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

Containing Information up to and including June 30, 2011

OVERALL PERFORMANCE

Stornoway engages in the exploration and development of diamond projects in Canada, with a highly prospective pipeline of projects from feasibility-study stage to grass roots exploration. Stornoway's principal focus is its 100% owned Renard Diamond Project located in north-central Quebec, currently the subject of a feasibility study and 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 June 30, 2011, the Company holds interests, directly or through joint ventures, in a property portfolio of some 19 properties representing approximately 2.1 million acres that can be roughly subdivided into 135,000 acres of 'development' stage projects (the Foxtrot Property, which includes the Renard Diamond Project), 1.5 million acres of 'advanced' exploration properties (Aviat, Qilalugaq, Churchill and Timiskaming) and 497,000 acres of 'early stage' projects (Hammer Property and others).

Forward-Looking Statements

This document may contain "forward-looking statements" within the meaning of Canadian securities legislation and the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements are made as of the date of this document and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by law.

These forward-looking statements include, among others, statements with respect to Stornoway's objectives for the ensuing year, our medium and long-term goals, and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," and words and expressions of similar import are intended to identify forward-looking statements. In particular, statements regarding Stornoway's future operations, future exploration and development activities or other development plans contain forward-looking statements.

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

[1] **Note to Reader**

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

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

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

Forward-looking statements relate to future events or future performance and reflect current expectations or beliefs regarding future events and include, but are not limited to, statements with respect to: (i) the amount of mineral resources and potential mineral deposits; (ii) the amount of future production over any period; (iii) net present value and internal rates of return of the proposed mining operation; (iv) capital costs, operating costs and diamond price assumptions; (v) mine expansion potential and expected mine life; (vi) expected time frames for completion of permitting and regulatory approvals, completion of a feasibility study and making a production decision; (vii) future exploration plans; and (viii) 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

All forward-looking statements are based on Stornoway's or its consultants' current beliefs as well as various assumptions made by and information currently available to them. Many of these assumptions are set forth in this MD&A and include: (i) estimates of net present value and internal rates of return; (ii) estimates of potential production and duration of mine life; (iii) estimated completion date for a feasibility study and related Environmental and Social Impact Assessment for the Renard Diamond Project; (iv) required capital investment and estimated workforce requirements; (v) receipt of regulatory approvals on acceptable terms within commonly experienced time frames; (vi) the assumption that a production decision for Renard will be made, and that decision will be positive; (vii) anticipated timelines for the commencement of mine production at Renard; (viii) anticipated timelines related to the Route 167 extension and the impact on the development schedule at Renard; (ix) anticipated timelines for community consultations and the conclusion of an Impact and Benefits Agreement; (x) market prices for rough diamonds and the potential impact on the Renard Project's value; (xi) future exploration plans and objectives. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect. Many forward-looking statements are made assuming the correctness of other forward looking statements, such as statements of net present value and internal rate of return, which are based on most of the other forward-looking statements and assumptions herein. The cost information is also prepared using current values, but the time for incurring the costs will be in the future and it is assumed costs will remain stable over the relevant period.

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

Highlights for the year ended April 30, 2011 and the period ended June 30, 2011:

During the year ended April 30, 2011 and the period ended June 30, 2011, the Company achieved several notable objectives:

- ***Acquisition agreement:*** On April 1, 2011, the Company closed the agreement to acquire the remaining 50% interest of DIAQUEM Inc. ("DIAQUEM") in the Renard Diamond Project ("Renard"), the Company's feasibility-stage diamond project in north-central Québec (the "Acquisition"). As provided

under the terms of the Acquisition, on April 1st, 2011, the Company issued to DIAQUEM 29,588,892 common voting shares (equal to 25% of the Company's issued and outstanding common shares as of February 18, 2011), and issued to DIAQUEM 22,543,918 newly-created non-voting convertible shares such that DIAQUEM's total interest in the Company, if such convertible shares were fully converted for common shares, would be equal to 37% of the issued and outstanding common shares. DIAQUEM is a wholly-owned subsidiary of SOQUEM INC., itself a wholly-owned subsidiary of Investissement Québec (formerly Société générale de financement du Québec).

