The following management discussion and analysis (“MD&A”) of the Corporation’s financial condition and results of operations for the year ended December 31, 2016 should be read in conjunction with the audited consolidated financial statements (“financial statements”) for year ended December 31, 2016, and the eighth-month period ended December 31, 2015 and for the 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, in 2015, Stornoway changed its fiscal year-end from April 30th to December 31st. As a result, information contained in the consolidated statements of income (loss), the consolidated statements of comprehensive income (loss), the consolidated statements of changes in equity, the consolidated statements of cash flows, and any corresponding notes thereto pertain to the year ending December 31, 2016, the eight-month year ending December 31, 2015 and the year ending April 30, 2015. 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 David Farrow, Pr.Sci.Nat (South Africa) and P.Geo. (BC), Vice President Diamonds, both Qualified Persons (“QP”) under National Instrument 43-101 – Standards of Disclosure for Mineral Projects (“NI 43-101”).

The Board of Directors approved this MD&A on February 21, 2017.
OVERVIEW

Stornoway is a Canadian diamond mining Corporation listed on the Toronto Stock Exchange (“TSX”) and headquartered in Longueuil, Québec. Stornoway’s principal focus is its 100% owned Renard Diamond Mine located in north-central Québec. Stornoway formally declared commercial production at Renard effective January 1st, 2017. 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. 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 million\(^1\), which after deducting financing and transaction expenses of $27 million paid on the closing date, resulted in net proceeds of $431 million. The Corporation commenced borrowing under its equipment finance facility in August 2014. Funding of US$250 million from the Stream were received in three tranches, the first and second tranches totalling US$80 million each and the third tranche totalling US$90 million, were received on March 31, 2015, September 30, 2015 and, March 30, 2016 respectively (Note 15 of the Consolidated Financial Statements). In addition, prior to their expiry on July 8, 2016, 91,912,732 common share purchase warrants, representing 97.5% of the warrants issued on July 8, 2014, were exercised at a price of $0.90 per share for total proceeds to the Corporation of $82.7 million. These funds received were used to support the completion of the construction of the Renard Mine. The senior secured loan remains available to the Corporation upon satisfaction of certain conditions precedent and the Corporation expects to draw on this facility in 2017. Subsequent to year end, the Corporation terminated the Cost Overrun Facility agreement and has expensed all related deferred transaction costs.

Mine construction at the Renard Diamond Project commenced on July 10, 2014. In February 2016, the project’s construction schedule was re-baselined with first ore delivery to the Renard diamond process plant expected prior to the end of September 2016 and commercial production (60% of plant capacity achieved over 30 days) expected on or about December 31, 2016. This represented a five-month improvement on the previous schedule, which assumed commercial production in the second quarter of 2017. The re-baselined schedule (the “Plan”) resulted in a commensurate reduction in the forecast cost to complete, from $811 million to $775 million. First ore processing was achieved on July 15\(^{th}\), a 10 week improvement on the re-baselined schedule and the commencement of commercial production was formally declared January 1, 2017.

\(^1\) As at July 8, 2014, CAD$:US$ conversion rate of $1.0674
The Renard Diamond Mine was officially opened on October 19, 2016 at a ceremony held in the presence of local and regional dignitaries, current and former staff members, project stakeholders and community members;

Following the commencement of ore processing on July 15, 2016, Commercial Production was formally declared effective January 1, 2017. The attainment of Commercial Production marks the end of the project’s initial capital expense period;

Total project costs at December 31, 2016 totalled $771.2 million, or 99% of budget. $2.8 million of costs have been deferred to 2017, giving a final cost to complete estimate of $774 million, $37 million below the initial capital budget established in July 2014;

As previously release on February 6, 2017, 2,074,827 tonnes of open pit ore were mined in FY2016, with 399,162 tonnes processed, increases of 136% and 77% respectively over plan;

In FY2016, 448,887 carats were recovered at an attributable grade of 112 carats per hundred tonnes (“cpht”), increases of 106% and 15% respectively over plan;

The first sale of Renard Diamonds was held during November in Antwerp in Belgium. In total, 38,913 carats were sold at an average price of US$195 per carat, for proceeds of $10.2 million (US$7.6 million) representing un-budgeted pre-production revenue;

For the three months ended December 31, 2016, the Corporation reported a net income of $52.0 million or $0.06 earnings per share basic and $0.05 fully diluted, and for the year ended December 31, 2016, it reported net income of $19.6 million or $0.03 earnings per share basic and fully diluted;

Cash, cash equivalents and short-term investments stood at $86.0 million. At the end of construction, total financial liquidity, comprising cash, receivables and expected mine tax credits, and available credit facilities, stood at $165 million assuming the satisfaction of all covenants and conditions precedent relating to future funding commitments and a CAD$:US$ conversion rate of $1.25. The above calculation excludes an additional $48 million of Cost Overrun Facility that was terminated subsequent to the year-end.

OPERATIONS HIGHLIGHTS

Environment, Health, Safety and Communities

Three lost time incidents (“LTI”) were recorded during the quarter. The project lost time incident (“LTI”) rate for FY2016 was 1.5 for Stornoway employees, and 1.7 for contractors. The project-to-date LTI rate stands at 0.9 for Stornoway employees and 1.8 for contractors.

No incidences of environmental non-compliance were recorded during the quarter and year to date. Two incidences of non-compliance have been recorded during the project to date.

Daily manpower at site in December averaged 278 workers, of which 19.1% were Crees of the Eeyou Istchee. Stornoway employees stood at 429 as at December 31, 2016, including 379 from the on-site development team, of which 16% were Crees, 24% were from Chibougamau and Chapais, and 60% were from outside the region.
Declaration of Commercial Production and Completion of Construction

Commercial Production at Renard is defined as an average processing rate of 60% of plant name-plate capacity over a 30 day period. This was achieved on December 3, 2016, with an average processing rate of 4,120 tonnes per day over the preceding 30 day period compared to a name-plate capacity of 6,000 tonnes per day. Stornoway formally declared commercial production on the first day of the month following the month in which it is achieved, which was January 1, 2017. The company expects to continue the ramp-up of the process plant to full production over the next two quarters.

The attainment of Commercial Production marked the end of the project’s initial capital expense period. Total project costs at December 31st totalled $771.2 million, or 99% of budget. $2.8 million of costs related principally to the fresh air raise for the underground mine will be incurred in 2017, giving a final cost to complete estimate of $774 million, $37 million below the initial capital budget established in July 2014.

Mining and Processing

For the year ended December 31, 2016, Stornoway extracted a total of 7,840,130 tonnes of ore, waste and overburden from the Renard 2- Renard 3 and Renard 65 open pits, compared to a plan of 6,339,501 tonnes (+24%). 2,074,827 tonnes of ore were mined compared to a plan of 879,641 tonnes (+136%).

At year end, a total of 1,842,068 tonnes of ore have been delivered to the stockpile compared to a plan of 735,898 tonnes (+150%), excluding an additional 63,243 tonnes of non-resource Renard 3 material.

