Form 51-102F1

Management Discussion and Analysis

For

Stornoway Diamond Corporation

("Stornoway" or the "Corporation")

of Consolidated Financial Condition and Results of Operations

As at and for the three months ended March 31, 2018

(All monetary figures are expressed in Canadian dollars unless otherwise stated)

The following interim management discussion and analysis ("MD&A") of the Corporation's financial condition and results of operations for the three months ended March 31, 2018 should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2018, 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 International Accounting Standards 34, Interim Financial Reporting ("IAS 34") and International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Corporation's significant accounting policies are set out in Note 2 of the audited consolidated financial statements for the year ended December 31, 2017 and, where required, in Notes 2 and 3 of the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2018.

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.

Disclosure of a scientific or technical nature in this MD&A was prepared under the supervision of Mr. Patrick Godin, P.Eng. (Quebec), Chief Operating Officer. Stornoway's exploration programs are supervised by Mr. Robin Hopkins, P.Geol. (NT/NU), Vice President, Exploration. Each of Mr. Godin and Mr. Hopkins are "qualified persons" under National Instrument 43-101, *Standards of Disclosure for Mineral Projects*.

The Board of Directors approved this MD&A on May 14, 2018.

OVERVIEW

Stornoway is a Canadian diamond mining Corporation listed on the Toronto Stock Exchange ("TSX") and headquartered in Longueuil, Quebec. Stornoway's principal focus is its 100% owned Renard Diamond Mine located in north-central Quebec. Stornoway formally declared commercial production at Renard effective January 1, 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 to provide a comprehensive funding package for the construction of the Renard Diamond Project, for total gross proceeds funded or to be funded of $946 million (assuming a US$1.00:CAD$1.10 conversion), 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"). In addition, prior to their expiry on July 8, 2016, 91,912,732 common share purchase warrants were exercised at a price of $0.90 per share for total proceeds to the Corporation of $82.7 million. Subsequently, in 2017, the Corporation terminated their $48 million cost overrun facilities. Funds received were used to support the completion of the construction of the Renard Mine which commenced on July 10, 2014. First ore delivery to the Renard diamond process plant was achieved on July 15, 2016, and commercial production was formally declared on January 1, 2017, a five-month improvement over what was originally contemplated.

SUMMARY OF SIGNIFICANT OPERATIONAL AND FINANCIAL HIGHLIGHTS

As of January 1, 2018, the Corporation adopted IFRS 9, Financial Instruments ("IFRS 9"), and IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). IFRS 9 replaces IAS 39, Financial Instruments: Recognition and Measurement, and was applied retrospectively. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue (hereinafter referred to as "legacy standards") and related Interpretations, and was applied using the modified retrospective method. The adoption impacts are detailed in Note 3 to the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2018.

- For the three months ended March 31, 2018 ("Current Quarter"), Stornoway reported net loss of $11.0 million ($0.01 per share on a basic and fully diluted basis), compared to net loss of $1.2 million for the three months ended March 31, 2017 ("Comparative Quarter"; $Nil per share basic and $0.01 fully diluted). Adjusted net loss[1] for the Current Quarter was $14.0 million and $2.5 million for the Comparative Quarter.
- During the quarter, three tender sales totalling 399,135 carats were completed for gross proceeds of $56.6 million at an average price of US$112 per carat ($142 per carat[2]). Revenue recognized was $55.9 million derived from the sale of 271,518 carats of run of mine production in two tender sales at an average achieved price[1] of US$106 per carat ($135 per carat[2]), and the sale of 42,663 carats of incidental production in one out of tender contract sale at an average price of US$19 per carat ($24 per carat[3]). Revenue from the third tender sale of the year, which comprised 127,616 carats of run of mine production sold at an average price of US$123 per carat ($156 per carat[4]), will be recognised in the second quarter.
- During the quarter, a 37 carat Type II-a, D colour, internally flawless stone was recovered and sold in the third tender sale for $1.7 million ($45,000 per carat[4]), or US$1.3 million (US$36,000 per carat), the highest price achieved for an individual stone from the Renard mine to date.
- Diamond processing comprised 285,851 carats recovered from 562,520 tonnes of ore at a grade of 51 carats per hundred tonnes ("cpht"). Grade and carat recoveries reflect the processing of lower grade production ore and ore stockpiles as the Renard mine transitions from open pit to underground mining.
- Mining in the Renard 2-3 and Renard 65 open pits comprised 424,923 tonnes, with 202,986 tonnes of ore extracted. By the end of the quarter, mining in the Renard 2 open pit had been completed, and a progressively higher proportion of ore was being derived from the Renard 2 underground mine. Underground mining during the quarter comprised 168,906 tonnes, with 116,798 tonnes of ore extracted.
- Commissioning of the new ore-waste sorting circuit at Renard began on schedule prior to the end of the quarter. Equipment commissioning commenced on March 25, 2018, with ore processing achieved on a consistent basis by the end of April. The volume and quality of ore-waste segregation has been positive, and initial diamond recovery results encouraging.
- Cash operating costs per tonne processed[1] were $50.70 per tonne ($99.77 per carat) and capital expenditures[1] were $31.1 million.

[1] See "Non-IFRS Financial Measures" section
[2] Based on an average $:US$ conversion rate of $1.27
[3] Based on an average $:US$ conversion rate of $1.29
[4] Based on an average $:US$ conversion rate of $1.26

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

- For the Current Quarter, the Corporation reported adjusted EBITDA[1] of $7.4 million, or 19% of Adjusted Revenues[1], compared to $21.3 million, or 44% of revenues, for the Comparative Quarter.
- At quarter-end, cash, cash equivalents and short-term investments stood at $51.6 million and available liquidity[1] to the Corporation, including available credit facilities, stood at $71.9 million.

KEY OPERATIONAL AND FINANCIAL HIGHLIGHTS

	For the three months ended	
	March 31, 2018	March 31, 2017
OPERATIONAL HIGHLIGHTS		
Lost time incidents rate ("LTI")	**2.0**	0.7
Average daily manpower (workers)	**377**	275
Open pit tonnes mined (tonnes)	**424,923**	1,245,945
Underground ore tonnes mined (tonnes)	**116,798**	14,694
Tonnes processed (tonnes)	**562,520**	419,233
Carats recovered (carats)	**285,851**	385,151
Carats sold (carats)	**314,182**	459,126
Capital expenditures[1]	**31,054**	19,261
Underground development (meters)	**1,302**	1,226
FINANCIAL HIGHLIGHTS		
Revenues	**55,949**	48,492
Cost of goods sold	**43,317**	33,626
Selling, general and administrative expenses	**4,051**	5,120
Exploration expenses	**826**	646
Financial expenses (income)	**17,840**	(2,730)
Foreign exchange loss (gain)	**3,159**	(1,019)
Gain on sale of interests in exploration properties	**–**	(400)
Net (loss) income before tax	**(13,244)**	13,249
Income tax (recovery) expense	**(2,264)**	14,424
Net loss	**(10,980)**	(1,175)
Adjusted net loss[1]	**(13,959)**	(2,529)
Loss per share – Basic and diluted	**(0.01)**	Nil / (0.01)
Adjusted EBITDA[1]	**7,393**	21,301
Adjusted EBITDA margin (%)[1]	**19%**	44%

