

Form 51-102F1
Interim Management Discussion and Analysis¹
For
Stornoway Diamond Corporation
(“Stornoway” or the “Company”)

Containing Information up to and including December 12, 2011

OVERALL PERFORMANCE

Stornoway engages in the exploration and development of diamond projects in Canada, with a highly prospective pipeline of projects from feasibility stage to grass roots exploration. Stornoway’s principal focus is its 100% owned Renard Diamond Project located in north-central Quebec, a feasibility-stage project with the potential to become Quebec’s first diamond mine. Four additional projects in eastern Nunavut and on the Ontario/Quebec border are classified as being at an “advanced” stage, and Stornoway is also engaged in exploration at several early stage grass roots projects throughout Canada in geologically prospective, underexplored regions. Stornoway’s strategy is to build a growth oriented company that succeeds in the practical business of mining and selling rough diamonds. Stornoway’s long term view of the rough diamond market is positive, with tightening mine supply and growing demand, particularly in developing markets, resulting in real, long term price growth. In this context, Stornoway is well positioned to move Renard towards commercial production, and to add diamond resources from existing internal growth projects or 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, mining and marketing.

As of December 12 2011, the Company holds interests, directly or through joint ventures, in a property portfolio of some 18 properties representing approximately 1.9 million acres that can be roughly subdivided into 135,000 acres of ‘development’ stage projects (the Foxtrot Property, which includes the Renard Diamond Project), 1.17 million acres of ‘advanced’ exploration properties (Aviat, Qilalugaq, Churchill and Timiskaming) and 622,000 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. 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 and commitments. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

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, 2011 and 2010 together with the notes thereto (prepared in Canadian funds in accordance with Canadian Generally Accepted Accounting Principles “GAAP”); the condensed interim consolidated financial statements for the six months ended October 31, 2011 and October 31, 2010 have been prepared in Canadian funds in accordance with International Financial Reporting Standards (“IFRS”).

Forward-looking statements relate to future events or future performance and reflect current expectations or beliefs regarding future events and include, but are not limited to, statements with respect to: (i) the amount of mineral resources and exploration targets; (ii) the amount of future production over any period; (iii) net present value and internal rates of return of the mining operation; (iv) assumptions relating to capital costs, operating costs and other cost metrics set out in the Feasibility Study; (v) assumptions relating to gross revenues, operating cash flow and other revenue metrics set out in the Feasibility Study; (vi) assumptions relating to recovered grade, average ore recovery and other mining parameters set out in the Feasibility Study; (vii) mine expansion potential and expected mine life; (viii) expected time frames for completion of permitting and regulatory approvals and making a production decision; (ix) future exploration plans; (x) future market prices for rough diamonds; and (xi) sources of and anticipated financing requirements. 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.

Forward-looking statements are made based upon certain assumptions by Stornoway or its consultants and other important factors that, if untrue, could cause the actual results, performances or achievements of Stornoway to be materially different from future results, performances or achievements expressed or implied by such statements. Such statements and information are based on numerous assumptions regarding present and future business strategies and the environment in which Stornoway will operate in the future, including the price of diamonds, anticipated costs and ability to achieve goals. Certain important factors that could cause actual results, performances or achievements to differ materially from those in the forward-looking statements include, but are not limited to: (i) estimated completion date for the Environmental and Social Impact Assessment; (ii) required capital investment and estimated workforce requirements; (iii) estimates of net present value and internal rates of return; (iv) receipt of regulatory approvals on acceptable terms within commonly experienced time frames; (v) the assumption that a production decision will be made, and that decision will be positive; (vi) anticipated timelines for the commencement of mine production; (vii) anticipated timelines related to the Route 167 extension and the impact on the development schedule at Renard; (viii) anticipated timelines for community consultations and the conclusion of an Impact and Benefits Agreement; (ix) market prices for rough diamonds and the potential impact on the Renard Project’s value; and (x) future exploration plans and objectives.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that estimates, forecasts, projections and other forward-looking statements will not be achieved or that assumptions do not reflect future experience. We caution readers not to place undue reliance on these forward-looking statements as a number of important risk factors could cause the actual outcomes to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates, assumptions and intentions expressed in such forward-looking statements. These risk factors may be generally stated as the risk that the assumptions and estimates expressed above do not occur, including the assumption in many forward-looking statements that other forward-looking statements will be correct, but specifically include, without limitation, (i) risks relating to variations in the grade, kimberlite lithologies and country rock content within the material identified as mineral resources from that predicted; (ii) variations in rates of recovery and breakage; (iii) the greater uncertainty of exploration targets; (iv) developments in world diamond markets; (v) slower increases in diamond valuations than assumed; (vi) risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar; (vii) increases in the costs of proposed capital and operating expenditures; (viii) increases in financing costs or adverse changes to the terms of available financing if any; (ix) tax rates or royalties being greater than assumed; (x) results of exploration in areas of potential expansion of resources; (xi) changes in development or mining plans due to changes in other factors or exploration results of Stornoway; (xii) changes in project parameters as plans continue to be refined; (xiii) risks relating to receipt of regulatory approvals or the conclusion of an Impact and Benefits Agreement with aboriginal communities; (xiv) the effects of competition in the markets in which Stornoway operates; (xv) operational and infrastructure risks; and (xvi) the additional risks described in Stornoway's most recently filed Annual Information Form, its annual and interim MD&As, and Stornoway's anticipation of and success in managing the foregoing risks. Stornoway cautions that the foregoing list of factors that may affect future results is not exhaustive.

Highlights for the six months ended October 31, 2011 and the period ended December 12, 2011:

During the six months ended October 31, 2011 and the period ended December 12, 2011, the Company announced the results of a Feasibility Study for the Renard Diamond Project in north-central Quebec. Highlights of this study include:

- Base case estimates of Net Present Value (“NPV”) of C\$672 million at a 7% discount rate and Internal Rate of Return (“IRR”) of 18.7% before taxes and mining duties, and C\$376 million and 14.9% after taxes and mining duties.
- Probable Mineral Reserves of 18.0 million carats representing 23.0 million tonnes at an average grade of 78 carats per hundred tonnes (“cpht”), after allowance for mining dilution and ore recovery, and at a weighted average diamond valuation of US\$180/carats.
- 11 year reserve-based mine life with maximum diamond production peaking at 2.1 million carats/annum, and averaging 1.7 million carats/annum life of mine.
- Gross revenue, in real terms, of C\$4.1 billion and operating cash flow of C\$2.7 billion.
- Initial estimated capital cost of C\$802 million, including contingencies.
- An estimated operating cost averaging C\$54.71/tonne (\$70.27/carats) life of mine, and yielding an operating margin of 68%.

RESULTS OF OPERATIONS

The Company reports its financial statements in accordance with International Financial Reporting Standards (“IFRS”). The Company’s significant accounting policies are set out in Note 2 of the condensed interim consolidated financial statements for the three months ended July 31, 2011. These accounting policies have been applied consistently in the interim financial statements for the six months ended October 31, 2011. Previously the Company reported its interim and annual financial statements in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). The Company’s 2010 comparatives in this MD&A have been presented in accordance with IFRS. As the Company’s IFRS transition date was May 1, 2010, the comparative information for fiscal 2009 in this MD&A has not been restated.

The Company’s loss from operations for six months ended October 31, 2011 (the “**Current Period**”) was \$15.3 million (a loss of \$0.11 per share) as compared to a loss of \$5.5 million (\$0.07 loss per share) for the six months ended October 31, 2010 (the “**Comparative Period**”). The Company’s loss for the Current Period is mainly due to expenses of \$15.0 million (Comparative Period - \$5.9 million), including exploration expenses of \$12.4 million (Comparative Period - \$3.5 million, offset by \$827,000 of Quebec exploration tax credits received). Other items which affected the Company’s total loss included finance expenses (Current Period - \$889,000; Comparative Period - \$6,000) related to the \$100 million credit support agreement with Investissement Québec and accretion expense; a cost recovery from a third party for use of the Company’s lab facilities (Current Period - \$129,000 – work was completed in August 2011; Comparative Period - \$274,000) as well as interest income earned (Current Period - \$189,000; Comparative Period - \$38,000); gains on the sale of investments and property, plant and equipment and the write-off of exploration and evaluation assets (Current Period - \$50,000; Comparative Period - \$Nil). Excluding exploration expenses of \$12.4 million and share-based payments of \$163,000, the Company’s expenses increased about 42% during the Current Period, from \$1.7 million to \$2.4 million. This is a reflection of higher professional fees and regulatory and shareholder communication expense as compared to the six months ended October 31, 2010.

Exploration costs expensed in the Current Period increased significantly from \$3.5 million (offset by \$827,000 of Quebec exploration tax credits received) in the Comparative Period to \$12.4 million in the Current Period. During the Current Period, the Company spent \$9.5 million on exploration in Eastern Canada. The majority of these expenditures related to feasibility level activities at the Renard Diamond Project. In addition, the Company spent \$918,000 on exploration in other Canadian jurisdictions; \$509,000 for generative exploration; and \$1.5 million on exploration related to the Company’s Arctic properties. 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. Professional fees increased significantly (Current Period - \$684,000; Comparative Period - \$350,000) and include consulting fees for financial advisory services, accruals for the annual audit and quarterly reviews, and legal expenses related to project financing consultation. Regulatory and shareholder communication expense (Current Period - \$364,000; Comparative Period -

\$205,000) also increased primarily due to a higher level of shareholder communications, larger sponsorships, and expenses related to the development of a corporate video. Salaries, benefits and director's fees also increased (Current Period - \$406,000; Comparative Period - \$338,000), as did rent and facility fees (Current Period - \$244,000; Comparative Period - \$226,000) and office and sundry (Current Period - \$257,000; Comparative Period - \$244,000). Expenses also include a number of non-cash items: amortization (Current Period - \$423,000; Comparative Period - \$316,000) and share-based payments (Current Period - \$163,000; Comparative Period - \$1.6 million).