During 2016 2,729 meters of development was completed in the underground mine, compared to a plan of 2,768 meters (-1%). At year-end total development in the underground mine stood at 3,616 meters, or 99% of the plan. There has been no recurrence of the water inflow issues that slowed ramp development towards the end of 2015. The Renard 2 kimberlite was intersected at the 160 meter level on December 4, 2016 and by year end 117 meters of development within ore had been completed in good ground conditions.

Ore processing commenced on July 15th 2016. By year-end, a total of 399,162 tonnes of ore had been processed with carat production of 448,887 carats, compared to a plan of 218,400 carats (+106%). The attributable grade was 112 cpht compared to a plan of 97 cpht (+15%). The higher tonnage of ore processed was due to the earlier than expected availability of the plant, and the higher grade was due to a better than expected mix of ore units available in the Renard 2-3 open pit.

Sales

Stornoway’s first diamond sale occurred between November 14th-23rd, 2016 in Antwerp, Belgium. In total, 38,913 carats were sold at an average price of US$195 per carat, for proceeds of $10.2 million (US$7.6 million). The diamonds sold in this first sale represent a portion of our production recovered during the initial commissioning and ramp-up of the Renard project during August and September 2016. Recent events in India surrounding demonetization impacted pricing and demand for certain smaller and lower quality items, as a result, a quantity of these were withdrawn from the sale. Because of this, and because of a higher than expected proportion of small diamonds recovered during the ramp-up period attributable, in part, to plant-induced diamond breakage, the result of this first sale cannot be taken as representative of the longer term pricing profile of the project.

Two additional tender sales of Renard diamonds have occurred subsequent to the year end, with a third scheduled prior to the end of the first quarter of 2017.
EXPLORATION UPDATE

Stornoway conducts exploration programs on 100% owned generative Canadian diamond projects, and maintains a number of non-material, grass-roots exploration properties, including the Adamantin project in Quebec. The Adamantin property comprises 28,169 hectares of claims in three blocks, located approximately 100 km south of the Renard Diamond Mine and 25 km west of the Route 167 Extension road. Indicator mineral till sampling during 2015 identified promising results, including a diamond in the +0.25mm-0.50mm size fraction. An initial exploratory drill program in March and April of 2016 discovered 11 discrete kimberlite bodies at Adamantin. No diamonds were recovered from available kimberlite material, and unsourced indicator mineral anomalies remain on the property. Further till sampling and geophysical surveys undertaken in 2016, have identified additional targets of interest. In January 2017, Stornoway’s board of directors approved a 2017 budget allocation of up to $2.0 million at the Adamantin Project, including additional drilling. This work will commence in March 2017.

In addition to the Renard Diamond Mine, Stornoway maintains interests in two advanced exploration stage properties those being a 90% interest in the Aviat Project in Nunavut, and a 20% interest in the Timiskaming Project in Ontario.

Subsequent to the year-end, on February 16, 2017, the Corporation completed a property purchase agreement with North Arrow under which North Arrow has acquired the Corporation’s remaining interests in the Quilaligaq and Pikoo Diamond Projects in exchange of 2,000,000 common shares of North Arrow. As additional consideration, the Corporation will receive 0.5% and 1.0% gross overriding royalties on diamonds and 0.5% and 1.0% net smelter returns royalties on base and precious royalties mine from the Quilalugaq and Pikoo Projects, respectively. North Arrow will also make a $2.5 million and a $1.25 million cash payments to the Corporation at the same time that first royalties payments relating to the Quilalugaq and Pikoo projects, respectively, are payable.

2017 Production Guidance

Mining, Processing and Sales

In 2017 Stornoway plans to mine 4.4 million tonnes of ore and waste from the open pits and 0.5 million tonnes from the underground mine. 2 million tonnes of ore will be processed for a planned recovery of 1.7 million carats at a grade of 86 cph. Full name-plate capacity of 6,000 tonnes per day, based on 73% plant utilization, is scheduled to be achieved by the end of the second quarter.

2,300 meters of underground development and 2,600 meters of production stope development is planned in the underground mine.

Diamond sales of 1.8 million carats are planned in ten tender sales in Antwerp, Belgium.

Capital and Operating Costs

Operating costs for 2017 are forecast at C$59.68 per tonne processed, being C$70.41 per carat processed and C$66.49 per carat sold.

Capital costs are forecast at C$78.7 million. This includes scheduled capex of $45.5 million for the development of the underground mine, and sustaining capital items associated with the project’s process plant, power plant, and processed kimberlite containment facility. The capital cost estimate includes $11.8 million of site service costs associated with capital items, and $1.7 million of costs deferred from 2016.
**Diamond Pricing and Revenue**

Based on the profile of diamonds recovered to date, market conditions, and the results of early sales and valuations, Stornoway forecasts average diamond pricing during 2017 of between US$100 and US$132 per carat. This yields a gross revenue forecast of US$180 million to US$230 million based on planned diamond sales.

Compared to previous estimates, the 2017 pricing guidance incorporates reduced pricing for smaller and certain lower quality rough diamond categories seen during the course of 2016 and confirmed in the first two Renard sales. This current trend, already underway, was exacerbated by the Indian de-monetization event of late 2016 which has prompted many diamond producers, including Stornoway, to temporarily withhold this material from sale. Stornoway’s 2017 price guidance assumes stabilization of the Indian currency market and the beginning of a price recovery prior to the end of the second quarter of 2017.

2017 pricing guidance further reflects the profile of diamonds recovered at Renard in the initial ramp-up period. During the first few months of operation, the Renard diamond process plant has liberated a higher proportion of small diamonds than expected, and has induced higher levels of diamond breakage than expected. Both of these factors have a strong influence on average run-of-mine pricing. Diamond breakage occurs in all diamond process plants, and is measurable and remediable. Stornoway is undertaking a breakage mitigation plan in conjunction with 3rd party experts and equipment vendors. This work will be ongoing through the first half of 2017. Achieved diamond pricing will continue to be influenced by this breakage until it is resolved.
MINERAL RESERVES AND MINERAL RESOURCES

Year-end Mineral Reserves have been updated based on mining depletion.

