delay in or failure to receive the required governmental approvals and permits in a timely manner or on reasonable terms, or a delay in the completion and successful functioning of the operational elements of a new mine could delay or prevent construction and start-up as planned and may result in additional costs being incurred by the Corporation and its subsidiaries beyond those budgeted. See “Risks and Uncertainties – There is a risk that the development of the Renard Diamond Project into commercial production will not be completed on time or on budget”. There can be no assurance that current or future construction and start-up plans implemented by the Corporation or its subsidiaries will be successful.

Lack of Operating History; New Mining Operations
None of the Corporation’s mineral properties have an operating history. Whether income will result from the Renard Diamond Project will depend on the successful establishment of new mining operations, including the construction and operation of a mine, processing plant and related infrastructure. As a result, the Corporation and its subsidiaries are subject to all of the risks associated with establishing new mining operations and business enterprises, including: the timing and cost, which can be considerable, of the construction of mining and processing facilities and related infrastructure; the availability and cost of skilled labour and mining equipment; delays in the procurement process of components, including process plant and mining equipment long lead items; the need to obtain necessary environmental and other governmental approvals and permits and the timing of the receipt of those approvals and permits; the availability of funds to finance construction and development activities; potential opposition from non-governmental organizations, environmental groups or local groups which may delay or prevent development activities; and potential increases in construction and operating costs due to changes in the plant design or mine plan, changes to detailed engineering work, changes to the cost of fuel, power, materials and supplies, as well as changes to labour and material requirements. Various factors, including the successful ramp-up of the Renard Diamond Project mine, costs, actual mineralization, consistency and reliability of ore grades, and commodity prices affect successful project development, future cash flow and profitability, and there can be no assurance that current or future estimates of these factors will reflect actual results and performance. The design and construction of efficient processing facilities with optimal rates of recovery and limited risk of diamond breakage or damage, the cost and availability of suitable machinery, supplies, mining equipment and skilled labour, the timely procurement of components,
including process plant and mining equipment long lead items, the existence of competent operational management and prudent financial administration, as well as the availability and reliability of appropriately skilled and experienced consultants also can affect successful project development. The operations of the Renard Diamond Project mine will rely on new infrastructure for hauling ore and materials to the surface. The depth of the operations could pose significant challenges to the Corporation and its subsidiaries, such as geomechanical risks and ventilation, which may result in difficulties and delays in achieving production objectives. It is common in new mining operations to experience unexpected problems and delays during construction, development, and mine start-up.

The costs, timing and complexities of developing the Renard Diamond Project may be significantly higher than anticipated due to its location in a remote, undeveloped area and therefore the availability of infrastructure such as surface access, skilled labour, fuel and power at an economic cost, cannot be assured. The costs, timing and complexities of developing the Renard Diamond Project may also be higher than anticipated if additional water treatment infrastructures or equipments or changes to mine plan are required as a result of water runoffs in higher quantities than anticipated or mining activities indicating a need to pump and discharge more water from the mineralized area than was initially expected, or indicating that water quality criteria are not met. Such factors can add to the cost of mine development, production and operation and/or impair production and mining activities, thereby affecting the Corporation’s profitability. See “Risks and Uncertainties – There is a risk that the development of the Renard Diamond Project into commercial production will not be completed on time or on budget”.

Pursuant to the Purchase and Sale Agreement and the Senior Secured Loan Agreement, the payment of the remaining portion of the Deposit (D3) and the funding of the Senior Secured Loan, Tranche A will each be subject to the satisfaction of certain conditions precedent, including evidence that, at the relevant time, the Renard Diamond Project construction budget is reasonably within the scope of the funds available from the Financing Transactions. Accordingly, in the event that the costs of developing the Renard Diamond Project are higher than anticipated, certain proceeds of the Financing Transactions may not be available to the Corporation and its subsidiaries, in which case it would not have sufficient financing to meet the anticipated development expenditures required to advance the Renard Diamond Project to the commencement of commercial production as described herein. Such a lack of financing could result in the delay or indefinite postponement of further exploration and development of the Renard Diamond Project, which in turn would materially and adversely affect the financial and operating results of the Corporation and its subsidiaries and the market price of the Corporation’s securities and, ultimately, result in the loss of its properties.

Accordingly, there is no assurance that the Corporation’s mineral properties, including, without limitation, the Renard Diamond Project, will ever be brought into a state of commercial production or that its activities will result in profitable mining operations.

**Uncertainty of Mineral Resources**

The Mineral Resources for the Renard Diamond Project are prepared in accordance with NI 43-101. In this context, Mineral Resources are estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Mineral Reserves at the Renard Diamond Project have been determined to be economic ore in the context of the 2011 Feasibility Study and the Optimization Study, in accordance with NI 43-101. Market fluctuations and diamond prices may render the Mineral Reserves or Mineral Resources uneconomic. Moreover, short-term operating factors relating to the diamond deposits, such as the need for orderly development of the deposits or the processing of new or different grades of diamonds, may cause any mining operation to be unprofitable in any particular accounting period. The Corporation’s ability to
put the Renard Diamond Project into production will be dependent upon satisfaction of all regulatory requirements, including obtaining various permits, the completion, effectiveness, availability or funding of each of the remaining portions of the Deposit for the Forward Sale of Diamonds, the Senior Secured Loan, the COF and the Equipment Facility or the Corporation’s ability to complete alternative financings to raise the funds required to pay for the construction of the mine, processing plants and related infrastructure. In addition, the Corporation and its subsidiaries are and will continue to be subject to all of the risks associated with establishing new mining operations, including construction risks and its overall feasibility. See “Risks and Uncertainties – Lack of Operating History; New Mining Operations”.

There is no certainty that expenditures made in the exploration of the Corporation’s mineral properties will result in identification of commercially recoverable quantities of ore or that ore reserves will be mined or processed profitably. Such assurance will require completion of final comprehensive feasibility studies and, possibly, further associated exploration and other work that concludes a potential mine at each of these projects is likely to be economic. In addition, substantial expenditures and time are required to establish Mineral Reserves through drilling and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major diamond deposit, no assurance can be given that diamonds will be discovered in sufficient quantities to justify commercial operations or that necessary approvals and permits, and funds required for development, can be obtained on a timely basis.

