Form 51-102F1
Interim Management Discussion and Analysis[1]
For
Stornoway Diamond Corporation
(“Stornoway” or the “Company”)

Containing Information up to and including March 11, 2011

OVERALL PERFORMANCE

Stornoway has a well-diversified and highly prospective diamond property portfolio, focused in Canada, that includes the Renard Diamond Project, a diamond project currently the subject of a feasibility study and with the potential to become Quebec’s first diamond mine, three advanced projects in eastern Nunavut at the minibulk sampling stage, an advanced project on the Ontario/Quebec border and several early stage grass roots projects throughout Canada in geologically prospective, underexplored regions. Stornoway’s strategy is to capitalize on near-term, small to medium sized diamond mining opportunities to build a growth oriented company that succeeds in the practical business of mining and selling rough diamonds, while at the same time, remains exposed to significant upside through exploration. Although the rough diamond market was significantly affected by the global economic crisis in 2008 and 2009, in taking a longer-term view, the rough diamond market has strengthened in the face of tightening supply and Stornoway is well positioned to add diamond resources from existing projects and further acquisitions as new opportunities are identified. In addition, the Company has a management team with experience at each stage of the diamond pipeline, from exploration through development and marketing.

As of March 11, 2011, the Company holds interests, directly or through joint ventures, in a property portfolio of some 18 properties representing approximately 2.1 million acres that can be roughly subdivided into 154,000 acres of ‘development’ stage projects (the Foxtrot Property, which includes the Renard Diamond Project), 1.5 million acres of ‘advanced’ exploration properties (Aviat, Qilalugaq, Churchill and Timiskaming) and 430,000 acres of ‘early stage’ projects (Hammer Property and others).

Forward-Looking Statements

This document may contain "forward-looking statements" within the meaning of Canadian securities legislation and the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements are made as of the date of this document and the Company 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. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," and words and expressions of similar import are intended to identify forward-looking statements. In particular, statements regarding Stornoway's future operations, future exploration and development activities or other development plans contain forward-looking statements.

All forward-looking statements and information are based on Stornoway's current beliefs as well as assumptions made by and information currently available to Stornoway concerning anticipated financial performance, business prospects, strategies, regulatory developments, development plans, exploration, development and mining activities

[1] **Note to Reader**

The following management discussion and analysis of the Company’s financial condition and results of operations should be read in conjunction with the audited consolidated financial statements for the years ended April 30, 2010 and 2009 together with the notes thereto and the unaudited, interim consolidated financial statements for the nine months ended January 31, 2011 and 2010. These financial statements have been prepared in Canadian funds in accordance with Canadian generally accepted accounting principles.

and commitments. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements.

Forward-looking statements relate to future events or future performance and reflect current expectations or beliefs regarding future events and include, but are not limited to, statements with respect to: (i) the amount of mineral resources and potential mineral deposits; (ii) the amount of future production over any period; (iii) net present value and internal rates of return of the proposed mining operation; (iv) capital costs, including plant costs, and operating costs; (v) diamond values and increases in diamond values; (vi) strip ratios, rates of extraction of kimberlite and mining rates; (vii) expected time frames for repayment of borrowed funds; (viii) anticipated dilution of mineralized material; (ix) anticipated breakage in processing; (x) mine expansion potential; (xi) exploration potential at the Project; (xii) road construction and operation costs; and (xiii) expected time frames for completion of permitting and regulatory approvals, proceeding to a Feasibility Study and making a production decision. 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” 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

All forward-looking statements are based on Stornoway's or its consultants' current beliefs as well as various assumptions made by and information currently available to them. Many of these assumptions are set forth in this document and include: (i) the presence of and continuity of diamonds in its host rocks at the Project at modeled grades; (ii) the capacities of various machinery and equipment; (iii) the availability of personnel, machinery and equipment at estimated prices; (iv) exchange rates; (v) diamond values and diamond price escalation factors; (vi) discount rates; (vii) tax rates and royalty rates applicable to the proposed mining operation; (viii) financing structure and costs; (ix) diamond recovery and breakage, (x) reasonable contingency requirements; (xi) anticipated financial performance, (xii) receipt of regulatory approvals on acceptable terms within commonly experienced time frames; (xiii) the settlement of an Impact and Benefits Agreement on acceptable terms within a reasonable time frame. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect. Many forward-looking statements are made assuming the correctness of other forward looking statements, such as statements of net present value and internal rate of return, which are based on most of the other forward-looking statements and assumptions herein. The cost information is also prepared using current values, but the time for incurring the costs will be in the future and it is assumed costs will remain stable over the relevant period.

Additional risks are described in Stornoway's most recently filed Annual Information Form. Stornoway cautions that the foregoing list of factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to Stornoway, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Stornoway does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by Stornoway or on our behalf, except as required by law.

Highlights for the nine months ended January 31, 2011 and the period ended March 11, 2011:

During the nine months ended January 31, 2011 and the period ended March 11, 2011, the Company achieved several notable objectives:

- ***Acquisition agreement***: In December 2010, the Company entered into an agreement with DIAQUEM Inc., a wholly-owned subsidiary of Société générale de financement du Québec (“SGF”), for the acquisition of DIAQUEM’s 50% interest in the Renard Diamond Project, the Company’s feasibility-stage diamond project in north-central Québec (the “Acquisition”). Under the terms of the Acquisition, DIAQUEM will

become a significant shareholder of Stornoway, and will receive a direct royalty interest on future diamond production. In conjunction with the Acquisition, SGF has agreed to enter into a credit support agreement with Stornoway with respect to future project debt financing of a minimum of $100 million. Upon closing of the Acquisition, which is expected to take place on April 1, 2011, the Company will have acquired sole ownership of Renard, a major undeveloped diamond deposit, and will have established a firm foundation for the project's future financing and development.

- ***Financing***: Concurrently to the announcement of the Acquisition transaction described above, the Company entered into an agreement with a syndicate of underwriters who agreed to purchase, on a bought deal basis, 57,400,000 common shares of Stornoway at a price of $0.61 per common share for aggregate gross proceeds to the Company of $35 million (the "Offering"). The net proceeds of the Offering will be used for feasibility and pre-development costs at the Renard Diamond Project, and for general corporate purposes. This financing closed on January 6, 2011.

- ***Share consolidation***: At a special meeting of shareholders held on February 10, 2011, the Company's shareholders approved a 1-new-for-4-old common share consolidation, which took effect on Tuesday, February 22, 2011. The share consolidation was made in anticipation of the Company's acquisition of Diaquem's 50% interest in the Renard Diamond Project, as described above.

ACQUISITION AGREEMENT – RENARD PROJECT INTEREST CONSOLIDATED

On December 14, 2010, the Company and DIAQUEM Inc. ("DIAQUEM") entered into an agreement for the acquisition of DIAQUEM's 50% interest in the Renard Diamond Project (the "Acquisition"). Under the terms of the Acquisition, DIAQUEM will become a significant shareholder of Stornoway, and will receive a direct royalty interest on future diamond production. DIAQUEM is a wholly-owned subsidiary of SOQUEM INC., itself a wholly-owned subsidiary of Société générale de financement du Québec ("SGF"), the Québec government's main industrial and financial holding company. In conjunction with the Acquisition, SGF has further agreed to enter into a credit support agreement with Stornoway with respect to future project debt financing of a minimum of $100 million. Upon closing of the Acquisition, which received shareholder approval on February 10, 2011 and is expected to close on April 1, 2011, Stornoway will have acquired sole ownership of Renard, a major undeveloped diamond deposit, and will have established a firm foundation for the project's future financing and development.

Details of the proposed transactions are as follows:

- Stornoway to issue common voting shares to DIAQUEM equal to 25% of Stornoway's issued and outstanding common shares.

- Stornoway to also issue newly created non-voting convertible shares to DIAQUEM such that DIAQUEM's total interest in Stornoway will be equal to 37% on a fully diluted basis.

- DIAQUEM's interest in Stornoway to be calculated on a pro-forma basis following completion of the $35 million Offering and receipt of shareholder approvals (complete).

- Stornoway to grant DIAQUEM a 2% gross revenue royalty on life of mine production from Renard.

- SGF to provide Stornoway with C$100 million of credit support towards the establishment of a project debt facility to fund project construction and development costs. The credit support will bear an annual commitment fee of 175 bps undrawn, and will take the form of a direct project loan ranking *pari passu* with concurrent senior lenders or, as appropriate, on a stand-alone basis on terms no less favourable than prevailing commercially reasonable market terms.

- Stornoway to expand the size of its Board of Directors to 11 members and SGF to nominate three candidates.

The Acquisition has been approved by the boards of directors of both Stornoway and SGF following consultation with their respective financial and legal advisors. Stornoway's Board of Directors undertook a comprehensive review and analysis of the proposed transaction and concluded that it is fair to Stornoway's shareholders and is in the interest of Stornoway, and unanimously resolved to recommend that Stornoway's shareholders vote their shares in favour of the proposed transaction. The decision and recommendation of the Board of Directors was based, in part, on fairness opinions received from RBC and NCP Northland Capital Partners Inc., which are to the effect that the consideration to be paid by Stornoway in connection with the Acquisition is fair, from a financial point of view, to the shareholders of Stornoway.

Additional Details of the Acquisition

In connection with the Acquisition, Stornoway has agreed to assume and perform and be bound by all of the obligations and liabilities accruing to DIAQUEM as the former owner of a 50% interest in Renard, or arising under any agreement to which DIAQUEM or SGF is a party or bound by virtue of being a party in the Renard joint venture. SGF has agreed to a standstill obligation as a result of which SGF will not be permitted to increase, directly or indirectly, its ownership interest in Stornoway beyond 25% of the issued and outstanding common shares, except in certain limited circumstances, including in the context of a take-over bid for, or merger involving, Stornoway for the purposes of making a superior proposal, or otherwise with the prior consent of Stornoway. In addition, DIAQUEM will be entitled to a pre-emptive right in respect of common shares issued by Stornoway so as to maintain its percentage of common share ownership. The pre-emptive right will end on the date of commencement of commercial operations at Renard.

Closing Conditions of the Acquisition

In addition to customary closing conditions for transactions of this nature, completion of the proposed Acquisition is subject to the receipt of any regulatory and other approvals required to finalize the Acquisition, including TSX approval, and to the condition that the parties shall have entered into the credit support agreement, an investor agreement and a royalty agreement substantially in the forms appended as schedules to the acquisition agreement. DIAQUEM and SGF may elect not to complete the Acquisition if, among other things, there shall have been or occurred a material adverse change with respect to Stornoway, or if the Offering is not completed. Closing is expected to occur on April 1, 2011.

Shareholder Approval

Completion of the proposed Acquisition was also subject to the receipt of requisite shareholder approval, which was received at a special meeting of shareholders on February 10, 2011.

The issuance of Stornoway shares to DIAQUEM pursuant to the acquisition agreement and the creation of non-voting convertible shares, among other things, have been approved by a simple majority of the Stornoway shareholders.

Stornoway will issue common shares and non-voting convertible shares to DIAQUEM under the acquisition agreement by way of private placement which, calculated on a pro-forma basis following completion of the Offering, will comprise an aggregate 37% interest of Stornoway's issued and outstanding equity on a fully-diluted basis. As such, under the rules of the TSX, Stornoway was required to obtain the approval of a simple majority of its shareholders for the issuance of such number of common shares pursuant to the Acquisition. In connection with such approval, shareholders also approved the increase in the size of the Board of Directors from 8 to 11 members in order to allow for the nomination of the three SGF designees.