OTHER SELECTED FINANCIAL INFORMATION

	March 31, 2018	December 31, 2017
Cash, cash equivalents and short-term investments	**51,615**	81,039
Total assets	**1,333,814**	1,256,300
Current monetary liabilities[5]	**77,267**	65,753
Total debt[6]	**306,893**	308,107
Equity	**574,885**	583,207
Common shares outstanding (shares)	**835,453,290**	835,263,337

[5] Includes payables and accrued liabilities, the current portion of long-term debt, and the fair value of derivative financial liabilities with maturities of 12 months or less.
[6] Consists of long-term debt, including current portion of long-term debt, and the convertible debentures

OPERATIONAL HIGHLIGHTS

Environment, Health, Safety and Communities

Four lost time incidents ("LTI") were recorded during the quarter (employees/contractors slipped on ice/snow), for a year to date LTI rate of 2.0 for both contractors and Stornoway employees. Daily manpower at site in March averaged 419 workers (Stornoway and contractors) of which 10% were Crees of the Eeyou Istchee. Stornoway employees stood at 539 as at March 31, 2018, including 475 mine located employees, of which 12% were Crees, 23% were from Chibougamau and Chapais, and 65% were from outside the region. No incidences of environmental non-compliance were reported in the quarter.

Mining and Processing

During the first quarter, 424,923 tonnes were mined from the Renard 2-3 and Renard 65 open pits, with 202,986 tonnes of ore extracted. First quarter production was 285,851 carats recovered from the processing of 562,520 tonnes of ore at an attributable grade of 51 cpht. During the quarter, mining in the Renard 2-3 open pit was hampered by poor weather conditions, which restricted mining access and impacted equipment availability. Approximately 55,000 tonnes of high-grade Renard 2 ore, which was scheduled for mining at the base of the pit, could not be recovered due to unsafe working conditions adjacent to the west pit wall. This resulted in a higher proportion of low-grade stockpile material being processed during the quarter than was planned, with a commensurate reduction in carat recoveries. In addition, the extreme weather conditions resulted in lower than expected plant availability, as ore froze in feed-bins. Processing rates in the quarter averaged 6,250 tonnes per day compared to an annual plan of 7,000 tonnes per day.

By the end of the quarter, open pit mining at Renard 2 had been completed, and a progressively higher proportion of processed ore was being derived from the Renard 2 underground mine. Processing in March averaged 6,750 tonnes per day. Second quarter production is expected to be sourced predominantly from the underground mine as production from the 290 meter level ramps-up, supplemented by Renard 3 open pit ore, Renard 65 open pit ore and low grade stockpiles. Mining in the Renard 3 open pit concluded in April.

Underground mine production commenced in the first quarter on schedule, with a focus on production blasting and the build-up of ore inventory in the production stopes. A total of 168,906 underground production and development tonnes were mined during the quarter, of which 116,798 tonnes ore were extracted, including more than 70,000 tonnes of ore delivered to the process plant. The initial experience with the mining method is that the kimberlites' host rocks are proving more competent than initially expected, and kimberlite is caving naturally into the draw points. This offers the opportunity to develop an Assisted Block Cave as the principal mining method, with less longer term development expense and less stope backfill. Ore available for processing is expected to be derived predominantly from the underground mine by the beginning of the third quarter.

Equipment commissioning of the new ore-waste sorting circuit at Renard commenced on March 25, 2018. Ore processing through the new circuit was achieved on a consistent basis by the end of April, and progressively higher volumes of ore are expected to be processed during the second quarter as spectral

OPERATIONAL HIGHLIGHTS – *continued* –

Mining and Processing – *continued* –

sorting configurations are established and the main process plant is re-balanced. The volume and quality of ore-waste segregation has been positive, and initial diamond recovery results encouraging.

Diamond Sales

During the quarter, 3 tender sales totalling 399,135 carats were completed for gross proceeds of $56.6 million at an average price of US$112 per carat ($142 per carat[2]).

Revenue recognized during the quarter was derived from 271,518 carats of run of mine production recovered between October 2017 to December 2017 and included in two tender sales in January and February 2018, with gross proceeds of $36.8 million at an average achieved price[1] of US$106 per carat ($135 per carat[2]). In addition to the sale of run of mine production, an additional 42,663 carats of diamonds smaller than the -7 DTC sieve size were sold during the quarter in an out of tender contract sale for gross proceeds of $1.0 million at an average price of US$19 per carat ($24 per carat[3]). These represent recoveries of small diamond "incidentals" produced between October 2017 and February 2018 that are in excess of that expected from the Renard Mineral Resource.

The third tender sale of year, completed in March 2018, comprised 127,616 carats of run of mine production sold for gross proceeds of $19.8 million at an average price of US$123 per carat ($156 per carat[4]) . Proceeds from this sale will be recognised as revenue in the second quarter since deliveries to clients were made subsequent to the quarter-end.

On a segmented basis, excluding the results of the third tender, 192,597 carats of +7 DTC sieve size diamonds were sold at an average price of US$141 per carat ($180 per carat[4]), and 121,585 carats of -7 DTC sieve size diamonds were sold at an average price of US$20 per carat ($25 per carat[7]).

Commentary on Diamond Production and Revised Guidance

During the first quarter, diamond production was lower than budgeted due to the unscheduled processing of lower grade ore based on availability. As the Renard mine transitions from open pit to predominantly underground mining, the processing of low-grade ore derived from surface stockpiles and the initial stope development is expected to continue into the second quarter. This will impact Stornoway's full year production forecast negatively.

In consequence, full year production guidance has been revised downwards to between 1.35 million carats and 1.40 million carats from 1.6 million carats at a recovered grade of between 54 and 56 cpht from 65 cpht. Full year guidance for carats sold has been revised downwards to between 1.20 million carats and 1.25 million carats from 1.60 million carats.

[7] Based on an average $:US$ conversion rate of $1.28

OPERATIONAL HIGHLIGHTS – *continued* –

Commentary on Diamond Production and Revised Guidance – *continued* –

No change to guided diamond pricing is being made at this time. To date in 2018, including goods sold in the third tender sale event of 2018, Stornoway has sold +7 DTC sized diamonds at an average price of US$148 per carat (compared to guidance of US$125 to US$165 per carat), and -7 DTC sized diamonds at an average price of US$20 per carat (compared to guidance of US$15 to US$19 per carat).

No change to guided tonnes mined and tonnes processed is being made at this time. No change to guided capital or operating cost expenditures are being made at this time. Cash operating cost per carat is expected to be between $88 and $90 per carat owing to the lower expected carat production.