In conjunction with the Acquisition, Investissement Québec entered into a credit support agreement with the Company with respect to future project debt financing of a minimum of $100 million. DIAQUEM retained a 2% gross revenue royalty on future diamond production from Renard.

Additional details related to the Acquisition, including the management proxy circular prepared for the special meeting of shareholders held on February 10, 2011, can be found under the Company's profile on Sedar (www.sedar.com).

- ***Financing***: Concurrently to the December 14, 2010 announcement of the Acquisition transaction described above, the Company entered into an agreement with a syndicate of underwriters who agreed to purchase, on a bought deal basis, 14,350,000 common shares at a price of $2.44 per common share (price corrected to reflect share consolidation, see below) for aggregate gross proceeds to the Company of $35 million (the "Offering"). The net proceeds of the Offering are being used for feasibility and pre-development costs at the Renard Diamond Project, and for general corporate purposes. This financing closed on January 6, 2011.

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

With the closing of the Acquisition, the Company acquired sole ownership of Renard, a major undeveloped diamond deposit, and has established a firm foundation for the project's future financing and development.

SELECTED ANNUAL INFORMATION

Unless otherwise noted, all currency amounts are stated in Canadian dollars.

The following table summarizes selected financial data for Stornoway for each of the three most recently completed financial years. The information set forth below should be read in conjunction with the audited consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles, and the related notes thereto. **Amounts are expressed in thousands of Canadian dollars** (except for per share amounts).

During the year ended April 30, 2010, the Company retrospectively changed its accounting policy for exploration expenditures and financing and interest costs to more appropriately align itself with policies applied by other comparable companies at a similar stage in the mining industry. Prior to the year ended April 30, 2010, the Company capitalized all such costs to resource property costs on an individual project basis until such time as the economics of an ore body could be defined and only wrote down capitalized costs when the property was abandoned and/or impaired or if the capitalized costs were not considered to be economically recoverable. Results for the year ended April 30, 2009 have been restated accordingly. For a more detailed explanation of this change, please see "*Changes in Accounting Policies Including Initial Adoption*" below.

	12 months ended April 30, 2011	12 months ended April 30, 2010	12 months ended April 30, 2009
Total revenue [1]	$ 204	$ 47	$ 196
Expenses, including exploration	14,888	8,218	12,991
Write off of resource property costs	2,148	20,992	438
Future income tax recovery	3,196	5,807	1,471
Loss from continuing operations	(13,502)	(23,563)	(1,070)
Basic loss per Share[2]	(0.16)	(0.35)	(0.02)
Net loss	(13,502)	(23,563)	(1,070)
Basic and diluted loss per Share[2]	(0.16)	(0.35)	(0.02)
Total Assets	264,502	109,438	124,355
Total long-term financial liabilities[3]	5,960	8,516	13,796

(1) Total revenue consists primarily of interest income. The Company is an exploration stage company and has no income from operations.
(2) On February 22, 2011, the Company consolidated its common shares on a 1-new-for-4-old basis. All per share information included in the table has been adjusted to reflect this share consolidation for all periods presented.
(3) Total long-term financial liabilities include future income tax liabilities of $6.0 million as at April 30, 2011, $7.8 million as at April 30, 2010; and $13.2 million as at April 30, 2009.

RESULTS OF OPERATIONS

The Company's loss from operations for the year ended April 30, 2011 (the "**Current Year**") was $13.5 million (a loss of $0.16 per share) as compared to a loss of $23.6 million ($0.35 loss per share) for the year ended April 30, 2010 (the "**Comparative Year**"). The Company's loss for the Current Year is mainly due to expenses of $14.9 million (Comparative Year - $8.2 million), including exploration expenses of $8.5 million (Comparative Year - $4.2 million). The Current Year loss of $13.5 million was less than the Company's net loss of $23.6 million in the Comparative Year due to a significant decrease in the write-off of resource property costs (Current Year - $2.2 million; Comparative Year - $21.0 million). Other items which affected the Company's total loss included bad debt expense (Current Year - $277,000; Comparative Year - $132,000) and a cost recovery (Current Year - $544,000; Comparative Year - $Nil).