Proxy materials, including Stornoway's management proxy circular, providing additional details relating to the proposed Acquisition and the agreements being entered into in connection with the transaction are available under the Company's profile on Sedar (www.sedar.com).

Share Consolidation

Concurrently with the Acquisition, and consistent with the transformative nature of the proposed transaction and the new phase of Stornoway's development that it represents, the Company's shareholders approved a share consolidation at the special meeting on February 10, 2011. On Tuesday, February 22, 2011, the common shares of the Company commenced trading on a 1-new-for-4-old consolidated basis. The new CUSIP number is 86222Q806 and the ISIN number is CA86222Q8065. The Company continues to trade under the symbol "SWY".

RESULTS OF OPERATIONS

The Company's loss from operations for the nine months ended January 31, 2011 (the "**Current Period**") was $7.3 million (a loss of $0.02 per share) as compared to a loss of $8.9 million ($0.03 loss per share) for the nine months ended January 31, 2010 (the "**Comparative Period**"). The Company's loss for the Current Period is mainly due to expenses of $9.0 million (Comparative Period - $5.9 million), including exploration expenses of $4.7 million (Comparative Period - $3.2 million).

During the year ended April 30, 2010, the Company changed its accounting policy for exploration expenditures and financing and interest costs from capitalization to expense on a retrospective basis. This change was made on a retrospective basis as of the year ended April 30, 2010. Consequently, amounts for the Comparative Period ended January 31, 2010 have been restated to take into account the retrospective change in the Company's accounting policy. Exploration expenditures are now charged to operations as they are incurred until the mineral property reaches the development stage. Financing and interest cost are also charged to operations. Significant costs related to property acquisitions, including allocations for undeveloped mineral interests, are capitalized until the viability of the mineral interest is determined. When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized. For a more detailed explanation of this change, please see "*Changes in Accounting Policies Including Initial Adoption*" below.

Expenses increased (Current Period - $9.0 million; Comparative Period - $5.9 million) primarily because exploration expenses increased. During the Current Period, the Company spent $3.7 million on exploration in Eastern Canada, with the majority of these expenditures related to feasibility level activities at the Renard Diamond Project; $346,000 on exploration in other Canadian jurisdictions; $301,000 for generative exploration; $248,000 on exploration related to the Company's Eastern Arctic properties, and $93,000 to explore the Company's properties in the Western Arctic. During the Current Period, the Company received $1,095,000 relating to Quebec exploration tax credits. Results from the Company's exploration programs during the Current Period are described below in the "*Exploration Update*" section.

Overall, the Company's administrative expenditures increased in the Current Period. Stock-based compensation also increased (Current Period - $1,657,000; Comparative Period - $542,000), reflecting a larger number of stock options granted with a higher estimated fair value, resulting from an increased stock price during this period.

Professional fees (Current Period - $371,000; Comparative Period- $135,000) include a one-time consulting expense of $40,000; fees paid to the Company's auditor for quarterly reviews and related translation expenses as well as IFRS consulting services. Salaries, benefits and director's fees (Current Period- $661,000; Comparative Period - $423,000) increased, and include meeting fees paid to the six non-executive directors effective from January 1, 2010. Rent and facility fees (Current Period - $361,000; Comparative Period- $329,000) increased slightly; regulatory and shareholder communication expense (Current Period - $289,000; Comparative Period - $228,000) increased primarily due to a large increase in the number of news releases issued by the Company (and include the cost to translate many of these news releases), in addition to a higher level of shareholder communications during the Current Period. Office and sundry (Current Period - $405,000; Comparative Period - $223,000) includes travel expense of $152,900 for the Current Period, as compared to $56,700 in the Comparative Period. In general, these increases are the result of increased activity levels during the Current Period, as compared to the same period in 2010. Expenses also include a number of non-cash items including: accretion (Current Period - $64,000; Comparative Period- $57,000), amortization (Current Period - $505,000; Comparative Period - $700,000) and stock-based compensation (Current Period - $1,657,000; Comparative Period - $542,000). Exploration costs expensed in the Current Period increased to $4.69 million from $3.23 million in the Comparative Period.

The Company's interest income was $98,000 in the Current Period as compared to interest expense of $28,000 in the Comparative Period, due to higher cash and cash equivalents balance available for investment. The Comparative

Period includes an accrual for Part 12.6 tax and Quebec tax related to the 2008 flow-through financing. During the Current Period, the Company recorded a future income tax recovery of $1.1 million (Comparative Period – $2.4 million), which decreased the Company's net loss after taxes to $7.3 million (Comparative Period - $8.9 million).

The Current Period loss of $7.3 million was less than the Company's net loss of $8.9 million in the Comparative Period due to a decrease in the write-off of resource property costs (Current Period - $15,000; Comparative Period - $5.5 million), a bad debt recovery (Current Period - $101,000; Comparative Period - $Nil) and a cost recovery (Current Period - $415,000; Comparative Period - $Nil).

As at January 31, 2011, total assets increased to $139.3 million from $109.4 million at the April 30, 2010 year-end. Capitalized resource property costs increased slightly to $94.0 million from $93.9 million at April 30, 2010.

The Company's cash, cash equivalents and short-term deposit amounts increased during the Current Period, from $10.9 million as of April 30, 2010 to $39.2 million as of January 31, 2011. The most significant change in the Company's cash position resulted from a short-form prospectus offering in January 2011 for gross proceeds of $35 million. The Company's total liabilities, consisting primarily of future income tax liabilities ($6.7 million as at January 31, 2011 versus $7.8 million at April 30, 2010), decreased to $10.1 million as at January 31, 2011 from $11.7 million as at April 30, 2010. Shareholder's equity increased to $129.3 million as at January 31, 2011 from $97.7 million as at April 30, 2010.

EXPLORATION UPDATE

Stornoway's material mineral property is the Renard Diamond Project, part of the larger Foxtrot Property in the Otish Mountains located in Québec, Canada. The following discussion is an update to disclosure in documentation filed with regulatory agencies and is available for viewing under Stornoway's profile on the SEDAR website at www.sedar.com. The exploration programs described below were conducted under the direction of Robin Hopkins, P.Geol. (NT/NU), the Company's Vice President, Exploration, and a Qualified Person under NI 43-101. Mr. Hopkins has reviewed the summaries below.

FOXTROT PROPERTY – RENARD KIMBERLITE BODIES, QUEBEC

The Foxtrot Property, containing the Renard cluster of kimberlite bodies, is a 50/50 joint venture between Stornoway's wholly owned subsidiary Les Diamants Stornoway (Canada) inc. ("**Les Diamants Stornoway**"), and SOQUEM Inc.'s ("**SOQUEM**") wholly owned subsidiary, Diaquem. Les Diamants Stornoway is the project operator. Since 1996, Les Diamants Stornoway and SOQUEM have evaluated an area of more than 400,000 square kilometres of the eastern Archean Superior craton. Exploration conducted by the joint venture has resulted in the discovery of a new field of kimberlite intrusions on the Foxtrot property, notably the Renard cluster of kimberlite bodies, and a nearby system of kimberlite dykes, the Lynx-Hibou dykes.

On February 10, 2011, the Company's shareholders approved an agreement whereby the Company will acquire Diaquem's 50% interest in the Renard Diamond Project. Closing of this transaction is expected to occur on April 1, 2011, on which date the Company, through its wholly-owned subsidiary Les Diamants Stornoway, will have acquired 100% ownership of the project. A bankable feasibility study is on schedule for completion in the 3rd quarter of 2011, details of this study are described below.

FEASIBILITY STUDY COMMENCES AT RENARD

In July 2010, the Company, along with partner SOQUEM, announced the formal commencement of a feasibility study and related programs of work at Renard. The total cost of the feasibility program, covering a two year period from January 2010 to December 2011, is estimated at $28.3 million on a 100% basis, including all studies, associated exploration work, program support, operator management fees and contingencies.

In March 2010, Stornoway released the results of an updated Preliminary Assessment at Renard which outlined a base case estimate of pre-tax Net Present Value of C$885 million (at an 8% discount rate) and an Internal Rate of Return of 24.8%. The feasibility program announced in July 2010 is designed to build upon this earlier work, and has been conceived with the aim of making a production decision at the project by the end of 2011. It will include the following elements:

- A mine Feasibility Study incorporating both open pit and underground mining scenarios, with examination of an increased processing capacity of up to 7,000 tonnes per day;
- An Environmental and Social Impact Assessment;
- Mine permitting, community consultation, and the negotiation of an Impact and Benefits Agreement;
- Establishment of a Québec based owner's team for mine development; and
- A separate Feasibility Study and Environmental Assessment for a power line to connect the project to the Hydro-Québec James Bay hydroelectric network.

Management views the commencement of a Feasibility Study at Renard as a significant milestone on the path towards building Québec's first diamond mine. An important element of the work program will be a distinct Feasibility Study and Environmental Assessment for a power line to the project, to be conducted under the auspices of Hydro-Québec but financed by the joint venture partners. The power line has the potential to greatly reduce the project's operating costs, reduce its overall environmental footprint, and to insulate the project from future fuel cost escalation. Its addition to the conceptual mine plan, not contemplated in previous studies, follows the recent determination of a cost-efficient mechanism for its construction. In support of the feasibility program, an expanded Québec based mining team under the leadership of the Company's newly appointed Chief Operating Officer, Patrick Godin has been established. The Company's objective at Renard is to define a robust, low-risk project with high margins and a substantial mine life, which is readily financeable.

PRE-DEVELOPMENT AGREEMENT CONCLUDED

On July 26, 2010, the Company announced the conclusion of a Pre-Development Agreement ("PDA") for the Renard Diamond Project with the Grand Council of the Crees (Eeyou Istchee) / Cree Regional Authority, the Cree Nation of Mistissini and Diaquem.

The PDA was developed on the principle of mutual respect between the parties, and the interests of all in seeing the establishment of a successful diamond mining venture at Renard. It provides for business and employment opportunities for the Crees during the period of pre-development activities leading up to a potential production decision at the project, the completion of a comprehensive Business and Employment Capacity Study to assess the full potential for Cree business and employment opportunities from an eventual Renard Diamond Mine, and the creation of a joint communication strategy. In addition, the PDA provides for Cree assistance in the preparation of an Environmental and Social Impact Assessment for Renard, and any other relevant environmental and social assessment studies. The PDA builds upon a record of good faith dialogue between the parties, and contemplates the completion of a subsequent Impacts and Benefits Agreement.

Management views the PDA as an important stepping stone towards a successful mining project at Renard, and one that provides meaningful benefits to all stakeholders within the context of social and environmental respect. The agreement is the result of a dialogue that was initiated in the early stages of the Company's mining exploration activities in the region.

On January 20, 2011, the Company announced the opening of a new representative office for the Renard Diamond Project in the Cree Community of Mistissini, Québec. Mistissini is located 250 km south of Renard, and is the closest community to the project within the James Bay region. The new office will provide a forum for exchanging information and liasing with the Crees on a variety of social, environmental and economic aspects of the Renard Diamond Project, and on the potential for future training, employment and business opportunities. In addition, the office will provide information about diamond exploration and diamond mining in general.

FALL 2010 DRILLING RESULTS FROM RENARD

An exploration drilling program at the Renard Project was completed in October 2010 (Stornoway press release dated October 12, 2010). This program was a continuation of a step-out program of deep drilling first initiated last winter (Stornoway press release dated April 14, 2010), and was designed to assess the size and composition of several kimberlite pipes outside the project's established National Instrument ("NI") 43-101 compliant Mineral Resources.