Capital Projects

Capital expenditures[1] of $31.1 million in the first quarter of 2018 were principally related to the development of the underground mine and the construction of the ore-waste sorting circuit.

During the quarter, 1,302 meters of lateral development in the underground mine were completed on drilling levels and at production drawpoints on the 290-meter level, which will support mine production at Renard for the next three years. At the same time, development of the main ramp is ongoing towards the 470-meter level. Full transition to underground mine production and ore-waste sorting is expected to be completed by the end of the second quarter, with a commensurate reduction in development capital expenditures.

Exploration

On January 18, 2018, Stornoway announced a program of brownfield and grassroots exploration aimed at both the development of the existing resource upside potential at the Renard Mine and new discoveries. A total budget of $4.6 million has been allocated to complete this 2018 work, which commenced during the first quarter. Preliminary results are as follows.

RIL Project
The RIL Property is a new project identified by Stornoway from grassroots exploration sampling, and located approximately 80km north of the town of Elliot Lake, Ontario. A single geophysical target under a small lake was tested with diamond drilling in February 2018. The first of four inclined holes intersected 124m of volcanoclastic diatreme breccia containing abundant kimberlite indicator minerals (including olivine, chrome diopside and ilmenite) as well as numerous mantle nodules.

All four holes intersected the body but, due to local terrain conditions, the shallowest intersection was at 75m vertical depth, and the deepest at 250m vertical, so the actual surface expression is not well defined. Preliminary modelling of a pipe shell, based on 1,297m of drilling and subsequent detailed core logging, suggests an elongate intrusive pyroclastic body measuring about 190m by 100m. Mineralogical studies to establish the petrological affinity of this diatreme are ongoing, but approximately 150 kilograms of material have been submitted for microdiamond recovery (by caustic fusion) and another 1.3 tonnes for macro diamond recovery (by dense media separation). Results are not currently available.

OPERATIONAL HIGHLIGHTS – *continued* –

Exploration – *continued* –

The nearest known cluster of kimberlite intrusions is more than 130 km away. If confirmed, the RIL diatreme would signify the discovery of a new, potentially significant occurrence of kimberlite in Canada. The area is notable for good access infrastructure and, following the recent lifting of the staking moratorium in Ontario, Stornoway has acquired approximately 8,590 ha of new claims in the region.

Renard Brownfields Exploration
The Renard Property comprises more than 600 mineral claims representing about 33,600 ha of ground centred on the Renard Diamond Mine. In addition to the nine known kimberlite pipes in the Renard core area (five of which are in the present mine plan), there are at least eleven additional kimberlite dykes on the property. The 2018 brownfields drill program at Renard represents the first systematic property scale exploration work since 2007-08, and was focussed on testing geophysical responses indicative of pipe-like kimberlite bodies, with the size and tonnage potential to provide meaningful new sources of ore-feed to the centrally located Renard mine process plant.

During March and April 2018 a total of 95 holes were completed using three light reverse circulation (RC) drill rigs. These holes tested 91 geophysical anomalies, including 11 sites drilled for condemnation purposes to support potential future construction activities. The testing of certain promising lake targets were not completed due to deteriorating ice conditions.

Kimberlite chips were recovered at three targets indicating the presence of new dyke-like bodies. Of greater significance, chips of Country Rock Breccia ("CRB") or related alteration were recovered at nine targets. CRB is a clast supported country rock breccia, with or without kimberlitic components.

At Renard, CRB is an integral part of the volcanic emplacement process, forming a halo around the kimberlite pipes, and commonly has gradational contacts with the main volcanoclastic kimberlite units. These new CRB discoveries now make a total of 14 CRB occurrences identified through current or historical drilling. The Renard Property can be considered to be a widespread zone of volcanic activity characterised by country rock breccias, kimberlite dykes, and (to date) nine centrally located diatremes.

While RC drilling facilitates rapid cost effective preliminary testing of targets, core drilling will be required to follow up the CRB discoveries for adjacent or blind kimberlite diatremes. Equipment and samples from the 2018 field program are currently being demobilized from site, and all sample materials will be reviewed in more detail under laboratory conditions.

During the 2018 Renard brownfields drill program, other forms or alteration, as well as sulphide mineralization (pyrite, chalcopyrite and pyrrhotite), were identified in RC chips from at least 15 other holes, and will be assessed for their economic potential.

OPERATIONAL HIGHLIGHTS – *continued* –

Exploration – *continued* –

Renard Resource Development
In addition to the brownfields exploration at Renard, a separate program of underground drilling is planned to test the depth potential of the Renard 3 kimberlite below the base of the currently defined Mineral Reserves. The objective of this drill program is the conversion of Inferred Mineral Resources and Targets for Further Exploration ("TFFE") to Indicated Mineral Resource and, if warranted, new Mineral Reserves, with a view to the acceleration and expansion of underground mining of the high grade Renard 3 kimberlite in the Renard mine plan. A budget of $0.6 million has been allocated to complete this work. Drilling is expected to commence in the second quarter.

Wabi Project
The 3,100 ha Wabi Project lies about 20 km west of the City of Temiskaming Shores, and 5 km north of the large, but currently sub-economic, 95-2 kimberlite pipe. Eight geophysical targets with kimberlite indicator mineral support were drill tested during the quarter (598m total). No kimberlite was encountered. Drill core from this project is currently being evaluated in more detail, and a number of disseminated sulphide intersections will be submitted for analyses.

Met Project
The Met project comprises 2,175 hectares of claims near the town of Temiskaming in western Québec. Historical exploration work has confirmed the presence of geophysical targets consistent with multiple kimberlite occurrences, supported by kimberlitic indicator mineral anomalies. Detailed ground magnetic surveying was completed at Met in March, prior to drill testing which is expected to commence later in the year.

FINANCIAL HIGHLIGHTS

Revenues

Revenues during the Current Quarter totalled $55.9 million, compared to $48.5 million in the Comparative Quarter. Revenues in the Current Quarter include $22.0 million recognized from the contract liabilities related to the upfront proceeds received by the Corporation under the Renard Stream agreement in consideration for future commitments to deliver diamonds at contracted prices ($6.8 million in the Comparative Quarter). Revenue in the Current Quarter was positively influenced by the application of IFRS 15, which increased revenue recognized from the contract liabilities by $17.3 million.

Before Stream and royalty, revenue recognized during the Current Quarter was derived from 271,518 carats of run of mine production included in two tender sales events, with gross proceeds of $36.8 million at an average achieved price[1] of US$106 per carat ($135 per carat[4]). In addition, during the quarter, the Corporation sold 42,663 carats of incidental production in one out of tender contract sale at an average price of US$19 per carat ($24 per carat[5]). This compares to 459,126 carats sold in three tender sales events and three out of tender contract sales in the Comparative Quarter, with gross proceeds of $44.5 million at US$73 per carat ($97 per carat[8]).