**Mineral Exploration and Development Activities Inherently Risky**
The business of exploration for minerals and mining involves a high degree of risk that even a combination of experience, knowledge and careful evaluation may not be able to overcome. Few properties that are explored are ultimately developed into mineral deposits with significant value. Unusual or unexpected ground or water conditions, geological formation pressures, fires, rock bursts, power outages, labour disruptions, flooding, earthquakes, explosions, explorations, cave-ins, landslides, mechanical equipment and facility performance problems, and the inability to obtain suitable adequate machinery, equipment or labour and other unfavourable operating conditions are other risks involved in the operation of mines and the conduct of exploration and development programs. There are also physical risks to the exploration personnel working in the rugged terrain of remote parts of Canada, often in difficult climate conditions. The Corporation’s exploration properties and any future mining operations will be subject to all the hazards and risks normally incidental to exploration, development and production of diamonds and other metals, any of which could result in work stoppages and damage to or destruction of exploration facilities, mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damage. Although the Corporation and its subsidiaries maintain liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation or its subsidiaries could incur significant costs that could have a materially adverse effect upon their financial condition. The remoteness and restrictions on access of certain of the properties in which the Corporation and its subsidiaries have an interest could have an adverse effect on profitability in that infrastructure costs would be higher.

In addition, exploration activities may have caused environmental damage at certain of the Corporation’s properties. It may be difficult or impossible to assess the extent to which such damage was caused by the Corporation and its subsidiaries or by the activities of others, in which case, any indemnities and exemptions from liability may be ineffective.

**Diamond Exploration and Development**
Diamond exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover diamond deposits but also from finding diamond deposits that, though present, are insufficient in terms of tonnage, grade or diamond value to return a profit from production.

With the exception of the Renard Diamond Project, the remaining claims, permits and leases in which the Corporation and its subsidiaries hold an interest are in the exploration stage only and are without a known body of commercial ore. The business of diamond exploration in remote parts of Canada can be a lengthy, time consuming, expensive process and involves a high degree of risk. Upon discovery of a diamond bearing kimberlite, the primary hostrock for diamonds, several stages of assessment are required before its economic viability can be determined. Assessment includes a determination of deposit size (tonnage), grade (carats/stone), diamond value (US$/carat) and the associated costs of extracting and selling the diamonds.

Development of the subject diamond properties would follow only if favorable results are obtained at each stage of assessment. Although the Corporation has reported recoveries of diamonds from material extracted from kimberlite occurrences on the Corporation’s properties, the amount of material extracted is small and continuity of the diamond content of the kimberlitic body is not assured and cannot be assumed. The development of a diamond mine in remote parts of Canada has typically taken between seven and ten years from its initial discovery. Few diamond deposits discovered are ultimately developed into producing mines. There is no assurance that the Corporation’s diamond exploration activities will result in any discoveries of commercial bodies of ore. The long-term profitability of the Corporation’s operations, and those of its subsidiaries, will in part be directly related to the costs and success of its exploration programs, which may be affected by a number of factors.

Regulations, Permits and Licenses
The Corporation’s operations are subject to various laws and regulations governing the protection of the environment. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a direction of stricter standards, and enforcement, and higher fines and penalties for non-compliance. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. The Corporation intends to fully comply with all environmental regulations.

The current operations of the Corporation and its subsidiaries as well as anticipated future operations, including further exploration, development activities and commencement of production at the Corporation’s mineral properties, including without limitation the Renard Diamond Project, require permits from various domestic authorities and such operations are governed by laws and regulations governing prospecting, development, mining, production, exports, taxes (including income and mining taxes), labour standards, occupational health, storage and disposal of hazardous substances and other wastes and materials, waste water discharges and water quality, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in exploration activities and in the development and operation of mines and related facilities, generally experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits.
The Corporation believes it is in substantial compliance with all material laws and regulations, which currently apply to its activities. There can be no assurance, however, that various permits which the Corporation and its subsidiaries may require in the normal course for its current and anticipated future operations and exploration activities, including, without limitation, further exploration, development activities and commencement of production at the Renard Diamond Project, will be obtainable on reasonable terms or on a timely basis or that such laws and regulations would not have an adverse effect on any mining project which the Corporation or its subsidiaries might undertake, including, without limitation, the Renard Diamond Project.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, including in respect of taxes, could have a material adverse impact on the Corporation and its subsidiaries and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining projects.

**There are risks associated with pursuing a blasthole shrinkage method with backfill to extract ore from the Renard Diamond Project mine**

The Corporation is considering the use of a blasthole shrinkage method with backfill to extract the Renard Diamond Project ore body from the range of alternate bulk mining methods available. The pursuit of this method to extract the ore body carries with it a certain degree of risk since it is characterized by the extraction of a massive volume of drilled and blasted kimberlite which could translate into the formation of a surface depression whose morphology depends on the characteristics of the mining, the rock mass properties and the topography of the ground surface.

Blasthole shrinkage mining can generally be applied on large and massive ore bodies with good geomechanical properties, unlike the caving methods. To minimize the risks associated with unplanned failure of the ore body during the mining process, a panel retreat sequence approach has been applied in the strategy, consequently having a positive effect on the workers safety. A major challenge at the mine design stage is to predict the amount of external dilution coming from the exposed walls at the periphery of the ore body and from the waste backfill involved in the mining process.

The pursuit of this mining strategy involves the creation of underground tunnels down to a production level where the overlying rock, broken using drilling and blasting methods from drill levels located above, flows downward into drawpoints to be gathered and taken away for processing.

