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

Containing Information up to and including December 13, 2010

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 is expected to strengthen 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 December 13, 2010, the Company holds interests, directly or through joint ventures, in a property portfolio of some 20 properties representing approximately 2.9 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 1.2 million acres of 'early stage' projects (Hammer Property and others). Collectively these properties contain some 170 kimberlite bodies.

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 six months ended October 31, 2010 and 2009. 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 six months ended October 31, 2010 and the period ended December 13, 2010:

During the six months ended October 31, 2010 and the period ended December 13, 2010, the Company’s primary focus continued to be the Renard Diamond Project in North Central Québec. Several important events occurred during this time:

- In May 2010, the Company filed a National Instrument ("NI") 43-101 technical report for an Updated Preliminary Assessment for the Renard Diamond Project;

- In July 2010, a Pre-Development Agreement ("PDA") for the Renard Diamond Project was concluded with the Grand Council of the Crees (Eeyou Istchee) / Cree Regional Authority, the Cree Nation of Mistissini and DIAQUEM INC ("DIAQUEM"), a wholly-owned subsidiary of SOQUEM.
- The Company, along with partner SOQUEM, announced
  - the formal commencement of a feasibility study and related programs of work at the Renard Diamond Project (July 2010);
  - that SNC-Lavlin Inc. was awarded the lead contract for the preparation of the Renard Diamond Project Feasibility Study (September 2010);
  - the results from a fall drilling program (October 2010);
  - that Roche ltd. Groupe-conseil was awarded the contract for the preparation of the Environmental and Social Impact Assessment ("ESIA") for the Renard Diamond Project.

Other Highlights

- In June 2010, the Company issued 8,775,000 "flow-through" common shares for gross proceeds of $5,001,750 by way of a brokered private placement. Proceeds from this financing will be 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 September 2010, the Company announced that it had initiated exploration activities on several earlier-stage projects where previous work had identified the potential for new kimberlite discoveries.

RESULTS OF OPERATIONS

The Company's loss from operations for the six months ended October 31, 2010 (the "**Current Period**") was $5.0 million (a loss of $0.02 per share) as compared to a loss of $7.6 million restated ($0.03 loss per share restated) for the six months ended October 31, 2009 (the "**Comparative Period**"). The Company's loss for the Current Period is mainly due to expenses of $5.9 million (Comparative Period - $4.5 millionrestated), including exploration expenses of $2.7 million (Comparative Period - $2.6 million restated).

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 October 31, 2009 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 - $5.9 million; Comparative Period - $4.5 million) primarily because stock-based compensation increased, reflecting a larger number of stock options granted with a higher estimated fair value from an increased stock price during this period. Also, during the Current Period, the Company received $827,000 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.

Most of the Company's administrative expenditures increased in the Current Period. Professional fees (Current Period - $350,000; Comparative Period- $94,000) include a one-time consulting expense of $65,000; 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- $338,000; Comparative Period - $260,000) increased, and include meeting fees paid to the six non-executive directors effective from January 1, 2010. Rent and facility fees (Current Period - $226,000; Comparative Period- $214,000) increased modestly; regulatory and shareholder communication expense (Current Period - $205,000; Comparative Period - $157,000) 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 - $244,000; Comparative Period - $139,000) includes travel expense of $90,500 for the Current Period, as compared to $26,300 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 2009. Expenses also include a number of non-cash items including: accretion (Current Period - $43,000; Comparative Period- $38,000), amortization (Current Period - $338,000; Comparative Period - $466,000) and stock-based compensation (Current Period - $1,523,000; Comparative Period - $494,000). Exploration costs expensed in the Current Period increased to $2.65 million from $2.60 million in the Comparative Period.

The Company's interest income increased slightly in the Current Period to $38,000 from $24,000 in the Comparative Period, due to a higher cash and cash equivalents balance. Interest expense in the Current Period decreased to $Nil from $40,000 in the Comparative Period. 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 $557,000 (Comparative Period – $2.2 million), which decreased the Company's net loss after taxes to $5.0 million (Comparative Period - $7.6 million).