Highlights of the drilling, and its implications, are as follows:

- New intersections of kimberlite outside of the current geological models in two new drill holes at Renard 3, one hole at Renard 4 and two holes at Renard 65;
- Anticipated increase in the quantity of Inferred Mineral Resources estimated at Renard 3 and Renard 4, and in the amount of Potential Mineral Deposit estimated at Renard 3, Renard 4 and Renard 65;
- Confirmation of kimberlite to a depth of 513 meters at Renard 65, and an anticipated conversion of Potential Mineral Deposit over the uppermost elevations of Renard 65 to Inferred Mineral Resources;
- Successful completion of a new drill hole at Renard 1, confirming considerable size potential and enabling sampling of Renard 1 kimberlite units for microdiamond analysis.

Mineral resources that are not mineral reserves do not have demonstrated economic viability. Further, the potential quantity and grade of any Potential Mineral Deposit ("PMD") is conceptual in nature, and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

The results of the fall drill program confirmed that the Renard kimberlite pipes are larger at depth than previously assumed. As well as the expected boost to the project's Inferred Mineral Resources, the drilling serves to bring out the extensive resource upside below the level of the existing conceptual mine plan at Renard, and confirms the potential for a considerable mine life at the project.

UPDATED NI 43-101 REPORT – REVISED MINERAL RESOURCE ESTIMATE

On January 24, 2011, the Company announced the completion of a revised NI 43-101 compliant mineral resource estimate for the Renard Diamond Project. The new estimate was prepared by Mr. D. Farrow, P.Geo. (BC) of GeoStrat Consulting Inc. ("GeoStrat"), an independent consultancy. It builds upon the project's previously established NI 43-101 compliant Mineral Resource prepared by the same author (Stornoway press release dated December 8, 2009), and follows the completion of two deep drilling campaigns during 2010 (Stornoway press release dated October 12, 2010) that were designed to assess the size and composition of several kimberlite pipes outside the scope of the existing resource. This drilling successfully demonstrated that three pipes, namely Renard 3, 4 and 65, were larger at depth than previously assumed, prompting revisions to the project's estimates for Inferred Mineral Resources and non-resource Potential Mineral Deposit.

Highlights of the new resource estimate are as follows:

- A total Indicated Mineral Resource of ***23.8 million carats***, and a total Inferred Mineral Resource of ***17.5 million carats***, increases of ***3% and 31%*** respectively over the previous estimate.
- A total estimate of additional resource upside in the form of a Potential Mineral Deposit of between ***23.5 to 48.5 million carats***, an approximate ***two-fold*** increase over the previous estimate.
- Successful conversion of **12.9 million tonnes** of near-surface kimberlite at Renard 65 containing **3.7 million carats** from a Potential Mineral Deposit to an Inferred Mineral Resource.

The reader is cautioned that mineral resources that are not mineral reserves do not have demonstrated economic viability. In addition, the potential quantity and grade of any potential mineral deposit is conceptual in nature, and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

In May 2010, Stornoway filed an NI 43-101 compliant technical report for the Preliminary Economic Assessment ("PEA") at Renard that estimated the project to have the potential to produce approximately 30 million carats of diamonds over a 25 year mine life, with a pre-tax Net Present Value of C$885 million (at an 8% discount rate) and an Internal Rate of Return of 24.8%. Total capital investment was estimated at C$511 million. The 2010 PEA was based upon an NI 43-101 compliant Mineral Resource published in December 2009 (the "2009 Mineral Resource") of 23.0 million carats of Indicated Mineral Resource and 13.3 million carats of Inferred Mineral Resource. At this time, a further 12 to 26 million carats was classified as a non-resource Potential Mineral Deposit ("PMD"). The new Mineral Resource published in January 2011 updates, and supersedes, this previous resource estimate.

Mineral Resource Estimate (January 2011)

In compiling the new NI 43-101 compliant estimate of Indicated and Inferred Mineral Resources, summarized in Table 1, GeoStrat reviewed three dimensional geological models for each kimberlite body (prepared by Stornoway)

and extensive project data collected since 2001. The mineral resource estimate comprises the integration of kimberlite volumes, density, petrology and diamond content data obtained from 88,585 meters of diamond drilling, 6,151 meters of reverse circulation ("RC") drilling, 16.4 tonnes of samples submitted for microdiamond analysis, 600.8 carats of diamonds (6,457 stones) recovered from RC drilling and 8,611.6 carats of diamonds (84,381 stones) recovered from surface trenching and underground bulk sampling.

Table 1: Total NI 43-101 Mineral Resource Estimate[1, 2, 3]

INDICATED RESOURCE

KIMBERLITE	GRADE (cpht)[4, 5]	TONNES (millions)	CONTAINED CARATS (millions)
Renard 2	103	17.63	18.09
Renard 3	106	1.75	1.85
Renard 4	53	7.25	3.81
Renard 9	--	--	--
Renard 65	--	--	--
Lynx	--	--	--
Hibou	--	--	--
Total Indicated	**89** *(+2%)*	**26.63** *(+0.5%)*	**23.75** *(+3%)*

INFERRED RESOURCE

KIMBERLITE	GRADE (cpht)[4, 5]	TONNES (millions)	CONTAINED CARATS (millions)
Renard 2	118	5.21	6.14
Renard 3	118	0.54	0.64
Renard 4	44	4.76	2.09
Renard 9	47	5.7	2.69
Renard 65	29	12.93	3.72
Lynx	107	1.8	1.92
Hibou	144	0.18	0.26
Total Inferred	**56** *(-25%)*	**31.12** *(+75%)*	**17.45** *(+31%)*

[1] Resource categories are compliant with the "CIM Definition Standards on Mineral Resources and Reserves". Mineral resources that are not mineral reserves do not have demonstrated economic viability.

[2] Totals may not add due to rounding.

[3] Changes from the December 2009 NI 43-101 compliant Mineral Resource shown in italics

[4] Carats per hundred tonnes.

[5] Estimated at a +1 DTC sieve size cut-off.

The new mineral resource estimate shown in Table 1 demonstrates an increase in both tonnage and carats when compared to the 2009 Mineral Resource used for the May 2010 PEA, reported as the NI 43-101 compliant "Updated Technical Report on the Preliminary Assessment of the Renard Project, Quebec, Canada". Providing resource assumptions and economic parameters remain the same as in this earlier NI 43-101 report, the mineral resources reported in Table 1 have reasonable prospects for economic extraction. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

Potential Mineral Deposit

In addition to the mineral resources, GeoStrat reviewed estimates for the quantity of non-resource Potential Mineral Deposit ("PMD") which totals 23.5 to 48.5 million carats (55.1 to 75.5 million tonnes at grades ranging from 23 to 188 cpht), as summarized in Table 2.

Table 2: Estimate of Potential Mineral Deposit [1, 2, 3]

POTENTIAL MINERAL DEPOSIT

KIMBERLITE	RANGE OF GRADES (cpht) [4, 5]	RANGE OF TONNES (millions)	RANGE OF CONTAINED CARATS (millions)
Renard 2	103 to 188	4.0 to 4.6	4.1 to 8.6
Renard 3	107 to 168	0.8 to 1.6	0.8 to 2.8
Renard 4	38 to 79	11.1 to 15.3	4.2 to 12.1
Renard 9	45 to 50	3.9 to 6.3	1.7 to 3.2
Renard 65	23 to 33	29.5 to 41.6	6.8 to 13.7
Lynx	96 to 120	3.1 to 3.2	3.0 to 3.8
Hibou	104 to 151	2.7 to 2.9	2.9 to 4.3
Total PMD		**55.1 to 75.5** *(+106% and +65%)*	**23.5 to 48.5** *(+93% and +83%)*

[1] Potential Mineral Deposit does not constitute a mineral resources, and the reader is referred to the cautionary language contained within this release.

[2] Totals may not add due to rounding.

[3] Changes from the December 2009 estimate of Potential Mineral Deposit shown in italics

[4] Carats per hundred tonnes.

[5] Estimated at a +1 DTC sieve size cut-off.

The PMD represents an estimate of potential resource upside that can be reasonably assumed for each body given the nature and grade of material within the mineral resource. The PMD within the Renard kimberlite pipes has been determined by projecting kimberlite volumes from the base of the Inferred Resource to a depth of approximately 775m below surface, representing the base of current drilling as established at Renard 4. In the case of the Lynx and Hibou dykes, the PMD was established on the basis of known drill intersections of kimberlite for which insufficient diamond sampling exists to adequately estimate a diamond resource grade. The reader is cautioned that the potential quantity and grade of any PMD is conceptual in nature, and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

Tonnages and Grades

For each kimberlite pipe, 5m by 5m by 5m block models were created for tonnage and grade estimation using solid body geological models for each pipe, as revised by Stornoway and GeoStrat. Resource tonnages were derived by combining rock volumes from the block models with representative specific gravity measurements for each kimberlite lithology. All tonnages cited are for kimberlite lithologies only, and do not include cracked or brecciated country rock units.

Cut-off depths for the mineral resource categories were defined within each pipe based on the density of drill intersections and the consistency of grade data within the geological models. Indicated Mineral Resources at Renard 2 encompass kimberlite from surface to a depth of 600m, and Inferred Mineral Resources extend vertically for another 100m. Indicated Mineral Resources for Renard 3 and 4 extend from surface to a vertical depth of 250m. Inferred Mineral Resources extend from 250m to 400m below surface for both Renard 3 and Renard 4. Renard 65 and Renard 9 do not have large tonnage bulk samples, and consequently the Inferred Mineral Resource extends from surface to 290m below surface, and to 385m below surface, respectively. Inferred Mineral Resources for the Lynx and Hibou dyke systems are restricted to the areal extent of modeled kimberlite within 100m of surface trenches.

Grades for the kimberlite pipes were estimated by first establishing a "dilution model" derived from drill core and underground data. Representative "undiluted" grade models were constructed for each kimberlite lithology using diamond datasets obtained from caustic fusion and dense media separation ("DMS") processes. These undiluted grade models were then mapped onto the dilution model for each pipe, with the resulting resource models comprising blocks with lithology, grade and dilution parameters. As part of quality control exercises, grade and tonnage estimates were cross-checked against drill data for each kimberlite and tested for consistency with bulk sample data.

For each kimberlite body, diamond resource grades are estimated on a +1 DTC sieve size cut-off. An allowance has been made for the non-recovery of small diamonds typical in a commercial diamond production plant (i.e. the diamond resource grade has been decreased), and to make diamond resource grades consistent with the diamond valuation models, which have been established on the same basis. Following this exercise, GeoStrat is confident that the resource models for each kimberlite body are consistent with the accumulated geological and diamond sampling data to the best extent possible.

Notable Changes to the Mineral Resource Estimate since December 2009

The revised Indicated and Inferred Mineral Resource tonnages at the Renard project (26.6 million tonnes and 31.1 million tonnes, respectively) represent increases of 0.5% and 74.7% compared to the December 2009 estimate. The change to the Inferred tonnage is significantly impacted by the successful conversion of 12.9 million tonnes of Renard 65 from PMD to the Inferred Mineral Resource category. Inferred tonnage at Renard 3 was increased by approximately 250% (542,000 tonnes from 154,000 tonnes) and by approximately 4% at Renard 4 (4.76 million tonnes from 4.57 million tonnes). The changes to the Inferred Mineral Resource tonnages at Renard 3, 4 and 65 result from the creation of revised geologic models that include the additional pierce points achieved during the 2010 drill campaigns.