[8] Based on an average $:US$ conversion rate of $1.32

FINANCIAL HIGHLIGHTS – *continued* –

Cost of goods sold

The Corporation's cost of goods sold were $43.3 million (March 31, 2017 – $33.6 million) related to mining, processing, rough diamond sorting activities, site services and depreciation. Included in cost of goods sold is $1.9 million of operating expenses related to low grade ore stockpiles to be processed towards the end of the mine life, and therefore treated directly as a production cost. Cost of sales for the three month ended March 31, 2018 includes a $3.8 million write-down to bring work-in-progress inventories to their net realizable value. Depreciation included in cost of goods sold was $17.0 million.

For the Current Quarter, cash-operating cost per tonne processed[1] was $50.70, compared to $52.67 per tonne in the Comparative Quarter. The decrease in cost per tonne is explained by the increased throughput as the mine was ramping up to nameplate capacity in the Comparative Quarter. Cash operating cost per carat recovered[1] was $99.77, compared to $57.33 in the Comparative Quarter. The increase is explained by lower carat recoveries due to the processing of lower grade ore.

Cost of goods sold also includes a 2% royalty interest on diamond sales (calculated as 2% of the actual gross selling price in Canadian Dollars, minus the lesser of a 3% marketing charge and the actual diamond selling cost). In the Current Quarter, a royalty expense of $0.7 million (Comparative Quarter - $0.9 million) was payable to Diaquem, a related party.

Selling, general and administrative expenses

Selling, general and administrative expenses represent a portion of the Corporation's operating costs for its head and regional offices, including salaries, benefits, director fees and share-based compensation, and all expenses incurred related to the diamond sales process. Total expenses of $4.1 million decreased by $1.0 million from $5.1 million in the Comparative Quarter, mainly attributable to a decrease of $1.0 million in share-based compensation expense.

Exploration expenses

Exploration expenses of $0.8 million were primarily related to work done on new targets on the Corporation's Renard property (see Exploration Update). In the Comparative Quarter, exploration expenses totalled $0.6 million, primarily related to work done on the Corporation's Adamantin property.

Financial expenses (income)

Financial expenses for the Current Quarter were $17.8 million, and were influenced by the application of IFRS 15, which increased accretion expenses on the contract liabilities by $14.5 million. Excluding the impact of IFRS 15, financial expenses stood at $3.3 million for the Current Quarter, compared to financial income of $2.7 million in the Comparative Quarter. The difference is largely attributable to a $5.1 million decrease in the unrealized gain on fair value of the convertible debentures, from $10.1 million in the Comparative Quarter, to $5.0 million in the Current Quarter. The remaining difference is due to $1.0 million in incremental financial expenses (due to higher interest expense offset by lower standby fees) in the Current Quarter payable to Diaquem, a related party, due to drawing on the Senior Secured Loan in 2017.

FINANCIAL HIGHLIGHTS – *continued* –

Foreign exchange (loss) gain

A net foreign exchange loss of $3.2 million in the Current Quarter (Comparative Quarter – $1.0 million gain) was mainly due to a $2.2 million foreign exchange gain on the convertible debentures, and a $0.9 million foreign exchange gain on the equipment financing facility, which are denominated in US dollars, reflecting the depreciation of the Canadian dollar relative to the US dollar.

Income taxes

During the three months ended March 31, 2018, the Corporation recognized a deferred and income tax recovery of $2.3 million, representing an effective tax rate of 17.1% (March 31, 2017 – $14.4 million expense, representing an effective tax rate of 108.9%), compared to the combined Canadian federal and provincial statutory income tax rate of 26.7%. The decrease is due to non-deductible expenses. For the three months ended March 31, 2017, the increase is due to a mining tax credit of $9.8 million that was received in the first quarter of 2017, which relates to costs incurred towards the construction of the Route 167 Extension from November 1, 2012 to October 31, 2013 and was recognized as a credit against property, plant and equipment. As a result, a $9.8 million deferred income tax liability was recognized to reflect the relinquishing of future Quebec mining tax deductions.

Net loss and Adjusted net loss

The Corporation reported net loss of $11.0 million (Comparative Quarter – $1.2 million net loss) due mainly to a $5.1 million decrease in the unrealized gain on fair value of the convertible debentures, a $4.2 million increase in the foreign exchange loss, and a net $1.1 million favorable impact related to the application of IFRS 15. Excluding these elements, the $11.4 million increase in Adjusted Net Loss[1], from $2.5 million in the Comparative Quarter, to $14.0 million in the Current Quarter, relates mainly to a decrease in gross profit by $18.3 million (before $17.3 million of additional revenues and $1.3 million of additional depreciation expense under IFRS 15), offset by a $7.5 million increase in deferred tax recovery (before $0.4 million of deferred tax expense impact under IFRS 15, and before a $9.8 million mining tax credit received in the Comparative Quarter).

Adjusted EBITDA

The Corporation reported adjusted EBITDA[1] of $7.4 million representing 19% of adjusted revenues[1] (March 31, 2017 – $21.3 million representing 44% of revenues). The decrease in adjusted EBITDA as compared to the Comparative Quarter relates mainly to a decrease in adjusted revenues[1] of $9.9 million and by a $5.1 million increase in operating expenses. The commensurate reduction in gross profit is largely attributable to the processing of a higher proportion of low-grade stockpile material in the Current Quarter. See “Cost of Goods Sold” under “Financial Highlights” for more information.

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2018, the Corporation had current monetary assets of $53.7 million, which includes cash and cash equivalents and derivative financial instruments classified as current assets, to settle current monetary liabilities of $77.3 million, which includes payables and accrued liabilities, the current portion of long-term debt, and the derivative financial instruments classified as current liabilities. The Corporation's current assets also comprise $38.8 million of rough-diamond inventory expected to be sold during the second quarter of 2018, and therefore used towards settling current monetary liabilities. The Corporation's trade and other payables have contractual maturities of less than 30 days and are subject to normal trade terms. The Corporation regularly evaluates its available liquidity to ensure it has sufficient cash resources to meet its operating and capital requirements.

Based on management's current forecasts, the Corporation has sufficient available liquidity to meet its capital requirements up to the full transition to underground mine production. Available liquidity[2] to the Corporation, comprising of cash and cash equivalents and available credit facilities, stood at $71.9 million.

As at March 31, 2018, the Corporation was in compliance with all of its debt covenants. In order to comply with these covenants in future periods, the Corporation will need to execute on its cash flow estimates and on management's plans for future actions. Management believes that the assumptions used by the Corporation in preparing its estimates are reasonable and plans for future actions are feasible. Failure to comply with these covenants in the future may result in an event of default. If such event of default is not cured or waived, the Corporation may suffer adverse effects on its operations, business or financial condition, including termination of the debt facilities and acceleration of debts, and being required to return non-offset portions of the deposit received on the stream agreement to the streamers (with an applicable rate of interest from the payment date of the deposit) due to cross default provisions. In such situation, there can be no assurance that the assets of the Corporation would be sufficient to repay such indebtedness or any non-offset portions of the deposit received on the stream agreement in full, and such default could result in secured creditors' realization of collateral. As a result, the Corporation is engaging in discussions with its lenders to amend the terms of certain of its debt instruments to better suit its working capital requirements as an operator in light of revised 2018 guidance and to support further growth of the Corporation's business.