Certain of the core geotechnical risks associated with blasthole shrinkage with backfill are as follows:
- uncontrolled, dynamic, rock mechanic events or caving events resulting in rock burst, in airblasts, damage to draw points and/or other infrastructure; loss of control of cave propagation; and premature cave propagation to surface;
- undesirable wall failure in the periphery of the blasted ore and excessive waste backfill migration could result in a higher external dilution factor and a lower recovery factor affecting the project economics.
• wall and back failure in panels could also lead to a loss of productivity due to managing oversize blocks and hangups in the drawpoints.
• undesirable cave propagation outside or above the orebody such as a crown pillar resulting in potential flooding of the Renard Diamond Project mine with mud and/or water; impact to workforce safety; and surface damage; and
• a high level of concentrated surface subsidence on breakthrough resulting in surface damage safety hazards on the surface; and disruption of aquifers in the vicinity of the Renard Diamond Project mine.

The realization of any of these risks, assuming the blasthole shrinkage method with backfill is used, could have a material adverse impact on the progress of any extraction activities at the Renard Diamond Project mine. There can be no assurance that the Corporation would be successful in overcoming any of the above risks and/or the results associated with such risks as part of the extraction of the Renard Diamond Project mine.

Rock Mechanics and Hydrogeology
There are always unknown rock mechanics and hydrogeological conditions that cannot be predicted ahead of mining. These unknown conditions, such as faulting, zones of weak rock, or zones of unanticipated water inflow, may only be discovered during mining and may require significant changes to the mining plan. While additional lab testing to reduce uncertainty in some of the rock properties is planned by the Corporation, it is never possible to carry out enough drilling ahead of time to identify all of these potential risks.

Supplies, Infrastructure, Weather and Inflation
The Corporation’s property interests are located in remote, undeveloped areas and the availability of infrastructure such as road and surface access, skilled labour, fuel and power at an economic cost, cannot be assured. These are integral requirements for exploration, development and production facilities on mineral properties. Power may need to be generated on site. Due to the remoteness of its exploration projects, the Corporation and its subsidiaries are forced to rely heavily on air transport for the supply of goods and services. Air transport to and from remote regions in Canada is very susceptible to disruptions due to adverse weather conditions, resulting in unavoidable delays in planned programs and/or cost overruns.

When mining investment and activity in Canada is high, companies typically experience a shortage of experienced technical staff, and heavy demand for drillers, geophysical surveying crews and other goods (including process plant and mining equipment long lead items) and services needed by the mining community. Prices for goods and services will fluctuate in relation to the level of investment in the mining sector; it is reasonable to expect that increased demand could impact the Corporation’s future economic projections and competitiveness. An increased demand results in a meaningful increase in costs for these goods and services. Improvements in the economic conditions for the mining industry as a whole will typically result in increases to both the costs of planned exploration, development activities and operations, which must also be factored into economic models used in projections for future development and potential operations. Increased demand for and cost of goods or services could result in delays if goods or services cannot be obtained in a timely manner due to inadequate availability, and may cause scheduling difficulties due to the need to coordinate the availability of goods or services, any of which could materially increase project exploration, development and/or construction costs. These factors could have a material impact on the Corporation’s share price.

The Corporation and its subsidiaries are dependent upon its Renard Diamond Project
The Corporation expects any future mining operations at the Renard Diamond Project to account for all of the Corporation’s and its subsidiaries’ diamond production and to continue to account for all of its diamond production in the future unless additional properties are acquired or brought into production. Any adverse condition affecting the Renard Diamond Project could be expected to have a material adverse effect on the Corporation’s financial performance, as well as that of its subsidiaries, and results of operations until such time as the condition is remedied. In addition, the Corporation’s ongoing development of the Renard Diamond Project mine involves the exploration and extraction of ore from new areas and may present new or different challenges for the Corporation. Unless the Corporation and its subsidiaries can successfully bring into production another mine project or otherwise acquire profitable mineral properties before the end of the Renard Diamond Project’s mine life, the Corporation’s results of operations will be adversely affected. There can be no assurance that the Corporation and its subsidiaries will be able to expand the Mineral Reserves or the Mineral Resources of the Renard Diamond Project, or extend the reserve-based mine life of the Renard Diamond Project beyond 11 years. Further, there can be no assurance that Corporation’s current exploration and development programs will result in any new economically viable mining operations or yield new Mineral Reserves to replace and expand current Mineral Reserves.

Title Risk
Although the Corporation has exercised the usual due diligence with respect to determining title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Corporation’s mineral property interests may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. Surveys have not been carried out on all of the Corporation’s mineral properties. Therefore, depending on the laws of the jurisdiction in which such properties are situated, their existence and area could be in doubt.

FINANCING RISKS

The payment of the remaining portion of the Deposit under the Purchase and Sale Agreement for the Forward Sale of Diamonds and the funding of the Debt Financing Facilities (other than the Convertible Debentures) are conditional
The obligations of the Investors or the Purchasers, as the case may be, to pay the remaining portion of the Deposit under the Purchase and Sale Agreement and to provide funding under Debt Financing Facilities are subject to certain conditions precedent being satisfied. Although the Corporation and its subsidiaries have entered into the Definitive Agreements, there is no guarantee that all of the conditions to the payment of all or part of the remaining portion of the Deposit under the Purchase and Sale Agreement for the Forward Sale of Diamonds and of the funding of the Debt Financing Facilities (other than the Convertible Debentures) will be satisfied. Further, there is no certainty that FCDC will receive the remaining portion of the Deposit pursuant to the Purchase and Sale Agreement or that it will be able to meet its Subject Diamonds Interest delivery obligations thereunder. In addition, the Purchase and Sale Agreement and the Debt Financing Facilities contain a number of covenants and conditions, including certain financial covenants, which if not satisfied by the Corporation, SDCI or FCDC, as applicable, could result in FCDC being required to return non-offset portions of the Deposit to the Purchasers (with an applicable rate of interest from the payment date of the Deposit) or in the Debt Financing Facilities, to the extent then not fully drawn by the Corporation or SDCI, as applicable, no longer being available (at all, or until such breach is cured), or in the termination of the Debt Financing Facilities and acceleration of our debt.

In those circumstances, the Corporation, SDCI or FCDC, as applicable, will not have access to the aggregate proceeds from these financings but would only have access to the net proceeds from the
Equity Investment and the Convertible Debentures and any offset portions of the Deposit, in which case it would not have sufficient financing to meet the anticipated development expenditures required to advance the Renard Diamond Project to the commencement of commercial production as described herein. Such a lack of financing could result in the delay or indefinite postponement of further exploration and development of the Renard Diamond Project, which in turn would materially and adversely affect the financial and operating results of the Corporation and its subsidiaries and the market price of the Corporation’s securities and, ultimately, could result in the loss of its properties.