The Company's interest income earned was \$189,000 in the Current Period as compared to \$38,000 in the Comparative Period, due to higher cash and cash equivalents balance available for investment. The Company's finance expenses were \$889,000 in the Current Period (Comparative Period - \$6,000) and primarily related to the commitment fee payable (175 basis points per annum) on a \$100 million credit support agreement with Investissement Québec. During the Current Period, the Company recorded a deferred income tax recovery of \$254,000 (Comparative Period -\$6,000) and a current tax expense of \$2,000 (Comparative Period - \$Nil), which decreased the Company's net loss after taxes to \$15.3 million (Comparative Period - \$5.5 million). The deferred income tax recovery for the Current Period arose as a result of the premium paid for flow through shares in excess of the market value of the shares. For accounting purposes, the proceeds from issuance of these shares are allocated between the offering of shares and the sale of tax benefits. The allocation is made based on the difference between the quoted price of the existing shares and the amount the investor pays for the shares. A liability is recognized in other liabilities for this difference. The liability is reduced and the reduction of premium liability is recorded in deferred tax recovery on a pro-rata basis as eligible expenditures are incurred. As at October 31, 2011, the Company had spent all amounts raised pursuant to flow-through financings.

As at October 31, 2011, total assets decreased to \$241.7 million from \$257.4 million at the April 30, 2011 year-end. Exploration and evaluation assets increased slightly to \$214.6 million from \$214.5 million at April 30, 2011.

The Company's cash, cash equivalents and short-term deposit amounts decreased during the Current Period, from \$34.5 million as of April 30, 2011 to \$20.5 million as of October 31, 2011. The decrease in the Company's cash balance is primarily a result of spending on exploration. The Company's total liabilities, consisting primarily of trade accounts payable, accrued liabilities and provisions (\$4.5 million as at October 31, 2011 versus \$4.8 million at April 30, 2011) and an asset retirement obligation of \$1.4 million, decreased to \$6.0 million as at October 31, 2011 from \$6.5 million as at April 30, 2011. Shareholders' equity decreased to \$235.7 million as at October 31, 2011 from \$250.9 million as at April 30, 2011 and consists of share capital, non-voting convertible shares, contributed surplus, accumulated other comprehensive loss and deficit.

SIGNIFICANT SHAREHOLDER – DIAQUEM INC.

On April 1, 2011 the Company and DIAQUEM Inc. ("Diaquem") closed the agreement, previously announced December 14, 2010, to acquire Diaquem's 50% interest in the Renard Diamond Project (the "Acquisition"). Under the terms of the Acquisition, Diaquem became a significant shareholder of the Company, and retained a direct royalty interest on future diamond production. Diaquem is a wholly-owned subsidiary of SOQUEM INC., itself a wholly-owned subsidiary of Investissement Québec (formerly Société générale de financement du Québec), the Québec government's main industrial and financial holding company. In conjunction with the Acquisition, Investissement Québec ("IQ") entered into a credit support agreement with the Company with respect to future project debt financing of a minimum of \$100 million. The Company's shareholders approved the Acquisition at a special meeting held on February 10, 2011.

On July 20, 2011, the Company appointed Mme Monique Mercier, M. John LeBoutillier and M. Michel Blouin to the Company's Board of Directors. The new appointments were made pursuant to the April 1, 2011 acquisition by Stornoway of the 50% interest in Renard Diamond Project previously held by Diaquem. As provided under the terms of the acquisition and permitted under the Articles of Stornoway, the new directors have been designated by IQ and appointed by the Board of Directors.

Concurrently to the appointment of Mme Mercier and Messrs. Blouin and LeBoutillier, effective July 20th, 2011, M. Jean-Jacques Carrier, Senior Vice-President and Chief Financial and Risk Officer of IQ, stepped down as Diaquem's designated director on Stornoway's Board, a position he has held since April 1, 2011.

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. On November 16, 2011, the Company issued a news release to announce the results of a Feasibility Study for the Renard Diamond Project and a National Instrument ("NI") 43-101 technical report will be filed on or before December 31, 2011 with regulatory agencies and will be available for viewing under Stornoway's profile on the SEDAR website at www.sedar.com. The disclosure included in this Interim MD&A has been reviewed by Patrick Godin, Ing. (Quebec), the Company's Chief Operating Officer and a Qualified Person under NI 43-101.

FOXTROT PROPERTY – RENARD KIMBERLITE BODIES, QUEBEC

Stornoway's wholly owned subsidiary Les Diamants Stornoway (Canada) inc. ("Les Diamants Stornoway") has a 100% interest in the Foxtrot Property, which contains the Renard cluster of kimberlite bodies. Until April 1, 2011, this interest was held as a 50/50 joint venture between Les Diamants Stornoway and SOQUEM Inc.'s ("SOQUEM") wholly owned subsidiary, Diaquem (see "*Significant Shareholder*" above). Diaquem retains a 2% gross revenue royalty on life of mine production from Renard.

Since 1996, an area of more than 400,000 square kilometres of the eastern Archean Superior craton has been evaluated. Exploration conducted by the joint venture prior to April 1, 2011 resulted in the discovery of a field of kimberlite intrusions on the Foxtrot property, notably the Renard cluster of kimberlite bodies, and the nearby "Lynx-Hibou" system of kimberlite dykes.

FEASIBILITY STUDY ANNOUNCED

On November 16, 2011, the Company announced the results of a Feasibility Study for the Renard Diamond Project located in North Central Québec. The Feasibility Study outlines a combined open pit and underground mine plan and was prepared by SNC Lavalin Inc. with contributions from AMEC Americas Ltd. ("AMEC") for the design of the underground mine and diamond processing plant and G Mining Services Inc. ("G Mining") for open pit mine design and cash flow analysis. Additional technical elements of the study were authored by Roche Ltd., Golder Associates Ltd. and Itasca Consulting Canada Inc. A Mineral Reserve has been declared by AMEC and G Mining based on the NI 43-101 compliant Mineral Resource authored by GeoStrat Consulting Inc. and published by Stornoway on January 24, 2011, and a diamond valuation conducted by WWW International Diamond Consultants Ltd. ("WWW") and published by Stornoway on June 13, 2011.

Highlights of the study are as follows:

- Base case estimates of Net Present Value ("NPV") of C\$672 million at a 7% discount rate and Internal Rate of Return ("IRR") of 18.7% before taxes and mining duties, and C\$376 million and 14.9% after taxes and mining duties.
- Probable Mineral Reserves of 18.0 million carats representing 23.0 million tonnes at an average grade of 78 carats per hundred tonnes ("cpht"), after allowance for mining dilution and ore recovery, and at a weighted average diamond valuation of US\$180/carat.
- 11 year reserve-based mine life with maximum diamond production peaking at 2.1 million carats/annum, and averaging 1.7 million carats/annum life of mine.
- Gross revenue, in real terms, of C\$44.1 billion and operating cash flow of C\$2.7 billion.
- Initial estimated capital cost of C\$802 million, including contingencies.
- An estimated operating cost averaging C\$54.71/tonne (\$70.27/carat) life of mine, and yielding an operating margin of 68%.

The completion of the Feasibility Study is a significant milestone for the Company in the development of Québec's first diamond mine. The Feasibility Study presents a project with strong cash flow, a low risk operating profile, and robust margins. Estimates for each capital, operating and revenue parameter are realistic. On the basis of the first 11 years of reserve-based mining alone, the economics of the project are healthy. However, the Company's Long Term Business Plan, which forms the basis of the mine permitting, allows for a significantly longer mine life based on the project's total NI 43-101 Mineral Resources. Looking beyond the formal Mineral Resources, a large quantity of

exploration upside has already been identified and each kimberlite is open at depth. Renard is a diamond project with a positive Feasibility Study, a long and highly accretive resource tail, and clear-path permitting in one of the world's best mining jurisdictions.

The Company's Board of Directors approved the Renard Feasibility Study for release and authorized management to proceed to the detailed engineering and project financing phases. A formal production decision is expected to be made following, among other things, the receipt of Certificates of Authorization from the relevant Québec and federal government regulatory authorities.

In approving the release of the Renard Feasibility Study, the Board of Directors noted the project's key strengths as follows:

- Positive base-case economics based on industry-standard assumptions for US dollar exchange rate, diamond pricing, fuel costing and discount rate.
- Strong cash flow and an operating margin well positioned on the diamond industry cost curve.
- Rigorous operating and capital cost estimation.
- A detailed mine design validated by multiple levels of peer review.
- Robust valuation sensitivities.
- Well understood risks in each operating, geotechnical and environmental parameter, and an all season road for project construction and operation.
- Pro-mining jurisdiction and strong social acceptance.
- Highly accretive Long Term Business Plan based on an additional 17 million carats of Inferred Mineral Resources within the scope of the Feasibility Study mine infrastructure but outside its economic scope in accordance with NI 43-101.
- Extensive exploration upside at depth.
- Grade and value upside through diamond breakage estimates and large diamond recovery forecasts not incorporated in the NI 43-101 Mineral Resource estimate or cash flow analysis.
- Positive long term diamond market fundamentals.