Using the grade estimation methodology described above, Indicated and Inferred Mineral Resource grades for each pipe remain similar to those previously published, other than at Renard 4 where grades have increased 20% and 7% respectively (to 53 cpht and 44 cpht). These increases are due to the collection of additional microdiamond and dilution data during 2010, and are the principal reason for the 3% increase in carats contained within the overall Indicated Mineral Resource.

Significant increases to the project's non-resource PMD estimate (+106% for the low range tonnage and +66% in the high range tonnage) result primarily from increases in the interpreted size of Renard 3, Renard 4 and Renard 65 at depth, and in the addition of a PMD estimate for Renard 2 to 775m below surface.

Diamond Valuation

Diamond valuation data utilized in the new mineral resource estimate were taken from a September 2009 valuation exercise undertaken by WWW International Diamond Consultants Ltd. ("WWW"). The September 2009 valuation exercise, the most recent performed, utilized WWW's rough diamond price book applied to the existing valuation models established during valuation exercises in September 2007 and March 2008. At this time, WWW recommended a modeled "Base Case" diamond price estimate for both the Renard 2 and Renard 3 valuation samples of US$117 per carat (estimated at a +1 DTC sieve size cut-off), with a "High" modeled price estimate of US$131 per carat and a "Low" modeled price estimate of US$103 per carat. Previous resource work examined the diamond size frequency distributions of all bodies in detail with consideration given to the diamond breakage and plant recovery characteristics of each diamond sample. Consistent with the results of that work, which demonstrated similar diamond populations for all four pipes, the $117 per carat was also applied to Renard 4 and Renard 9. WWW recommended a "Base Case" diamond price estimate for the Lynx valuation sample of US$57 per carat, with a "High" modeled price estimate of US$85 per carat and a "Low" modeled price estimate of US$48 per carat.

Since September 2009, market reports have suggested that rough diamond prices have increased substantially. The Company intends to undertake an updated market valuation exercise in the spring of 2011 in conjunction with the preparation of the ongoing feasibility study.

R1 MICRODIAMOND RESULTS

On February 23, 2011, the Company announced positive microdiamond results from Renard 1, the second largest kimberlite at the Renard Diamond Project. Renard 1 was discovered in 2001 and was subsequently drill tested with a total of 11 diamond drill holes representing 1,974 meters. Initial diamond recoveries were low and, at present,

Renard 1 does not form part of the project's NI 43-101 compliant Mineral Resource (see press release of January 24, 2011). Starting in 2009, Stornoway undertook a review of the pre-existing sampling and geological data at Renard 1, and concluded that the diamond potential of the body had likely been underestimated. In 2010 a single, additional drill hole of 537 meters length was completed, and drill core intersections were sampled to determine microdiamond content by caustic fusion analysis. The results of this work are summarized in the table below.

		NUMBER OF DIAMONDS PER SIEVE SIZE (MM SQUARE MESH SIEVE)						
Sample	Sample weight (kg)	0.106 to 0.150mm	0.150 to 0.212mm	0.212 to 0.300mm	0.300 to 0.425mm	0.425 to 0.600mm	0.600 to 0.850mm	Total
Renard 1	370.78	49	22	15	8	4	2	100

These micro-diamond results confirm that Renard 1 has strong similarities to the nearby Renard 65 kimberlite, with an almost identical diamond content and coarse diamond size frequency distribution. A location map and a comparative stone count plot demonstrating the similarities in the micro-diamond signatures of the two kimberlites (taking full account of sample geology and dilution) can be found on the Stornoway website at www.stornowaydiamonds.com.

The objective of the exploration work at Renard 1 was to re-assess the economic potential of a large body lying very close to the existing mineral resources identified at Renard. The developing Renard mine plan contemplates a combined open pit and underground operation established, initially, on the high grade Renard 2 and 3 kimberlites. However, Renard 65 has the potential to form a large, supplemental resource that is lower grade but easily open-pittable. The micro-diamond results from Renard 1 suggest a similar potential for a large, lower-grade resource within Renard 1.

On the basis of drilling completed to date, Stornoway estimates Renard 1 to contain 9.1 million tonnes of kimberlite to a depth of 282 meters. Renard 65 occurs 300m north of Renard 1 and is the largest kimberlite at the project. The current NI 43-101 compliant mineral resource for Renard 65 is 12.9 million tonnes of Inferred Resource to 290 meters depth at an average grade of 29 carats per hundred tonnes ("cpht"). An additional 29.5 to 41.6 million tonnes of non-resource, potential mineral deposit has been estimated at between 23 to 33 cpht. Both kimberlites are composed of several pipe-filling volcaniclastic to coherent kimberlite units and a distinct hypabyssal kimberlite unit.

The reader is cautioned that mineral resources that are not mineral reserves do not have demonstrated economic viability. In addition, the potential quantity and grade of any potential mineral deposit is conceptual in nature, and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

Next Steps

The Company is currently formulating a 2011 program of resource assessment at Renard that is expected to include the collection and processing of a large tonnage bulk sample from Renard 65. The purpose of this sample is to collect a large enough parcel of diamonds for valuation so as to allow the conversion of the existing Inferred Mineral Resource to an Indicated Mineral Resource. Should the results of this work confirm the potential viability of open pit mining at Renard 65, it is expected that additional drilling and sampling programs at Renard 1 will be initiated with a view to expanding the quantity of open-pittable resources of this type. In the meantime, petrographic, density and geochemical studies, as well as other work on Renard 1, remain outstanding. This data will be used to update the preliminary geological model and to better quantify a potential mineral deposit estimate for the body.

Scientific and Technical Data

Caustic dissolution data for the Renard 1 microdiamond results described above are based on work completed by Microlithics Laboratories, Thunder Bay, Ontario, an independent mineral process laboratory. As part of the Company's ongoing QA/QC programs all materials are subject to audit and any significant changes will be reported when available.

OTHER PROPERTY INTERESTS

Stornoway's diamond exploration programs are conducted under the direction of Robin Hopkins, P.Geol. (NT/NU), Vice President, Exploration, a Qualified Person under NI 43-101. Mr. Hopkins has reviewed the disclosure contained in this interim MD&A.

Although the Company's principal focus remains the completion of a Feasibility Study at Renard, the Company has recently initiated exploration activities on several earlier-stage projects where previous work has identified the potential for new kimberlite discoveries.

Stornoway's portfolio of earlier-stage projects comprises 1.97 million acres classified as either 'Advanced' (Qilalugaq, Aviat, Churchill and Timiskaming) or 'Grassroots' (Hammer, Chesterfield and others). Several of the advanced projects have demonstrated the potential for significant tonnages and high diamond contents on a non-resource basis, and now merit either additional delineation drilling or bulk sampling. The Company considers these advanced stage projects to be credible "pipeline" projects, providing the company with significant exposure to long term diamond price growth. In the near to medium term, however, the immediate focus of the Company's non-Renard exploration efforts will be on the less capital intensive, discovery oriented activities, both within the existing property portfolio and in new generative programs.

A description of the Company's earlier-stage properties can be found in the Company's Annual Information Form filed in July 2010. In addition, the Company provided an update on several of these properties in its first quarter MD&A and in a news release dated September 7, 2010.

Highlights of the 2010 Canadian exploration program to-date are as follows:

- Initiation of several grassroots sampling programs in areas previously identified as anomalous for new kimberlite discoveries;
- Creation of a new Québec joint venture, the "Consorem Project", to test airborne geophysical anomalies with prospecting, ground geophysics and till sampling. The Company holds a 25% interest in a total of 236 claims on 27 claim blocks;
- Completion of ground geophysics at the Hammer kimberlite in advance of potential drill testing in 2011;
- Discovery of a new kimberlite dyke by prospecting at the Qilalugaq Project;
- Discovery of new kimberlite float occurrences at the Chesterfield Project, and;
- Submission of approximately 1,000kg of kimberlite for microdiamond processing at Aviat Project.

Results from these programs will be reported as appropriate.

MICRODIAMOND RESULTS FROM THE AVIAT PROJECT, NUNAVUT

On March 7, 2011, new microdiamond results from the AV9 kimberlite and the related Eastern Sheet Complex at the Aviat Project, located on the Melville Peninsula of Nunavut, were announced (Stornoway press release dated March 7, 2011). These results are consistent with previous high diamond recoveries from the project, which incorporates an extensive system of kimberlite pipes and near surface kimberlite sheets with significant tonnage and grade potential.

The 90% owned Aviat Project is the Company's key pipeline project after the bankable feasibility stage Renard Diamond Project. The eastern arctic continues to be a focus for diamond exploration in Canada, where significant discoveries have been identified in several kimberlite fields throughout the region over the past ten years.

The new results represent micro-diamond data for over one tonne of kimberlite recovered by drilling in 2008 but not processed until recently. This work comprises part of the Company's ongoing assessment of the grade potential at Aviat ahead of future, larger scale sampling. In total, 677 diamonds (stones retained on a 0.106mm square mesh sieve) were recovered from 927 kilograms of drill core from the AV9 kimberlite pipe and a total of 226 diamonds were recovered from 220 kilograms of drill core from the Eastern Sheet Complex ("ESC"). The largest diamonds recovered were 0.156 carats and 0.083carats from AV9, and 0.092 carats from the ESC. The results of this work are summarized in the table below.

		NUMBER OF DIAMONDS PER SIEVE SIZE (MM SQUARE MESH SIEVE)										
Sample	Sample weight (dry; kg)	0.106 to 0.150	0.150 to 0.212	0.212 to 0.300	0.300 to 0.425	0.425 to 0.600	0.600 to 0.850	0.85 to 1.18	1.18 to 1.70	1.70 to 2.36	Total Stones	Total Carats +0.85mm
AV9	926.50	221	183	109	73	48	28	7	6	2	677	0.515
ESC	219.84	70	53	40	32	22	4	0	4	1	226	0.227

AV9

The AV9 kimberlite was discovered in 2007 (see Stornoway press release dated August 23, 2007) and was the third kimberlite pipe discovered with the prospective Tremblay Corridor, host to the AV1 and AV4 kimberlite pipes. In 2008, a total of 1,144 meters of drilling in nine holes was completed at AV9 to better determine the internal geology and geometry. The pipe measures approximately 45 by 135 meters and kimberlite has been confirmed to a depth of 175 meters. Previous microdiamond results from the discovery phase of drilling returned 236 diamonds from 307 kilograms of drill core (see Stornoway Press Release dated December 12, 2007). The new microdiamond results expand the inventory of diamond data available for assessment at AV9, and show the pipe to have similar diamond content characteristics to the AV1 kimberlite pipe, which returned a mini-bulk sample diamond content of 89 carats per hundred tonnes ("cpht") in 2008 (see Stornoway press release dated March 13, 2008).