Overall, the Company's expenses increased during the Current Year (Current Year - $14.9 million; Comparative Year - $8.2 million). This is a reflection of a significant increase in exploration expenses, a higher share price and stock price volatility which results in a larger expense for stock-based compensation and higher salary expense as compared to the previous year. During the Current Year, the Company spent $8.3 million on exploration in Eastern Canada (before the application of $1.1 million relating to Quebec exploration tax credits). The majority of these expenditures related to feasibility level activities at the Renard Diamond Project. In addition, the Company spent $352,000 on exploration in other Canadian jurisdictions; $482,000 for generative exploration; and $483,000 on exploration related to the Company's Arctic properties. Results from the Company's exploration programs during the Current Year are described below in the "*Exploration Update*" section.

Overall, the Company's administrative expenditures increased in the Current Year. Stock-based compensation also increased (Current Year - $1.9 million; Comparative Year - $573,000), reflecting a larger number of stock options granted with a higher estimated fair value, resulting from an increased stock price during the year.

Professional fees increased significantly (Current Year - $426,000; Comparative Year- $184,000) and include a one-time consulting expense of $40,000; fees paid to the Company's auditor for the annual audit and quarterly reviews as well as IFRS consulting services. Professional fees also include translation expenses related to the Company's continuous disclosure obligations. Salaries, benefits and director's fees (Current Year- $1.7 million; Comparative

Year - $1.0 million) also increased significantly, and include meeting fees paid to the Company's non-executive directors, a severance payment and cash bonuses paid to all employees as well as executive officers. Rent and facility fees (Current Year - $478,000; Comparative Year- $455,000) increased slightly; regulatory and shareholder communication expense (Current Year - $489,000; Comparative Year - $398,000) increased primarily due to a large increase in the number of news releases issued by the Company (and includes the cost to translate many of these news releases), in addition to a higher level of shareholder communications during the Current Year. Office and sundry (Current Year - $575,000; Comparative Year - $374,000) includes travel expense of $213,400 for the Current Year, a large increase over the $95,400 expense in the Comparative Year. In general, these increases are the result of increased activity levels during the Current Year, as compared to the previous year. Expenses also include a number of non-cash items: accretion (Current Year - $106,000; Comparative Year- $76,000), amortization (Current Year - $714,000; Comparative Year - $933,000) and stock-based compensation (Current Year - $1.9 million; Comparative Year - $573,000). Exploration costs expensed in the Current Year doubled from $4.22 million in the Comparative Year to $8.5 million in the Current Year.

The Company's interest income was $204,000 in the Current Year as compared to interest income of $47,000 in the Comparative Year, due to higher cash and cash equivalents balance available for investment. During the Current Year, the Company recorded a future income tax recovery of $3.2 million (Comparative Year – $5.8 million), which decreased the Company's net loss after taxes to $13.5 million (Comparative Period - $23.6 million).

As at April 30, 2011, total assets increased to $264.5 million from $109.4 million at the April 30, 2010 year-end. Capitalized resource property costs increased significantly to $223.9 million from $93.9 million at April 30, 2010, mainly due to the acquisition of the remaining 50% interest in the Renard Diamond Project. This acquisition, accounted for as an asset acquisition under Canadian GAAP, is more fully described in Note 3 of the audited, consolidated financial statements for the year ended April 30, 2011.

The Company's cash, cash equivalents and short-term deposit amounts increased during the Current Year, from $10.9 million as of April 30, 2010 to $34.5 million as of April 30, 2011. The most significant change in the Company's cash position resulted from the closing of a short-form prospectus offering in January 2011 for gross proceeds of $35 million. The Company's total liabilities, consisting primarily of future income tax liabilities ($6.0 million as at April 30, 2011 versus $7.8 million at April 30, 2010), increased to $12.3 million as at April 30, 2011 from $11.7 million as at April 30, 2010. Shareholder's equity increased to $252.2 million as at April 30, 2011 from $97.7 million as at April 30, 2010 and consists of share capital, non-voting convertible shares, contributed surplus, accumulated other comprehensive loss and deficit.

ACQUISITION AGREEMENT – RENARD PROJECT INTEREST CONSOLIDATED

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 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.

Details of the transactions which closed on April 1, 2011 are as follows:

- The Company issued 29,588,892 common voting shares to DIAQUEM, equal to 25% of the Company's issued and outstanding common shares as at February 18, 2011.