The Current Period loss of $5.0 million was less than the Company's net loss of $7.6 million in the Comparative Period due to a decrease in the write-off of resource property costs (Current Period - $Nil; Comparative Period - $5.3 million), a bad debt recovery (Current Period - $101,000; Comparative Period - $Nil) and a cost recovery (Current Period - $274,000; Comparative Period - $Nil).

As at October 31, 2010, total assets increased to $111.4 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 $12.1 million as of October 31, 2010. The most significant change in the Company's cash position resulted from a flow-through private placement in June 2010 for gross proceeds of $5.0 million. The Company's total liabilities, consisting primarily of future income tax liabilities ($7.2 million as at October 31, 2010 versus $7.8 million at April 30, 2010), increased to $12.5 million as at October 31, 2010 from $11.7 million as at April 30, 2010. Shareholder's equity increased to $98.9 million as at October 31, 2010 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.

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.

UPDATED PRELIMINARY ASSESSMENT ANNOUNCED

In March 2010, the Company announced the receipt of an updated Preliminary Assessment for the Renard Diamond Project. The study comprises a conceptual mine plan, capital and operating cost estimates, and cash flow model prepared by Scott Wilson Roscoe Postle Associates Inc. ("Scott Wilson RPA"), a diamond processing plant design, with capital and operating cost estimates, prepared by AMEC Americas Limited ("AMEC"), and social, environmental and permitting aspects contributed by Stantec Experts-conseil limitée ("Stantec"). The conceptual mine plan is based upon an NI 43-101 compliant mineral resource estimate prepared by Golder Associates Ltd. in

January 2010. The technical report was filed on May 5, 2010 and is available for viewing under Stornoway's profile on the SEDAR website at www.sedar.com.

Management's Analysis

The updated Preliminary Assessment predicts that a profitable and long-lived diamond mining operation is possible at Renard. Given the large mineral resource, the high confidence of the cost estimations, and the robust preliminary economics, Stornoway recommended, and the joint venture approved, the decision to proceed directly to a full Feasibility Study and a Social and Environmental Impact Assessment, so as to be in a position to make a production decision prior to the end of 2011.

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 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.

In September 2010, SNC-Lavalin Inc. was awarded the lead contract for the preparation of the Feasibility Study. SNC-Lavalin is an international engineering and construction firm headquartered in Montréal, Québec. The SNC-Lavalin contract will cover principal mine design and engineering work, with AMEC Americas Limited to be retained to provide diamond mining and processing expertise under subcontract. The award of the lead contract for the Feasibility Study is an important milestone for the project because the Feasibility Study will form an important component of the overall program of mine design, social and environmental assessment and permitting that is being overseen by the Company's Québec based mine development team.

In November 2010, Roche ltd. Groupe-conseil ("Roche") was awarded the contract for the preparation of the Environmental and Social Impact Assessment ("ESIA"). Roche ltée is an international engineering-construction and environmental consultant firm headquartered in Québec City. The Roche contract will cover the Renard Project

Impact Assessment and its Closure and Rehabilitation Plan, with EnviroCree ltd. to be retained as a sub-consultant to provide local expertise. The Roche-EnviroCree team is highly experienced in all environmental and social aspects of mine development in the James Bay region of Quebec. The award of the ESIA contract is another step in the development of the Renard Project as the study will comprise an important component of the project's overall permitting process.

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 INC ("DIAQUEM"), a wholly-owned subsidiary of SOQUEM.

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.

FALL DRILLING RESULTS FROM RENARD

The fall exploration drilling program at the Renard Project was completed in October 2010. The fall 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. The exploration program described below was conducted under the direction of Robin Hopkins, P.Geol. (NT/NU), the Company's Vice President, Exploration, a Qualified Person under NI 43-101. Mr. Hopkins has reviewed the summary below.