Feasibility Study

Mine Plan

The Renard Feasibility Study outlines a combined open pit and underground mine based on a Mineral Reserve contained within the Renard 2, 3 and 4 kimberlite pipes. During years 1 and 2 production will be derived predominantly from an open pit at Renard 2 and 3 developed to a maximum depth of 113 meters and with a strip ratio of 5 to 1. Starting in year 2, production will be derived from an underground mine utilizing a 5.5 meter diameter shaft to 740 meters depth and access ramp. Underground mining of Renard 2 and 3 to a maximum depth of 610 meters will be by blast-hole shrink stoping with waste backfill placed from surface. Underground mining of Renard 4, which will commence in year 8, will be by blast-hole shrink stoping with waste backfill under a crown pillar. Nameplate ore processing capacity will be 6,000 tonnes per day (2.2 Mtonnes/annum) with maximum annual carat production exceeding 2 Mcarats/annum. Overall, 83% of diamond production will be from Renard 2, 8% from Renard 3 and 9% from Renard 4.

Mining Parameters		
	Reserve Carats (M)	18.0
	Tonnes Processed (M)	23.0
	Recovered Grade (cpht)	78
	Average Ore Recovery (%)	83.5%

	Average Mining Dilution (%)	13.5%
	Dilution Grade (cpht)	0
	Processing Rate (Mtonnes/annum)	2.2
	Mine Life (years)	11
Cost Parameters	Pre-Production Cap-ex (C\$M)	\$802
	LOM Cap-Ex (C\$M)	\$994
	Oil Price (US\$/barrel)	\$90
	LOM Op-ex (C\$/tonne)	\$54.71
	LOM Op-ex (C\$/carat)	\$70.27
Revenue Parameters (real terms)	Gross Revenue (C\$M)	\$4,112
	Marketing Costs	2.7%
	DIAQUEM Royalty	2.0%
	Cash Operating Margin (C\$M)	\$2,677
	% Operating Margin	68%
	Total Taxes and Mining Duties (C\$M)	\$571
	After Tax Net Cash Flow (C\$M)	\$1,151
Diamond Price Parameters	Renard 2 and Renard 3 (US\$/carat)	\$182
	Renard 4 (US\$/carat)	\$164
	Diamond Price Escalation	2.5%
	Exchange rate	1C\$=1US\$
Schedule Parameters	Effective Date for NPV Calculation	January 1 2012
	Construction Mobilization	July 1 2013
	Plant Commissioning Commences	July 1 2015
	Commercial Production Declared	January 1 2016
Valuation Parameters	Pre-Tax NPV7% (C\$M)	\$672
	Pre-Tax IRR	18.7%
	After-Tax NPV7% (C\$M)	\$376
	After-Tax IRR	14.9%

Processed kimberlite management will be by way of a “dry-stack” disposal facility which may be progressively closed. Metal leach tests indicate that negligible metal concentrations will be released, thus no liner will be placed beneath the processed kimberlite containment facility. In addition, the operation of the processed kimberlite containment facility and waste disposal facilities will not impact fish habitats. The results of the Renard Feasibility Study, and key assumptions used, are summarized in Table 1 above.

The project development schedule assumes first vehicle access for construction mobilization by July 2013, based on the construction schedule for the Route 167 Extension project, a \$332 million road development project sponsored by the Québec Ministry of Transportation under the auspices of the “Plan Nord” to which the Company has agreed to contribute an amount of C\$44 million (subject to certain conditions). Plant production is currently anticipated to commence in July 2015 with a 2 month commission followed by a 6 month ramp-up period. On site power requirements are expected to average 10 MW during operations and be provided by on-site diesel power generation. A separate feasibility study authored by Hydro-Québec on a 161kV powerline connecting Renard to the nearby Laforge 1 hydro-electric powerstation is still ongoing. This powerline would add capital cost to the project but offers

a substantial operating cost savings over diesel generated power. The powerline feasibility study is due to be completed later in 2012, and its impact on the Renard Feasibility Study will be assessed at that time.

Long Term Business Plan

The Company has also developed a Long Term Business Plan (“LTBP”) based on the total Indicated and Inferred Mineral Resources to a depth of 700m, all of which are within the scope of the Feasibility Study mine infrastructure. These include 6.1 Mcarats of high grade Inferred Mineral Resources between 600 and 700 meters depth in Renard 2. The LTBP also contemplates an increased production rate within the scope of the process plant’s design parameters, which allows for expansion up to 7,000 tonnes per day (2.6 Mtonnes/annum). Expansion mill feed is expected to be derived from an open pit on the Renard 65 kimberlite. Renard 65 is a large and lower grade deposit currently classified as Inferred Mineral Resource, but with diamond characteristics similar to the Renard 2 and 3 kimberlites. A pit at Renard 65 to a depth of 65 meters is included within the Renard Feasibility Study as a borrow pit for backfill waste and for water management, and inferred mineralization recovered is stockpiled and excluded from the production schedule. Within the LTBP, the Renard 65 material is expected to supplement higher grade ore from the Renard 2 and 3 underground mine. Although expected to be accretive to the Renard Feasibility Study, the project’s Inferred Mineral Resources are not included in the Feasibility Study economic analysis in accordance with NI 43-101. The LTBP is the basis of the Renard mine permit application, and as such will form part of the project’s public disclosure in connection with the environmental assessment regulatory process under applicable federal and provincial legislation.

Economic Analysis, Sensitivities and Diamond Price Assumptions

The Base Case financial model assumes a parity Canadian-US dollar exchange rate and diamond price models derived from an open market valuation exercise undertaken by WWW between May 9th-13th, 2011. Diamond prices are escalated at 2.5% per annum in real terms between Q3 2011 and Q4 2025. Capital costs are escalated at between 1% and 4% per annum, item dependent. Operating costs, deferred capital and sustaining capital are escalated at 2% per annum. Net cash flows are then de-escalated for the calculation of rate of return and net present value on a real-terms basis (Table 2 below). Pre-tax NPV and IRR are calculated as of January 1st, 2012 on net cash flow after operating costs, marketing costs and a 2% royalty payable to Diaquem Inc. After-tax NPV and IRR reflects the deduction of federal and Quebec income taxes and applicable mining duties. Pay-back is estimated, after-tax, at 4.8 years.

	Pre-Tax	After - Tax
NPV5%	\$899	\$534
NPV7% (Base Case)	\$672	\$376
NPV9%	\$490	\$248
IRR	18.7%	14.9%
Pay-Back (years)	4.65	4.80

Notes: Dollar amounts in C\$ million.

Assuming an efficient execution of the project outlined in the Renard Feasibility Study, the financial model shows a steep increase in NPV over the 4 year pre-production period between January 1st, 2012 and the current target date of commercial production on January 1st, 2016.

The project is most sensitive to estimated revenue parameters (diamond price, exchange rate and grade) and least sensitive to estimated operating cost metrics (Tables 3a and 3b below). The project also shows strong sensitivity to future diamond price growth. Stornoway's utilization of a 2.5% real terms growth factor is consistent with well constrained rough diamond supply and demand forecasts and industry best-practice.

	-20%	-10%	0%	+10%	+20%
Operating Cost	\$809	\$740	\$672	\$603	\$535
Capital Cost	\$830	\$751	\$672	\$593	\$514

Revenue ¹	\$236	\$454	\$672	\$890	\$1,108
		0%	+2.5%	+5%	
Diamond Price Escalation		\$227	\$672	\$1,228	
Table 3b: Sensitivity Analysis on After-Tax NPV7%					
	-20%	-10%	0%	+10%	+20%
Operating Cost	\$464	\$420	\$376	\$332	\$287
Capital Cost	\$489	\$432	\$376	\$319	\$261
Revenue ¹	\$95	\$236	\$376	\$514	\$651
		0%	+2.5%	+5%	
Diamond Price Escalation		\$93	\$376	\$724	
Notes: All figures in C\$ million.					
¹ Includes Diamond Price, Exchange Rate and Grade					

The base case diamond price models determined by WWW in May 2011 were US\$182/carat for Renard 2 and 3 and US\$112/carat for Renard 4. The Feasibility Study base case diamond price models are derived from a value modeling approach that assumes a single diamond size distribution exists across the three kimberlites. This yields a higher diamond price model of US\$164/carat for Renard 4. The alternative interpretation, that each kimberlite's diamond population is unique and is correctly represented by its diamond sample, yields diamond price models of US\$208/carat for Renard 2, US\$165/carat for Renard 3 and US\$112/carat for Renard 4. This "Alternative Diamond Price Model" is highly accretive to the project's valuation given the dominance of Renard 2 in the mine plan. The interpretation of similarity in the diamond populations is the more conservative approach.

In establishing their diamond price models, WWW determined "High" and "Minimum" sensitivities on the base case diamond price based on alternate interpretations of diamond quality and size distribution. The WWW sensitivity limits are set such that, in the opinion of WWW, it is highly unlikely that an actual diamond price achieved for each kimberlite body upon production would fall below the "Minimum" sensitivity, but it is possible that the actual diamond price achieved may be higher than the "High" sensitivity, which is not a maximum price. Sensitivities on NPV7% and IRR have been generated for each of the WWW Minimum and High price scenarios, which are US\$163 to US\$236/carat for Renard 2, US\$153 to US\$205/carat for Renard 3 and US\$105 to US\$185/carat for Renard 4 (Tables 4a and 4b below).

Table 4a: Diamond Price Sensitivities on Pre-Tax NPV7%			
	Pre-Tax NPV7%	IRR	Pay-Back
WWW Minimum Model	\$397	14.6%	5.34
Base Case Model	\$672	18.7%	4.65
Alternative Model	\$871	21.8%	4.07
WWW High Model	\$1,261	26.5%	3.49
Table 4b: Diamond Price Sensitivities on After-Tax NPV7%			
	After-Tax NPV7%	IRR	Pay-Back

WWW Minimum Model	\$199	11.5%	5.46
Base Case Model	\$376	14.9%	4.80
Alternative Model	\$502	17.4%	4.20
WWW High Model	\$747	21.4%	3.90
Notes: Dollar amounts in C\$ million.			