Consolidated cash flows

Below is a summary of the Corporation's cash flow activities:

	For the three months ended	
	March 31, 2018	March 31, 2017
Cash flow provided by (used in) operating activities, before changes in non-cash working capital	**(2,435)**	11,928
Changes in non-cash working capital	**7,040**	17,056
Cash provided by (used in) operating activities	**4,605**	28,984
Cash provided by (used in) investing activities	**(15,568)**	(20,613)
Cash provided by (used in) financing activities	**(2,840)**	(2,727)
Effect of foreign exchange rate changes on cash and cash equivalents	**(43)**	(51)
Net increase (decrease) in cash and cash equivalents	**(13,846)**	5,593
Cash and cash equivalents – Beginning of Period	**65,461**	42,293

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

Cash and cash equivalents – End of Period	**51,615**	47,886

LIQUIDITY AND CAPITAL RESOURCES – *continued* –

Consolidated cash flows – *continued* –

Cash and cash equivalents decreased by $13.8 million, from $65.4 million at December 31, 2017, to $51.6 million at March 31, 2018. These cash flow movements are mainly explained by the following activities.

Cash flows provided by operating activities

Cash provided by operating activities was $4.6 million in the Current Quarter (Comparative Quarter – $29.0 million), explained by operating cash outflows before changes in non-cash working capital of $2.4 million (Comparative Quarter – $11.9 million inflows), largely driven by a $12.7 million decrease in cash gross profit, and changes in non-cash working capital of $7.0 million (Comparative Quarter – $17.1 million). This is mainly explained by a $6.1 million decrease in payables and accrued liabilities, and a $2.6 million increase in inventory.

Cash flows used in investing activities

Cash used in investing activities was $15.6 million in the Current Quarter (Comparative Quarter – $20.6 million), reflecting cash outlays of $32.2 million for property, plant and equipment (Comparative Quarter – $48.4 million), partially offset by the sale of short-term investment in the amount of $15.6 million (Comparative Quarter – $19.5 million). In addition, the Corporation received, in the Comparative Quarter, a mining tax credit of $9.8 million relating to the construction of the Route 167 Extension road, which was credited against property, plant and equipment.

Cash flows used in financing activities

Cash used in by financing activities was $2.8 million in the Current Quarter (Comparative Quarter – $2.7 million). The Corporation made $3.0 million in principal repayments on long-term debt during the Current Quarter (Comparative Quarter – $2.9 million).

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

LIQUIDITY AND CAPITAL RESOURCES – *continued* –

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 7 of the condensed interim consolidated financial statements for the year ended March 31, 2018):

	Up to 1 year	1-5 years	Over 5 years	Total
Unsecured debt facility (# 1)	6,117	11,355	-	**17,472**
Other secured debt	1,571	6,286	7,465	**15,322**
Renard mine road debt facility	6,000	32,552	46,372	**84,924**
Senior secured loan	29,494	94,315	29,468	**153,277**
Obligations under finance leases(1)	10,770	28,429	1,147	**40,346**
Convertible debentures(1)	6,548	121,314	-	**127,862**
Operating Lease Payments	371	772	-	**1,143**
Other operating commitments	5,309	22,868	21,954	**50,131**
	66,180	**317,891**	**106,406**	**490,477**

(1) *Amounts in US dollars are subject to variable interest rates and are determined based on the current spot rate at March 31, 2018.*

Other Operating Commitments

Under its long-term contractual agreement for the supply of liquefied natural gas ("LNG"), the Corporation must set aside an amount of $2.0 million in restricted cash. The future minimum payments are based on the estimated minimum obligations over the term of the contractual agreement.

Impact and Benefits Agreement

In March 2012, the Corporation entered into an impact and benefits agreement (the "Mecheshoo Agreement") for the Renard Diamond Mine 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 Mine. It provides for training, employment and business opportunities for the Cree during the Renard Diamond Mine 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 Mine 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 minerals other than diamonds.

LIQUIDITY AND CAPITAL RESOURCES – *continued* –

Commitments and obligations – *continued* –

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. 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 Interim Consolidated Statements of Financial Position.

Other Commitment

As at March 31, 2018, SDCI has signed commitments of $19.7 million for the purchase of property, plant and equipment, which are expected to be incurred in 2018.

Contingencies

Pursuant to flow-through financing agreements entered into with investors in 2013 under the look-back rules, the Corporation committed to incur, in 2014, Canadian Exploration Expenses with specific criteria in accordance with Canadian tax laws. In January 2018, the Corporation received from the Canada Revenue Agency (“CRA”) a proposed assessment denying eligibility of certain expenses, representing $6.1 million of Canadian Exploration Expenses renounced to the investors. Subsequent to the quarter end, the Corporation received a revised proposed assessment from the CRA denying eligibility of further expenses related to the same flow-through financing, which now represent in the aggregate approximately $9.7 million. At this stage, management maintains its position that the expenses were incurred as proper Canadian Exploration Expenses, and does not agree with the position of the CRA. The Corporation is continuing its discussions with CRA in an effort to reach a favorable outcome for the Corporation and is rigorously defending its position. Should the Corporation not be successful in its representation, a reassessment could give rise to indemnification obligations of the Corporation under the applicable flow through subscription agreements. At this time, given the facts and circumstances, while the outcome cannot be predicted with certainty, it is management's opinion that the outcome will not have a material adverse effect on the Corporation's financial statements, and as such, no provision has been recognized as at March 31, 2018 for this matter. No assurance can be made that the CRA will ultimately agree with the Corporation’s position.

FINANCIAL INSTRUMENTS

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 9 of the audited consolidated financial statements for the year ended December 31, 2017.

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

FINANCIAL INSTRUMENTS – *continued* –

The Corporation is exposed to foreign currency risk principally as its revenues are denominated in US dollars, while the majority of the Corporation's current and anticipated capital and operating expenditures are in Canadian dollars. From time to time, the Corporation mitigates its foreign exchange exposure to US dollar denominated sales by entering into forward foreign exchange and option contracts. The Corporation's risk management policy authorizes hedging up to 75% of its foreign currency exposure, on a rolling 24-month basis.

For the three months ended March 31, 2018, no material changes were identified in respect of the Corporation's risk management. Details of changes in financial instruments can be found in Notes 2, 3 and 7 of the Condensed Interim Consolidated Financial Statements.

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.