Once a significant portion of the Debt Financing Facilities are drawn, we will have a substantial amount of indebtedness which may adversely affect our cash flow and our ability to operate our business. Once a significant portion of the Debt Financing Facilities are drawn, we will have a significant amount of debt. The Corporation’s degree of leverage, particularly once a significant portion of the Debt Financing Facilities are drawn, could have adverse consequences for the Corporation and its subsidiaries, including: limiting the Corporation’s ability to obtain additional financing for working capital, capital expenditures, exploration and development, debt service requirements, acquisitions and general corporate or other purposes; restricting the Corporation’s flexibility and discretion to operate its business; having to dedicate a portion of the cash flows of the Corporation and its subsidiaries from future mining operations, if any, to the payment of interest on its indebtedness and not having such cash flows available for other purposes; exposing the Corporation and its subsidiaries to increased interest expense on borrowings at variable rates; limiting the Corporation’s ability to adjust to changing market conditions; placing the Corporation at a competitive disadvantage compared to its competitors that have less debt or greater financial resources; making the Corporation vulnerable in a downturn in general economic conditions; and making the Corporation unable to make expenditures that are important to its growth and strategies.

The ability of the Corporation to meet its debt service requirements will depend on its ability to generate cash in the future, which depends on many factors, including the financial performance of the Corporation, debt service obligations, the realization of financing activities, the identification of commercially recoverable quantities of ore or the profitable mining or processing of ore reserves and working capital and future capital expenditure requirements. There can be no assurance that the Corporation will generate cash flow in amounts sufficient to pay outstanding indebtedness or to fund any other liquidity needs.

Also, the ability of the Corporation to borrow funds in the future to make payments on outstanding debt will depend on the satisfaction of covenants, including certain financial covenants, in existing credit agreements and other agreements. In addition, the restrictive covenants contained in instruments governing our debt and to be contained in the Debt Financing Facilities, limit or will limit, as applicable, our operating flexibility and could prevent us from taking advantage of business opportunities. Our failure to comply with these covenants may result in an event of default. If such event of default is not cured or waived, we may suffer adverse effects on our operations, business or financial condition, including termination of the Debt Financing Facilities and acceleration of our debt. If such indebtedness were to be accelerated, there can be no assurance that the assets of the Corporation or SDCI, as applicable, would be sufficient to repay such indebtedness in full. See “Risks and Uncertainties – The Corporation, Ashton and SDCI provided guarantees and security under the Purchase and Sale Agreement and the Senior Secured Loan”.

The Purchase and Sale Agreement, the Credit Agreement and the COF contain restrictive covenants that limit our ability to operate our business.
The restrictive covenants within the Purchase and Sale Agreement, the Credit Agreement and the COF could have adverse consequences for the Corporation and its subsidiaries, including: limiting the Corporation’s ability to obtain additional financing for working capital, capital expenditures, exploration and development, debt service requirements, acquisitions and general corporate or other purposes; restricting the Corporation’s flexibility and discretion to operate its business; limiting the Corporation’s ability to adjust to changing market conditions; making the Corporation vulnerable in a downturn in general economic conditions; and making the Corporation unable to make expenditures that are important to its growth and strategies. The restrictive covenants in these financing agreements limit our operating flexibility and could prevent us from taking advantage of business opportunities.

Our failure to comply with these covenants may result in an event of default. If such event of default is not cured or waived, we may suffer adverse effects on our operations, business or financial condition, including FCDC being required to return non-offset portions of the Deposit to the Purchasers (with an applicable rate of interest from the payment date of the Deposit). In such a case, there can be no assurance that the assets of FCDC or SDCI (as guarantor) would be sufficient to repay any non-offset portions of the Deposit in full to the Purchasers.

The effectiveness, availability or funding of the remaining portion of the Deposit for the Forward Sale of Diamonds, the Senior Secured Loan, the COF and the Equipment Facility may be delayed as a result of the time required for the satisfaction of each such Financing Transaction’s conditions precedent, which may have adverse consequences on the Corporation’s business, financial condition or results of operations.

The completion, effectiveness, availability or funding of each of the remaining portion of the Deposit for the Forward Sale of Diamonds, the Senior Secured Loan, the COF and the Equipment Facility are subject to the receipt of, when required, regulatory approvals, and the satisfaction of each such Financing Transaction’s other required conditions precedent. There is no certainty, nor can the Corporation provide any assurance, that these conditions will be satisfied or, if satisfied, when they will be satisfied. A substantial delay in obtaining regulatory approvals or the imposition of unfavourable terms or conditions in the approvals could have a material adverse effect on the effectiveness, availability or funding of the remaining portions of the Deposit for the Forward Sale of Diamonds, the Senior Secured Loan, the COF and the Equipment Facility and on the Corporation’s business, financial condition or results of operations. The Corporation anticipates the effectiveness, availability or funding of each of the remaining portions of the Deposit for the Forward Sale of Diamonds, the Senior Secured Loan, the COF and the Equipment Facility to occur in accordance with the funding sequence described herein once each such Financing Transaction’s required conditions precedent, if any, have been met or waived. If the completion, effectiveness, availability or funding of each of the remaining portions of the Deposit for the Forward Sale of Diamonds, the Senior Secured Loan, the COF and the Equipment Facility does not take place as contemplated, the Corporation and its subsidiaries could suffer adverse consequences, including the loss of investor confidence, and the Corporation would not have sufficient financing to meet the anticipated development expenditures required to advance the Renard Diamond Project to the commencement of commercial production as described herein. Such a lack of financing could result in the delay or indefinite postponement of further exploration and development of the Renard Diamond Project, which in turn would materially and adversely affect the financial and operating results of the Corporation and its subsidiaries and the market price of the Corporation’s securities and, ultimately, result in the loss of its properties.