Capital and Operating Costs

Initial capital costs are estimated at C\$801.8 million, including a contingency of C\$74.3 million. Capital cost is estimated at an accuracy of -13% and +17% (Table 5 below). Life of Mine capital cost, including escalation, sustaining and deferred capital, and provisions for pre-production revenue and salvage value, are estimated at C\$994.4 million.

Table 5: Estimate of Capital Costs¹	
Site Preparation & General	\$ 22.9
Mining	\$ 236.9
Mineral processing plant	\$ 168.4
Onsite utilities and infrastructures	\$ 102.4
Owner's Cost	\$ 86.2
Spares, fills, tools	\$ 10.2
EPCM services	\$ 45.0
Field indirect costs, vendor representatives	\$ 22.5
Construction camp & Catering	\$ 25.0
Freight and duties	\$ 8.1
Contingency	\$ 74.3
Total Pre-Production Capital	\$ 801.8
Escalation Allowance on Initial Capital	\$ 57.3
Pre-Production Revenue	\$ (24.6)
Deferred & Sustaining Capital ³	\$ 138.8
Deferred Capital (Route 167 Extension)	\$ 44.0
Salvage Value ^{2,3}	\$ (22.9)
Total Life of Mine Capital, After Contingency, Escalation, Deferred and Sustaining Capital	\$ 994.4
Notes: All figures in C\$ million.	
¹ Totals may not add due to rounding.	
² Calculated by Stornoway	
³ After Escalation	

Life of mine operating cost is estimated at C\$54.71/tonne (C\$70.27 per carat; Table 6 below) in Q2 2011 terms. The majority of open pit costs at Renard 2 and 3 occur before January 1st, 2016 and are contained within the capital cost estimates. On a non-capitalized basis, open pit mining cost is estimated at C\$19.99/tonne of ore in Q2 2011 terms.

	C\$ millions	Unit Cost \$/Tonne	Unit Cost \$/carat
Open Pit Mine ²	\$ 6	\$ 0.27	\$ 0.34
Underground Mine	\$ 556	\$ 24.45	\$ 31.41
Processing	\$ 344	\$ 15.13	\$ 19.43
G&A	\$ 338	\$ 14.86	\$ 19.09
Total Life of Mine Operating Costs	\$ 1,244	\$ 54.71	\$ 70.27
Notes: All figures in Q2 2011 C\$.			
¹ Totals may not add due to rounding.			
² Not including pit costs capitalized prior to January 1st, 2016.			

Mineral Reserves and Mineral Resources

The Mineral Reserve estimate, prepared by AMEC and G Mining (Table 7 below), was derived from the NI 43-101 compliant Indicated Mineral Resource estimate announced by Stornoway on January 24th, 2011 and dated **February 3rd, 2011**. The Mineral Reserve estimate incorporates estimates for internal dilution (representing the quantity of non-resource material contained within the pit and stope design), mining recovery within the pits and stopes, and external dilution from adjacent country rock. Mining recovery estimates are 96% in the open pits and 82.4% in the underground mine. External dilution estimates are 7-11% in the open pits and 14% in the underground mine. Assumed dilution grade is 0 cpht.

Table 7: Mineral Reserve Estimate^{1, 2}

PROBABLE RESERVE			
KIMBERLITE	GRADE (cpht)^{3, 4}	TONNES (millions)	CONTAINED CARATS (millions)
Renard 2 OP	95	1.31	1.24
Renard 2 UG	84	16.30	13.66
Renard 3 OP	93	0.72	0.67
Renard 3 UG	84	1.00	0.84
Renard 4 UG	42	3.72	1.58
Total Probable	78	23.06	18.00

¹Reserve categories are compliant with the "CIM Definition Standards on Mineral Resources and Reserves".

²Totals may not add due to rounding.

³Carats per hundred tonnes.

⁴Estimated at a +1 DTC sieve size cut-off.

The NI 43-101 compliant Inferred Mineral Resources comprise an additional 17.5 Mcarats representing 31.1 Mtonnes at an average grade of 56 cpht (Table 8 below). In addition to these mineral resources, GeoStrat estimated the quantity of an exploration target (previously referred to by the Company as a "Potential Mineral Deposit") to be 23.5 to 48.5 Mcarats (55.1 to 75.5 Mtonnes at grades ranging from 23 to 188 cpht). This exploration target 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. Readers are cautioned that the potential quantity and grade of any such exploration target is conceptual in nature, there has been insufficient exploration to define a mineral resource, and it is uncertain if further exploration will result in the target being delineated as a mineral resource. Readers are referred to the NI 43-101 compliant technical report dated February 3rd, 2011 filed by Stornoway on SEDAR at www.sedar.com with respect to the disclosure of Mineral Resources for the Renard Diamond Project.

Table 8: NI 43-101 Inferred Mineral Resource Estimate^{1, 2}

INFERRED RESOURCE			
KIMBERLITE	GRADE (cpht)^{3, 4}	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	5.70	2.69
Renard 65	29	12.93	3.72
Lynx	107	1.80	1.92
Hibou	144	0.18	0.26
Total Inferred	56	31.12	17.45

¹Resource 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.

²Totals may not add due to rounding.

³Carats per hundred tonnes.

⁴Estimated at a +1 DTC sieve size cut-off.

Permitting

The Renard Diamond Project falls under the environmental protection regimes of the James Bay and Northern Québec Agreement (the "JBNQA") and the Canadian Environmental Assessment Act. The Company expects to file the project's Environmental and Social Impact Assessment shortly and, subject to a schedule to be established by the Review Committee of the JBNQA ("COMEX") and the Canadian Environmental Assessment Agency, it is currently expected that public hearings will be held in the first half of 2012. Upon the satisfaction of all regulatory requirements, it is currently anticipated that the project will be eligible for the receipt of both Québec and Federal Certificates of Authorization by the middle of 2012. Once the provincial and federal administrators have issued authorizations for project development, final mine permits will be sought from the Québec *Ministère du Développement durable, de l'Environnement et des Parcs*, the *Ministère des Ressources Naturelles et de la Faune*, and all relevant federal authorities.

Community Relations

In collaboration with the Crees of the James Bay region, the Company undertakes regular consultations with local communities, including public open houses and individual stakeholder meetings. Since the beginning of this year the Renard Environmental Exchange Group has met in the Cree community of Mistissini six times, giving a forum for the exchange of environmental and traditional knowledge, and interaction in the project design. The Company is also currently in negotiations with Mistissini and the Grand Council of the Crees (*Eeyou Istchee*) with the aim of concluding an Impact and Benefits Agreement. This agreement is expected to provide mine related employment and contracting opportunities, as well as foster environmental and social protection. This negotiation process follows the successful execution of a Pre-Development Agreement between the parties in July 2010, and the establishment of a project business development office in the community of Mistissini in January of this year. The financial impact of the Impact and Benefits Agreement has not been incorporated into the Feasibility Study or the revenues and cost estimates presented in the summary above.

Next Steps

The Company will file a NI 43-101 compliant technical report for the Renard Diamond Project Feasibility Study announced on November 16, 2011 on or before December 31, 2011. This technical report will be available under the Company's profile on Sedar (www.sedar.com). The Company will also file an Environmental and Social Impact Assessment ("ESIA") report shortly thereafter.

The Company's focus in 2012 will be to progress to a phase of detailed engineering and to develop and begin to execute upon a financing strategy for the construction of the Renard Diamond Project. The Company has engaged both an independent consultant and legal counsel with expertise in project finance structures to assist management in this respect.

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.

The Company maintains interests in four advanced exploration stage properties, those being the Aviat, Qilalugaq and Churchill Properties in Nunavut, and the Timiskaming Property in Ontario. 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 the Aviat, Qilalugaq and Timiskaming projects to be credible "pipeline" projects, providing the Company with significant exposure to long term diamond price growth, however, the Company's interest in the Churchill Property is a historical interest and the Company has no plans to participate in future exploration or development programs on this property for the foreseeable future.

During the Spring of 2011, the Company initiated exploration activities on several earlier-stage projects where previous work identified the potential for new kimberlite discoveries. It is management's intention to continue to advance the Company's pipeline of projects, with particular emphasis on discovery and the establishment of new resources. In the near to medium term, the immediate focus of the Company's non-Renard exploration efforts will be on discovery oriented activities, both within the existing property portfolio and in new generative programs. The Company is the operator or participant in a number of other minor or early stage grassroots projects, including landholdings in Nunavut, Northwest Territories, Alberta, Saskatchewan, Ontario and Quebec, Canada.

The Company and its wholly owned subsidiaries also hold varying interests of approximately 0.6 million acres in about 13 properties, representing a series of early stage or grass-roots projects which either host, or have the potential to host, kimberlite bodies. Some of the known kimberlites have been adequately tested by drilling and micro/macro diamond techniques, while others require additional work to be fully evaluated. Certain properties have logistical or other considerations that may limit or prevent access at the present time. Other properties have promising indicator mineral trains and/or geophysical targets that would warrant drill testing if sufficient funds were available.

In April 2011, the Company announced an exploration budget of \$5.6 million for exploration programs during 2011 outside of the Renard Diamond Project. As at October 31, 2011 the Company had incurred exploration expenses of approximately \$2.9 million pursuant to its 2011 exploration programs.