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.

Geological Drilling

The fall drill program comprised six holes totaling 3,020 meters, including two existing holes that were re-entered and deepened. Detailed geological modeling and micro-diamond sampling from each drill hole are ongoing. However, kimberlite lithologies identified from previous drilling were intersected in each hole, including Coherent Kimberlite ("Brown" kimberlite), Tuffisitic Kimberlite Breccia ("Blue" kimberlite), Hypabyssal Kimberlite and Kimberlite Breccia, and Country Rock Breccias. Results from both winter and fall phases of the 2010 drill program are shown in Table 1 on the next page.

Table 1: Geological Drill Results.

Hole	Azimuth	Dip	Length	Kimberlite Intersection (meters down hole)			Horizontal Impact on Size of Kimberlite Body Compared to Previous Estimates[1]		Maximum Vertical Depth of Kimberlite Intersected	Vertical Depth of Existing NI 43-101 Compliant Resource
ID	(degree)	(degree)	(meters)		From	To	Upper Contact (meters)	Lower Contact (meters)	(meters)	(meters)
Renard 3										
R3-53	260	-70	383	Expected[1]	376	***n/a***	+2	n/a	357	395
				Actual	327					
				Difference[2]	***+49***					
R3-59	310	-75	391	Expected[1]	419	455	+23	n/a	373	
				Actual	295	391				
				Difference[2]	***+124***	***n/a***[3]				
R3-60	48	-65	508	Expected[1]	388	439	+23	+24	439	
				Actual	357	484				
				Difference[2]	***+31***	***+45***				
Renard 4										
R4-53	68	-76	789	Expected[1]	275	637	+7	> +35	759	380
				Actual	212	789				
				Difference[2]	***+63***	***> +152***				
R4-54	277	-66	718	Expected[1]	376	705	+16	-21 to -40	532	
				Actual	341	595				
				Difference[2]	***+35***	***-110***				
GR4-10	157	-66	513	Expected	131	398	-8	+7	366	
				Actual	180	412				
				Difference[2]	***-49***	***+14***				
Renard 65										
R65-34	n/a	-90	596	Expected[1]	*n/a*	591	n/a	+6	513	No Resource Established
				Actual		513				
				Difference[2]		***-78***				
R65-35	133	-53	531	Expected[1]	194	320	-9	+75	383	
				Actual	211	486				
				Difference[2]	***-17***	***+166***				
R65-36	347	-51	508	Expected[1]	219	645	+26	-38	459	
				Actual	183	593				
				Difference[2]	***+36***	***-52***				
Renard 1										
R1-12	15	-58	537	Expected[1]	n/a	n/a	n/a	n/a	370	No Resource Established
				Actual[4]	195	508				
				Difference[2]	***n/a***	***n/a***				

[1] Based on the "High Range Potential Mineral Deposit" component of the geological model utilized in the December 8th 2009 NI 43-101 compliant mineral resource

[2] A positive ("+") difference indicates an increase in geological model size w hen compared to the High Range PMD geological model. A negative ("-") indicates a decrease in model size. Differences betw een expected and actual contacts have a smaller influence on the shape of the geological model at the top of the pipe than at the bottom ow ing to the amount of geological control already existing.

[3] Hole terminated in kimberlite before the expected location of the first pierce point in the pre-existing geological model.

[4] Intersection includes kimberlite, country rock breccia and blocks of cracked country rock; detailed geological logging has not been completed; material changes reported as avaialble.

Renard 3

All three of the most recent drill holes at Renard 3 demonstrate that additional kimberlite is present between approximately 295 and 434m below surface. Two holes (R3-53 and R3-59) were terminated early while still in kimberlite due to technical challenges encountered during drilling. The base of the currently established Inferred

Mineral Resources at Renard 3 occurs at 395m, and the new drilling is consistent with an expansion of the geological model in this area, both in width and to depth.