<table>
<thead>
<tr>
<th>PROVEN MINERAL RESERVES(^{(1,2)})</th>
<th>Carats (millions)</th>
<th>Tonnes (millions)</th>
<th>Grade (cpht)(^{(3)})</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stockpile(^{(4)})</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Renard 2, All Units</td>
<td>0.55</td>
<td>1.31</td>
<td>42</td>
</tr>
<tr>
<td>Renard 2</td>
<td>0.29</td>
<td>0.29</td>
<td>98</td>
</tr>
<tr>
<td>CRB-2A</td>
<td>0.03</td>
<td>0.11</td>
<td>33</td>
</tr>
<tr>
<td>CRB</td>
<td>0.23</td>
<td>0.91</td>
<td>25</td>
</tr>
<tr>
<td>Renard 3</td>
<td>0.23</td>
<td>0.28</td>
<td>81</td>
</tr>
<tr>
<td>Renard 65</td>
<td>0.09</td>
<td>0.25</td>
<td>35</td>
</tr>
<tr>
<td>Reload</td>
<td>0.003</td>
<td>0.004</td>
<td>76</td>
</tr>
<tr>
<td>Renard 2 UG</td>
<td>0.004</td>
<td>0.007</td>
<td>52</td>
</tr>
<tr>
<td><strong>Total Stockpile Proven Mineral Reserves</strong></td>
<td><strong>0.87</strong></td>
<td><strong>1.85</strong></td>
<td><strong>47</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>PROBABLE MINERAL RESERVES(^{(1,2)})</th>
<th>Carats (millions)</th>
<th>Tonnes (millions)</th>
<th>Grade (cpht)(^{(3)})</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Open Pit</strong></td>
<td></td>
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<tr>
<td>Renard 2, All Units</td>
<td>1.06</td>
<td>1.92</td>
<td>55</td>
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<tr>
<td>Renard 2</td>
<td>0.82</td>
<td>0.90</td>
<td>91</td>
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<tr>
<td>CRB-2A</td>
<td>0.10</td>
<td>0.33</td>
<td>32</td>
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<tr>
<td>CRB</td>
<td>0.14</td>
<td>0.69</td>
<td>20</td>
</tr>
<tr>
<td>Renard 3</td>
<td>0.56</td>
<td>0.58</td>
<td>97</td>
</tr>
<tr>
<td>Renard 65</td>
<td>1.28</td>
<td>4.30</td>
<td>30</td>
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<tr>
<td><strong>Total OP Probable Mineral Reserves</strong></td>
<td><strong>2.90</strong></td>
<td><strong>6.80</strong></td>
<td><strong>43</strong></td>
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</table>

<table>
<thead>
<tr>
<th>PROBABLE MINERAL RESERVES(^{(1,2)})</th>
<th>Carats (millions)</th>
<th>Tonnes (millions)</th>
<th>Grade (cpht)(^{(3)})</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underground</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Renard 2</td>
<td>15.65</td>
<td>19.67</td>
<td>80</td>
</tr>
<tr>
<td>Renard 3</td>
<td>0.86</td>
<td>1.22</td>
<td>70</td>
</tr>
<tr>
<td>Renard 4</td>
<td>1.67</td>
<td>3.46</td>
<td>48</td>
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<tr>
<td><strong>Total UG Probable Mineral Reserves</strong></td>
<td><strong>18.18</strong></td>
<td><strong>24.35</strong></td>
<td><strong>75</strong></td>
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<tr>
<td><strong>Total Proven and Probable Mineral Reserves(^{(5)})</strong></td>
<td><strong>21.95</strong></td>
<td><strong>33.00</strong></td>
<td><strong>67</strong></td>
</tr>
</tbody>
</table>

**Notes**

1 Reserve categories follow the CIM Standards for Mineral Resources and Mineral Reserves.
2 Totals may not add due to rounding.
3 Carats per hundred tonnes. Estimated at a +1 DTC sieve size cut-off.
4 Represents mine and stockpiled ore as of December 31, 2016
5 Changes from March 2016 Mineral Reserve estimate shown in italics

Exclusive of the Mineral Reserves, the Renard Diamond Mine includes additional Indicated Mineral Resources of 2.9 million carats (6.3 million tonnes at 46 cpht), Inferred Mineral Resources of 13.3 million carats (24.5 million tonnes at 54 cpht), and 33.0 million to 71.1 million carats of non-resource exploration upside (76.2 million to 113.2 million tonnes at grades ranging from 25 to 168 cpht). All kimberlites remain open at depth. Readers are cautioned that the potential quantity and grade of any such exploration target is conceptual in nature, there has been insufficient exploration to define a mineral resource, and it is uncertain if further exploration will result in the target being delineated as a mineral resource (1). Mineral resources that are not mineral reserves do not have demonstrated economic viability. Readers are cautioned that the potential quantity and grade of any exploration target is conceptual in nature, there has been insufficient exploration to define a mineral resource, and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

\(^{(1)}\) Indicated Mineral Resources have been adjusted by an additional 2.9 million tonnes of ore and 2 million carats previously excluded from the Indicated Mineral Resources cited in the February 6, 2017 Press Release of the Corporation.
RESULTS OF OPERATIONS AND FINANCIAL ACTIVITIES

(expresssed in thousands of Canadian dollars)

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</thead>
<tbody>
<tr>
<td>Exploration expense (recovery)</td>
<td>305</td>
<td>202</td>
<td>130</td>
<td>2,646</td>
<td>521</td>
<td>(635)</td>
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<tr>
<td>General and administrative expense</td>
<td>1,337</td>
<td>1,045</td>
<td>2,125</td>
<td>10,110</td>
<td>5,347</td>
<td>9,365</td>
</tr>
<tr>
<td>Loss on disposal of assets</td>
<td>–</td>
<td>–</td>
<td>1,863</td>
<td>38</td>
<td>–</td>
<td>1,922</td>
</tr>
<tr>
<td>Other (income) expenses, net</td>
<td>(7,227)</td>
<td>3,042</td>
<td>(11,776)</td>
<td>14,000</td>
<td>(2,212)</td>
<td>(8,663)</td>
</tr>
<tr>
<td>Income (loss) Before Income Tax recovery (expenses)</td>
<td>5,585</td>
<td>(4,289)</td>
<td>7,658</td>
<td>(26,794)</td>
<td>(3,656)</td>
<td>(1,989)</td>
</tr>
<tr>
<td>Current income tax recovery</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,100</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Deferred income tax recovery (expenses)</td>
<td>46,435</td>
<td>–</td>
<td>(2)</td>
<td>45,335</td>
<td>–</td>
<td>1,347</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>52,020</td>
<td>(4,289)</td>
<td>7,656</td>
<td>19,641</td>
<td>(3,656)</td>
<td>(642)</td>
</tr>
<tr>
<td>Earnings (loss) per share – basic</td>
<td>0.06</td>
<td>(0.01)</td>
<td>0.01</td>
<td>0.03</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Earnings (loss) per share – diluted</td>
<td>0.05</td>
<td>(0.01)</td>
<td>0.01</td>
<td>0.03</td>
<td>Nil</td>
<td>Nil</td>
</tr>
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</table>

Current Quarter

Net income and earnings per share

Net income for the three months ended December 31, 2016 (“Current Quarter”) of $52.0 million compared to a $4.3 million loss during the two months ended December 31, 2015 (“Comparative Quarter”). In the fourth quarter of 2016, the Corporation recorded $46.4 million of deferred tax assets. This represent an excess of existing taxable temporary differences as a results of the increased probability of realizing these deferred tax assets due to commencement of commercial production at Renard. Non-capital losses of $42.9 million is the principal item making-up the deferred tax balance at year end. Also, Other income of $7.2 million (Comparative Quarter – loss of $3.0 million) relates to derivative gain resulting from changes in the fair value of the Corporation’s convertible debentures offset by amortization of deferred transaction costs due to the termination of the cost overrun facilities. These fees represent $4.4 million of expenses in the current quarter. Earnings per share for the current quarter were $0.06 per share basic and $0.05 fully diluted (Comparative Quarter – loss of $0.01 per share for both basic and fully diluted).