- The Company issued 22,543,918 newly created non-voting convertible shares to DIAQUEM, such that DIAQUEM's total interest in the Company is equal to 37% on a fully diluted basis.

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

- Investissement Québec entered into a credit support agreement with the Company whereby it agreed to provide C$100 million of credit support towards the establishment of a project debt facility to fund project construction and development costs. The credit support agreement has an annual commitment fee of 175 bps undrawn, and is expected to take the form of a direct project loan ranking *pari passu* with concurrent senior lenders or, as appropriate, on a stand-alone basis on terms no less favourable than prevailing commercially reasonable market terms.

- The Company expanded the size of its Board of Directors to 11 members, with Investissement Québec having the right to nominate three candidates.

The Acquisition was approved by the boards of directors of both the Company and Investissement Québec following consultation with their respective financial and legal advisors. The Company's Board of Directors undertook a comprehensive review and analysis of the proposed transaction and concluded that the Acquisition was fair to the Company's shareholders and accordingly, unanimously recommended that the Company's shareholders vote their shares in favour of the transaction. The decision and recommendation of the Board of Directors was based, in part, on fairness opinions received from RBC Capital Markets and NCP Northland Capital Partners Inc., which were to the effect that the consideration to be paid by the Company in connection with the Acquisition was fair, from a financial point of view, to the shareholders of the Company.

Additional Details of the Acquisition

In connection with the closing of the Acquisition on April 1st, the Company assumed and agreed to perform and be bound by all of the obligations and liabilities accruing to DIAQUEM as the former owner of a 50% interest in Renard, or arising under any agreement to which DIAQUEM or Investissement Québec was a party to or was bound by virtue of being a party in the Renard joint venture.

Investissement Québec agreed to a standstill obligation as a result of which Investissement Québec will not be permitted to increase, directly or indirectly, its ownership interest in the Company beyond 25% of the issued and outstanding common shares, except in certain limited circumstances, including in the context of a take-over bid for, or merger involving, the Company for the purposes of making a superior proposal, or otherwise with the prior consent of the Company. In addition, DIAQUEM will be entitled to a pre-emptive right in respect of common shares issued by the Company so as to maintain its percentage of common share ownership. The pre-emptive right will end on the date of commencement of commercial operations at Renard.

Shareholder Approval

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

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

Share Consolidation

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

All share amounts in this Annual MD&A are presented on a post-consolidation basis.

EXPLORATION UPDATE

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

FOXTROT PROPERTY – RENARD KIMBERLITE BODIES, QUEBEC

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 Inc. ("Diaquem"). Diaquem retains a 2% gross revenue royalty on life of mine production from Renard. Please see "Acquisition Agreement – Renard Project Interest Consolidated" above for more details.

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.

In March 2010 Stornoway announced the results of a Preliminary Economic Assessment ("PEA"), subsequently published in May 2010, wherein the project was estimated to have the potential to produce approximately 30 million carats of diamonds over a 25 year mine life, with a pre-tax Net Present Value of C$885 million (at an 8% discount rate) and an Internal Rate of Return of 24.8%. Total capital investment was estimated at C$511 million. The 2010 PEA was based upon an NI 43-101 compliant Mineral Resource initially published in December 2009 (the "2009 Mineral Resource") of 23.0 million carats of Indicated Mineral Resource and 13.3 million carats of Inferred Mineral Resource, utilizing a diamond valuation for the Renard kimberlite pipes determined by WWW International Diamond Consultants Ltd. ("WWW") in September 2009. At this time, a further 12 to 26 million carats was classified as a non-resource Potential Mineral Deposit ("PMD"). Work undertaken since that time has resulted in updates to the Mineral Resources, as described below.

A bankable feasibility study related to the Renard kimberlite bodies commenced in July 2010 and is expected to be completed in the 3rd calendar quarter of 2011. Details of additional exploration carried out during 2010-2011, the bankable feasibility study and associated activities are described below.