Renard 4

The four most recent drill holes at Renard 4, in conjunction with recent geotechnical drilling in the area of a potential open pit, may imply that Renard 4 has a plunge to the east and south. Additional kimberlite has been intersected in both of these areas at depth, including hole R4-53 which terminated in kimberlite at a vertical depth of 759 meters. Drill hole R4-54 in turn intersected less kimberlite than expected on the northwest boundary of the kimberlite at a vertical depth of 532 meters. It is expected that the net impact of this drilling will be an increase in the amount of Inferred Mineral Resource, an increase to the estimated quantity of PMD, and a smaller scale adjustment to the estimated quantity of Indicated Mineral Resources.

Renard 65

In the recent NI 43-101 compliant Mineral Resource Estimate, the Renard 65 body was represented only as PMD, with a low range estimate based on its projection to 280 meters below surface, and a high range estimate based on its projection to 700 meters below surface. The new drilling suggests that previous estimates on the dimensions of the Renard 65 kimberlite have been conservative, and an increase in tonnage estimates can now reasonably be expected, in particular on the eastern and southern sides. In addition, drill hole R65-34 now confirms the presence of kimberlite to a minimum depth of 513m below surface. For Renard 65, microdiamond analyses of drill core will be particularly important given the more limited historical diamond dataset available, the consistent recovery of larger stones, and the recognition of multiple kimberlite facies with variable diamond contents (Stornoway Press Release dated July 13, 2010).

Renard 1

The Renard 1 kimberlite does not form part of the project's current mineral resources but, following a review of historical sampling data, has been identified as having the potential for high diamond content. Renard 1 lies less than 500 meters north of Renard 65, and was originally discovered in 2001. Preliminary geological modeling of historical drill data suggests that the body is similar in dimension to the Renard 4 kimberlite when modeled to a depth of 280 meters below surface, and is composed of three primary kimberlite lithologies similar to those recognized in the other Renard bodies: tuffisitic kimberlite, competent (transitional) kimberlite and hypabyssal kimberlite. Like the other bodies, Renard 1 exhibits a halo of non-kimberlitic country rock breccia ("CRB") and cracked country rock ("CCR") related to the pipe emplacement event. During the summer program a single 537m drill hole inclined at -58 degrees crossed the body from south to north, intersecting kimberlite, CRB and CCR from 195 to 508m downhole. Detailed geological logging, including dilution estimates, has not yet been completed and any material changes to will be reported when available. Renard 1's three principal kimberlite lithologies will be tested by industry standard microdiamond analysis to permit a correlation with other bodies currently in the mine plan.

Next Steps

Detailed geological logging, microdiamond analysis, and dilution estimation on the new drill core will now be completed, and integrated into revised geological models for each pipe. The new drill core intersections on Renard 3 and 4 lie within the scope of the current conceptual mine plan (Stornoway press release dated March 22, 2010) and the revised models will be incorporated into ongoing feasibility level mine design work. An updated NI 43-101 compliant mineral resource estimate is expected following the completion of all necessary analytical work. Currently, Renard's NI 43-101 compliant mineral resource stands at 23.0 million carats of Indicated Mineral Resource (26.5 million tonnes at 87 carats per hundred tonnes, "cpht") and 13.3 million carats of Inferred Mineral Resource (17.8 million tonnes at 75 cpht). An additional 26.8 to 45.7 million tonnes, containing between 12.2 and 26.5 million carats, is currently characterized as a PMD.

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 3.1 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.