Exploration expense

Exploration expense of $0.3 million (Comparative Quarter - $0.2 million) is primarily related to work done on the Corporation’s Adamantin project. (see Exploration Update).

General and administrative expenses

General and administrative expenses of $1.3 million (Comparative Quarter - $1.0 million) represent the portion of the Corporation’s operating costs of its head and regional offices, as well as salaries, benefits, director fees and share-based compensation that were not capitalized to the project. Salaries, benefits, director fees and share-based compensation totalled ($0.1) million (Comparative Quarter - $1.0 million), while office operating cost totalled $1.4 million (Comparative Quarter - $0.9 million). The salaries, benefits and director fees for the current quarter reflect an adjustment to the annual bonus accrual and salary reallocation to project costs.
Year-to-date

Net Income and earnings per share

Net Income for the year ended December 31, 2016 (“Current Period”) of $19.6 million increased as compared to a $3.7 million net loss during the eight months ended December 31, 2015 (“Comparative Period”) largely due to a $46.9 million deferred tax asset recognized in the fourth quarter of 2016. Earnings per share for the Current Period were $0.03 per share (Comparative Period – $Nil per share).

Exploration expense

Exploration expenses of $2.6 million (Comparative Period - $0.5 million) are primarily related to work done on the Corporation’s Adamantin property. (see Exploration Update).

General and administrative expenses

General and administrative expenses of $10.1 million (Comparative Period - $5.3 million) represent the portion of the Corporation’s operating costs of its head and regional offices, as well as salaries, benefits, director fees and share-based compensation that were not capitalized to the project. Salaries, benefits, director fees and share-based compensation totalled $5.1 million (Comparative Period - $3.0 million), while office operating costs totalled $5.1 million (Comparative Period - $2.3 million). The general and administrative expenses increase during the period is due to higher salaries and benefits related to additional employees added to the management team as well as new employees added to our regional offices.

Other income (expenses), net

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<tr>
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<tbody>
<tr>
<td>(expressed in thousands of Canadian dollars)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>227</td>
<td>331</td>
<td>856</td>
<td>1,294</td>
<td>1,689</td>
<td>2,410</td>
</tr>
<tr>
<td>Transaction fees – derivatives</td>
<td>–</td>
<td>–</td>
<td>(3)</td>
<td>–</td>
<td>–</td>
<td>(2,144)</td>
</tr>
<tr>
<td>Gain (loss) on fair value of derivatives</td>
<td>14,841</td>
<td>(317)</td>
<td>10,916</td>
<td>(8,858)</td>
<td>6,357</td>
<td>11,906</td>
</tr>
<tr>
<td>Foreign exchange gain (loss)</td>
<td>(2,780)</td>
<td>(2,609)</td>
<td>1,425</td>
<td>(1,454)</td>
<td>(4,069)</td>
<td>5,616</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(5,061)</td>
<td>(447)</td>
<td>(1,418)</td>
<td>(7,890)</td>
<td>(1,765)</td>
<td>(9,125)</td>
</tr>
<tr>
<td>Other income (expenses), net</td>
<td>7,227</td>
<td>(3,042)</td>
<td>11,776</td>
<td>(14,000)</td>
<td>2,212</td>
<td>8,663</td>
</tr>
</tbody>
</table>

Current Quarter

During the Current Quarter, the Corporation recorded an unrealized gain in the fair value of derivatives embedded in the Corporation’s convertible debentures of $14.8 million (Comparative Quarter – ($0.3) million). The change in the fair value of the convertible debenture is primarily attributable to the stock price decrease during the quarter, as well as variations in the risk-free rate and credit spreads. For the Current Quarter, finance costs of $5.1 million (Comparative Quarter –$0.4 million) are comprised of the accelerated amortization of $4.4 million related to the deferred transaction costs due to the termination of the cost overrun facility. Interest income of $0.2 million (Comparative Quarter $0.3 million) declined as a result of lower average cash surpluses.

Year-to-date

During the Current Year, the Corporation recorded an unrealized loss in the fair value of derivatives embedded in the convertible debentures of $8.9 million (Comparative Period – gain of $6.4 million). The change in the fair value of the convertible debenture is primarily attributable to the stock price increase during the Current Year. Also, foreign exchange gains of $1.5 million (Comparative Period – loss of $4.1 million) which relate to the Corporation’s convertible debenture, are due to a strengthening Canadian dollar relative to the US dollar.
## CONSOLIDATED STATEMENTS OF CASH FLOWS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow provided by (used in) operating activities, before changes in non-cash working capital</td>
<td>(1,820)</td>
<td>(1,707)</td>
<td>(2,355)</td>
<td>104,753</td>
<td>100,489</td>
<td>95,987</td>
</tr>
<tr>
<td>Changes in non-cash working capital</td>
<td>(22,885)</td>
<td>(8,473)</td>
<td>(5,623)</td>
<td>(29,925)</td>
<td>(1,560)</td>
<td>(16,905)</td>
</tr>
<tr>
<td>Cash used in (provided) by operating activities</td>
<td>(24,705)</td>
<td>(10,180)</td>
<td>(7,978)</td>
<td>74,828</td>
<td>98,929</td>
<td>79,082</td>
</tr>
<tr>
<td>Cash used in (provided) investing activities</td>
<td>(284)</td>
<td>33,673</td>
<td>(257,661)</td>
<td>(165,871)</td>
<td>(139,340)</td>
<td>(461,274)</td>
</tr>
<tr>
<td>Cash used in (provided) financing activities</td>
<td>(2,104)</td>
<td>(1,126)</td>
<td>(17)</td>
<td>77,286</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>569</td>
<td>4,432</td>
<td>11,358</td>
<td>(2,042)</td>
<td>11,382</td>
<td>10,521</td>
</tr>
<tr>
<td>Increase (decrease) in cash and cash equivalents</td>
<td>(26,524)</td>
<td>26,799</td>
<td>(254,298)</td>
<td>(15,799)</td>
<td>(31,413)</td>
<td>62,522</td>
</tr>
<tr>
<td>Cash and cash equivalents - Beginning of the Period</td>
<td>68,817</td>
<td>31,293</td>
<td>387,989</td>
<td>58,092</td>
<td>89,505</td>
<td>26,983</td>
</tr>
<tr>
<td>Cash and cash equivalents – End of the Period</td>
<td>42,293</td>
<td>58,092</td>
<td>133,691</td>
<td>42,293</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 decreased by $26.5 million.

**Cash used by operating activities**

Cash used in operating activities amounted to $24.7 million during the Current Quarter (Comparative Quarter – $10.2 million). The variation is explained by a of $14.4 million increase in non-cash working capital, primarily due to a $15.3 million increase in inventory.