EXPLORATION AT RENARD DURING 2010-2011

Stornoway commenced a program of fall exploration drilling on August 26, 2010 to provide further deep delineation on each of the Renard 3, 4 and 65 kimberlite pipes. This was a continuation of a step-out program of deep drilling first initiated in the winter of 2010 and designed to assess the size and composition of several kimberlite pipes outside the established mineral resource. The step-out drilling was part of an ongoing effort to better quantify overall scope of the potential mineral resources at the project within the context of the ongoing mine design and mine permitting activities and, if possible, allow for the conversion of portions of this material to Inferred Mineral Resources. A total of four deep drill holes were planned for the Renard 3, 4 and 65 kimberlites. The drilling was to be accompanied by microdiamond sampling for diamond content modeling, but no large scale macro-diamond sampling.

In addition, a single hole was drilled at the Renard 1 kimberlite which, although not part of the current mineral resource, had been identified as having the potential for a high diamond content following a review of historical sampling data. Renard 1 is situated less than 500 meters north of Renard 65, and was originally discovered in 2001. Three primary kimberlite lithologies comprise the body and are similar to that recognized in the other Renard bodies currently comprising the mineral resource. Like the other bodies, Renard 1 exhibits a halo of non-kimberlitic country rock breccia ("CRB") and cracked country rock ("CCR"). Between 2001 and 2003, approximately 264

kilograms of mostly hypabyssal kimberlite were analysed for their micro-diamond content, and some 10.3 tonnes of composited material were processed through a commercial dense media separation plant as a series of samples between 300 and 1,500 kilograms in size, returning diamond content results between 0 and 16 cpht. It is now appreciated that this early sample processing incorporated significant amounts of the non-kimberlitic halo material (CRB and CCR) and that the potential diamond content of this large body may be understated. The single Renard 1 hole was designed to better reconcile the pipe shape with the associated geophysical anomaly and historical drill results, re-test each of the principal lithologies with industry standard microdiamond analysis, quantify dilution, and permit a correlation with other bodies currently in the mine plan.

Completion of the fall exploration drilling program was announced October 12, 2010, with highlights and implications as follows:

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

RESOURCE DEVELOPMENT

On January 24, 2011, Stornoway announced the completion of a revised National Instrument ("NI") 43-101 compliant mineral resource estimate prepared by GeoStrat Consulting Inc. ("GeoStrat"), an independent consultancy. It built upon the project's previously established NI 43-101 compliant Mineral Resource prepared by the same author, and followed the completion of two deep drilling campaigns during 2010 that were designed to assess the size and composition of several kimberlite pipes outside the scope of the existing resource. This drilling successfully demonstrated that three pipes, namely Renard 3, 4 and 65, were larger at depth than previously modelled, prompting revisions to the project's estimates for Inferred Mineral Resources and non-resource Potential Mineral Deposit. Highlights of the new resource estimate were as follows:

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

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

In compiling the new estimate of Indicated and Inferred Mineral Resources, summarized in the table below, GeoStrat reviewed three dimensional geological models for each kimberlite body (prepared by Stornoway) and extensive project data collected since 2001. The mineral resource estimate comprises the integration of kimberlite volumes, density, petrology and diamond content data obtained from 88,585 meters of diamond drilling, 6,151 meters of reverse circulation ("RC") drilling, 16.4 tonnes of samples submitted for microdiamond analysis, 600.8 carats of diamonds (6,457 stones) recovered from RC drilling and 8,611.6 carats of diamonds (84,381 stones) recovered from surface trenching and underground bulk sampling.

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

INDICATED RESOURCE

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

INFERRED RESOURCE

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

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

[2] Totals may not add due to rounding.

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

[4] Carats per hundred tonnes.

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

The new mineral resource estimate shown above demonstrates an increase in both tonnage and carats when compared to the Mineral Resource used for the March 2010 PEA. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

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

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

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

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

[2] Totals may not add due to rounding.

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

[4] Carats per hundred tonnes.

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

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

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

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

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

For each kimberlite body, diamond resource grades are estimated on a +1 DTC sieve size cut-off. An allowance has been made for the non-recovery of small diamonds typical in a commercial diamond production plant (i.e. the

diamond resource grade has been decreased), and to make diamond resource grades consistent with the diamond valuation models, which have been established on the same basis. Following this exercise, GeoStrat is confident that the resource models for each kimberlite body are consistent with the accumulated geological and diamond sampling data to the best extent possible.