Eastern Sheet Complex (ESC)

The ESC comprises a series of stacked, shallowly dipping kimberlite sheets covering a minimum 260 hectare area adjacent to the AV9 kimberlite pipe. Sheets vary in thickness between 0.9 meters and 1.7 meters average true thickness, and extend from surface to a minimum of 100 meters below surface. A 2008 conceptual geological model developed by SRK Consulting (Canada) Inc. ("SRK"), (see Stornoway press release dated October 7, 2008) included an estimate of total kimberlite in four separate bodies of between 12.4 and 16.0 million tonnes. An estimate of total diamond content, determined using both micro and macro diamond data, was 235 +/- 30 cpht (undiluted) at a bottom cut-off of +1.0mm**.** The conceptual range of kimberlite and the estimate of total diamond content imply a Potential Mineral Deposit in the ESC of between 24.1 and 40.3 million carats of diamonds, after an allowance for approximately 5% internal dilution within the model. The study assumed 100% recovery of stones of all size fractions, and no corrections were applied for breakage and/or loss of smaller diamonds that would typically occur during recovery of diamonds in a commercial plant. Such losses can be expected to comprise 15-20% when compared to the total diamond content model. The reader is cautioned that the potential quantity and grade of any potential mineral deposit is conceptual in nature, and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

In 2009, 148 tonne and 43 tonne samples collected from surface exposures of the ES-1 sheet within the ESC returned diamond contents of 144 cpht and 210 cpht respectively, and included the recovery of a 3.99 carat diamond (see Stornoway press release dated May 5, 2009). Previous microdiamond results from the 2007 drilling campaign comprised 518 diamonds from 358.7kg of drill core (see Stornoway press release dated January 28, 2008). The new microdiamond data is consistent with the previous sampling, and the previous estimates of total diamond content, and demonstrate the lateral consistency of diamond content over the breadth of the 260 ha ESC.

A graphical illustration of the Aviat Project and the kimberlite bodies discussed herein can be found on Stornoway's website at http://www.stornowaydiamonds.com/_resources/Aviat_Kimberlite_Pipes.pdf.

Scientific and Technical Data

The press release of March 07, 2011 mentions the recovery of a 0.545 carat stone from AV9. Stornoway's ongoing QA/QC programs subsequently identified a laboratory reporting error whereby that stone is actually 0.0545 carats in weight. The two largest stones from AV9 are therefore 0.156 and 0.083 carats. This change has no material impact on the overall diamond results from the Aviat kimberlites, or on management's assessment of the project's value.

Management's Assessment

Management believes that the new microdiamond results reported above confirm the high diamond contents and competitive size distribution characteristics typical of the Aviat Project, one of the most significant diamond occurrences to have been discovered in the eastern Arctic. Of particular significance are the large diamonds recovered from AV9, the kimberlite pipe located at the heart of Aviat's complex of diamondiferous kimberlite sheets. Aviat represents a credible internal growth opportunity for the Company with a substantial inventory of diamonds. As the Renard Diamond Project progresses, management's intention is to continue to advance the Company's pipeline of projects, with particular emphasis on discovery and the establishment of new resources.

RISKS AND UNCERTAINTIES

The Company's securities should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in the Company's Canadian regulatory filings prior to making an investment in the Company, including the risk factors discussed under the heading "Risk Factors" in the Company's Annual Information Form dated July 26, 2010 available on SEDAR at www.sedar.com.

The Company's financial condition and future prospects are significantly affected by overall economic conditions. The Company has no source of operating revenue and relies on equity financings and, in recent years, the sale of non-core assets to finance its operations and in particular, to further exploration on its properties. Additional financings are dilutive to existing shareholders. Failure to secure additional financing, as required, could result in the postponement of exploration programs, or delays in the development of the Renard Diamond Project. The Company's investments (common shares in other publicly-traded exploration companies) can fluctuate significantly in value, and it could be difficult for the Company to realize funds quickly from the sale of these investments without causing further downward pressure on the share price of the investment companies.

The majority of the Company's expenses at the present time are denominated in Canadian Dollars so its exposure to foreign exchange risk is limited.

The Company has no exposure to asset-backed commercial paper through its short-term investments, which are invested in chartered bank-issued high-interest savings accounts, Bankers' Acceptance or Bankers' Deposit Notes or Guaranteed Investment Certificates ("GICs") to minimize, to the extent possible, the Company's credit risk. The majority of the Company's receivables consist of sales tax receivables due from the federal government and receivables from companies with which the Company has exploration agreements or options. The maximum amount of the Company's exposure to credit risk with respect to its receivables is the carrying value of those receivables as at the balance sheet date. The most significant receivable for the Company arises from its responsibilities as the operator of the Renard Diamond Project in Quebec, a joint venture with Diaquem Inc. Under the terms of the joint venture agreement, the Company invoices, and is reimbursed by Diaquem Inc., on a monthly basis. As the operator, the Company is responsible for creating an annual exploration budget, which is approved by both partners annually.

The Company's liquidity risk, the risk that the Company won't be able to meet its obligations as they come due, has been mitigated as compared to the same period in 2010 because the Company was able to complete a significant equity financing in January 2011 and was also able to raise "flow-through" funds for grass-roots exploration in Canada during the nine months ended January 31, 2011 (see "*Capital Resources*" below for a description of the Company's financing activities). Although there has been a significant improvement in the equity market in Canada since 2009, overall market conditions remain uncertain. The Company's management actively monitors its cash-flows and in 2010, implemented several cost-cutting measures to reduce its liquidity risk. The Company's material mineral properties are all in good standing and the Company has sufficient financial resources to keep those properties in good standing through 2012. The Company regularly reviews its landholdings with a view to reducing or consolidating those landholdings to focus on specific areas of interest and exploration potential.

As of the report date, the Company has positive working capital which will be used to fund the Company's 50% share of a feasibility study at the Renard Diamond Project, conduct exploration programs at several of the Company's exploration properties and for general working capital over the next year. The Company has minimum commitments under its operating leases totalling $1.4 million for the five-year period ended April 30, 2016 (please see "*Commitments*" schedule below). A portion of these payments may be recovered through sub-leases. The Company will need to secure some form of additional financing to further develop the Renard Diamond Project,

assuming receipt of a positive bankable feasibility study during 2011, a production decision by the Company's Board of Directors, and receipt of the required regulatory approvals and permits for mine construction. The Company's management will continue to consider various alternatives for future financing requirements, within the context of existing market conditions. There can be no guarantee that the Company's management will be successful in these endeavours. Please see Note 1 of the interim, consolidated financial statements for the nine months ended January 31, 2011 for more information.

CURRENT QUARTER

The Company's net loss of $2.3 million for the three months ended January 31, 2011 (the "**Current Quarter**") was significantly higher than the $1.3 million loss in the three months ended January 31, 2010 (the "**Comparative Quarter**") due to a significant increase in exploration costs in the Current Quarter (Current Quarter - $2.04 million; Comparative Quarter - $628,000). Total expenses increased to $3.1 million in the Current Quarter, as compared to $1.4 million in the Comparative Quarter, including exploration expenses. During the Current Quarter, stock-based compensation (Current Quarter - $134,000; Comparative Quarter - $49,000), exploration expenses (Current Quarter - $2.04 million; Comparative Quarter - $628,000), salaries, benefits and director's fees (Current Quarter - $323,000; Comparative Quarter - $163,000), regulatory and shareholder communications expense (Current Quarter - $84,000; Comparative Quarter - $71,000), rent and facility fees (Current Quarter - $135,000; Comparative Quarter - $115,000) and office and sundry expense (Current Quarter - $160,000; Comparative Quarter - $84,000) all increased. Please see the analysis under "Results of Operations" above for a more detailed explanation of these variances. The Company's loss per share of $0.01 in the Current Quarter compares to a $0.01 loss per share in the Comparative Quarter.

SUMMARY OF QUARTERLY RESULTS

The following table sets out selected unaudited consolidated quarterly financial information of Stornoway and is derived from the unaudited quarterly consolidated financial statements prepared by management. Stornoway's interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and **expressed in thousands of Canadian dollars** (except for per share amounts).

During the year ended April 30, 2010, the Company retrospectively changed its accounting policy for exploration expenditures and financing and interest costs to more appropriately align itself with policies applied by other comparable companies at a similar stage in the mining industry. Prior to the year ended April 30, 2010, the Company capitalized all such costs to resource property costs on an individual project basis until such time as the economics of an ore body could be defined and only wrote down capitalized costs when the property was abandoned and/or impaired or if the capitalized costs were not considered to be economically recoverable. Results for the quarters presented below have been restated accordingly. For a more detailed explanation of this change, please see "*Changes in Accounting Policies Including Initial Adoption*" below.

Period	Loss or (Income) from Continued Operation and Net Loss (Income)	Basic Loss (Earnings) per share[1] from Continued Operation and Net Loss (Income)	Fully Diluted Loss (Income) per share[1] - from Continued Operation and Net Loss (Income)	Exploration Expenditures
Three months ended January 31, 2011	$2,346	$ 0.01	$0.01	$ 2,039
Three months ended October 31, 2010	3,915	0.02	0.02	2,352
Three months ended July 31, 2010	1,037	0.00	0.00	303
Three months ended April 30, 2010	14,063	0.05	0.05	991
Three months ended January 31, 2010 (restated)	1,320	0.01	0.01	628

Three months ended October 31, 2009 (restated)	5,891	0.02	0.02	1,304
Three months ended July 31, 2009 (restated)	1,696	0.01	0.01	1,295
Three months ended April 30, 2009 (restated)	(1,308)	(0.01)	(0.01)	600

(1) Based on the treasury share method for calculating diluted earnings.

Quarterly results will vary in accordance with the Company's exploration and financing activities. Exploration expenditures and resource property write-offs typically have the most significant impact on the Company's quarterly results, followed by stock-based compensation expense and general and administrative expenses. Resource property write-offs typically vary in accordance with exploration results and changes to the Company's land position and can rarely be predicted in advance. Exploration expenditures will change based on the type of exploration work completed in any given quarter. The Company's cash flow is affected by the seasonality of the exploration business, and fluctuations in general and administrative expenses are typically seasonal as well.

In a typical quarter, the Company's professional fees will increase when property option and joint venture agreements are in development and negotiation, and investor relations activities increase in proportion to shareholder inquiries, communications and as a result of the Company's periodic "roadshows". Stock-based compensation expense varies, and is dependent upon the size, timing and estimated fair value of the stock option grants.

The Company's activities during the year ended April 30, 2010 were focused on an ongoing resource expansion and optimization program at the Renard Diamond Project in Quebec, resulting in the filing of two updated NI 43-101 technical reports (please see the Company's Annual MD&A dated July 15, 2010 for a description of these activities). The work completed at Renard during the year ended April 30, 2010 conformed with Stornoway's stated objective of conducting modest, value-driven, exploration programs focused on the Company's key, advanced projects during a very challenging economic environment.

The Company's activities during the Current Period focused primarily on negotiating the Acquisition agreement described above, financing activities, a drilling program at the Renard Project, as well as the commencement of a formal Feasibility Study. In addition, the Company initiated grass-roots exploration work at a number of its Canadian exploration properties. Loss from continued operations presented in the table above includes the Company's quarterly exploration expenditures.

LIQUIDITY

The Company's cash and cash equivalents increased from $9.2 million at April 30, 2010 to $27.5 million at January 31, 2011. In addition, the Company has a further $11.7 million classified as short-term deposits, of which $328,000 is held as collateral security for the Company's credit cards and an $8,000 line of credit to satisfy exploration bonding requirements. A GIC equivalent to the utilization of the line of credit is provided as collateral security. The remainder of $11.7 million classified as a short-term deposit and is held in a GIC and a term deposit that is cashable any time after 30 days from the investment date.

PREVIOUS FINANCINGS

Short Form Offering – February 2010

In February 2010, the Company raised $12,685,000 from the sale of 25,370,000 Common Shares at a price $0.50 per share (including the exercise of an over-allotment option of 2,370,000 Common Shares for gross proceeds of $1,185,000). As part of this financing, the Company paid a cash commission of $824,525 to the underwriters, being 6.5% of the gross proceeds raised, including through the exercise of the over-allotment option.