**Cash used in (provided) in investing activities**

Cash used in investing activities was $0.3 million in the Current Quarter (Comparative Quarter – provided $33.7 million), which primarily reflects $46.9 million used for the acquisition of property, plant and equipment partially offset by a $38.3 million decrease in short-term investments.

**Cash used in (provided) in financing activities**

Cash used in financing activities was $2.1 million (Comparative Quarter – used $1.1 million) in the Current Quarter, relating to the repayment of long-term debt.

### Year-to-date

During the Current Year, the Corporation’s cash and cash equivalents increased by $15.8 million, including a $2.0 million foreign exchange loss on cash and cash equivalents denominated in US Dollars.

**Cash provided by operating activities**

Cash provided by operating activities in the Current Year amounted to $74.8 million (Comparative Period – $98.9 million). On March 30, 2016, the Corporation received the final Stream deposit of $116.3 million (Comparative Period – $105.6 million). This was partially offset by an increase of $29.9 million in non-cash working-capital, primarily due to increased inventory.
Cash used in investing activities

Cash used in investing activities was $165.9 million in the Current Year, reflecting $289.0 million used for the acquisition of property, plant and equipment (Comparative Period - $260.7 million) of which $107.3 million was funded from the decrease in short-term investments (Comparative Period - used $123.1 million) and $10.0 million from the sale and lease back of fixed assets.

Cash provided (used) in financing activities

Cash provided by financing activities during the year was $77.3 million in the Current Period (Comparative Period – used of $2.4 million), following the exercise of options and warrants that generated proceeds of $84.6 million. This was partially offset by cash used for the repayment of long-term debt in the amount of $9.4 million (Comparative Period – $2.4 million).

STATEMENTS OF FINANCIAL POSITION

(expressed in thousands of Canadian dollars)

<table>
<thead>
<tr>
<th></th>
<th>As at December 31, 2016</th>
<th>As at December 31, 2015</th>
<th>As at April 30, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash, cash equivalents and short-term investments</td>
<td>85,988</td>
<td>209,092</td>
<td>363,618</td>
</tr>
<tr>
<td>Inventories</td>
<td>39,777</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Receivables and other current assets</td>
<td>6,147</td>
<td>14,338</td>
<td>16,267</td>
</tr>
<tr>
<td>Current assets</td>
<td>131,912</td>
<td>223,430</td>
<td>379,885</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>1,102,084</td>
<td>831,430</td>
<td>541,481</td>
</tr>
<tr>
<td>Deferred income tax assets</td>
<td>52,307</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Deferred transaction costs, inventories and other financial assets</td>
<td>25,310</td>
<td>28,314</td>
<td>23,688</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>1,179,701</td>
<td>859,744</td>
<td>565,169</td>
</tr>
<tr>
<td>Total assets</td>
<td>1,311,613</td>
<td>1,083,174</td>
<td>945,054</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current liabilities</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debts and convertible debentures</td>
<td>231,705</td>
<td>219,625</td>
<td>204,992</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>296,706</td>
<td>207,104</td>
<td>101,464</td>
</tr>
<tr>
<td>Asset retirement obligation</td>
<td>13,329</td>
<td>10,698</td>
<td>4,595</td>
</tr>
<tr>
<td>Deferred income tax liabilities</td>
<td>1,220</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>542,960</td>
<td>437,427</td>
<td>311,051</td>
</tr>
<tr>
<td>Equity</td>
<td>689,541</td>
<td>575,959</td>
<td>577,467</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>1,311,613</td>
<td>1,083,174</td>
<td>945,054</td>
</tr>
</tbody>
</table>

For the year ended December 31, 2016 total assets increased by $228.4 million to $1,311.6 million. This increase is due primarily to the investment made in property, plant and equipment, which increased by $270.7 million (see table below for details) at the Renard Diamond Mine while cash, cash equivalents and short-term investments decreased by $123.1 million to $86.0 million, reflecting the proceeds received from the Stream and the exercise of options and warrants being more than offset by the cash outlays made in connection with ongoing construction activities.

The Corporation’s current liabilities of $79.1 million consist of payables and accrued liabilities mostly related to the Corporation’s construction activities as well as $43.9 million related to the current portion of long-term debt and deferred revenue. During the Current Period, long-term debt and convertible debentures increased by $12.1 million primarily due to a $11.6 million increase in the convertible debentures. The increase in the convertible debentures is primarily due to a $8.9 million increase in the estimated fair value of the embedded derivatives partially offset by a gain on foreign exchange of $2.5 million (see Other income (expenses), net for details). Total deferred revenues of $322.8 million increased following the receipt of the third tranche of the Stream, net of standby fees, totalling $116.3 million. The asset retirement obligation has increased by $2.6 million reflecting the impact of the Corporation’s construction activities during the period.
As at December 31, 2016, equity of $689.5 million (December 31, 2015 - $576.0 million) consists of share capital, contributed surplus and an accumulated deficit. The Corporation issued 96,141,897 shares for net proceeds of $86.3 million during the Current Period following the exercise of options and warrants.

To finance certain of its 2017 exploration activities, the Corporation completed a private placement of flow through common shares in December 2016 that raised $2.0 million. Under the terms of the subscription agreement, the Corporation is required to spend the funds on eligible Canadian Exploration Expenditures (“CEE”) on or before December 31, 2017. Flow-through common shares provide for the Corporation’s CEE to be transferred to the shareholders and, as a result, the tax base for these expenditures is not available to the Corporation. In connection with the issuance of the flow-through shares, the Corporation recorded $0.3 million in Other Liabilities which represents the premium paid by investors to acquire the rights to the tax benefits attached to the flow-through shares.

SELECTED QUARTERLY INFORMATION

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

<table>
<thead>
<tr>
<th>Quarter Ended</th>
<th>Net Income (Loss) (in thousands of Canadian dollars)</th>
<th>Basic Income (Loss) per share</th>
<th>Diluted Earnings (Loss) per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2016</td>
<td>52,020</td>
<td>0.06</td>
<td>0.05</td>
</tr>
<tr>
<td>September 30, 2016</td>
<td>(15,548)</td>
<td>(0.02)</td>
<td>(0.02)</td>
</tr>
<tr>
<td>June 30, 2016</td>
<td>5,779</td>
<td>0.01</td>
<td>Nil</td>
</tr>
<tr>
<td>March 31, 2016</td>
<td>(22,610)</td>
<td>(0.03)</td>
<td>(0.03)</td>
</tr>
<tr>
<td>December 31, 2015(1)</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>
</tbody>
</table>

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

Quarterly results will vary in accordance with the Corporation’s operation, exploration, development and financing activities. Historically, exploration and evaluation expenses, share-based compensation expenses, changes in the fair value of derivatives, foreign exchange variations, the issuance of common shares 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. It is likely that the Corporation’s quarterly results will continue to fluctuate during 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 embedded derivatives that are revalued at each balance sheet date. Changes in the fair value of the derivatives are recorded in the consolidated statements of income (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 a portion of its cash and cash equivalents and liabilities being 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. At December 31, 2016, all covenants have been met and expect to be met prospectively.