	Revenues	Net (Loss) Income	Basic Earnings (Loss) per share	Diluted Earnings (Loss) per share
March 31, 2018	**55,949**	**(10,980)**	**(0.01)**	**(0.01)**
December 31, 2017	55,483	(118,570)	(0.14)	(0.14)
September 30, 2017	49,977	2,000	Nil	Nil
June 30, 2017	42,550	3,112	Nil	Nil
March 31, 2017	48,492	(1,175)	Nil	(0.01)
December 31, 2016	Nil	52,020	0.06	0.05
September 30, 2016	Nil	(15,548)	(0.02)	(0.02)
June 30, 2016	Nil	5,779	0.01	Nil

Changes in the Corporation's quarterly results are largely driven, in 2018 and 2017, by the number of tender sales events concluded during each quarter, as well as the number of carats included in each of these tenders, due to changes in grade. Fluctuations in the diamond market, for certain diamond categories and the prevalence of certain diamond categories, due to changes in recoveries profile, may also impact quarterly results, as well as foreign exchange rates, given the Corporation's revenues and certain debt instruments are denominated in the US Dollar, and changes in the fair value of derivatives. Additionally, results in 2018 have been influenced by the application of IFRS 15, and an impairment charge on the Corporation's property, plant and equipment recognized in December 2017, has impacted results for the fourth quarter of 2017.

Given the Corporation officially declared commercial production effective January 1, 2017, in 2016, quarterly results were mainly influenced by 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, and foreign exchange variations, had the most significant impact on the Corporation's quarterly results, followed by general and administrative expenses.

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, 2017 for further details).

As at May 11, 2018, there were 835,663,114 common shares, 38,243,334 stock options and 14,000,000 warrants issued and outstanding.

TRANSACTIONS WITH RELATED PARTIES

The Corporation entered into the following transactions with related parties for the three months ended March 31, 2018:

(i) For the three months ended March 31, 2018, the Corporation incurred $2.5 million in interest, and $0.7 million in royalties (March 31, 2017 - $1.9 million in interest and commitment fees, and $0.9 million in royalties) with Diaquem Inc ("Diaquem"), Ressources Quebec ("RQ") and Investissement Quebec ("IQ"). Collectively, as at March 31, 2018, Diaquem, RQ and IQ own 25.1% of the Corporation's issued and outstanding common shares and therefore have significant influence over the Corporation;

(ii) For the three months ended March 31, 2018, the Corporation incurred interest of $0.4 million (March 31, 2017 - $0.4 million) payable to Orion Co-Investment I Limited ("Orion"). As at March 31, 2018, Orion owns 15.6% 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.

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

NON-IFRS FINANCIAL MEASURES

This MD&A refers to certain financial measures, such as Adjusted Net Loss, Adjusted EBITDA, Adjusted Revenues, Adjusted EBITDA Margin, Average diamond Pricing Achieved, Cash Operating Cost per Tonne Processed, Cash Operating Cost per Carat Recovered, Capital Expenditures, and Available Liquidity, which are not measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. As a result, these measures may not be comparable to similar measures reported by other corporations.

Each of these measures have been derived from the Corporation's financial statements and have been defined and calculated based on management's reasonable judgement. These measures are used by management and by investors to assist in assessing the Corporation's performance. The measures are intended to provide additional information to the user and should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS.

Adjusted Net Loss

"Adjusted Net Loss" is used by the Corporation to evaluate earnings trends more readily in comparison with results from prior periods, as it excludes impacts from the application of IFRS 15, unrealized gains and losses related to the changes in fair value of U.S. denominated debt and other non-recurring or unusual items that are not reflective of the Corporation's underlying operating performance and unlikely to occur on a regular basis. The following table provides a reconciliation of Adjusted Net Loss to net loss:

	For the three months ended	
	March 31, 2018	March 31, 2017
Net loss	**(10,980)**	(1,175)
Unrealized gain on fair value of derivatives	**(4,991)**	(10,091)
Foreign exchange loss (gain)	**3,159**	(1,019)
IFRS 15 impacts:		
Change in revenue from contract liabilities	**(17,335)**	–
Accretion expense on contract liabilities	**14,511**	–
Additional depreciation	**1,265**	
Deferred income taxes	**412**	
Mining tax credit capitalized	–	9,756
Adjusted Net Loss	**(13,959)**	(2,529)

Adjusted EBITDA, Adjusted Revenues and Adjusted EBITDA Margin

"Adjusted EBITDA" and "Adjusted EBITDA Margin" are used by management and investors to assess and measure the underlying pre-tax operating performance of the Corporation and are generally regarded by management as better measures to evaluate performance trends. "Adjusted Revenues" is used by the Corporation to evaluate revenue trends more readily in comparison with results from prior periods.

"Adjusted EBITDA" is defined as net income (loss) before depreciation, interest and other financial expenses (income), and income tax, adjusted for unrealized gains and losses related to the changes in fair value of U.S. denominated debt and other non-recurring or unusual items that are not reflective of the Corporation's underlying operating performance and unlikely to occur on a regular basis. "Adjusted Revenues" is defined as total revenues adjusted for impacts related to the adoption of IFRS 15. "Adjusted EBITDA Margin" is the calculation of Adjusted EBITDA divided by Adjusted Revenues.

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

NON-IFRS FINANCIAL MEASURES – *continued –*

Adjusted EBITDA, Adjusted Revenues and Adjusted EBITDA Margin – continued –

The following table provides a reconciliation of Adjusted EBITDA to net loss:

	For the three months ended	
	March 31, 2018	March 31, 2017
Net loss	**(10,980)**	(1,175)
Income tax recovery (expense)	**(2,264)**	14,424
Interest and other financial expenses	**22,831**	7,361
Depreciation	**16,973**	12,201
Gain on sale of interests in exploration properties	**–**	(400)
EBITDA	**26,560**	32,411
Unrealized (gain) loss on fair value of derivatives	**(4,991)**	(10,091)
Foreign exchange gain (loss)	**3,159**	(1,019)
IFRS 15 impact – Change in revenue from contract liabilities	**(17,335)**	–
Adjusted EBITDA	**7,393**	21,301

The following table provides a reconciliation of Adjusted EBITDA Margin to revenues and Adjusted Revenues:

	For the three months ended	
	March 31, 2018	March 31, 2017
Adjusted EBITDA	**7,393**	21,301
Revenues	**55,949**	48,492
IFRS 15 impact – Change in revenue from contract liabilities	**(17,335)**	–
Adjusted Revenues	**38,614**	48,492
Adjusted EBITDA Margin	**19%**	44%

Average Diamond Pricing Achieved

"Average Diamond Pricing Achieved" is used by the Corporation to measure the value of diamonds sold into the market in the period, prior to adjustments to reflect the impact of the stream. This measure is used by management and investors as it reflects the average diamond price achieved during the period and is more comparable to the average diamond price achieved by other diamond producers. Average diamond price achieved is calculated based on reported revenues adjusted for the amortization of deferred stream revenue, remittances made to/from stream participants, and gains or losses from revenue hedging activities divided by the number of carats sold in the period.