Net proceeds (before giving effect to the exercise of the over-allotment option, the proceeds of which were to be applied for general corporate purposes as previously announced by the Company) are calculated as follows:

Sale of 23,000,000 Common Shares at a price of $0.50 per share	$11,500,000
6.5% cash commission payable to the underwriters	(747,500)
Estimated expenses of the offering	(500,000)
Net proceeds received	**$10,252,500**

The table below provides a comparison between the anticipated and actual use of the net proceeds of the financing completed in February 2010 (before giving effect to the exercise of the over-allotment option):

Description of Expenditure	**Anticipated Use**	**Actual Use**
Renard Diamond Project (Stornoway's 50% share)		
Feasibility level activities	$6,000,000	$4,219,000
Exploratory drilling	-	$1,000,000
Program support	$1,052,500	$1,443,000
Subtotal:	$7,052,500	$6,662,000
General		
Estimated costs of the offering	$500,000	$431,000
General working capital, administrative expenses and salary expenses	$2,700,000	$3,159,000
Subtotal:	$3,200,000	$3,590,000
Total:	**$10,252,000**	**$10,252,000**

Although some activities in support of the feasibility program of work were undertaken during the Spring of 2010, most of the expenses were incurred during the latter half of 2010, or are being incurred during 2011. Accordingly, for the purposes of the table above, the $390,500 difference between the anticipated cost of $7,052,500 for work at the Renard Diamond Project and the actual cost of $6,662,000 (estimated as at January 31, 2011) has been allocated to general working capital.

The variances noted in the table above have not had an impact on Stornoway's ability to achieve its business objectives and milestones.

Flow-through Financing – June 2010

In June 2010, the Company completed a "flow-through" financing which consisted of 8,775,000 "flow-through" Common Shares of the Company for gross proceeds of $5,001,750. The "flow-through" Common Shares were issued at a price of $0.57 per share. The Company paid a 6.5% cash commission on certain subscriptions received from general working capital and issued 526,500 compensation options to the agents. Proceeds from this financing must be used on Canadian exploration expenditures (CEE) as defined in the Tax Act.

Flow-through commitment at June 29, 2010	$	5,001,750
Qualifying expenditures to January 31, 2011		(1,967,000)
Flow-through funds on hand at January 31, 2011	$	3,034,750

As at January 31, 2011, the Company had spent approximately 39% of the proceeds from this offering on exploration programs at a number of its properties across Canada, including approximately $1,000,000 for exploratory drilling at the Company's Renard Diamond Project, and including a generative program in Québec, in accordance with the previously announced use of proceeds of this financing.

Short Form Offering – January 6, 2011

On January 6, 2011, the Company completed a prospectus offering and issued 57,400,000 common shares at $0.61 for gross proceeds of $35.0 million. The transaction was completed by a syndicate of underwriters led by RBC Capital Markets and including Desjardins Securities, BMO Capital Markets and Canaccord Genuity (the

“Underwriters”). The Underwriters received a cash fee equal to 6% of the gross proceeds from the sale of the common shares. The Company intends to use the net proceeds of the Offering to complete a feasibility level program of work at the Renard Diamond Project, located in north-central Québec, and for general working capital purposes.

Stornoway intends to apply the net proceeds as follows:

Description of Expenditure	**Anticipated Use**	**Actual Use**
Renard Diamond Project		
Mine, plant and surface infrastructure design	$7,000,000	$0
Environmental and socio-economic studies	$2,200,000	$0
Project management and support costs	$2,400,000	$0
Other work related to the feasibility study	$2,800,000	$0
	$14,400,000	$0
Annual commitment fee payable for Credit Support Agreement (assumes closing of the Transaction)	$1,750,000	$0
Estimated costs related to the Transaction	$2,050,000	$991,000
General working capital, administrative expenses and salary expenses (including technical)	$14,363,160	$0
	$18,163,160	$991,000
	$32,563,160	$991,000

Stornoway intends to use the net proceeds from the Offering to complete a bankable feasibility study on the Renard Diamond Project during 2011 with a goal of making a production decision by the end of 2011, and for general working capital and administrative expenses in 2011 and 2012. In order to complete the bankable feasibility study, Stornoway must submit a “project description” to the Quebec government and obtain all required permits, finish resource and reserve estimate work, including geotechnical drilling at site, complete a revised economic assessment, finalize the mine, plant and surface infrastructure design as well as complete environmental and socio-economic impact studies. Stornoway expects to complete this bankable feasibility study by the third quarter of 2011.

The Company’s working capital as at January 31, 2011 was $40.3 million (April 30, 2010 - $9.5 million). During the Current Period, the Company’s cash position increased by $18.3 million to $27.5 million at January 31, 2011 as compared to the Comparative Period, where the Company’s cash position decreased by $1.0 million to $527,000 (plus short-term deposits of $627,000) in cash and cash equivalents. A decrease in accounts payable and accrued liabilities (Current Period - $567,000; Comparative Period – increase of $568,000), stock-based compensation expense (Current Period - $1,657,000; Comparative Period - $542,000), amortization (Current Period - $505,000; Comparative Period - $700,000), future income tax recovery (Current Period - $1.1 million; Comparative Period - $2.4 million), an increase in accounts receivable (Current Period - $546,000; Comparative Period – a decrease of $926,000) represent the largest reconciling items from the consolidated statement of loss and deficit to the consolidated statement of cash flows - operating activities, for the nine months ended January 31, 2011. The Company’s primary operating activity is the acquisition and exploration of its resource property interests. During the Current Period, the Company spent $5.8 million (offset by $1.1 million of Quebec exploration tax credits received) to explore its resource properties (Comparative Period- $3.2 million), with the most significant expenditures on the Foxtrot (Renard) property in Quebec. The Company’s most significant operating expenses during the Current Period included $661,000 for salary, benefits and director’s fees (Comparative Period - $423,000), $405,000 (Comparative Period - $223,000) for office and sundry, and professional fees of $371,000 (Comparative Period - $135,000). The Company’s loss for the Current Period of $7.3 million (Comparative Period - $8.9 million) was reduced by a bad debt recovery of $101,000 (Comparative Period - $Nil), and by cost recoveries of $415,000 (Comparative Period - $Nil).

The Company’s ability to generate cash is very much affected by the current market conditions, its share price and third party interest in its assets. The Company is very reliant on equity financings, which are dilutive to existing shareholders, to fund ongoing exploration and development activities, and for general corporate purposes. In previous years, the Company was able to sell non-core assets as one means to finance its operations and to further exploration on its material mineral property interests. The Company’s ability to sell non-core assets in the future is dependent on interest in the Company’s assets from third parties. In addition, the Company is eligible for investment tax credits with respect to its exploration activities in certain provinces, which may help the Company

finance its operations to some extent; however, the timing and amounts of those tax credits cannot be reliably estimated. The Company has no credit facilities that could be used for ongoing operations because it has no operating cash flow. The funds that the Company does have which aren't allocated for short-term cash requirements are invested in tranches for up to 90 days in Bankers' Acceptance ("**BA**") or Bankers' Deposit Notes ("**BDN**") issued by various chartered banks or held in high interest savings accounts at several chartered banks. Some excess cash is also invested in GICs and term deposits, cashable after 30 days, which typically pay a higher interest rate than BAs or BDNs. The Company has no exposure to asset-backed commercial paper.

The Company's most significant fixed costs relate to its leases for office space and then the costs associated with maintaining a TSX listing. The Company's minimum commitment for its premises for the five year period between 2012 and 2016 is $1.43 million. The Company is able to reduce some of this liability through the sub-lease of excess space. The Company has sufficient financial resources to keep its material landholdings and the majority of its non-material landholdings in good standing into 2012 and beyond. The Company has also incurred sufficient exploration expenditures on these properties to keep them in good standing with the respective provincial and territorial governments into 2011 as well. The Company's management actively manages its landholdings in an effort to keep those landholdings with the greatest exploration potential in good standing for as long as possible. The Company's management regularly reviews its cash position against future plans and makes decisions regarding these plans accordingly. Exploration work in 2010 was primarily focused on the Company's 50% interest in the Renard Diamond Project, directed to a resource expansion and optimization program, with additional drilling and diamond sampling. Funds from the short-form prospectus offering, which closed in February 2010 and January 2011, are being used towards the completion of a bankable feasibility study at Renard and for general working capital purposes. Funds from the flow-through financing, which closed in June 2010, are being used to fund Stornoway's 50% share of an exploration drill program at the Renard Diamond Project during 2010, as well as grass-roots exploration work at several of the Company's other Canadian exploration properties. In addition, the Company is conducting in-depth reviews, compilation and analysis of its exploration data acquired over several years of fieldwork to refine specific targets of interest on its current mineral properties and to identify new areas with exploration potential. The Company's management continues to seek ways to reduce its overhead expenditures through shared administrative functions, subleases and other means.

The Company has no history of profitable operations and its present business is at the exploration/pre-feasibility stage. The Company has no source of operating cash flow and no assurance that additional funding will be available to it for further exploration and development of its projects when required. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources and the lack of revenues. Although the Company has been successful in the past in obtaining financing through the sale of equity securities or joint ventures, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Such means of financing typically result in dilution of a shareholder's interest, either directly as a result of issuing equity securities or indirectly through dilution of an interest in one of the Company's projects. Failure to obtain additional financing could result in the delay or indefinite postponement of further exploration and development of its properties and ultimately in the loss of its properties.

CAPITAL RESOURCES

The Company has no operations that generate cash flow and its long-term financial success is dependent on management's ability to discover economically viable diamond deposits. The diamond exploration process can take many years and is subject to factors that are beyond the Company's control. Many factors influence the Company's ability to raise funds, including the health of the resource market, the climate for diamond exploration investment, the Company's track record and the experience and caliber of its management.

Several factors will influence the Company's cash requirements in the near future. These factors include: the receipt of a positive feasibility study and the required permits to construct a diamond mine at Renard, as well as a decision to proceed with further development. The Company's exploration plans for 2011 will also affect its cash requirements, and are subject to change. The Company's actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration activity.

The Company has historically financed its exploration programs through the issuance of equity capital, and through the use of a convertible debenture (issued in March 2007 and extinguished in July 2008) while at the same time

trying to reduce shareholder dilution by securing joint venture partners where appropriate and in recent years, by the monetization of non-core assets. In recent months, Canadian equity capital markets have seen significant improvements as compared to late 2008 and early 2009. Interest in the diamond sector has also improved recently. The Company's management intends to continue to seek out the best opportunities to maximize shareholder value by furthering exploration programs on its most promising projects and by generating new discoveries. Upon closing of the acquisition of the additional 50% interest in the Renard Diamond project, SGF will provide the Company with $100 million of credit support towards the establishment of a project debt facility to fund project construction and development costs.

The Company's consolidated financial statements for the year ended April 30, 2010 and for the nine months ended January 31, 2011 have been prepared in accordance with Canadian GAAP and on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

In order to finance the Company's exploration programs and to cover administrative and overhead expenses, the Company historically has raised money through equity sales and from the exercise of convertible securities.

On June 29, 2010, the Company completed a private placement for gross proceeds of $5,001,750 from the issuance of 8,775,000 flow-through shares. The Company paid a cash fee equal to 6.5% of the gross proceeds from the sale and issued broker warrants entitling the syndicate of underwriters to subscribe for up to 526,500 common shares of the Company at $0.57 per share until December 29, 2011. If exercised, proceeds from these warrants would increase the Company's cash position by about $300,000.

On January 6, 2011, the Company sold 57,400,000 common shares at a price of $0.61 per share for gross proceeds of $35,014,000 by way of a prospectus offering. The Company paid a cash fee equal to 6% of the gross proceeds.