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

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

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

Positive microdiamond results from Renard 1, the second largest kimberlite at the Renard Diamond Project, were announced by Stornoway on February 23, 2011. The results of this work are summarized in the table below and confirm that Renard 1 has strong similarities to the nearby Renard 65 kimberlite, with an almost identical diamond content and coarse diamond size frequency distribution.

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

On the basis of drilling completed to date, Stornoway estimates Renard 1 to contain 9.1 million tonnes of kimberlite to a depth of 282 meters. Renard 65 is situated 300m south of Renard 1 and is the largest kimberlite at the project. Both kimberlites are composed of several pipe-filling volcaniclastic to coherent kimberlite units and a distinct hypabyssal kimberlite unit.

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

DIAMOND VALUATION UPDATED

On June 13, 2011, the Company announced results of a revised diamond valuation exercise undertaken May 9th-13th in Antwerp, Belgium, under the supervision of WWW. In addition to WWW, four other diamond companies also provided price estimates, and the average of the five valuations was used by WWW to construct a diamond price model with "High" and "Minimum" sensitivities.

Consistent with prior valuations, WWW created a single diamond price model for the Renard 2 and Renard 3 valuation samples given the similarity of the diamonds in terms of diamond qualities and size distribution. This base case price model is US$182/carat, a 56% increase compared to the price model of US$117/carat established in September 2009. Also consistent with past practice, a separate diamond price model has been adopted for the Renard 4 valuation sample given its apparently finer distribution of diamond sizes. The Renard 4 base case price model is US$112/carat, a 49% increase compared to the previously established price model of $75/carat. Model price sensitivities 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. Diamond price models represent the diamond price that might reasonably be expected based on commercial-scale recoveries of all diamond size classes. WWW's sensitivity limits are set such that it is highly unlikely that an actual diamond price achieved for each kimberlite body would fall below the "Minimum" sensitivity, but it is possible that the actual diamond price achieved may be higher than the "High" sensitivity number, which is not a maximum price.

As recommended by WWW, Stornoway will utilize a base case diamond price model of US$182/carat for the Renard 2 and 3 kimberlite pipes in the financial model of the Renard Feasibility Study. In the case of Renard 4, prior analysis has suggested that the apparently finer size distribution of diamonds in the Renard 4 valuation sample, which accounts for that sample's lower base price model of US$112/carat, is attributable to increased diamond breakage and poor plant performance during recovery. On this basis, and taking into account alternate interpretations of diamond quality and size distribution, the Renard 2 and Renard 3 diamond price was adopted for Renard 4 during the recent declaration of the project's National Instrument 43-101 compliant Mineral Resource (Stornoway press release dated January 24, 2011). It is expected that a similar approach will be taken in the determination of an applicable diamond price for Renard 4 in the upcoming Feasibility Study.

In addition to their valuation work on the Renard 2, Renard 3 and Renard 4 diamond samples, WWW also provided an updated valuation for the Lynx and Hibou diamond samples. WWW has recommended a base case modeled price of US$119/carat be adopted for the Lynx diamond sample with sensitivities of US$99 to US$144/carat, and a base case modeled price of US$118/carat be adopted for the Hibou diamond sample with sensitivities of US$88 to US$136/carat. The proposed mine plan for Renard presently does not include a plan to mine the Lynx and Hibou dykes.

FEASIBILITY STUDY

Stornoway announced the formal commencement of the Renard feasibility study and related programs of work in July 2010. The total cost of the feasibility program, covering a two year period from January 2010 to December 2011, was initially estimated to be $28.3 million on a 100% basis, including all studies, associated exploration work, program support, operator management fees and contingencies. In April 2011, a supplementary budget for out-of-scope items totaling $4.2 million was approved, increasing the total feasibility budget to $32.5 million.

The feasibility program is designed to build upon the PEA published in May 2010, and includes the following elements:

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

The commencement of a Feasibility Study at Renard is viewed by management as a significant milestone on the path towards building Québec's first diamond mine. An important element of the work program is a separate and distinct Feasibility Study and Environmental Assessment for a power line to the project, which is being conducted under the auspices of Hydro-Québec but financed by the Company. The power line has the potential to greatly reduce the project's operating costs, reduce its overall environmental footprint, and to insulate the project from future fuel cost escalation. In support of the feasibility program, beginning in May 2010 the Company established a Québec based mining team. The Company's objective at Renard is to define a robust, low-risk project with high margins and a substantial mine life, which is readily financeable.