Aeon Claims (Northern Quebec)

The 100% owned Aeon claims were acquired in July 2011 on the basis of regional indicator mineral sampling that indicated the potential for multiple kimberlites or kimberlite clusters within two 10 km by 10 km source areas. Kimberlite indicator mineral grain counts in anomalous samples are comparable to those associated with the discovery of the Renard Diamond Project to the south, and the chemistry of the indicator minerals is suggestive of a diamondiferous source. During the summer field program, Stornoway completed a 100m spaced airborne magnetic survey at Aeon, and identified 61 targets compatible with kimberlite pipes. Only nine of these targets were explained during subsequent ground prospecting, leaving 52 prospective for kimberlite. A total of 198 till samples have been collected adjacent to these geophysical targets to allow target discrimination ahead of potential drilling.

The 49,350 hectare Aeon Project is situated 100 kilometers north of the network of Hydro-Québec power stations located along the all-season Trans-Taiga Highway and 300 kilometers north of the Renard Diamond Project, within the region of northern Québec governed by the James Bay and Northern Québec Agreement.

Hammer (Nunavut)

In October 2009 Stornoway announced the discovery by surface pitting of the Hammer kimberlite at the Hammer Property, Nunavut. Hammer is a joint venture between Stornoway (75% and operator) and North Arrow Minerals Inc. (TSXV-NAR; 25% participating), and was first identified as a topographic anomaly at the head of a kimberlitic indicator mineral train with strong diamond inclusion chemistry. Upon discovery, a single micro-diamond was recovered from a 6 kilogram hand sample recovered from the surface pits. During the summer 2011 field season, Stornoway and North Arrow completed 21 short delineation holes at Hammer for a total of 1,800 meters of core drilling and 930 meters of kimberlite for logging and diamond recovery. The Hammer kimberlite appears to have an elongated surface expression of approximately 0.4 hectares, a confirmed depth extent of at least 200 meters, and to

be composed of olivine-rich variably bedded volcanoclastic kimberlite. 200 kilograms of core sample has been submitted for microdiamond recovery, and an additional 3.4 tonnes of core will be processed through a dense media separation facility for macro-diamond recovery. At time of writing, diamond results are pending.

The 1,014 hectare Hammer Project is located approximately 500km north of Yellowknife, Northwest Territories within the Coronation Gulf/North Slave Diamond District. Adjacent to the Hammer Property, past surficial sampling work has suggested the presence of other kimberlite bodies that have yet to be discovered. During the 2011 field season Stornoway collected additional till samples in these areas and discovered kimberlite float boulders during ground prospecting. However, two short holes drilled to discover the source of the "Eokuk" indicator mineral train failed to intersect kimberlite. Within the Coronation Gulf/North Slave Diamond District, Stornoway holds variable interests in ten known kimberlites. As part of a review of the Company's historical database, additional samples have been submitted for microdiamond recovery from several kimberlites with a view to testing for hitherto overlooked economic potential.

Pikoo Project (Saskatchewan)

On April 26, 2011, the Company announced the acquisition of 33,374 hectares of contiguous claims at the "Pikoo Project" located in central Saskatchewan. The Pikoo claims are owned 100% by the Company, and are located 140 km east of La Ronge, Saskatchewan and 100 km west of Flin Flon, Manitoba. An all-season road to the community of Deschambault Lake comes to within 6km of the property's southern boundary.

The 100% owned Pikoo claims were acquired in April 2011 on the basis of indicator mineral sampling in the Sask craton in north-central Saskatchewan that indicated the potential for multiple kimberlites or kimberlite clusters within a 15km by 20km source area. As with the Aeon Project, no kimberlites in this area have been discovered previously. During the summer field program, Stornoway completed a 75m spaced helicopter magnetic and electromagnetic survey at Pikoo, and identified 102 prominent geophysical targets. 319 till samples have been collected to allow target discrimination ahead of potential drilling.

Exploration and Evaluation Asset Write-offs

During the period ended October 31, 2011, the Company wrote-off exploration and evaluation assets related to capitalized acquisition costs of \$50,000 on certain non-material property interests where no exploration programs are planned for the foreseeable future (October 31, 2010 – \$Nil).

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 ("AIF") dated July 21, 2011 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 prior 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 ("BAs") or Bankers' Deposit Notes ("BDNs") 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, receivables from a related party for the reimbursement of administrative and technical time and its share of exploration expenses on a property, and receivables from a company that previously used the Company's facilities

and personnel on a cost recovery basis. 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 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 prior comparative period 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 year ended April 30, 2011 (see "*Previous Financings*" 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 and subject to volatility. 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 complete work related to the recently announced Feasibility Study for the Renard Diamond Project, as well as to start detailed engineering work. Existing working capital will also be used to complete 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 totaling \$970,000, and is committed to pay \$1.75 million annually pursuant to the terms of the Credit Support Agreement with IQ. Please see the "*Commitments*" schedule and related descriptions below for more information.

The Company will need additional financing to further develop the Renard Diamond Project, following a production decision by the Company's Board of Directors and receipt, during 2012, 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. Failure to obtain additional financing could result in the delay or indefinite postponement of further exploration and development of the Company's properties and ultimately in the loss of its properties.

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 condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards (unless otherwise indicated) and are expressed in thousands of Canadian dollars (except for per share amounts).

Period	Loss or (Income) from Continued Operation and Net Loss (Income)	Basic Loss (Earnings) per share ⁽¹⁾ from Continued Operation and Net Loss (Income) ⁽²⁾	Fully Diluted Loss (Income) per share ⁽¹⁾ - from Continued Operation and Net Loss (Income) ⁽²⁾	Exploration Expenses
Three months ended October 31, 2011	\$5,690	\$0.04	\$0.04	\$4,151
Three months ended July 31, 2011	9,616	0.07	0.07	8,290
Three months ended April 30, 2011	7,841	0.10	0.10	3,801
Three months ended January 31, 2011	2,874	0.04	0.04	2,039
Three months ended October 31, 2010	4,300	0.06	0.06	2,352
Three months ended July 31, 2010	1,175	0.02	0.02	303
Three months ended April 30, 2010 ⁽³⁾	14,063	0.21	0.21	991
Three months ended January 31, 2010 ⁽³⁾	1,320	0.02	0.02	628

- (1) Based on the treasury share method for calculating diluted earnings.
- (2) On February 22, 2011, the Company's common shares were consolidated on 1-new-for-4-old basis. All basic and fully diluted loss per share information has been adjusted to reflect this share consolidation for all periods presented.
- (3) Fiscal 2009 financial information is presented in accordance with previous Canadian GAAP and may not be appropriate as a comparative basis.

Quarterly results will vary in accordance with the Company's exploration and financing activities. Exploration expenses and exploration and evaluation asset write-offs typically have the most significant impact on the Company's quarterly results, followed by share-based payments expense and general and administrative expenses. Exploration and evaluation assets 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 expenses 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". Share-based payments expense varies, and is dependent upon the size, timing, the vesting schedules and estimated fair value of the stock options granted (see "*Critical Accounting Estimates*" below for details on the key assumptions used). The Company typically grants stock options at least annually and usually following the Company's Annual General Meeting, which is usually held in the fall.

The Company's activities in the Current Period were focused on the completion of the Feasibility Study for the Renard Dimond Project as well as grass-roots exploration throughout Canada. Loss from continued operations presented in the table above includes the Company's quarterly exploration expenditures.

CURRENT QUARTER

During the Current Quarter, the Company recorded a loss of \$5.7 million (Comparative Quarter - \$4.3 million), resulting in a loss per share of \$0.04 (Comparative Quarter loss per share of \$0.06) and including exploration expenses of \$4.2 million (Comparative Quarter - \$2.4 million). Please see "*Results of Operations*" above for an analysis of the period-to-period variances, which are substantially the same for the quarter.

LIQUIDITY

The Company's cash, cash equivalents and short-term deposits totaled \$20.5 million at October 31, 2011 of which \$7.0 million were classified as cash and cash equivalents as at October 31, 2011. In addition, as at October 31, 2011 the Company had a further \$13.6 million classified as short-term deposits, of which \$328,000 were held as collateral security for the Company's credit cards and \$8,000 was held as a 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 \$13.6 million classified as a short-term deposit is held in two GICs and a term deposit that is cashable any time after 30 days from the investment date. As at October 31, 2011, the Company had working capital (current assets minus current liabilities) of \$16.7 million (April 30, 2011 - \$31.9 million).

PREVIOUS FINANCINGS

Flow-through Financing – June 2010

In June 2010, the Company completed a "flow-through" financing which consisted of 2,193,750 "flow-through" common shares of the Company for gross proceeds of \$5.0 million. The "flow-through" common shares were issued at a price of \$2.28 per share. The Company paid a 6.5% cash commission on certain subscriptions received and issued 131,625 compensation options to the agents. Gross proceeds from this financing must be used on CEE as defined in the Tax Act. Flow-through common shares provide for the Company's CEE to be transferred to the purchasers of the flow-through common shares and, as a result, the tax basis for these expenditures is not available to the Company.

As at October 31, 2011, the Company had met this expenditure requirement. The proceeds from this offering were spent on exploration programs at a number of the Company's properties across Canada, including approximately \$1.1 million 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 14,350,000 common shares at \$2.44 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 is using the net proceeds from the Offering to complete a Feasibility Study at the Renard Diamond Project and for general working capital purposes.