The Company has a number of stock options and warrants outstanding which, if exercised, would increase the Company's available cash. Summaries of the stock options and warrants outstanding is included under "*Outstanding Share Capital*" below.

ADDITIONAL DISCLOSURE

Additional disclosure concerning Stornoway's general and administrative expenses and exploration expenses is provided in the Company's Annual Information Form and the Consolidated Statement of Loss and Deficit and the Consolidated Schedule of Resource Property Costs contained in its Consolidated Financial Statements for April 30, 2010 and April 30, 2009 and for the nine months ended January 31, 2011 and 2010. These documents are available on Stornoway's website at www.stornowaydiamonds.com or on its SEDAR Page Site accessed through www.sedar.com.

COMMITMENTS

The Company is committed to minimum future operating lease payments for its office premises as follows:

Fiscal year ending April 30, 2012	$	460,000
Fiscal year ending April 30, 2013		454,000
Fiscal year ending April 30, 2014		380,000
Fiscal year ending April 30, 2015		117,000
Fiscal year ending April 30, 2016		19,000
	$	1,430,000

In addition, the Company has GICs in the amount of $328,000 as collateral security for its corporate credit cards and a line of credit of $8,000 to satisfy exploration bonding requirements. A GIC equivalent to the utilization of the line of credit is provided as collateral security.

OUTSTANDING SHARE CAPITAL

Stornoway's authorized capital is unlimited common shares without par value. On February 22, 2011, the Company's common shares were consolidated on a 1-new-for-4-old basis. *The following schedules in this section are presented on a post-consolidation basis.*

As at March 11, 2011, there were 88,766,675 common shares issued and outstanding on a post-consolidation basis.

As at March 11, 2011, the following stock options are outstanding:

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Exercise Price	Year of Expiry	Weighted Average Remaining Contractual Life
$ 4.08 ~ $ 5.00	348,175	$ 4.66	2011	0.19 years
$ 2.52 ~ $ 27.76	1,279,745	$ 4.64	2012	1.36 years
$ 0.40 ~ $ 29.68	1,028,051	$ 1.95	2013	2.70 years
$ 0.40 ~ $ 19.44	718,525	$ 1.16	2014	3.59 years
$ 2.24 ~ $ 5.36	1,190,100	$ 2.39	2015	4.42 years
	4,564,596			

As at March 11, 2011, the Company had the following warrants outstanding:

Number of Warrants	Exercise Price	Expiry Date
25,424	$ 0.68	May 29, 2011
131,625	$ 2.28	December 29, 2011
376,097	$ 2.00	February 23, 2012
533,146		

TRANSACTIONS WITH RELATED PARTIES

Related party transactions (See Note 8 of the interim, consolidated financial statements as at January 31, 2011) are as follows:

a) As at January 31, 2011, the amounts due to related parties consisted of the following *(expressed in thousands of Canadian dollars)*:

	January 31, 2011	April 30, 2010
Strongbow Exploration Inc. ("Strongbow"), a company with a director in common	**3**	4
Agnico-Eagle Mines Limited ("Agnico-Eagle"), a significant shareholder	**-**	1
	$ 3	$ 5

These amounts are non-interest bearing, unsecured and are due on demand.

b) During the period ended January 31, 2011, the Company paid or accrued $39,000 (January 31, 2010 - $36,000) for the reimbursement of administrative and technical time to Strongbow.

b) In May 2007, the Company entered into a sub-lease agreement with Agnico-Eagle, for additional premises. The Company was committed to annual lease payments of approximately $105,000 in respect of these premises through June 30, 2010. A portion of these payments were recovered through sub-leases.

c) During the period ended January 31, 2011, the Company paid, or accrued as payable on behalf of the Eastern Ungava JV, $Nil (January 31, 2010 - $9,200) to Agnico-Eagle, of which the Company's share is 50%, for work completed by Agnico-Eagle related to a preliminary assessment at the Renard Project.

d) Included in receivables is $2,400 (April 30, 2010 - $1,100) receivable from a director.

The above transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as well as the reported expenses during the reporting period. Such estimates and assumptions affect the determination of the potential impairment of long-lived assets, estimated costs associated with reclamation of exploration properties, and the determination of stock-based compensation and future income taxes. Estimates and assumptions may be revised as new information is obtained, and are subject to change. Management believes that the Company's accounting policies and the estimates used in the preparation of the consolidated financial statements are appropriate in the circumstances, but are subject to judgments and uncertainties that are inherent in the financial reporting process. Actual results could differ from estimates and the differences could be material. The most critical accounting policies upon which the Company depends are those requiring estimates of impairment, assumption about fair value and future income taxes. Please refer to Notes 2 and 3 of the audited, consolidated financial statements of the Company for the years ended April 30, 2010 and 2009 for a description of all significant accounting policies.

Impairment of long-lived assets

During the year ended April 30, 2010, the Company retrospectively changed its accounting policy for exploration expenditures and interest and financing costs to more appropriately align itself with policies applied by other comparable companies at a similar stage in the mining industry. Prior to the year ended April 30, 2010, the Company capitalized all such costs to resource property costs on an individual project basis until such time as the economics of an ore body could be defined and only wrote-down capitalized costs when the property was abandoned and/or impaired or if the capitalized costs were not considered to be economically recoverable.

The Company's management reviews the carrying value of the Company's long-lived assets when there are events or circumstances that may indicate impairment. Estimated future net cash flows relating to an asset or an asset group are calculated using estimated future prices, proven and probable reserves, and operating and capital costs on an undiscounted basis. An impairment charge is recorded if the undiscounted future net cash flows are less than the carrying amount. Reductions in the carrying value of an asset or asset group, with a corresponding charge to operations, are recorded to the extent that the estimated future net cash flows on a discounted basis are less than the long-lived assets carrying value in accordance with CICA Handbook Section 3063, "Impairment of Long-lived Assets".

In making an assessment of the potential impairment of the Company's long-lived assets, management has used estimates of future mineral prices, mineral resource quantities, and operating, capital and reclamation costs, as well as making judgments on the potential of certain projects based on the available information at the balance sheet date. These estimates are subject to certain risks and uncertainties that may affect the determination of the recoverability of the Company's long-lived assets. Although management has made its best estimates of potential impairment, the interpretation of these factors is subjective and will not necessarily result in precise determinations. Should an underlying assumption change, the resulting estimates could change by a material amount.

During the period ended January 31, 2011, the Company wrote-off $15,000 of capitalized property interests for non-material property interests in Canada where no future exploration programs are planned for the foreseeable future (January 31, 2010 –$5.5 million). For a detailed description of the impairment testing methodology used by management, please see the Company's Annual MD&A dated July 15, 2010.

Asset retirement obligations

Asset retirement obligations are the estimated costs associated with reclamation of the Company's resource properties and are recorded as a liability at fair value. The liability is accreted over time through periodic charges to operations. In addition, asset retirement costs are capitalized as part of each asset's carrying value at its initial discounted value and are amortized over the asset's useful life. In the event the actual costs of reclamation exceed the Company's estimates, the additional liability for retirement and remediation costs may have an adverse effect on the Company's future results of operations and financial condition. The Company's asset retirement obligation relates to activities at its Renard Project in Quebec.

The Company has recorded an asset retirement obligation, which reflects the present value of the estimated amount

of undiscounted cash flow required to satisfy the asset retirement obligation in respect of the Renard Project in Quebec. The primary component of this obligation is the removal of equipment currently used at the site as well as costs associated with securing an underground shaft on the property. If the Company decides not to go into production on the property, it is assumed that the asset retirement obligation will be incurred in 2011. Should the Company decide to proceed with a production decision on the Renard Project, the obligation will be realized further into the future. The credit adjusted risk free rate at which the estimated cash flows have been discounted to arrive at the obligation is 12% and the undiscounted amount of inflation-adjusted estimated future cash flows is $795,000.

Stock-based compensation

The Company's current market price and the volatility of the Company's market price will affect the estimates made for stock-based compensation. The volatility of the Company's stock price and the stock price at the grant date has the most significant impact on the estimate of fair value of stock-based compensation. The Company expenses stock-based compensation for its corporate, administrative, exploration and technical staff.

Stock-based compensation is accounted for using the fair value based method. Under the fair value based method, compensation cost is measured at fair value of the options at the date of grant and is expensed over the vesting period of the award. The Company estimates the fair value using the Black- Scholes option-pricing model. The key assumptions used during the Current Period were: a risk-free interest rate of 1.7% ~ 2.7%, a dividend yield of 0%, an expected volatility of 87% ~ 99% and expected term of stock options of 3 ~ 5 years. The key assumptions used during the year ended April 30, 2010 were: a risk-free interest rate of 2.5% ~ 2.7%, a dividend yield of 0%, an expected volatility of 83% ~ 94% and expected term of stock options of 3 ~ 5 years. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

During the Current Period, the Company recorded stock-based compensation expense of $1,657,000 (Comparative Period - $542,000). The Company granted 4,580,000 stock options during the Current Period. The options have an exercise price range of $0.56 – $0.65 and expire five years from the grant date. The Company used the Black-Scholes Option Pricing Model to estimate a fair value of $1,744,000 for this grant. During the year ended April 30, 2010, the Company granted options to purchase up to 3,395,000 shares of the Company's stock to employees and non-employees at an exercise price of $0.25. The Company used the Black-Scholes Option Pricing Model to estimate a fair value of $543,000 for these grants.

The Company also uses the Black-Scholes option-pricing model to value other share compensation. During the Current Period, the Company issued 526,500 warrants as part of a brokered private placement in June 2010. These warrants were estimated to have a fair value of $157,300, using the Black-Scholes option-pricing model with the following assumptions: 1.38% risk-free interest rate; an expected life of eighteen months, 105% volatility.

Future income tax assets and liabilities

Future income tax assets and liabilities are measured using statutory rates that are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The Company recorded a future income tax liability as part of the acquisition of Ashton and Contact and made certain assumptions with respect to the values of certain of Ashton and Contact's tax pools and loss-carry forward balances. Differences in the actual tax rates applied and in the timing of the settlement of temporary differences could have a material impact on the Company's reported tax assets and liabilities.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Exploration Expenditures

During the year ended April 30, 2010, the Company retrospectively changed its accounting policy for exploration expenditures and financing and interest costs to more appropriately align itself with policies applied by other comparable companies at a similar stage in the mining industry. Prior to the year ended April 30, 2010, the Company capitalized all such costs to resource property costs on an individual project basis until such time as the economics of an ore body could be defined and only wrote down capitalized costs when the property was abandoned and/or impaired or if the capitalized costs were not considered to be economically recoverable.

Exploration expenditures are now charged to operations as they are incurred until the mineral property reaches the development stage. Financing and interest costs are now charged to operations as well. Significant costs related to property acquisitions, including allocations for undeveloped mineral interests, are capitalized until the viability of the mineral interest is determined. When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized. The impact of this change on the previously reported January 31, 2010 consolidated financial statements is demonstrated in the table below *(expressed in thousands of Canadian dollars):*

	January 31, 2010 As previously reported $	Restatement $	January 31, 2010 As restated $
Resource property costs	168,524	(59,164)	109,360
Rough diamond inventory	-	330	330
Future income tax liabilities	19,141	(8,362)	10,779
For the nine months ended:			
Office and sundry	382	(159)	223
Accretion	-	57	57
Amortization	-	700	700
Exploration costs	-	3,226	3,226
Stock-based compensation	339	203	542
Write-off (recovery) of resource property costs	6,785	(1,320)	5,465
Future income tax recovery	(1,707)	(742)	(2,449)
Loss for the period	(6,941)	(1,966)	(8,907)
Loss per share	(0.03)	(0.00)	(0.03)
Deficit at January 31, 2010	(73,752)	(50,472)	(124,224)

Property, Plant and Equipment

During the period ended January 31, 2011, the Company prospectively changed its accounting estimate for the useful lives of several items of property, plant and equipment. Prior to the period ended January 31, 2011, the Company provided for amortization for all property, plant and equipment classes using the declining balance method at rates between 20% and 100% and applied one-half of the applicable rate in the year of acquisition. Amortization for all property, plant and equipment classes is now estimated using declining balance method rates between 12% and 100% and applying one-half of the applicable rate in the year of acquisition.