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 historically low interest rates in recent years and smaller cash balances available for investment have resulted in a decrease in interest income, which in years past could partially offset the Company's general and administrative expenses. The Company's overhead expenses cannot be financed with "flow-through" dollars (restricted for use on “grass-roots” exploration at the Company’s Canadian mineral properties) so the Company’s management makes decisions with a view to utilizing its “hard dollars” as effectively as possible. 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 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 2009 because the Company was able to complete a significant equity financing during the year ended April 30, 2010, and was also able to raise “flow-through” funds for grass-roots exploration in Canada during the six months ended October 31, 2010 (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 2009, implemented several cost-cutting measures to reduce its liquidity risk. Several of the measures implemented in 2009 will remain in place for the foreseeable future. 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 into 2011. 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’s management continues to evaluate alternatives to reduce its overhead expenditures. The Company has minimum commitments under its operating leases totalling $1.3 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 continue operations during 2011 and to fund its 50% share of future development activities at the Renard Diamond Project. The Company’s management will continue to consider various alternatives, 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 six months ended October 31, 2010 for more information.

CURRENT QUARTER

The Company’s net loss of $3.9 million for the three months ended October 31, 2010 (the “**Current Quarter**”) was significantly lower than the $5.9 million loss in the three months ended October 31, 2009 (the “**Comparative Quarter**”) due to a write-off of capitalized acquisition and exploration costs in the Comparative Quarter (Current Quarter - $Nil; Comparative Quarter - $5.4 million). Total expenses increased to $4.6 million in the Current Quarter, as compared to $2.5 million in the Comparative Quarter. During the Current Quarter, stock-based compensation (Current Quarter - $1.4 million; Comparative Quarter - $459,000), exploration expenses (Current Quarter - $2.4 million; Comparative Quarter - $1.3 million), and professional fees (Current Quarter - $259,000; Comparative Quarter - $39,000), salaries, benefits and director’s fees (Current Quarter - $140,000; Comparative Quarter - $123,000), regulatory and shareholder communications expense (Current Quarter - $109,000; Comparative Quarter - $77,000) and office and sundry expense (Current Quarter - $97,000; Comparative Quarter - $80,000) 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 $0.02 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 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	14,505	0.05	0.05	991
Three months ended January 31, 2010 (restated)	1,471	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
Three months ended January 31, 2009 (restated)	4,310	0.02	0.02	1,481

(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 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 $10.3 million at October 31, 2010. In addition, the Company has a further $1.7 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 $1.7 million classified as a short-term deposit and is held in a GIC that is cashable anytime after 30 days from the investment date.

In February 2010, the Company filed a short-form prospectus with securities regulators, qualifying the issuance of 23,000,000 common shares at $0.50 for gross proceeds of $11.5 million, with a 15% over-allotment option. The transaction was completed by a syndicate of underwriters led by Canaccord Financial Ltd. and including Cormark Securities Inc., Haywood Securities Inc., Desjardins Securities Inc., BMO Capital Markets, Paradigm Capital Inc. and Raymond James Ltd. (the "Underwriters"). The Underwriters received a cash fee equal to 6.5% of the gross proceeds from the sale of 16,000,000 of the common shares and 3% from the sale of 7,000,000 common shares. In March 2010, the over-allotment option was exercised and a further 2,370,000 common shares at $0.50 were issued. Gross proceeds from the Offering totaled $12.7 million. In addition to the cash fee paid to the Underwriters, the Company issued broker warrants entitling the Underwriters to subscribe for up to 1,522,200 common shares of the Company at $0.50 per share until February 23, 2012.

Proceeds from this financing are being used towards the completion of a bankable feasibility study on the Renard Diamond Project between 2010 and 2011, with a goal of making a production decision by the end of 2011, and for general working capital and administrative expenses into 2011. In order to complete the bankable feasibility study, the Company 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.

On June 29, 2010, the Company issued 8,775,000 "flow-through" common shares for gross proceeds of $5,001,750 (see "*Capital Resources*" below). Proceeds from this financing will be used for an exploration drill program at the Renard Diamond Project and for "grass-roots" exploration elsewhere in Canada.