The Company expects to apply the net proceeds as follows:

Description of Expenditure	Anticipated Use	Actual Use*
	\$000s	\$000s
<i>Renard Diamond Project</i>		
Mine, plant and surface infrastructure design	7,000	6,601
Environmental and socio-economic studies	2,200	1,901
Project management and support costs	2,400	2,759
Other work related to the feasibility study	2,800	526
Estimated cost to complete	-	<u>3,603</u>
	<u>14,400</u>	<u>15,390</u>
Annual commitment fee payable for Credit Support Agreement	1,750	880
Estimated costs related to the Transaction	2,050	2,715
General working capital, administrative expenses and salary expenses (including technical)	<u>14,363</u>	<u>13,578</u>
	<u>18,163</u>	<u>17,173</u>
	<u>32,563</u>	<u>32,563</u>

*from February 1 to October 31, 2011

Stornoway is using the net proceeds from the Offering to complete a bankable Feasibility Study on the Renard Diamond Project during 2011 (announced November 16, 2011 – see "Exploration Update" above), with the goal of making a production decision thereafter, 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 completed the bankable Feasibility Study during the Fall of 2011, but receipt of the required permits and other approvals is not expected until mid-2012.

WORKING CAPITAL

The Company's working capital as at October 31, 2011 was \$16.7 million (April 30, 2011 - \$31.9 million). During the Current Period, the Company's cash position decreased by \$15.8 million to \$7.0 million in cash and cash equivalents at October 31, 2011 as compared to the Comparative Period, where the Company's cash position increased by \$1.1 million to \$10.3 million in cash and cash equivalents. A decrease in trade accounts payable, accrued liabilities and provisions (Current Period - \$240,000; Comparative Period – an increase of \$1.3 million), share-based payments expense (Current Period - \$163,000; Comparative Period - \$1.6 million), amortization (Current Period - \$423,000; Comparative Period - \$316,000), deferred income tax recovery (Current Period - \$254,000; Comparative Period –\$6,000), a decrease in prepaid expenses (Current Period - \$539,000; Comparative Period - \$37,000) and a decrease in other receivables (Current Period – \$704,000; Comparative Period –an increase of \$907,000) represent the largest reconciling items from the condensed interim consolidated statements of loss to the condensed consolidated statements of cash flows - operating activities, for the period ended October 31, 2011.

The Company's primary operating activity is the acquisition and exploration of its exploration and evaluation assets. During the Current Period, the Company expensed \$12.4 million (Comparative Period- \$3.5 million, offset by \$827,000 of Quebec exploration tax credits received), with the most significant expenditures on the Renard Diamond Project in Quebec. Exploration expenses relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential. The Company's most significant operating expenses during the Current Period included \$684,000 (Comparative Period - \$350,000) for professional fees, \$364,000 (Comparative Period - \$205,000) for regulatory and shareholder communication expense, \$889,000 (Comparative Period - \$6,000) for finance expense, and \$406,000 (Comparative Period - \$338,000) for salaries, benefits and director's fees. The Company's loss for the Current Period of \$15.3 million (Comparative Period - \$5.5 million) was reduced by cost recoveries of \$129,000 (Comparative Period - \$274,000) for a third party's use of the Company's North Vancouver laboratory facilities, and by interest income of \$189,000 (Comparative Period - \$38,000).

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 way 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 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 BAs or BDNs issued by various Canadian chartered banks or held in high interest savings accounts at the same institutions. 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.

CREDIT FACILITY

The Company has no credit facilities that could be used for ongoing operations or general working capital requirements because it has no operating cash flow.

During the year ended April 30, 2011, as part of the Acquisition agreement described under "*Significant Shareholder – Diaquem Inc.*" above, the Company and IQ entered into a credit support agreement (the "Credit Support Agreement"), pursuant to which IQ committed to provide financing in favour of Stornoway in a minimum amount of \$100 million to fund a portion of the construction and development costs of the Renard Diamond Project (the "IQ Commitment").

The following description of certain material provisions of the Credit Support Agreement is a summary only, is not comprehensive and is qualified in its entirety by reference to the full text of the Credit Support Agreement, which was filed on SEDAR in April 2011 and is available at www.sedar.com.

The IQ Commitment will be senior and first ranking, *pari passu* with the other debt of Stornoway that may be provided by a lending syndicate formed to fund a portion of the construction costs of the Renard Diamond Project. The IQ Commitment may either form part of the commitments made available by the lending syndicate or, absent a concurrent facility by a lending syndicate, be made available separately by IQ on terms no less favourable than prevailing commercially reasonable market terms. In addition, IQ shall be entitled to receive the same benefits, on a pro rata basis, as the lending syndicate. In respect of the lending syndicate, IQ will have the right to be lead or co-lead lender and manager or co-manager.

The obligations of IQ under the Credit Support Agreement will terminate on the earlier to occur of: (a) the date on which Stornoway notifies IQ in writing that the Credit Support Agreement is terminated; (b) the date of the initial borrowing under the IQ Commitment; and (c) the date which is the 4-year anniversary of the closing of the Acquisition (closing occurred on April 1, 2011).

As consideration for the IQ Commitment, Stornoway has agreed to pay IQ, for the period from and including the date of the Credit Support Agreement up to the date the Credit Support Agreement is terminated, a non-refundable commitment fee equal to 1.75% per annum computed daily on the amount of \$100 million, payable quarterly in arrears on the first business day of the following quarter.

The IQ Commitment shall be conditional upon: (i) the decision of the Board of Directors of Stornoway, following receipt and consideration of a bankable feasibility study relating to the Renard Diamond Project and any other factors as it deems relevant, to proceed with the construction and development of the Renard Diamond Project; (ii) the closing conditions of the lending syndicate (if any); and (iii) in the absence of a concurrent lending syndicate, the IQ Commitment shall be subject to customary closing conditions in favour of IQ as a lender, including satisfactory due diligence investigations and satisfactory settlement of definitive loan and security documentation (but, for greater certainty, it shall not be a condition of closing that Stornoway shall have entered into any marketing off-take or analogous agreement with any third party).

CAPITAL REQUIREMENTS

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 \$970,000. The Company is able to reduce some of this liability through the sub-lease of excess space. In addition, the Company is committed to minimum future financial capital contributions for the construction and maintenance of the Route 167 segment. The Company has agreed, subject to certain key milestones being achieved, to contribute \$44 million to the development of the Route 167 extension, to be paid over a ten year period starting in July 2015 and financed by the Province of Quebec at a rate of 6.3%. The Company also has a \$100 million credit support agreement with IQ to fund a portion of future construction and development costs at the Renard Diamond Project, under which commitment fee payments equal to 1.75% per annum are payable by the Company. (*See "Commitments" for more details*).

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 2012 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 calendar 2011 was primarily focused on the Company's Renard Diamond Project, and specifically, the completion of a bankable Feasibility Study for the Renard Diamond Project. The Company financed this expense, as well as its general working capital requirements from proceeds of a January 2011 short-form prospectus. Funds from a flow-through financing, which closed in June 2010, were used to fund Stornoway's 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 2011. 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 has no history of profitable operations and its present business is at the exploration/pre-development 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, following the completion of a positive Feasibility Study at the Renard Diamond Project. These factors include: the receipt of the required permits to construct a diamond mine at Renard, as well as a decision by the Board of Directors to proceed with further development and ultimately, mine construction. The Company's exploration plans for 2012 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 and results.

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 prior years, by the monetization of non-core assets. 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. Despite a positive economic result for the Feasibility Study on the Renard Diamond Project, the Company's share price decreased significantly (40%) following the release of the Feasibility Study on concerns around how the Company will finance a capital expenditure of \$802 million. The Company's cash position (October 31, 2011 - \$20.5 million) and anticipated expenditures into 2012 don't necessitate a financing in the short-term however, the Company will require additional financing during 2012 to meet its stated objective of a mid-2013 construction start date.

The Company has a number of stock options and warrants outstanding which, if exercised, would increase the Company's available cash. However, at the report date, most of these stock options and warrants have an exercise price which is higher than the Company's current market price. A summary of the stock options and warrants currently 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 consolidated statements of loss and deficit and the consolidated schedule of resource property costs contained in its audited consolidated financial statements for April 30, 2011 and April 30, 2010 (prepared under Canadian GAAP) and in its condensed interim consolidated financial statements for six months ended October 31, 2011 and 2010 (prepared under IFRS). The Company has also filed an AIF, dated July 21, 2011, which provides detailed information about the Company and its properties. 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 and to minimum future financial capital contributions for the construction and maintenance of the Route 167 segment for a maximum of ten years from year 2015 as follows (*expressed in thousands of Canadian dollars*):

	Operating lease payments	Commitment fee	Route 167	Total
Fiscal year ending April 30, 2013	\$ 454	\$ 1,750	\$ -	\$ 2,204
Fiscal year ending April 30, 2014	380	1,750	-	2,130
Fiscal year ending April 30, 2015	117	1,750	-	1,867
Fiscal year ending April 30, 2016	19	-	4,042	4,061
Fiscal year ending April 30, 2017	-	-	7,275	7,275
Thereafter	-	-	61,430	61,430
	<u>\$ 970</u>	<u>\$ 5,250</u>	<u>\$ 72,747</u>	<u>\$ 78,967</u>

In August 2011, the Company entered into two financing agreements with the Government of Québec by which the Company will contribute to the construction and maintenance costs of the Route 167 extension, the road development project that will provide year round highway access to the Renard Diamond Project by way of the communities of Mistissini and Chibougamau. In two separate agreements executed with the ministère des

Ressources naturelles et de la Faune and the ministère des Transports, the Company has agreed to contribute \$44 million to the development of the Route 167 extension, to be amortized over a ten year period and starting in July 2015. The Company's contribution will be financed by Québec at 6.3% and will be conditional upon, amongst other things, the completion of the road on schedule, the receipt of all regulatory approvals for the construction of the Renard Diamond Project and the successful completion of project financing for the Renard Diamond Project. In addition, the Company has agreed to contribute a maximum of \$5,000 per kilometer, or \$1.215 million per year, to the maintenance of the road starting July 1, 2015. It is management's assumption that these conditions will be met, and therefore these commitments have been disclosed.