The failure of the Investors or the Purchasers, as the case may be, to pay their respective pro rata share of the remaining portion of the Deposit under the Purchase and Sale Agreement for the
Forward Sale of Diamonds or to provide funds pursuant to certain of the Debt Financing Facilities may have a material adverse effect on the Corporation’s business and results of operations
In the event that any one or more of the Investors or the Purchasers, as the case may be, defaults in its obligation to pay or fund, as applicable, its respective pro rata share of the remaining portion of the Deposit under the Purchase and Sale Agreement for the Forward Sale of Diamonds or of funds pursuant to certain of the Debt Financing Facilities, it may be necessary to renegotiate and restructure financing for the Renard Diamond Project and delay certain development expenditures required to advance the Renard Diamond Project. Any such failure by an Investor or Purchaser to contribute its pro rata share of a cash call could result in significant adverse effects on the Corporation and its subsidiaries, including increases in expenses, less advantageous financing terms, the delay and, potentially, indefinite postponement of further exploration and development of the Renard Diamond Project, which in turn would materially and adversely affect the financial and operating results of the Corporation and its subsidiaries and the market price of the Corporation’s securities and, ultimately, could result in the loss of its properties, including the Renard Diamond Project.

The Corporation, Ashton and SDCI provided guarantees and security under the Purchase and Sale Agreement and the Senior Secured Loan
The Senior Obligations are guaranteed and secured by certain guarantees and security granted by SDCI, the Corporation and Ashton.

Stornoway has a 100% interest in the Renard Diamond Project through its wholly-owned subsidiary, SDCI. The respective terms of the Forward Sale of Diamonds, entered into by FCDC a wholly owned subsidiary of SDCI, and of the Senior Secured Loan include various covenants, including certain financial covenants, that must be satisfied by SDCI. There can be no assurance that such covenants will be satisfied, or that FCDC will be able to meet its Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement. Any default under the Purchase and Sale Agreement or the Senior Secured Loan, including any covenants thereunder, could result in the loss of the Corporation’s entire interest in the Renard Diamond Project.

Variations in Interest Rates
The Senior Secured Loan will bear interest, at SDCI’s option, at either (i) a floating rate equal to the most common prime rate announced by Schedule I Canadian banks, plus (a) prior to Completion (Completion is expected to occur during 2017), 4.75% per annum, and (b) after Completion, 4.25% per annum, or (ii) subject to availability, at a fixed rate based on the then available Government of Québec bonds for any applicable periods plus (a) prior to Completion, 5.75% per annum, and (b) after Completion, 5.25% per annum. Variations in interest rates could result in significant changes in the amount required to be applied to debt service and would affect the financial results of operations of the Corporation and its subsidiaries. If SDCI does not earn sufficient income from the Renard Diamond Project to meet its debt service obligations under the Senior Secured Loan, the Trustee(s), for and on behalf of the Purchasers and the Senior Secured Lender and the counter-parties to permitted hedging agreements, could foreclose on the Corporation’s indirect ownership interest in the Renard Diamond Project. See “Risks and Uncertainties – The Corporation, Ashton and SDCI are providing a guarantee and security under the Purchase and Sale Agreement and the Senior Secured Loan”. Such risks could potentially be mitigated to the extent SDCI enters into permitted hedging agreements.

Foreign exchange risk
A significant part of the Financing Transactions will be funded in U.S. dollars while the majority of the Corporation’s expenses at the present time are denominated in Canadian dollars, including the anticipated development expenditures required to advance the Renard Diamond Project to the commencement of commercial production.
From time to time, there may be a time lag in converting funds from United States to Canadian dollars. During construction, the Corporation’s currency exposure relates to costs and obligations incurred by it being largely denominated in Canadian dollars. Any appreciation of the Canadian dollar against the U.S. dollar, therefore, will reduce the amount of Canadian dollar proceeds from any of the U.S. dollar funding raised as part of the Financing Transactions. Accordingly, decreases in the value of the U.S. dollar versus the Canadian dollar could materially affect the Corporation’s financial position, results of operations and ability to fund the capital cost of the Renard Diamond Project. Such risks could potentially be mitigated to the extent SDCI or the Corporation, as applicable, enters into permitted hedging agreements.

BUSINESS ENVIRONMENT AND INDUSTRY RISKS

Market for Diamonds
The mining industry, in general, is intensely competitive and there is no assurance that, even if the Renard Diamond Project is developed and produces commercial quantities of diamonds, a profitable market will exist for the sale of the diamonds produced. Factors beyond the control of the Corporation may affect the marketability of any diamonds or other minerals discovered. Pricing is affected by numerous factors beyond the Corporation’s control such as international economic and political trends, global or regional consumption and demand patterns, increased production and the influence of other diamond producers, especially due to the small concentration of producers and sellers within the market. Low or negative growth in the worldwide economy, renewed or additional credit market disruptions, natural disasters or the occurrence of terrorist attacks or similar activities creating disruptions in economic growth could result in decreased demand for luxury goods such as diamonds, thereby negatively affecting the price of diamonds. There is no assurance that the price of diamonds recovered from any diamond deposit will be such that they can be mined at a profit.
Marketability of Diamonds
The marketability of diamonds acquired or discovered by the Corporation and its subsidiaries may be affected by numerous factors which are beyond the control of the Corporation and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of processing facilities, processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, requirements for “value added” processing of rough diamonds in Canada and environmental protection, the combination of which factors may result in the Corporation and its subsidiaries not receiving an adequate return of investment capital if it goes into production.

Intensity of Competitive Conditions and Increased or New Competition
The mining industry is intensely competitive in all its phases, and some of the Corporation’s competitors have greater financial and technical resources available to them, and as a result, may be able to devote greater resources to their activities. Competition may intensify as new competitors enter into the markets in which the Corporation operates. Competition in the diamond mining industry is primarily for mineral rich properties which can be developed and produced economically and businesses compete for the technical expertise to find, develop, and produce such properties, the skilled labour to operate the properties and the capital for the purpose of financing development of such properties. Such competition may result in the Corporation being unable to acquire desired properties, recruit or retain qualified employees or acquire the capital necessary to fund its operations and develop its properties. The Corporation’s inability to compete with other mining companies for these mineral deposits or capital could have a material adverse effect on the Corporation’s results of operations and business.