Future Accounting Pronouncements

In January 2009, the CICA issued Section 1582, "Business Combinations", which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. In addition, the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests", which replaces the existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements, while section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

These statements apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The Company is currently evaluating the new sections to determine the potential impact on its consolidated financial statements.

International financial reporting standards

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian standards and interpretations for years beginning on or after January 1, 2011. The process of changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect reported financial position and results of operations, and also affect certain business functions. The Company will be required

to prepare fully IFRS compliant financial statements for the year ended April 30, 2012, with the first interim financials prepared under IFRS for the period from May 1 to July 31, 2011.

The Company's conversion plan consists of four phases: scoping and planning, detailed assessment, implementation and post implementation. During the scoping and planning phase, management developed an implementation plan and completed an initial assessment of the key areas where the IFRS transition could have a significant impact on the Company's financial reporting processes. The scoping and planning phase is complete. Summarized below are the optional and mandatory exemptions under IFRS 1 that are expected to apply to the Company, as well as the standards that are expected to have the most significance for the Company upon transition to IFRS.

First-Time Adoption of IFRS

"First-Time Adoption of International Financial Reporting Standards" ("IFRS 1"), provides entities adopting IFRSs for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRSs. The most significant IFRS 1 exemptions that are expected to apply to the Company upon adoption are summarized as follows:

1. Use the mandatory IFRS 1election for estimates. An entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error;
2. Choose the IFRS 1 election for IFRS 2 – Share-Based Payments, which allows an exemption from retroactive restatement of equity instruments granted after November 2, 2002, but vested prior to transition;
3. Choose not to use the IFRS 1 election for IAS 16 – Property, Plant and Equipment, which allows an entity to measure an item of PPE at its fair value at the date of transition and use that fair value as its deemed cost;
4. Choose to use the IFRS 1 election for IFRIC 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities, which alleviates an entity from re-measuring provisions at every reporting date from the inception of the provision to the IFRS transition date;
5. Choose to use the IFRS 1 election for IFRS 3R – Business combinations, which allows a first-time adopter of IFRS to not apply IFRS 3R retrospectively to past business combinations;
6. Choose to use the IFRS 1 election for IAS 32 – Borrowing Costs, which allows a first-time adopter to elect to apply this standard prospectively to qualifying assets, either on the date of transition or at any date prior to transition.

The following mandatory IFRS 1 exemptions are not applicable for the Company:

- Derecognition of financial assets and financial liabilities;
- Hedge accounting;
- Non-controlling interest.

Management has determined that additional analysis is required for the following standards before a decision on the IFRS 1 exemptions can be made:

- Leases;
- Designation of previously recognized financial instruments;
- Investments in subsidiaries, jointly controlled entities and associates.
- Fair value measurement of financial assets or financial liabilities at initial recognition.

Expected areas of significance:

The key areas where the Company has identified that accounting policies will differ or where accounting policy decisions were necessary that may impact the Company's consolidated financial statements are set out in the following table. Note that this does not include the impact of transition policy choices made under IFRS 1, described above.

Accounting Policy Area	Description
(i) Property, plant and equipment (IAS 16)	The Company will continue to record its property, plant and equipment assets at cost, less accumulated amortization. IFRS requires that part of an item of PPE with a cost that is significant in relation to the total cost of the asset shall be depreciated separately. Management has reviewed the Company's assets and has identified those assets where the cost of one or more of the components is significant in relation to the total cost of the asset. Management has estimated a revised depreciation expense accordingly.
(ii) Income taxes (IAS 12)	Under Canadian GAAP, the Company recognized a future income tax liability on temporary differences arising on the initial recognition of mineral property interests (where the fair value of the asset acquired exceeded its tax basis) in a transaction which was not a business combination and affected neither accounting profit or loss nor taxable profit or loss. IAS 12, "Income Taxes" does not permit the recognition of deferred taxes on such transactions. As of May 1, 2010, the Company has derecognized the impacts of all future income tax liabilities which had previously been recognized on the initial acquisition of the mineral property interests through transactions deemed not to be business combinations and affecting neither accounting profit or loss nor taxable profit or loss.
(iii) Decommissioning liabilities (IAS 37)	At May 1, 2010, the Company did an analysis of the discount rate used to present value its ARO liability. Under Canadian GAAP, a change in the discount rate alone did not result in a re-measurement of the ARO liability. Under IFRS, IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" a change in the current market-based discount rate will result in a change in the measurement of the provision. As a result, the ARO liability recorded in 2010 has been re-measured using the discount rate in effect at year end and an adjustment has been recorded to the corresponding asset.
(iv) Share-based payments (IFRS 2)	Under Canadian GAAP, the Company used the straight-line method of calculating vested options. The fair value of share-based awards with graded vesting was calculated as one grant and the resulting fair value was recognized on a straight-line basis over the vesting period. Also, forfeitures of awards were recognized as they occurred. Under IFRS, each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is recognized using the graded-vesting method. Also, forfeiture estimates are recognized on the grant date and revised for actual experiences in subsequent periods.
Retained Earnings	Many of the foregoing changes are closed to retained earnings/(deficit). Management currently expects to reduce the Company's retained earnings/(deficit) amount by approximately $1.0 million on transition to IFRS. This reduction is largely attributable to changes in the net deferred tax asset and to changes in the estimated depreciation expense from PPE componentization.
Asset impairment (IAS 36)	The Company's capitalized resource property costs are its most significant long-lived asset and must be reviewed for impairment when circumstances suggest that the carrying values may be impaired. The adoption of this standard is not expected to have a material change on the Company's financial reporting.

The above list and related comments should not be regarded as a complete list of changes that will result from transition to IFRSs. It is intended to highlight those areas that management believes to be most significant; quantitative impacts of certain differences are still being reviewed, but a preliminary summary appears below. Moreover, until management has prepared a full set of annual financial statements under IFRSs, it won't be possible to determine or precisely quantify all of the impacts that will result from converting to IFRSs.

The standard-setting bodies that promulgate IFRSs and Canadian GAAP have significant ongoing projects that could affect the ultimate differences between IFRSs and Canadian GAAP and their impact on the Company's consolidated financial statements in future years. In particular, management expects that there may be additional

new or revised IFRSs issued during 2011 in relation to consolidation, discontinued operations, financial instruments, fair value measurement, leases, revenue recognition, employee benefits and joint ventures. Processes are in place to ensure that such potential changes are monitored and evaluated. The future impacts of IFRSs will also depend on the particular circumstances prevailing in those years.

The following table shows the expected impact of the differences between IFRSs and Canadian GAAP based on adopting IFRSs with a transition date (date of opening IFRSs balance sheet) of May 1, 2010 and applying the above-mentioned mandatory and optional exemptions and policy choices. The reader is cautioned that the numbers presented below are preliminary in nature and subject to change.

Expected Adjustments to Consolidated Balance Sheet (expressed in millions of Canadian dollars):

		As at May 1, 2010		
ASSETS	Notes	CDN GAAP	Effect of transition to IFRS	IFRS
Current				
Cash and cash equivalents		$ 9.2	$ -	$ 9.2
Short-term deposits		1.6	-	1.6
Other receivables		1.6	-	1.6
Investments		0.2	-	0.2
Prepaid expenses		0.1	-	0.1
		12.7	-	12.7
Prepaid Fuel		0.2	-	0.2
Rough diamond inventory		0.3	-	0.3
Property, Plant and Equipment	(i)	2.3	~1.0 to 2.0	~3.0 to 4.0
Exploration and Evaluation assets	(ii)(iii)	93.9	~7.0 to 9.0	~101.0 to 103.0
		$ 109.4	$ ~8.0 to 11.0	$ ~117.0 to 120.0
LIABILITIES				
Current				
Accounts payable and accrued liabilities				
- Trade and due to related parties		$ 3.2	$ -	$ 3.2
Future Income Tax Liabilities	(ii)	7.8	~7.0 to 8.0	~15.0 to 16.0
Asset Retirement Obligations	(iii)	0.7	-*	0.7
		11.7	~7.0 to 8.0	~19.0 to 20.0
SHAREHOLDERS' EQUITY				
Share Capital		224.9		224.9
Contributed Surplus	(iv)	11.8	-*	11.8
Accumulated Other Comprehensive Loss		(0.1)	-	(0.1)
Deficit		(138.9)	~1.0	~(138.0)
		97.7	~1.0	~99.0
		$ 109.4	$ ~8.0 to 9.0	$ ~118.0 to 119.0

*Adjustments are expected to be immaterial.
References above relate to items described in the Expected Areas of Significance table on page 28 above.

Next Steps

The detailed assessment phase is substantially complete as management has undertaken an in-depth technical analysis to develop an understanding of the potential impacts of transitioning to IFRS, and to quantify those impacts resulting from the adoption of IFRS. Management has made recommendations for accounting policy choices and is presently drafting IFRS compliant accounting policies, financial statements and note disclosures. An opening balance sheet as at May 1, 2010 has been prepared, but is subject to further revision. In addition, management will continue its review and assessment of the impact of transition on the Company's existing internal controls over financial reporting, its disclosure controls and its information technology and data systems. The last phase of post-implementation will involve monitoring of changes in IFRS and assessing the impact of those changes on the Company's reporting. IFRS education and reports to the Audit Committee commenced in 2008 and continue to be ongoing.

DISCLOSURE CONTROLS

The Company's Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures ("the Procedures") which provide reasonable assurance that information required to be disclosed by the Company under provincial or territorial securities legislation (the "Required Filings") is reported within the time periods specified. Without limitation, the Procedures are designed to ensure that material information relating to the Company is accumulated and communicated to management, including its Certifying Officers, as appropriate to allow for timely decisions regarding the Required Filings.

The Certifying Officers evaluated the effectiveness of the Procedures for the nine months ended January 31, 2011 and have concluded that the Procedures in place as of the end of the fiscal period covered by the Required Filings are effective in providing reasonable assurance that material information relating to the Company is accumulated and communicated to management and reported within the time periods specified.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Certifying Officers are responsible for designing a system of internal controls over financial reporting, as defined under National Instrument 52-109, which provides reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its interim and annual consolidated financial statements in accordance with the Company's GAAP.

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting as of January 31, 2011 and have concluded that the Company's internal controls over financial reporting are effective, and are sufficiently designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its consolidated financial statements for external purposes in accordance with the Company's GAAP. This evaluation was completed using the framework and criteria established in the Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). There have been no changes in internal control over financial reporting during the period ended January 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

APPROVAL

The Board of Directors of Stornoway has approved the disclosure contained in this Interim MD&A. A copy of this Interim MD&A will be provided to anyone who requests it.

ADDITIONAL INFORMATION

Additional information relating to Stornoway is on SEDAR at www.sedar.com.