The Company has a \$100 million credit support agreement with IQ (see "Credit Facility" above) to fund a portion of future construction and development costs at the Renard Diamond Project, under which commitment fee payments equal to 1.75% per annum are payable by the Company. The obligations of IQ will terminate on the earlier to occur of: (a) the date on which the Company notifies IQ in writing that the credit support agreement is terminated; (b) the date of the initial borrowing under the IQ commitment; and (c) April 1, 2015.

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 an unlimited number of common shares and an unlimited number of non-voting convertible shares without par value.

As at December 12, 2011, there were 118,619,740 common shares and 22,543,918 non-voting convertible shares issued and outstanding. The non-voting convertible shares have no expiry date and no restrictions except that Diaquem cannot hold more than 25% of Stornoway's voting, common shares.

Stock Option Plan

On October 20, 2011, the Company's shareholders approved a resolution to change the maximum number of common shares issuable pursuant to the Company's Stock Option Plan (the "Plan") from a fixed number of common shares to a fixed percentage (10%) of the issued and outstanding common shares and non-voting convertible shares.

The Plan provides the directors with discretion to set vesting terms for each stock option grant. Effective for the fiscal year beginning May 1, 2009, a Stock Option Grant Policy (the "Policy") was adopted. This Policy sets annual stock option grants and five-year option level targets for optionees, by level of responsibility. Options granted as part of the annual grant vest immediately on the grant date.

In addition, the number of shares which may be reserved for issuance to any one individual may not exceed 5% of the issued and outstanding common shares and non-voting convertible shares, or to insiders as a group, shall not exceed 10% of the total number of issued and outstanding common shares on a non-diluted basis.

As at December 12, 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	27,750	\$ 4.08	2011	0.02 years
\$ 2.52 ~ \$ 27.76	1,248,495	\$ 4.68	2012	0.59 years
\$ 0.40 ~ \$ 29.68	980,301	\$ 2.03	2013	1.94 years
\$ 0.40 ~ \$ 19.44	671,025	\$ 1.18	2014	2.83 years
\$ 2.24 ~ \$ 5.36	1,167,600	\$ 2.40	2015	3.66 years
\$ 1.04 ~ \$ 2.50	1,350,000	\$ 1.12	2016	4.91 years
	<u>5,445,171</u>			

Subsequent to the quarter-end, on November 21, 2011, the Company granted 1,250,000 stock options to non-executive employees of the Company. These stock options vest on the grant date, are exercisable at \$1.04 and have a five-year term.

As at December 12, 2011, the following warrants are outstanding:

Number of Warrants	Exercise Price	Expiry Date
26,325	\$ 2.28	December 29, 2011
338,042	\$ 2.00	February 23, 2012
<u>364,367</u>		

TRANSACTIONS WITH RELATED PARTIES

Related party transactions (See Note 12 of the condensed interim consolidated financial statements for the six months ended October 31, 2011 and 2010) are as follows:

a) Key Management Personnel Remuneration

Key management includes the Company's directors and officers. Compensation awarded to key management includes (*expressed in thousands of Canadian dollars*):

	Six Months Ended	
	October 31, 2011	October 31, 2010
Salaries and other short-term employee benefits ⁽ⁱ⁾	\$ 569	\$ 562
Director's fees	39	35
Share-based payments	103	1,155
	<u>\$ 711</u>	<u>\$ 1,752</u>

(i) Certain salaries for key management personnel are allocated to exploration and evaluation expense.

b) Transactions with related parties

The Company entered into the following transaction with a related party not disclosed elsewhere in these financial statements:

- i) During the six months ended October 31, 2011, the Company paid legal fees of \$50,000 to Lavery de Billy LLP ("Lavery"). On July 20, 2011, a partner of Lavery was appointed to the Company's Board of Directors as a designee pursuant to an investor agreement between the Company and Diaquem Inc.

These amounts are non-interest bearing, unsecured and are due on demand. All transactions with related parties have occurred in the normal course of the Company's operations and are based on agreed upon amounts between the parties.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's condensed interim consolidated financial statements under IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the balance sheet date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, but are not limited to, the following:

- the estimated useful lives of property, plant and equipment which are included in the condensed interim consolidated balance sheets, the componentization of property, plant and equipment and the related amortization included in the condensed interim consolidated statements of loss;
- the inputs used in accounting for share-based payments (warrants and options) in the condensed interim consolidated statements of loss;
- the provision for income taxes which is included in the condensed interim consolidated statements of loss and the composition of deferred income tax liabilities included in the condensed interim consolidated balance sheet at October 31, 2011;
- the inputs used in determining the recoverable amounts of exploration and evaluation assets, if an impairment trigger exists;
- the inputs used in determining asset retirement obligations included in the condensed interim consolidated balance sheets;
- the inputs used in determining the various commitments and contingencies accrued in the condensed interim consolidated balance sheets; and
- the going concern assumption.

Please refer to Note 2 of the condensed interim consolidated financial statements of the Company for the three months ended July 31, 2011 and 2010 for a description of all significant accounting policies. These accounting policies have been consistently applied for the six months ended October 31, 2011 and are based on IFRS issued and outstanding as at December 12, 2011, the date that the Board of Directors approved these interim financial statements. Any subsequent changes to IFRS that are given effect in our annual consolidated financial statements for the year ending April 30, 2012 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

Impairment of long-lived assets

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. IAS 36 *Impairment of Assets* uses a one-step approach for both identifying and measuring impairments, which is based on comparing the carrying value to the recoverable amount. The recoverable amount is the higher of fair value less selling costs and value in use, which is based on discounted cash flows.

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.

Exploration and evaluation assets mainly include capitalized acquisition costs and are the Company's most significant long-lived asset. The Company's exploration and evaluation assets are at three different stages:

- a) development (Renard);
- b) advanced exploration (Aviat, Churchill, Qilalugaq and Timiskaming); and
- c) grass-roots exploration.

The Company expenses exploration costs but uses the guidance set out in IFRS 6, Exploration for and evaluation of mineral resources, as the basis for determining whether its grass-roots properties should be written off. Paragraph 20 sets out factors that may indicate the need for a write-down:

- a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.

- d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Using these conditions as a guideline for estimating whether an impairment exists on its grass-roots properties, and based on the Company's plans to further evaluate and advance these properties by analyzing results received to-date, management has determined that certain non-material amounts related to the Company's grass-roots exploration and evaluation assets as of October 31, 2011 and as of the report date should be written-off, as no future exploration work is planned for the foreseeable future and limited exploration work has been carried out on the properties during the last three years. During the period ended October 31, 2011, the Company wrote-off exploration and evaluation assets of \$50,000 where no future exploration programs were planned for the foreseeable future (October 31, 2010 – \$Nil).

Asset retirement obligations

Asset retirement obligations are an obligation to incur restoration, rehabilitation and environmental costs that arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising for the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying value of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax market based discount rate that reflects the time value of money are used to calculate the net present value. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the pre-tax market based discount rate and amount or timing of the underlying cash flows needed to settle the obligation. 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 Diamond Project in Quebec. The primary component of this obligation is the removal of equipment currently used at the site. If the Company decides not to go into production on the property, or is unable to further develop the Renard Diamond Project for any reason, 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 Diamond Project, the obligation will be realized further into the future. The pre-tax market-based discount rate at which the estimated cash flows have been discounted to arrive at the obligation is 1.02%. The discounted amount of inflation-adjusted estimated future cash flows is \$1,446,000.

Diamond Inventory

The fair value of the Company's diamond inventory has been estimated and recorded using a base case diamond model price resulting from a diamond valuation exercise in May 2011 in Antwerp. As no quoted market prices for rough diamonds are readily available, the base case model price used to estimate fair value at the time of acquisition could vary significantly from the actual sales price achieved. At the present time, the Company has no plans to dispose of its rough diamond inventory and has classified it as a long-term asset.

Share-based payments

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

Share-based payments are 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 2.0%, a dividend yield of 0%, an expected volatility of 83% and expected term of stock options of 5 years. The key assumptions used during the year ended April 30, 2011 were: a risk-free interest rate of 1.7% ~ 2.7%, a dividend yield of 0%, an expected volatility of 84% ~ 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 share-based payments expense of \$163,000 (Comparative Period – \$1.6 million). The Company granted 75,000 stock options to directors during the Current Period. The options have an exercise price of \$2.08 and expire five years from the grant date. The Company used the Black-Scholes Option Pricing Model to estimate a fair value of \$103,000 for this grant. During the year ended April 30, 2011, the Company granted options to purchase up to 1,195,000 shares of the Company's stock to directors, officers, employees and non-employees at an exercise price range of \$2.24 – \$2.60. The Company used the Black-Scholes Option Pricing Model to estimate a fair value of \$1.8 million for these grants.

CHANGES IN ACCOUNTING POLICIES

International financial reporting standards

Effective the first quarter of fiscal 2012 (three months ended July 31, 2011), the Company began preparing its financial statements in accordance with IFRS. Reconciliations, descriptions and explanations of how the transition to IFRS has affected the reported balance sheet, financial performance and cash flows of the Company are provided in Note 17, "First Time Adoption of IFRS" to the condensed interim consolidated financial statements for the six months ended October 31, 2011. This note also includes reconciliations of equity and comprehensive income (loss) for comparative periods reported under Canadian GAAP with amounts reported for those periods under IFRS.