The Company's working capital as at October 31, 2010 was $10.4 million (April 30, 2010 - $9.5 million). During the Current Period, the Company's cash position increased by $1.1 million to $10.3 million at October 31, 2010 as compared to the Comparative Period, where the Company's cash position decreased by $553,000 to $1.0 million in cash and cash equivalents. A decrease in accounts payable and accrued liabilities (Current Period - $1.3 million; Comparative Period – $639,000), stock-based compensation expense (Current Period - $1,523,000; Comparative Period - $494,000), amortization (Current Period - $338,000; Comparative Period - $466,000), an increase in accounts receivable (Current Period - $907,000; Comparative Period – a decrease of $368,000) represent the largest reconciling items from the consolidated statement of loss and deficit to the consolidated statement of cash flows -

operating activities, for the six months ended October 31, 2010. The Company's primary operating activity is the acquisition and exploration of its resource property interests. During the Current Period, the Company spent $2.7 million (offset by $827,000 of Quebec exploration tax credits received) to explore its resource properties (Comparative Period- $2.6 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 $338,000 for salary, benefits and director's fees (Comparative Period - $260,000), and professional fees of $350,000 (Comparative Period - $94,000). The Company's loss for the Current Comparative Period of $5.0 million (Comparative Period - $7.6 million) was reduced by a bad debt recovery of $101,000 (Comparative Period - $Nil) and by cost recoveries of $274,000 (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. Some excess cash is also invested in GICs, 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 $1.28 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 2011. 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 2009 and 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, 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 with the Company's joint venture partner to proceed with further development. The Company's exploration plans for 2010 and 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 in recent months. 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.

The Company's consolidated financial statements for the year ended April 30, 2010 and for the six months ended October 31, 2010 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.

At December 13, 2010, the Company had 18,713,385 stock options outstanding which, if exercised, would increase the Company's available cash by approximately $13.6 million. However, the average exercise price of these options is $0.73, in excess of the Company's current market price. The Company also has 2,132,585 warrants outstanding which, if exercised, would increase the Company's available cash by approximately $1.07 million. The average exercise price of these warrants is $0.50.

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 six months ended October 31, 2010 and 2009. 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	$	415,000
Fiscal year ending April 30, 2013		405,000
Fiscal year ending April 30, 2014		331,000
Fiscal year ending April 30, 2015		109,000
Fiscal year ending April 30, 2016		18,000
	$	1,278,000

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. As at December 13, 2010, there were 297,526,702 common shares issued and outstanding.

As at December 13, 2010, the following options are outstanding:

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Exercise Price	Year of Expiry	Weighted Average Remaining Contractual Life
$ 1.05	265,000	$ 1.05	2010	0.04 years
$ 1.02 ~ $ 1.25	1,392,700	$ 1.17	2011	0.43 years
$ 0.63 ~ $ 6.94	5,118,980	$ 1.16	2012	1.60 years
$ 0.10 ~ $ 7.42	4,267,205	$ 0.48	2013	2.94 years
$ 0.10 ~ $ 4.86	2,889,100	$ 0.29	2014	3.83 years
$ 0.56 ~ $ 1.34	4,780,400	$ 0.60	2015	4.66 years
	18,713,385			

As at December 13, 2010, the Company had the following warrants outstanding:

Number of Warrants	Exercise Price	Expiry Date
101,696	$ 0.17	May 29, 2011
526,500	$ 0.57	December 29, 2011
1,504,389	$ 0.50	February 23, 2012
2,132,585		

TRANSACTIONS WITH RELATED PARTIES

Related party transactions (See Note 8 of the interim, consolidated financial statements as at October 31, 2010) are as follows:

a) As at October 31, 2010, the amounts due to related parties consisted of the following *(expressed in thousands of Canadian dollars)*:

	October 31, 2010	April 30, 2010
Strongbow Exploration Inc. ("Strongbow"), a company with a director in common	**2**	4
Agnico-Eagle Mines Limited ("Agnico-Eagle"), a significant shareholder	**-**	1
	$ 2	$ 5