The Renard feasibility study is on track for completion in the 3rd calendar quarter of 2011.

STAKEHOLDER RELATIONS

On July 26, 2010, the Company announced the conclusion of a Pre-Development Agreement ("PDA") for the Renard Diamond Project with the Grand Council of the Crees (Eeyou Istchee) / Cree Regional Authority, the Cree Nation of Mistissini and Diaquem. Mistissini is located 250 km south of Renard, and is the closest community to the project within the James Bay region.

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

On January 20, 2011, the Company announced the opening of a new representative office for the Renard Diamond Project in Mistissini. The new office will provide a forum for exchanging information and liasing with the Crees on a variety of social, environmental and economic aspects of the Renard Diamond Project, and on the potential for future training, employment and business opportunities. In addition, the office will provide information about diamond exploration and diamond mining in general.

In an April 28, 2011 press release, the Company noted that consultation with communities, including public open houses and individual stakeholder meetings, had been undertaken in conjunction with the ESIA and mine permitting processes. With the collaboration of the Crees of the James Bay region, the Company has established an Environmental Exchange Group designed to provide a forum for the exchange of environmental and traditional knowledge in the area of the proposed development.

Also on April 28, 2011, the Company reported that the Environmental and Social Impact Assessment ("ESIA") was on track for completion in the third calendar quarter of 2011. 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. Subject to a schedule to be established by the Review Committee of the JBNQA ("COMEX"), it is currently expected that community hearings will be held in the fourth calendar quarter of 2011 and, subject to the satisfaction of all regulatory requirements, the project will be eligible for the receipt of Certificates of Authorization by the end of the first calendar quarter 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.

ROUTE 167 EXTENSION

On March 18, 2011, Stornoway announced the commitment of the Québec Government, made during the reading of the 2011 Québec Budget, to the development of the Route 167 Extension under the auspices of the "Plan Nord", the strategic initiative to develop the north of Québec. The Route 167 Extension (also known as the "Route des Monts Otish") will provide year round highway access to the Renard Diamond Project by way of the communities of Mistissini and Chibougamau. It is expected that it will be constructed as a 260 km-long, 70 km/hour two lane gravel-top highway under the supervision of the Québec Ministry of Transport. The road will be designated as a multi-service provincial highway connecting Renard to the end of the current Route 167 at Lac Albanel (Temiscamie), and will provide access to a number of other prospective mining projects as well as the new Albanel-Temiscamie-Otish Park. Construction is expected to commence this year.

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 annual 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 an historical interest and the Company has no plans to participate in future exploration or development programs on this property for the foreseeable future.

Highlights from 2010-2011 on the advanced exploration stage projects include:

- increased ownership of the Qilalugaq Project, Nunavut, to 100% [July 20, 2010]
- discovery of a new kimberlite dyke by prospecting at the Qilalugaq Project, and the discovery of new kimberlite float at the Chesterfield Project [September 7, 2010]
- receipt of new microdiamond results at the Aviat Project from the AV9 kimberlite pipe and the related Eastern Sheet Complex ("ESC"), including 677 diamonds from 927 kilograms of drill core from the AV9 kimberlite pipe and 226 diamonds from 220 kilograms of drill core from the ESC - consistent with previous high diamond recoveries from the project. The largest diamonds recovered were 0.156 carats and 0.083 carats from AV9, and 0.092 carats from the ESC [March 7, 2011]

The Company has recently initiated exploration activities on several earlier-stage projects where previous work has identified the potential for new kimberlite discoveries. It is management's intention is to continue to advance the Company's pipeline of projects, with particular emphasis on discovery and the establishment of new resources. 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 in approximately 0.5 million acres in about 19 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.