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.

The Corporation expects to draw from the $100 million Senior Secured Loan, Tranche A during 2017. As long as the Corporation meets the conditions precedent to the Senior Secured Loan, the Corporation anticipates that it has sufficient liquidity to meet its capital requirements up to the commencement of the underground mining operations. Should the Corporation not be able to draw from the Senior Secured Loan and in the event that the cash generated from operations are insufficient to complete construction and commissioning of the underground mine, the Corporation will need to complete further financing.

**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. The project’s construction schedule was re-baselined with first ore delivery to the Renard diamond process in July 2016 and commercial production (60% of plant capacity achieved over 30 days) achieved effective January 1st, 2017. This represents a five month improvement on the original 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. Total project costs at December 31st totalled $771.2 million, or 99% of budget. $2.8 million of costs have been deferred to 2017, giving a final cost to complete estimate of $774 million, $37 million below the initial capital budget established in July 2014.

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 underground development of the Renard Diamond Mine, and also to fund general working capital, interest and financing fees.

The following table presents the anticipated use of proceeds from the Financing Transactions and the Renard Mine Road loan.
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.

See “Financial Guarantee” below.

As at December 31, 2016, the Corporation had current assets of $131.9 million to settle current liabilities of $79.1 million, resulting in working capital of $52.8 million (December 31, 2015 - $153.6 million).

As of December 31, 2016, total financial liquidity stood at $165 million comprised of cash, undrawn debt facilities, receivables and expected mine tax credits, net of payables. This calculation excludes an additional $48 million of available cost overrun facilities terminated subsequent to year-end. Capital expenditures incurred during the year were of $278.2 million respectively, with capital expenditures of $772.5 million having been incurred and committed against the total project cost. This cost estimate excludes any credit from pre-production revenue derived from the sales of diamonds in November 2016.

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 Note 5 and 25 of the Consolidated Financial Statements):

<table>
<thead>
<tr>
<th></th>
<th>Initial forecast</th>
<th>Revised Forecast</th>
<th>Use of proceeds as at December 31, 2016</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>774</td>
<td>771</td>
</tr>
<tr>
<td>Route 167 Extension</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>16</td>
</tr>
<tr>
<td>Interest paid in cash during Construction</td>
<td>20</td>
<td>29</td>
<td>26</td>
</tr>
<tr>
<td>Debt Financing Costs and Stream Commitment Fee</td>
<td>19</td>
<td>17</td>
<td>16</td>
</tr>
<tr>
<td>Mine Closure Guarantee</td>
<td>16</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Prepayment Net Revenue</td>
<td>(26)</td>
<td>(10)</td>
<td>(10)</td>
</tr>
<tr>
<td><strong>Total Project Costs</strong></td>
<td>929</td>
<td>901</td>
<td>893</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>21</td>
<td>18</td>
</tr>
<tr>
<td>Mine tax duty refunds receivable</td>
<td>–</td>
<td>(11)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td>961</td>
<td>938</td>
<td>938</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.

(2) See “Financial Guarantee” below.

As at December 31, 2016, the Corporation had current assets of $131.9 million to settle current liabilities of $79.1 million, resulting in working capital of $52.8 million (December 31, 2015 - $153.6 million).

As of December 31, 2016, total financial liquidity stood at $165 million comprised of cash, undrawn debt facilities, receivables and expected mine tax credits, net of payables. This calculation excludes an additional $48 million of available cost overrun facilities terminated subsequent to year-end. Capital expenditures incurred during the year were of $278.2 million respectively, with capital expenditures of $772.5 million having been incurred and committed against the total project cost. This cost estimate excludes any credit from pre-production revenue derived from the sales of diamonds in November 2016.
**Other Operating Commitments**

In 2015, the Corporation concluded a long-term contractual agreement for the supply of liquefied natural gas (“LNG”). The supply of LNG began 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 sales (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 on the Stream 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 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. In August 2015, the surety bond was increased by $3.8 million to $11.4 million. In August 2016, the surety bond was increased by $3.8 million and now stand at $15.2 million. In connection with the surety bond, SDCI provided cash collateral of $3.0 million to the underwriter of the surety bond. This amount is recorded in Other Financial Assets on the Consolidated Statements of Financial Position.

**Other Commitment**

As at December 31, 2016, SDCI has signed commitments of $1.4 million for the purchase of property, plant and equipment, of which, the vast majority is expected to be incurred in 2017.
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 year ended December 31, 2016 for further details).

As at February 21, 2017, there were 828,452,337 common shares, 28,018,334 stock options and 29,000,000 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 February 21, 2017, 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>20,923,334</td>
<td>0.70</td>
<td>2.25 years</td>
</tr>
<tr>
<td>$0.73–$1.11</td>
<td>7,095,000</td>
<td>0.94</td>
<td>3.82 years</td>
</tr>
<tr>
<td></td>
<td>28,018,334</td>
<td>0.76</td>
<td>2.65 years</td>
</tr>
</tbody>
</table>

As at February 21, 2017, 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>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>29,000,000</td>
<td>1.08</td>
<td></td>
</tr>
</tbody>
</table>

TRANSACTIONS WITH RELATED PARTIES

The Corporation entered into the following 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 year ended December 31, 2016, the Corporation incurred interest, commitment fees and standby fees of $7.6 million relating to this financing (December 31, 2015 - $3.7 million and 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. For the year ended December 31, 2016, royalties in the amount of $0.2 million became due to Diaquem. Collectively, as at December 31, 2016, Diaquem, RQ and IQ own 25.3% 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 year ended December 31, 2016, the Corporation incurred interest and standby fees of $1.9 million (December 31, 2015 - $1.9 million and 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, 2016, Orion owns 17.3% 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 directly to Lavery de Billy.

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 year ended December 31, 2016, 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 payable and accrued liabilities, long-term debt, 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 year ended December 31, 2016.

For the three and twelve month periods ended December 31, 2016, no material changes were identified in respect of the Corporation’s risk management. Details of changes in financial instruments can be found in Note 5 of the 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

Lack of Operating History; New Mining Operations

The Corporation has not yet realized any profits from its operations at the Renard Diamond Mine. The Corporation expects to continue to incur losses unless and until such time as the Renard Diamond Mine generates sufficient revenues to fund its continuing operations. There can be no assurance that the Corporation will achieve profitability or that the Renard Diamond Mine or any of the properties the Corporation may hereafter acquire or obtain an interest in will generate earnings, operate profitably or provide a return on investment in the future. In addition none of the Corporation’s mineral
properties have an operating history upon which to base estimates of future operating costs. There can be no assurance that significant additional losses will not occur in the near future or that the Corporation will be profitable in the future.