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

b) During the period ended October 31, 2010, the Company paid or accrued $25,900 (October 31, 2009 - $24,500) for the reimbursement of administrative and technical time to Strongbow.

c) 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 was recovered through sub-leases.

d) During the period ended October 31, 2010, the Company paid, or accrued as payable on behalf of the Eastern Ungava JV, $Nil (October 31, 2009 - $13,200) 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.

e) Included in receivables is $2,200 (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 Current Period, there were no write-offs for capitalized resource property interests. 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 $1,523,000 (Comparative Period - $494,000). 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-carryforward 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 October 31, 2009 consolidated financial statements is as follows *(expressed in thousands of Canadian dollars):*

	October 31, 2009 As previously reported $	Restatement $	October 31, 2009 As restated $
Resource property costs	168,148	(58,681)	109,467
Rough diamond inventory	-	330	330
Future income tax liabilities	19,203	(8,212)	10,991
For the six months ended:			
Office and sundry	245	(106)	139
Accretion	-	38	38
Amortization	-	466	466
Exploration costs	-	2,599	2,599
Stock-based compensation	300	194	494
Write-off (recovery) of resource property costs	6,309	(966)	5,343
Future income tax recovery	(1,641)	(592)	(2,233)
Loss for the period	(5,954)	(1,633)	(7,587)
Loss per share	(0.02)	(0.01)	(0.03)
Deficit at October 31, 2009	(72,765)	(50,139)	(122,904)

Property, Plant and Equipment

During the period ended October 31, 2010, the Company prospectively changed its accounting estimate for the useful lives of several items of property, plant and equipment. Prior to the period ended October 31, 2010, 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.

Areas of significance:

Standard	Description
Share-based payments (IFRS 2)	
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.
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.
Income taxes (IAS 12)	IFRS requires that only the net deferred tax asset that is "probable" to be realized should be disclosed. Management has reviewed the gross future tax asset which was previously recorded under Canadian GAAP, and expects that the entire amount will be reversed upon transition to IFRS. The net deferred tax asset related to resource property costs is expected to decrease upon transition. As a result of the expected changes in the Company's opening balances on transition to IFRS, management also expects to reduce the Company's future income tax liabilities however, the quantitative impact of these changes has not been fully analyzed yet.
Decommissioning liabilities (IAS 37)	Management plans to elect under IFRS 1 to apply IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities prospectively to changes in decommissioning liabilities that occurred prior to May 1, 2010. There are no new liabilities recognized as a result of the transition to IFRS. However, the measurement of existing liabilities according to the IFRS standards is expected to provide a different result.
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 $1.1 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.

As the detailed assessment phase is currently ongoing, the summaries above should not be considered as a complete list of the standards or changes that will result from the Company's transition to IFRS. These summaries are intended to highlight the areas identified to-date by management where the conversion to IRFS is expected to have the most significant impact. It should be noted that management's assessment of the impact of certain differences between Canadian GAAP and IFRS is still in progress and there are a number of decisions remaining where choices of accounting policies are available.

Next Steps

The detailed assessment phase is ongoing and requires management to undertake an in-depth technical analysis to develop an understanding of the potential impacts and to quantify those impacts resulting from the adoption of IFRS; to make recommendations for accounting policy choices and to then draft accounting policies under IFRS. In addition, this phase will result in the identification of additional resource and training requirements and the processes for preparing financial statements, establishing IT system requirements and preparing detailed transition plans. The Company is currently working on this phase and management expects that a detailed technical analysis should be substantially complete before the end of calendar 2010.

During the implementation phase, IFRS compliant financial statements and notes will be drafted. An opening balance sheet as at May 1, 2010 has been prepared, but is subject to 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 six months ended October 31, 2010 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 October 31, 2010 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 October 31, 2010 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.