Currency Fluctuations May Affect the Profitability of any Diamond Sales
The Corporation’s activities and offices are located in Canada. Diamonds are sold in international markets at prices denominated in U.S. dollars. The U.S. dollar is subject to fluctuation in value against the Canadian dollar. The Corporation and its subsidiaries do not utilize hedging programs to any degree to mitigate the effect of currency movements. See also “Risks and Uncertainties – Foreign Exchange Risk”.

MARKET RISKS

Price Volatility of Common Shares
The market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Corporation’s control, including the following:

- actual or anticipated fluctuations in the Corporation’s quarterly results of operations;
- changes in estimates of our future results of operations by us or securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Corporation;
- change of the Corporation’s executive officers and other key personnel;
- release or other transfer restrictions on outstanding Common Shares;
- sales or perceived sales of additional Common Shares;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Corporation or its competitors; and
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in the Corporation’s industry or target markets.
This volatility of the market price for the Common Shares may also affect the ability of holders of Warrants or Convertible Debentures to sell the Warrants or Convertible Debentures at an advantageous price.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Corporation’s operating results, underlying asset values or prospects have not changed.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Corporation’s environmental, governance and social practices and performance against such institutions’ respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Common Shares by those institutions, which could adversely affect the trading price of the Common Shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Corporation’s operations could be adversely impacted and the trading price of the Common Shares may be adversely affected. These broad market fluctuations may adversely affect the market prices of the Common Shares, the Warrants and the Convertible Debentures.

Orion, RQ, Diaquem and CDPQ will have significant influence with respect to matters put before the shareholders, which may have a negative impact on the trading price of the Common Shares

Based on public information available to it, the Corporation believes that (i) RQ and its affiliates (including Diaquem) owns 209,746,573 Common Shares, which in the aggregate represents approximately 28.61% of the issued and outstanding Common Shares, (ii) Orion owns 143,091,955 Common Shares, which in the aggregate represents approximately 19.52% of the issued and outstanding Common Shares, and (iii) CDPQ owns 44,724,660 Common Shares, which in the aggregate represents approximately 6.18% of the issued and outstanding Common Shares.

Assuming the COF Warrants are exercised by CDPQ in accordance with their terms and the Convertible Debentures are converted in accordance with their terms (absent a Change of Control event), and assuming the exercise of each of the Warrants, it is anticipated that (i) RQ and its affiliates (including Diaquem) would own 213,496,573 Common Shares, which in the aggregate would represent approximately 22.48% of the issued and outstanding Common Shares, (ii) Orion would own 166,221,820 Common Shares, which in the aggregate would represent approximately 17.51% of the issued and outstanding Common Shares, and (iii) CDPQ would own 58,724,660 Common Shares, which in the aggregate would represent approximately 6.18% of the issued and outstanding Common Shares.

In addition, pursuant to the Amended and Restated Investor Agreement entered into in connection with the Financing Transactions Closing, Orion is entitled to designate one (1) candidate for election or appointment to the Board of Directors as long as Orion maintains a fully diluted share ownership stake in Stornoway at or above 5%. Diaquem also has certain governance rights which were granted to it in connection with the Acquisition, as described under the heading “Election of Directors” in the Management Information Circular, which rights were restated in the Amended and Restated Investor Agreement.

Accordingly, these shareholders will have significant influence with respect to all matters submitted to the Corporation’s shareholders for approval, including without limitation the election and removal of
directors, amendments to the articles of continuance and by-laws of the Corporation and the approval of certain business combinations. Other holders of Common Shares will have a limited role in the Corporation’s affairs. This concentration of holdings may cause the market price of the Common Shares to decline, delay or prevent any acquisition or delay or discourage take-over attempts that shareholders may consider to be favourable, or make it more difficult or impossible for a third party to acquire control of the Corporation or effect a change in the Board of Directors and management. Any delay or prevention of a change of control transaction could deter potential acquirors or prevent the completion of a transaction in which the Corporation’s shareholders could receive a substantial premium over the then current market price for their Common Shares.

In addition, Orion, RQ, Diaquem and/or CDPQ’s interests may not in all cases be aligned with interests of the other shareholders of the Corporation. Orion, RQ, Diaquem and/or CDPQ may have an interest in pursuing acquisitions, divestitures and other transactions that, in the judgment of their management, could enhance their equity investment, even though such transactions might involve risks to the other shareholders of the Corporation and may ultimately affect the market price of the Common Shares.

**Future Sales or Issuances of Securities and Dilution to Shareholders**

The Corporation presently has no income from operations and finances its activities mostly from the issuance of common shares, warrants and/or other securities convertible into Common Shares. The Corporation cannot predict the size of future issuances of securities or the effect, if any, that future issuances and sales of securities will have on the market price of the Corporation’s securities. Sales or issuances of substantial numbers of Common Shares or warrants, or the perception that such sales could occur, may adversely affect prevailing market prices of the Common Shares or warrants and/or other securities convertible into Common Shares.

With any additional sale or issuance of Common Shares or warrants and/or other securities convertible into Common Shares, investors will suffer dilution to their voting power and the Corporation may experience dilution in its earnings per share.

**Future Sales of Common Shares by Existing Shareholders**

Subject to compliance with applicable securities laws, the Corporation’s officers, directors, significant shareholders (including Orion, RQ, Diaquem and CDPQ) and their affiliates may sell some or all of their Common Shares in the future. No prediction can be made as to the effect, if any, such future sales of Common Shares will have on the market price of the Common Shares prevailing from time to time. However, the future sale of a substantial number of Common Shares by the Corporation’s officers, directors, significant shareholders and their affiliates, or the perception that such sales could occur, could adversely affect prevailing market prices for the Common Shares.