The Interim MD&A dated September 15, 2011 (available on Sedar at: www.sedar.com) provides more detail on our key Canadian GAAP to IFRS differences, our accounting policy decisions and IFRS 1, First-Time Adoption of International Financial Reporting Standards, optional exemptions for significant or potentially significant areas that have had an impact on our financial statements on transition to IFRS or may have an impact in future periods.

Impact of Adopting IFRS on the Company's Business

The adoption of IFRS has resulted in some changes to the Company's accounting systems and business processes. For all changes to policies and procedures that were identified, the effectiveness of internal controls over financial reporting and disclosure controls and procedures was assessed and changes were implemented as appropriate. The Company applied its existing control framework to the IFRS changeover process and no significant changes were identified. The Company has not identified any contractual arrangements that are significantly impacted by the adoption of IFRS.

The Company's staff and advisers involved in the preparation of financial statements have been appropriately trained on the relevant aspects of IFRS and the changes to accounting policies.

The Board of Directors and Audit Committee have been regularly updated throughout the Company's IFRS transition process, and are aware of the key aspects of IFRS affecting the Company. The Audit Committee reviewed and approved the elections taken by the Company upon transition to IFRS, as well as the accounting policies adopted by the Company.

The review phase of the Company's transition to IFRS involves continuous monitoring of changes in IFRS. IFRS accounting standards, and the interpretation thereof, are constantly evolving. As a result, the Company will continue to monitor and evaluate IFRS accounting developments. The review phase will continue through the Company's fiscal year ended April 30, 2012 and beyond.

Transitional Financial Impact

As a result of the policy choices selected and changes required to be made under IFRS, the Company recorded an increase in equity of approximately \$746,000 at May 1, 2010. The following table summarizes the adjustments to shareholders' equity on adoption of IFRS on May 1, 2010, October 31, 2010 and April 30, 2011 for comparative purposes:

EQUITY	Notes	April 30, 2011	October 31, 2010	May 1, 2010
Total equity under Canadian GAAP		\$ 252,162	\$ 98,969	\$ 97,738
Adjustments for differing accounting treatments:				
Share Capital	(v)	1,040	(310)	217
Contributed Surplus	(iv)	(50)	70	45
Accumulated Other Comprehensive Loss		5	6	11
Deficit		(2,215)	(44)	473
Total equity under IFRS		\$ 250,942	\$ 98,691	\$ 98,484

As a result of the policy choices selected and changes required to be made under IFRS, the Company recorded an increase in losses of \$380,000 and \$518,000 for the three and six months ended October 31, 2010, respectively. The following table summarizes the adjustments to comprehensive loss for the three and six months ended October 31, 2010 under IFRS (all of which are outlined in the notes to the condensed interim consolidated financial statements for the six months ended October 31, 2011):

	Notes	Three months ended October 31, 2010	Six months ended October 31, 2010
Loss under Canadian GAAP		\$ (3,915)	\$ (4,952)
Adjustments for differing accounting treatments:			
Accretion	(iii)	18	37
Amortization	(i)	10	22
Share-based payments	(iv)	130	(26)
Deferred income tax recovery	(v)	(538)	(551)
Loss under IFRS		(4,295)	(5,470)
Unrealized gain on available for sale investments, net of taxes		59	26
Comprehensive loss under IFRS		\$ (4,236)	\$ (5,444)

Reconciliation Notes

- i) *Property, plant and equipment* – Under IFRS, where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment, and are depreciated separately. Under Canadian GAAP, there was no such requirement.
- ii) *Deferred tax on exploration and evaluation assets* – 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) *Asset retirement obligation* – 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 pre-tax market-based discount rate in effect at each reporting period and an adjustment has been recorded to the corresponding asset.
- iv) *Share-based payments* – 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.

- v) *Flow-through shares* – Flow-through shares are a unique Canadian tax incentive which is the subject of specific guidance under Canadian GAAP, however there is no equivalent IFRS guidance. Therefore, the Company intends to adopt a policy whereby the premium paid for flow through shares in excess of the market value of the shares without the flow through features at the time of issue is credited to other liabilities and included in income as a deferred income tax recovery at the time the qualifying expenditures are made.

New accounting standards and interpretations

In May and June 2011, the IASB issued several new standards which have not yet been adopted by the Company. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements. The following is a brief summary of the new standards:

IAS 1 – Presentation of Financial Statements

This standard requires companies preparing financial statements under IFRS to group items within Other Comprehensive Income (“OCI”) that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 are set out in Presentation of Items of Other Comprehensive Income and are effective for fiscal years beginning on or after July 1, 2012.

IAS 19 - Post-Employment Benefits

In June 2011, the IASB issued an amended version of IAS 19, Employee Benefits (“IAS 19”). The amendments to IAS 19 are meant to improve the quality, transparency and comparability of information presented for postemployment benefits. For defined benefit plans, the amendments eliminate the option to defer actuarial gains and losses on the balance sheet through the “corridor method”. The amendments also require any remeasurement gains or losses, including actuarial gains and losses, to be recognized immediately and presented in other comprehensive income, eliminating the option to recognize and present these through the income statement. Additional disclosures will also be required to present better information about the characteristics, amounts recognized, and risks related to defined benefit plans. The amendments to IAS 19 are effective for financial years beginning on or after January 1, 2013 with earlier adoption permitted. The Company does not have post-employment benefits thus this policy will not have an impact on the Company’s financial statements.

IFRS 9 – Financial Instruments – classification and measurement

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is recorded at fair value through profit or loss.

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 clarifies the requirements for accounting for the costs of stripping activity in the production phase when stripping improves access to further quantities of material that will be mined in future periods. The amendments to IFRIC 20 are effective for financial years beginning on or after January 1, 2013 with earlier adoption permitted.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, short-term deposits, other receivables, investments, trade accounts payable, accrued liabilities and provisions and amounts due to related parties. The carrying value of cash and cash equivalents, short-term deposits, other receivables, trade accounts payable, accrued liabilities and provisions and amounts due to related parties approximate their fair values due to their immediate or short-term maturity. Investments are recorded at fair value based on the quoted market prices in active markets at the balance sheet date, which is consistent with Level 1 of the fair value hierarchy. Short-term deposits are recorded consistent with Level 2 of the hierarchy.

The fair values of financial instruments at October 31, 2011 and April 30, 2011 are summarized as follows (*expressed in thousands of Canadian dollars*):

	October 31, 2011		April 30, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial Assets				
<i>Held-for-trading</i>				
Short-term deposits	13,573	13,573	11,777	11,777
<i>Loans and Receivables</i>				
Cash and cash equivalents	6,963	6,963	22,745	22,745
Other receivables	261	261	955	955
<i>Available for sale</i>				
Investments	84	84	242	242
Financial Liabilities				
Trade accounts payable, accrued liabilities, provisions and due to related parties	4,535	4,535	4,790	4,790

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, foreign currency or credit risks arising from these financial instruments.

However, the Company is exposed to a variety of financial risks by virtue of its activities, including credit risk, interest rate risk and liquidity risk. The Company has limited exposure to foreign currency risk as greater than 99% of its assets and liabilities are denominated in Canadian dollars. The Company's objective with respect to risk management is to minimize potential adverse effects on the Company's financial performance. The Company's Board of Directors provides direction and guidance to management with respect to risk management. Management is responsible for establishing controls and procedures to ensure that financial risks are mitigated to acceptable levels.

An analysis of these financial risks as they apply to the Company is as follows:

Credit risk

Credit risk is the risk of financial loss to the Company if a counter-party to a financial instrument fails to meet its contractual obligations. The Company manages credit risk by investing its excess cash in short-term investments with an investment grade rating of "AAA" (R-1 high for money market securities) or better, issued by a Canadian chartered bank. The Company is exposed to credit risk by virtue of its receivables from companies with which it has exploration agreements or options (7% of receivables). Other miscellaneous receivables total approximately 12% of the Company's receivables while the remainder of the Company's receivables at the balance sheet date (81% of receivables totalling \$212,000 as at October 31, 2011) consist of federal and provincial sales tax refunds where management believes the risk of loss to be remote. The maximum exposure to credit risk at the reporting date is the carrying value of the Company's financial assets.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to interest rate risk with respect to its cash flow. The risk that the Company will realize a loss as a result of a decline in the fair value of any short-term investment included in cash and cash equivalents is limited because these investments, although readily convertible into cash, are generally held-to-maturity. As of October 31, 2011, management estimates that if interest rates had changed by 1% for those funds invested in guaranteed investment certificates ("GICs"), and 0.2% for the other cash equivalents assuming all other variables remained constant, the impact on the Company's loss for the six months ended October 31, 2011 would have been approximately \$70,000.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise the funds required through future equity financings, asset sales or exploration option agreements, or a combination thereof.

The Company has no regular cash flow from its operating activities. The Company manages its liquidity risk by forecasting cash flow requirements for its planned exploration and corporate activities and anticipating investing and financing activities. Failure to realize additional funding, as required, could result in the delay or indefinite postponement of further exploration and development of the Company's properties. As at October 31, 2011, the Company had cash and cash equivalents and short-term deposits of \$20.5 million (April 30, 2011 - \$34.5 million) as well as other receivables of \$261,000 (April 30, 2011 - \$955,000) to settle current liabilities of \$4.5 million (April 30, 2011 - \$4.8 million). See Note 15 for details on other commitments.

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 period ended October 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 condensed interim consolidated financial statements in accordance with IFRS.

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, 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 IFRS. 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, 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.