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

NON-IFRS FINANCIAL MEASURES – *continued –*

Average Diamond Pricing Achieved – continued –

The following table provides a reconciliation of the Average Diamond Pricing Achieved to revenue:

	For the three months ended	
	March 31, 2018	March 31, 2017
Revenues	**55,949**	48,492
Realized cash flow hedges	**292**	–
Amortization of deferred stream revenues	**(22,009)**	(6,785)
Revenue from incidentals, before Stream	**(1,365)**	–
Stream remittances for run of mine production	**3,891**	2,827
Proceeds achieved at sale	**36,758**	44,534
Carats sold	**271,518**	459,126
Average Diamond Pricing Achieved	**135**	97

Cash Operating Cost per Tonne Processed and per Carat Recovered

"Cash Operating Cost per Tonne Processed" and "Cash Operating Cost per Carat Recovered" are used by management and investors to measure the mine's cash operating cost per tonne processed or per carat recovered. Cash Operating Cost per Tonne Processed is calculated based on reported operating expenses adjusted for the impact of inventory variation, excluding depreciation ("Cash Operating Cost"), divided by tonnes processed for the period. Cash Operating Cost per Carat Recovered is the total Cash Operating Cost divided by carats recovered.

The following table provides a reconciliation of the Corporation's Cash Operating Cost per Tonne Processed and per Carat Recovered:

	For the three months ended	
	March 31, 2018	March 31, 2017
Operating expenses	**25,606**	20,556
Variation in inventory, excluding depreciation	**2,912**	1,525
Cash Operating Costs	**28,518**	22,081
Tonnes processed	**562,520**	419,233
Carats recovered	**285,851**	385,151
Cash Operating Cost per Tonne Processed	**50.70**	52.67
Cash Operating Cost per Carat Recovered	**99.77**	57.33

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

NON-IFRS FINANCIAL MEASURES – *continued –*

Capital Expenditures

"Capital Expenditures" is the term used by the Corporation and investors to describe capital expenditures incurred during the period. This measure is used by management and investors to measure the amount of capital spent by the corporation on sustaining, margin improvement, and/or growth capital projects in the period.

The following table provides a reconciliation of the Capital Expenditures to the addition of property plant and equipment in the notes to financial statements:

	For the three months ended	
	March 31, 2018	March 31, 2017
Addition of property, plant and equipment (as per Note 8 of financial statements)	**31,464**	22,601
Change in asset retirement obligation included in Property, Plant and Equipment	**(262)**	(2,130)
Capital leases included in deposits	**–**	(708)
Critical and capital spare parts capitalized	**–**	(240)
Share based compensation capitalized	**(121)**	–
Other	**(27)**	(262)
Capital Expenditures	**31,054**	19,261

Available Liquidity

"Available Liquidity" comprises cash and cash equivalents, short-term investments and available credit facilities (less related upfront fees) and is used by the management and investors to measure the amount of cash resources available to the Corporation, over and above the cash generated from operations, to support the operating and capital requirements of the business.

The following table provides a reconciliation of the Available Liquidity:

	March 31, 2018	December 31, 2017
Cash and cash equivalents	**51,615**	65,461
Short-term investments	**–**	15,578
Available capacity – Caterpillar equipment facility	**20,280**	20,744
Available Liquidity	**71,895**	101,783

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, 2017.

RISKS AND UNCERTAINTIES

The operating results and financial condition of the Corporation are subject to a number of inherent risks and uncertainties associated with its business activities, which include the financing, exploration, development, construction and operation of its mine and processing facility. The operating results and financial condition are also subject to numerous external factors, which include economic, regulatory, legal, tax and market risks impacting, among other things, supply of materials and demand for rough diamonds, rough diamond prices, foreign exchange rates, inflation and the availability and cost of capital to fund the capital requirements of the business. Each of these risks could have a material adverse effect on the Corporation's future business, financial condition, prospects, results of operations or cash flow, and could cause actual results to differ materially from those described in any forward-looking statements contained in this MD&A. The Corporation endeavours to manage these risks and uncertainties in a balanced manner with a view to mitigate risk while maximizing total shareholder returns. It is the responsibility of senior management to identify and to effectively manage the risks of the Corporation. This includes developing appropriate risk management strategies, policies, processes and systems. There can be no assurance that the Corporation has been or will be successful in identifying all risks or that any risk-mitigating strategies adopted to reduce or eliminate risk will be successful. These risks should be considered when evaluating the Corporation and its guidance. A comprehensive discussion of the risks faced by the Corporation can be found in the Corporation's 2017 Annual MD&A and most recently filed AIF, which are available on SEDAR at www.sedar.com under the Corporation's profile.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Corporation's President and Chief Executive Officer ("CEO"), and its Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P"), and internal controls over financial reporting ("ICFR") as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The DC&P have been designed to provide reasonable assurance that:

- material information relating to the Corporation is made known to the CEO, and the CFO by others, and that;
- information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by the Corporation under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Corporation's management, under the supervision of the CEO and the CFO, has evaluated its DC&P and ICFR, and concluded that, as of March 31, 2018, they have been designed effectively. ICFR was designed using the Internal Control – Integrated Framework (2013) developed by COSO (Committee of Sponsoring Organizations of the Treadway Commission).

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 ICFR in the three months ended March 31, 2018.

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

Forward-looking statements reflect current expectations or beliefs regarding future events and include, but are not limited to, statements with respect to: (i) the amount of Mineral Reserves, Mineral Resources and exploration targets; (ii) the estimated amount of future production over any period; (iii) net present value and internal rates of return of the mining operation; (iv) expectations and targets relating to recovered grade, size distribution and quality of diamonds, average ore recovery, internal dilution, mining dilution and other mining parameters set out in the 2016 Technical Report as well as levels of diamond breakage; (v) expectations, targets and forecasts relating to gross revenues, operating cash flows and other revenue metrics set out in the 2016 Technical Report, growth in diamond sales, cost of goods sold, cash cost of production, gross margins estimates, planned and projected diamond sales, mix of diamonds sold, and capital expenditures, liquidity and working capital requirements; (vi) mine and resource expansion potential, expected mine life, and estimated incremental ore recovery, revenue and other mining parameters from potential additional mine life extension; (vii) expected time frames for completion of permitting and regulatory approvals related to ongoing construction activities at the Renard Diamond Mine; (viii) the expected time frames for the completion of the open pit and underground mine at the Renard Diamond Mine; (ix) the expected financial obligations or costs incurred by Stornoway in connection with the ongoing development of the Renard Diamond Mine; (x) mining, development,

FORWARD-LOOKING STATEMENTS – *continued* –

production, processing and exploration rates, progress and plans, as compared to schedule and budget, and planned optimization, expansion opportunities, timing thereof and anticipated benefits therefrom; (xi) future exploration plans and potential upside from targets identified for further exploration; (xii) expectations concerning outlook and trends in the diamond industry, rough diamond production, rough diamond market demand and supply, and future market prices for rough diamonds and the potential impact of the foregoing on various Renard financial metrics and diamond production; (xiii) the economic benefits of using liquefied natural gas rather than diesel for power generation; (xiv) sources of and anticipated financing requirements; (xv) the ability to meet Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement; (xvi) the foreign exchange rate between the US dollar and the Canadian dollar; and (xvii) the anticipated benefits from recently approved plant modification measures and the anticipated timeframe and expected capital cost thereof. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "anticipates", "plans", "projects", "estimates", "assumes", "intends", "strategy", "goals", "objectives", "schedule" or variations thereof or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements.