Whether profitable operations will result from the Renard Diamond Mine will depend on various factors including the successful start-up and ramp-up of a new mining operation, costs, actual mineralization, consistency and reliability of ore grades, diamond quality and size distribution, commodity prices and efficient design of the mine, processing facility and equipment, all of which may affect 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 operations of the Renard Diamond 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, delays and costs during mine development, mine start-up and ramp-up of the processing facility. The costs, timing and complexity of the ramp-up of the Renard Diamond Mine may be higher than anticipated as a result of various adjustments that may be found to be required to optimise the efficiency of the operations and which may result in modifications to, or addition of, infrastructure and equipment or changes to mine plan. 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.

Start-Up and Ramp-up of a New Mine

It is common to experience unexpected costs, problems and delays during development, start-up and ramp-up of a new mine. During this time, the economic feasibility of production may change. The ramp-up of the Renard Diamond Mine by the Corporation and its subsidiaries is subject to a number of risks and challenges including unforeseen geological formations and characteristics of the ore body impacting ore processing, the implementation of new mining and recovery processes and process plant design with optimal rates of recovery and limited risk of diamond breakage or damage, 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, including consistency of grades, size distribution and quality of diamonds, and the successful completion and operation of haulage ramp and conveyors to move ore, the processing facility and other operational elements. Any unexpected problems and delays result in additional costs being incurred by the Corporation and its subsidiaries beyond those already incurred and budgeted. There can be no assurance that current or ramp-up plans of the Renard Diamond Mine implemented by the Corporation or its subsidiaries will be successful.

Uncertainty of Mineral Resources

The Mineral Resources for the Renard Diamond Mine 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, grades, size distribution and quality of diamonds will be achieved or that the indicated level of recovery will be realized. Mineral Reserves at the Renard Diamond Mine have been determined to be economic ore in the context of the 2016 Technical Report, in accordance with NI 43-101. Variations in grades, size distribution and quality of diamonds as well as 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. See “Risk Factors – 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.

**There is no certainty that FCDC will be able to meet its Subject Diamonds Interest delivery obligations**

There is no certainty that FCDC will be able to meet its Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement for the Forward Sale of Diamonds. In the event FCDC was unable to meet its Subject Diamonds Interest delivery obligations, FCDC could be 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, which in turn would materially and adversely affect the financial and operating results of the Corporation and its subsidiaries, the market price of the Corporation’s securities and, ultimately, could result in the loss of the Corporation’s entire interest in the Renard Diamond Mine.

**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 result in the loss of the Corporation’s entire interest in the Renard Diamond Mine.

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 Mine, 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/tonnes), 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 processed kimberlite containment (tailings) 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 Mine, 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.

Although the Corporation believes it is in substantial compliance with all material laws and regulations and holds all required permits which currently apply to its activities, there can be no assurance, that various permits which the Corporation and its subsidiaries may require to obtain or renew in the normal course of business for its current and anticipated future operations and exploration activities, will be obtainable on reasonable terms or on a timely basis.

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 Mine

In addition to open pit, the Corporation will be using a blasthole shrinkage method with backfill to extract the Renard Diamond Mine ore body. 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 worker 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 airlasts, 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 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 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 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 resulting in additional costs and delays. 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, power must be generated on site, 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. 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.

Risk related to the limited supply offer of Liquefied Natural Gas (“LNG”)

The Corporation has a long-term contract for the supply of LNG required for power at the Renard Diamond Mine. There are currently limited suppliers of LNG that can supply the Renard Diamond Mine at comparable costs to the current supplier. In the event the Corporation’s LNG supplier was to be unable to fulfil its contractual obligation to deliver LNG to the Renard Diamond Mine and an alternative contract on substantially the same terms may not be entered into with an alternative LNG supplier, the costs related to the Renard Diamond Mine power requirements would increase. While the failure to deliver LNG under the current LNG contract is subject to indemnification obligations by the Corporation’s counterparty, the LNG supplier does not have the obligation to indemnify the Corporation in the context of all delivery failures, including in the event of a force majeure event affecting the supplier, and where an indemnity obligation exist, the amount of such indemnity may not fully offset the cost increases the Corporation could suffer, which cost increases could adversely affect the Corporation’s business, financial condition and results of operations.

The Corporation and its subsidiaries are dependent upon its Renard Diamond Mine

The Corporation expects any future mining operations at the Renard Diamond Mine 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 Mine 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 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 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 Mine, or extend the reserve-based mine life of the Renard Diamond Mine to 14 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.

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 the 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.

**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.

**Production and Operating Costs**

Many unforeseen factors can impact the Corporation’s future production and total cash costs of production, including cost of inputs used in mining and processing operations; cost of fuel, energy, supplies, labour and equipment; regulatory factors; taxes; foreign exchange rates; adverse climatic conditions and natural phenomena and industrial accidents, all of which can impact the accuracy of production and total cash costs projections. As such, there can be no assurance that production and production cost estimates will be achieved. Failure to achieve production or total cash cost estimates could have an adverse impact on the Corporation’s business, financial condition and results of operations.

**Labour Relations**

While the Corporation has good relations with its employees, there can be no assurance that it will be able to maintain positive relationships with its employees. In addition, relations between the Corporation and its employees may be impacted by regulatory or governmental changes introduced by the relevant authorities in whose jurisdictions the Corporation carries on business. Adverse changes in such legislations or in the relationship between the Corporation and its employees could have a material adverse impact on the Corporation’s business, results of operations and financial condition.
Financing Risks

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 “Risk Factors – 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 and the Senior Secured Loan contain restrictive covenants that limit our ability to operate our business and incur additional indebtedness

The restrictive covenants within the Purchase and Sale Agreement and the Senior Secured Loan 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 non-availability or funding of the Senior Secured Loan could have adverse consequences on the Corporation’s business, financial condition or results of operations

The availability or funding of the Senior Secured Loan is subject to the satisfaction of 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. The Corporation anticipates the availability or funding of the Senior Secured Loan to occur in accordance with the funding sequence described in the most recently filed AIF once the conditions precedent have been met or waived. If the availability or funding of the Senior Secured Loan does not take place as contemplated, the Corporation and its subsidiaries could suffer adverse consequences, including the loss of investor confidence, and the Corporation could not have sufficient financing to meet its anticipated development and operating expenditures. Such a lack of financing could result in the delay or indefinite postponement of further exploration and development of the Renard Diamond Mine, 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 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 Mine 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 Mine.

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, 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 Mine 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 Mine. Such risks could potentially be mitigated to the extent SDCI enters into permitted hedging agreements.

**Foreign exchange risk**

Foreign exchange fluctuation may affect the Corporation’s financial performance. Diamonds are sold in international markets at prices denominated in U.S. dollars. However, the Corporation’s activities and offices are located in Canada resulting in a majority of the Corporation’s costs and expenses being incurred in Canadian dollars. Accordingly, decreases in the value of the U.S. dollar versus the Canadian dollar could materially affect the Corporation’s financial position and results of operations. 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 Mine is developed and produces commercial quantities of diamonds, a profitable market will exist for the sale of the diamonds produced. The prices of rough diamonds have fluctuated widely in recent years, and are 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.