**Structural Subordination of the Common Shares**

In the event of a bankruptcy, liquidation or reorganization of the Corporation, holders of certain of its indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets of the Corporation before any assets are made available for distribution to the shareholders. The Common Shares will be effectively subordinated to most of the other indebtedness and liabilities of the Corporation. The Corporation is limited in its ability to incur additional indebtedness pursuant to the terms of the various financing agreements, including the Purchase and Sale Agreement and the Senior Secured Loan Agreement.
OTHER RISKS

Dependence on Management and Key Personnel
The Corporation is very dependent upon the personal efforts and commitment of its existing management, the loss of any one of whom could have a material adverse effect on the Corporation’s business, results of operations and financial condition. To the extent that management’s services would be unavailable for any reason, a disruption to the operations of the Corporation could result, and other persons would be required to manage and operate the Corporation.

The success of the Corporation depends, to a significant extent, on its ability to develop skills, to retain managers and qualified mining personnel, and to recruit and integrate additional managers and qualified mining personnel. Human resource risk includes the risk of delays in the recruitment of or inability to retain and motivate experienced managers and skilled mining personnel that are essential to success. There is no assurance that the Corporation will be successful in recruiting, integrating and retaining such managers and mining personnel as needed to accompany its planned operations. The failure to retain or attract a sufficient number of skilled and experienced managers and mining personnel could have a material adverse effect on the Corporation’s business, results of operations and financial condition.

Tax Risk
The Corporation and its subsidiaries are subject to routine tax audits by various tax authorities. Future tax audits may result in additional tax and interest payments, including in respect of potential indemnification obligations to third parties for taxes which may be payable by them, which could negatively affect our financial condition and operating results. Changes in tax rules and regulations or the interpretation of tax laws by the courts or the tax authorities may also have a substantial negative impact on the Corporation’s and its subsidiaries’ business.

Insurance Risk
The mining industry is subject to significant risks that could result in damage to or destruction of property and facilities, personal injury or death, environmental damage and pollution, delays in production, expropriation of assets and loss of title to mining claims. No assurance can be given that insurance to cover the risks to which the Corporation’s activities are subject will be available at all or at commercially reasonable premiums. The Corporation and its subsidiaries currently maintain insurance within ranges of coverage that it believes to be consistent with industry practice for companies of a similar stage of development. The Corporation and its subsidiaries carry liability insurance with respect to its exploration operations, but is not currently covered by any form of environmental liability insurance, since insurance against environmental risks (including liability for pollution) or other hazards resulting from exploration and development activities is prohibitively expensive. The payment of any such liabilities would reduce the funds available to the Corporation and its subsidiaries. If the Corporation and its subsidiaries are unable to fully fund the cost ofremedying an environmental problem, it might be required to suspend operations or enter into costly interim compliance measures pending completion of a permanent remedy.

Forward-Looking Statements may Prove Inaccurate
Investors are cautioned not to place undue reliance on forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on
the risks, assumptions and uncertainties are found in this AIF under the heading “Cautionary Statement Regarding Forward-Looking Statements”.

**Internal Control Over Financial Reporting**
The Corporation is required to maintain internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its financial statements for external purposes. If the Corporation fails to maintain effective internal controls over financial reporting and disclosure controls and procedures, its business and results of operations could be harmed and it may be unable to report properly or timely the results of its operations. Ineffective internal control over financial reporting may also increase the risk of, or result in, fraud or misuse of corporate assets or lead to a default under one or more of the agreements forming part of the Financing Transactions. The effectiveness of the Corporation’s control and procedures could also be limited by simple errors or faulty judgments. Any such result could cause investors to lose confidence in the Corporation’s reported financial information, which could have a material adverse effect on the trading price or market value of the Corporation’s securities and its ability to raise capital.

**No Current Plans to Pay Cash Dividends**
The Corporation has no current plans to pay any cash dividends for the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of the Board of Directors and will depend on, among other things, the Corporation’s financial results, cash requirements, contractual restrictions and other factors that the Board of Directors may deem relevant. In addition, the Corporation’s ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness that the Corporation or its subsidiaries incur. As a result, investors may not receive any return on an investment in the Corporation’s securities unless they sell the securities for a price greater than that which they paid for them.

**Conflicts of Interest**
The Corporation’s directors and officers may serve as directors or officers, or may be associated with other reporting companies or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Corporation or its subsidiaries may participate, the directors and officers of the Corporation may have a conflict of interest in negotiating and concluding terms respecting the transaction. If a conflict of interest arises, the Corporation will follow the provisions of the CBCA dealing with conflicts of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Corporation’s directors, disclose his interest and refrain from voting on the matter unless otherwise permitted by the CBCA. In accordance with the laws applicable to the Corporation, the directors and officers of the Corporation are required to act honestly, in good faith and in the best interests of the Corporation.

**Information Systems Security Threats**
The Corporation relies on secure and adequate operations of information technology systems in the conduct of its operations. Access to and security of the information technology systems are critical to the Corporation’s operations. These systems are subject to disruption, damage or failure from a variety of sources, including, but not limited to, cable cuts; damage to physical plants; natural disasters; terrorism; fire; power loss; hacking, cyber-attacks and other information security breaches; non-compliance by third party service providers; computer viruses; vandalism and theft. The Corporation’s operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, information technology systems and software. The systems that are in place may not be enough to guard against loss of data due to the rapidly evolving cyber threats. The Corporation may be required to increasingly invest in better systems, software, and use of consultants to periodically
review and adequately adapt and respond to dynamic cyber risks or to investigate and remediate any security vulnerabilities. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. Failures in our information technology systems could translate into operational delays, compromising, loss or disclosure of confidential, proprietary, personal or sensitive information and third party data, or destruction or corruption of data. Accordingly, any failure of information systems or a component of information systems could adversely impact the Corporation’s reputation, business, financial condition and results of operations, as well as compliance with its contractual obligations, compliance with applicable laws, and potential litigation and regulatory enforcement proceedings. Information technology systems failures could also materially adversely affect the effectiveness of the Corporation’s internal controls over financial reporting.

**DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Chief Executive Officer (“CEO”) and the Vice-President Finance, acting as Chief Financial Officer (“CFO”), are responsible for establishing and maintaining disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”), as defined in National Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings (“NI 52-109”) based on the Internal Control – Integrated Framework (2013) developed by COSO (Committee of Sponsoring Organizations of the Treadway Commission).