Forward-looking statements are made based upon certain assumptions by Stornoway or its consultants and other important factors that, if untrue, could cause the actual results, performances or achievements of Stornoway to be materially different from future results, performances or achievements expressed or implied by such statements. Such statements and information are based on numerous assumptions regarding present and future business prospects and strategies and the environment in which Stornoway will operate in the future, including the recovered grade, size distribution and quality of diamonds, average ore recovery, internal dilution, and levels of diamond breakage, the price of diamonds, anticipated costs and Stornoway's ability to achieve its goals, anticipated financial performance, regulatory developments, development plans, exploration, development and mining activities and commitments, and the foreign exchange rate between the US and Canadian dollars. Although management considers its assumptions on such matters to be reasonable based on information currently available to it, they may prove to be incorrect. Certain important assumptions by Stornoway or its consultants in making forward-looking statements include, but are not limited to: (i) the accuracy of our estimates regarding capital and estimated workforce requirements; (ii) estimates of net present value and internal rates of return; (iii) recovered grade, size distribution and quality of diamonds, average ore recovery, internal dilution, mining dilution and other mining parameters set out in the 2016 Technical Report as well as levels of diamond breakage; (iv) the expected mix of diamonds sold, and successful mitigation of ongoing issues of diamond breakage in the Renard Diamond Mine process plant and realization of the anticipated benefits from plant modification measures within the anticipated timeframe and expected capital cost; (v) the stabilization of the Indian currency market and full recovery of prices; (vi) receipt of regulatory approvals on acceptable terms within commonly experienced time frames and absence of adverse regulatory developments; (vii) anticipated timelines for the development of an open pit and underground mine at the Renard Diamond Mine; (viii) anticipated geological formations; (ix) continued market acceptance of the Renard diamond production, conservative forecasting of future market prices for rough diamonds and impact of the foregoing on various Renard financial metrics and diamond production; (x) the timeline, progress and costs of future exploration, development, production

FORWARD-LOOKING STATEMENTS – *continued* –

and mining activities, plans, commitments and objectives; (xi) the availability of existing credit facilities and any required future financing on favourable terms and the satisfaction of all covenants and conditions precedent relating to future funding commitments; (xii) the ability to meet Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement; (xiii) Stornoway's interpretation of the geological drill data collected and its potential impact on stated Mineral Resources and mine life; (xiv) the continued strength of the US dollar against the Canadian dollar and absence of significant variability in interest rates; (xv) improvement of long-term diamond industry fundamentals and absence of material deterioration in general business and economic conditions; and absence of significant variability in interest rates; (xvi) increasing carat recoveries with progressively increasing grade in LOM plan; (xvii) estimated incremental ore recovery, revenue and other mining parameters from potential additional mine life extension with minimal capital expenditures; (xviii) availability of skilled employees and maintenance of key relationships with financing partners, local communities and other stakeholders; (xix) long-term positive demand trends and rough diamond demand meaningfully exceeding supply; (xx) high depletion rates from existing diamond mines; (xxi) global rough diamond production remaining stable; (xxii) modest capital requirements post-2018 with significant resource expansion available at marginal cost; (xxiii) substantial resource upside within scope of mine plan; (xxiv) opportunities for high grade ore acceleration and processing expansion and realization of anticipated benefits therefrom; (xxv) significant potential upside from targets identified for further exploration; and (xxvi) limited cash income taxes payable over the medium term.

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 lithology and country rock content within the material identified as Mineral Resources from that predicted; (ii) variations in rates of recovery and levels of diamond breakage; (iii) the uncertainty as to whether further exploration of exploration targets will result in the targets being delineated as Mineral Resources; (iv) risks associated with our dependence on the Renard Diamond Mine and the limited operating history thereof; (v) unfavourable developments in general economic conditions and in world diamond markets; (vi) variations in diamond valuations and fluctuations in diamond prices from those assumed; (vii) insufficient demand and market acceptance of our diamonds; (viii) risks associated with the production and increased consumer demand for synthetic gem-quality diamonds; (ix) risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar and variability in interest rates; (x) inaccuracy of our estimates regarding future financing and capital requirements and expenditures, significant additional future capital needs and unavailability of additional financing and capital, on reasonable terms, or at all; (xi) uncertainties related to forecasts, costs and timing of the Corporation's future development plans, exploration, processing, production and mining activities; (xii) increases in the costs of proposed capital, operating and sustainable capital expenditures; (xiii) increases in financing costs or adverse changes to the terms of available financing, if any; (xiv) tax

FORWARD-LOOKING STATEMENTS – *continued –*

rates or royalties being greater than assumed; (xv) uncertainty of mine life extension potential and results of exploration in areas of potential expansion of resources; (xvi) changes in development or mining plans due to changes in other factors or exploration results; (xvii) risks relating to the receipt of regulatory approvals or the implementation of the existing Impact and Benefits Agreement with aboriginal communities; (xviii) the failure to secure and maintain skilled employees and maintain key relationships with financing partners, local communities and other stakeholders; (xix) risks associated with ongoing issues of diamond breakage in the Renard Diamond Mine process plant and the failure to realize the anticipated benefits from plant modification measures within the anticipated timeframe and expected capital cost, or at all; (xx) the negative market effects of recent Indian demonetization and continued impact on pricing and demand; (xxi) the effects of competition in the markets in which Stornoway operates; (xxii) operational and infrastructure risks; (xxiii) execution risk relating to the development of an operating mine at the Renard Diamond Mine; (xxiv) the Corporation being unable to meet its Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement; (xxv) future sales or issuances of Common Shares lowering the Common Share price and diluting the interest of existing shareholders; (xxvi) the risk of failure of information systems; (xxvii) the risk that our insurance does not cover all potential risks; (xxviii) the risks associated with our substantial indebtedness and the failure to meet our debt service obligations; and (xxix) the additional risk factors described herein and in Stornoway's annual and interim MD&A, its other disclosure documents and Stornoway's anticipation of and success in managing the foregoing risks. Stornoway cautions that the foregoing list of factors that may affect future results is not exhaustive and new, unforeseeable risks may arise from time to time.