**Synthetic Diamonds**

Synthetic diamonds are diamonds that are produced by artificial processes in laboratories, as opposed to natural diamonds, which are created by geological processes and found in nature. An increase in the acceptance of synthetic gem-quality diamonds could negatively affect the market prices for natural stones. Although significant questions remain as to the ability to produce synthetic diamonds economically within a full range of sizes and natural diamond colours, and as to consumer acceptance of synthetic diamonds, synthetic diamonds are becoming a larger factor in the market. Should synthetic diamonds be offered in significant quantities or consumers begin to readily embrace synthetic diamonds, on a large scale, demand and prices for natural diamonds may be negatively affected.
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, 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.

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 Convertible Debentures to sell the 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 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 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 25.32% of the issued and outstanding Common Shares, (ii) Orion owns 130,083,596 Common Shares, which in the aggregate represents approximately 15.70% of the issued and outstanding Common Shares, and (iii) CDPQ owns 44,724,660 Common Shares, which in the aggregate represents approximately 5.40% 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), 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 22.45% of the issued and outstanding Common Shares, (ii) Orion would own 153,213,461 Common Shares, which in the aggregate would represent approximately 16.11% of the issued and outstanding Common Shares, and (iii) CDPQ would own 58,724,660 Common Shares, which in the aggregate would represent approximately 6.10% 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 may issue additional Common Shares pursuant to the exercise of outstanding options and warrants, the conversion of the Convertible Debentures as well as in order to give effect to the Corporation’s business plan, all of which may dilute the ownership interest of existing holders of 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.
Other Risks

Public Company Obligations

As a publicly listed company, the Corporation is subject to evolving rules and regulations promulgated by a number of governmental and self-regulated organizations, including the Canadian Securities Administrators, the TSX, and the International Accounting Standards Board, which govern corporate governance and public disclosure regulations. These rules and regulations continue to evolve in scope and complexity creating many new requirements, which increase compliance costs and the risk of non-compliance. The Corporation’s efforts to comply with these rules and obligations could result in increased general and administration expenses and a diversion of management time and attention from revenue-generating activities.

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 of remediating an environmental problem, it might be required to suspend operations or enter into costly interim compliance measures pending completion of a permanent remedy.

Anti-Corruption Laws

The Corporation’s operations are governed by, and involve interactions with, many levels of governments. The Corporation is required to comply with anti-corruption and anti-bribery laws, including the Criminal Code and the Corruption of Foreign Public Officials Act (CFPOA). In recent years, there has been a general increase in both the frequency of enforcement and the severity of penalties under such laws, resulting in greater scrutiny and punishment to corporations convicted of violating anti-corruption and anti-bribery laws. Furthermore, a corporation may be found liable for violations by not only its employees, but also by its contractors and third party agents. Although the Corporation has adopted steps to mitigate such risks, including the implementation of training programs and policies to ensure compliance with such laws, such measures may not always be effective in ensuring that the Corporation, its employees, contractors or third party agents will comply strictly with such laws. If the Corporation finds itself subject to an enforcement action or is found to be in violation of such laws, this may result in significant penalties, fines and/or sanctions imposed on the Corporation resulting in a material adverse effect on the Corporation’s reputation, business, financial condition and results of operations.

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.

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

The Chief Executive Officer (“CEO”) and the 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, 2016, they were designed 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 year ended December 31, 2016.

**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 document contains forward-looking information (as defined in National Instrument 51-102 – Continuous Disclosure Obligations) and forward-looking statements within the meaning of Canadian securities legislation and the United States Private Securities Litigation Reform Act of 1995 (collectively referred to herein as “forward-looking information” or “forward-looking statements”). These forward-looking statements are made as of the date of this document and, the Corporation does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by law. These forward-looking statements include, among others, statements with respect to Stornoway’s objectives for the ensuing year, our medium and long-term goals, and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, 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 Reserves, Mineral Resources and exploration targets; (ii) the amount of future production over any period; (iii) net present value and internal rates of return of the mining operation; (iv) assumptions relating to recovered grade, size distribution and quality of diamonds, average ore recovery, internal dilution, mining dilution and other mining parameters set out in the 2016 Technical Report; (v) assumptions relating to gross revenues, operating cash flow and other revenue metrics set out in the 2016 Technical Report; (vi) mine expansion potential and expected mine life; (vii) expected time frames for completion of permitting and regulatory approvals 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, ramp-up, achievement of commercial production and achievement of plant nameplate capacity 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 Corporation’s ability to meet its Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement; (xv) the impact of the Financing Transactions on the Corporation’s operations, infrastructure, opportunities, financial condition, access to capital and overall strategy; (xvi) the foreign exchange rate between the US dollar and the Canadian dollar; and (xvii) 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 approvals on acceptable terms within commonly experienced time frames; (iv) anticipated timelines for completion of construction, ramp-up, achievement of commercial production and achievement of plant nameplate capacity at the Renard Diamond Project, as well as continuous development of an open pit and underground mine at the Renard Diamond Project (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 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 Corporation’s ability to meet its Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement; 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, anticipations, estimates, assumptions and intentions expressed in such forward-looking statements. These risk factors may be generally stated as the risk that the assumptions and estimates expressed above do not occur, including the assumption in many forward-looking statements that other forward-looking statements will be correct, but specifically include, without limitation: (i) risks relating to variations in the grade, size distribution and quality of diamonds, kimberlite lithologies and country rock content within the material identified as Mineral Resources from that predicted; (ii) variations in rates of recovery and breakage; (iii) the uncertainty as to whether further exploration of exploration targets will result in the targets being delineated as Mineral Resources; (iv) developments in world diamond markets; (v) slower increases in diamond valuations than assumed; (vi) risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar; (vii) increases in the costs of proposed capital, operating and sustaining capital expenditures; (viii) increases in financing costs or adverse changes to the terms of available financing, if any; (ix) tax rates or royalties being greater than assumed; (x) uncertainty of results of exploration in areas of potential expansion of resources; (xi) changes in development or mining plans due to changes in other factors or exploration results; (xii) risks relating to the receipt of regulatory approvals or the implementation of the existing Impact and Benefits Agreement with aboriginal communities; (xiii) the effects of competition in the markets in which Stornoway operates; (xiv) operational and infrastructure risks; (xv) execution risk relating to the development of an operating mine at the Renard Diamond Project; (xvi) failure to satisfy the conditions to the funding or availability, as
the case may require, of the Senior Secured Loan, the COF and the Equipment Facility; (xvii) changes in the terms of the Forward Sale of Diamonds, the Senior Secured Loan, the COF or the Equipment Facility; (xviii) the funds of the Senior Secured Loan, the COF or the Equipment Facility not being available to the Corporation; (xix) the Corporation being unable to meet its Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement; (xx) future sales or issuances of Common Shares lowering the Common Share price and diluting the interest of existing shareholders; and (xxi) the additional risk factors described herein and in Stornoway’s annual and interim MD&A’s, most recently filed AIF, its other disclosure documents and Stornoway’s anticipation of and success in managing the foregoing risks. Stornoway cautions that the foregoing list of factors that may affect future results is not exhaustive and new, unforeseeable risks may arise from time to time.