DC&P are designed to provide reasonable assurance that material information relating to the Corporation is made known to the CEO and CFO during the reporting period and the information required to be disclosed by the Corporation under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Due to the inherent limitations associated with any such controls and procedures, management recognizes that, no matter how well designed and operated, they may not prevent or detect misstatements on a timely basis.

The Corporation’s management, under the supervision of, and with the participation of, the CEO and the CFO, has evaluated its DC&P and ICFR as defined under 52-109 and concluded that, as of December 31, 2015, they were designed and operating effectively to provide reasonable assurance regarding required disclosures and the reliability of financial reporting and the preparation of financial statements for external purposes.

NI 52-109 also requires Canadian public companies to disclose in their MD&A any change in ICFR that has materially affected, or is reasonably likely to materially affect, ICFR. No material changes were made to the internal controls during the eight-month period ended December 31, 2015.

**CAUTIONARY NOTE TO UNITED STATES INVESTORS CONCERNING ESTIMATES OF MEASURED, INDICATED AND INFERRED RESOURCES**

This MD&A uses the terms “Measured”, “Indicated” and “Inferred” Mineral Resources. United States investors are advised that while such terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission (“SEC”) does not recognize them. “Inferred Mineral Resources” have a great amount of uncertainty as to their existence and as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies. United States investors are cautioned not to assume that all or any part of Measured or Indicated Mineral Resources will ever be converted into Mineral Reserves. United States
investors are also cautioned not to assume that all or any part of an Inferred Mineral Resource exists, or is economically or legally mineable.

FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking information" within the meaning of Canadian securities legislation. This information and these statements, referred to herein as “forward-looking statements", are made as of the date of this press release 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 include, among others, statements with respect to Stornoway’s objectives for the ensuing year, Stornoway’s medium and long-term goals, and strategies to achieve those objectives and goals, as well as statements with respect to Stornoway’s beliefs, plans, objectives, expectations, anticipation, estimates and intentions. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Forward-looking statements relate to future events or future performance and reflect current expectations or beliefs regarding future events and include, but are not limited to, statements with respect to: (i) the amount of 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 grades, average ore recovery, internal dilution, mining dilution and other mining parameters set out in the 2011 Feasibility Study or the Optimization Study; (v) assumptions relating to gross revenues, operating cash flow and other revenue metrics set out in the 2011 Feasibility Study or the Optimization Study; (vi) mine expansion potential and expected mine life; (vii) expected time frames for completion of permitting and regulatory approval related to construction activities at the Renard Diamond Project; (viii) the expected time frames for the completion of the open pit and underground mine at the Renard Diamond Project; (ix) the expected time frames for the completion of construction, start of mining and commercial production at the Renard Diamond Project and the financial obligations or costs incurred by Stornoway in connection with such mine development; (x) future exploration plans; (xi) future market prices for rough diamonds; (xii) the economic benefits of using liquefied natural gas rather than diesel for power generation; (xiii) sources of and anticipated financing requirements; (xiv) the effectiveness, funding or availability, as the case may require, of the Stream, the Senior Secured Loan, the COF and the Equipment Facility and the use of proceeds therefrom; (xv) the Corporation’s expectations regarding receipt of the remaining deposit under the Stream and its ability to meet its delivery obligations thereunder; (xvi) the impact of the Financing Transactions on the Corporation’s operations, infrastructure, opportunities, financial condition, access to capital and overall strategy; (xvii) the foreign exchange rate between the US dollar and the Canadian dollar; and (xviii) the availability of excess funding for the construction and operation of the Renard Diamond Project. 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 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) receipt of regulatory approval on acceptable terms within commonly experienced time frames; (iv) anticipated timelines for completion of construction, commencement of mine production and development of an open pit and underground mine at the Renard Diamond Project, which heavily depends, among other things, on adequate availability and performance of skilled labour, engineering and construction personnel, performance of mining and construction equipment and timely delivery of components; (v) anticipated geological formations; (vi) market prices for rough diamonds and the potential impact on the Renard Diamond Project; (vii) the satisfaction or waiver of all conditions under each of the Stream, the Senior Secured Loan, the COF and the Equipment Facility to allow the Corporation to draw on the funding available under those financing elements for the completion of the development and construction of the Renard Diamond Project; (viii) Stornoway’s interpretation of the geological drill data collected and its potential impact on stated Mineral Resources and mine life; (ix) future exploration plans and objectives; (x) the receipt of the remaining deposit under the Stream and the Corporation’s ability to meet its delivery obligations thereunder; and (xi) the continued strength of the US dollar against the Canadian dollar. Additional risks are described in Stornoway’s most recently filed Annual Information Form, annual and interim MD&A, and other disclosure documents available under the Corporation’s profile at: www.sedar.com.

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, anticipated outcomes, 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, kimberlite lithologies and country rock content within the material identified as Mineral Resources from that predicted; (ii) variations in rates of recovery and 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 and operating 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) changes in project parameters as plans continue to be refined; (xiii) risks relating to the receipt of regulatory approval or the implementation of the existing Impact and Benefits Agreement with aboriginal communities; (xiv) the effects of competition in the markets in which Stornoway operates; (xv) operational and infrastructure risks; (xvi) execution risk relating to the development of an operating mine at the Renard Diamond Project; (xvii) failure to satisfy the conditions to the effectiveness, funding or availability, as the case may require, of each of the Stream, the Senior Secured Loan, the COF and the Equipment Facility; (xviii) changes in the terms of the Stream, the Senior Secured Loan, the COF or the Equipment Facility; (xix) the funds of the Stream, the Senior Secured Loan, the COF or the Equipment Facil...
Facility not being available to the Corporation; (xx) the Corporation being unable to meet its delivery obligations under the Stream; (xxi) future sales or issuance of Common Shares lowering the Common Share price and diluting the interest of existing shareholders; and (xxi) the additional risks described in Stornoway's most recently filed Annual Information Form, annual and interim MD&A 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 unforeseeable, new risks may arise from time to time.