The Company maintains regional geological, geochemical and geophysical databases, and undertook generative exploration programs throughout Canada during 2008. This work investigated geologically prospective terrains, un-sourced indicator mineral anomalies derived from public, quasi-public and proprietary databases and unexplained geophysical targets from both ground and airborne surveys. Till and heavy mineral sampling, airborne and ground geophysical surveys and prospecting programs were completed in 2008. Rock samples were collected for both caustic fusion and DMS processing. However, in late 2008, the Company suspended activities on all grassroots generative programs in response to the deepening international credit crisis and the accompanying contraction of the Canadian venture capital market. In September 2010, the Company announced that exploration activities in high priority locations had been restarted, including the processing of samples collected during the 2008 field work. Partial results available to date from the 2008 generative exploration programs have been, and will continue to be, used to identify and acquire targeted landholdings thought to have the potential to host diamondiferous kimberlites. Results for additional work are pending and Stornoway anticipates continued property acquisition.

In April 2011, the Company announced an exploration budget of $5.6 million for exploration programs during 2011 outside of the Renard Diamond Project.

Hammer (Nunavut)

In July of 2009, the Company reported discovery, by surface prospecting, of the Hammer kimberlite in the Coronation Gulf/North Slave Diamond District of Nunavut. The project is a 75%-25% joint venture between the Company and North Arrow Minerals Inc. The Hammer Property is located approximately 500km north of Yellowknife, Northwest Territories, within the Coronation Gulf/North Slave Diamond District. Some 17 kimberlites were previously known to exist in the general area, with the Company holding variable interests in ten of them. The diamond contents of individual bodies range from barren to highly diamondiferous. The barren bodies tend to be ilmenite dominated (e.g. Kikerk 1, Kikerk 2, Thrift) while those with elevated diamond counts have a more interesting indicator mineral population including pyrope garnet (e.g. Artemisia, Knife, and Potentilla). Within the diamondiferous kimberlites, grades established from a variety of sampling programs by several companies range from less than 10 cpht (e.g. Caltha, Perseus) to 10-30 cpht (e.g. Artemisia, Knife), with portions of the Anuri pipe reportedly reaching 78 cpht. No development work on any kimberlite has taken place to date, although large tonnage sampling programs have been undertaken by De Beers and Rio Tinto (through Kennecott Canada Inc.) at the Knife and Anuri kimberlites respectively.

At the Hammer kimberlite during 2009, weathered kimberlite breccia in bedrock was identified within hand dug pits, in addition to numerous scattered kimberlite occurrences of surface float and frost heaved kimberlite fragments. Permafrost conditions and equipment constraints prevented the collection of fresh kimberlite for representative microdiamond analysis, but caustic fusion of a 6.6kg sample returned a diamond on the 0.106mm square mesh screen, confirming that the body is diamondiferous. The Hammer kimberlite is associated with a prominent topographic feature that is 225 meters long, between 15 and 100 meters wide, and has a surface expression of approximately 1 hectare, although the true nature and size of the body is not known at this time. Ground geophysical surveys in September of 2010 confirmed the possible presence of a pipe-like body. In May 2011, the Company announced that mobilization for a drill program designed to delineate the Hammer kimberlite's size and diamond content for the first time would take place in early June. In addition to delineating the true size and shape of the body, the drill program will also test for multiple phases of kimberlite, and collect sufficient samples to permit an estimate of diamond content. Results from this drill program will be reported when received.

LG-4 Diamants - Consorem Project (Quebec)

Geophysical anomaly checking, prospecting, till sampling and ground magnetic surveys were completed in 2010 on the LG-4 Diamants - Consorem Project, situated in the James Bay region of north-central Québec, north of the Renard Diamond Project and in the vicinity of the Trans-Taiga Highway. Landholdings currently comprise approximately 29,500 acres in 236 claims that host 26 primary geophysical targets identified from an airborne geophysical survey commissioned by the Québec Ministère des Ressources naturelles et de la Faune. This project is a consortium between the Company, Mines Virginia Inc., Soquem Inc. and Mines Aurizon Ltd. (each with a 25% interest). Mines Virginia Inc. is the project operator and it is anticipated that they will propose a limited 2011 exploration program.

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 Company commenced acquisition of the Pikoo claims in February and March 2011, and claim certificates have been issued by Saskatchewan Ministry of Energy and Resources. During the summer of 2011, the Company will undertake an airborne geophysical survey, and conduct detailed till sampling and follow-up prospecting on high-priority targets in preparation for potential drilling later in 2011 or in 2012. The area of interest was first identified in 2006 following a regional geochemical sampling program designed to test the diamond potential of the northern portion of the Sask Craton, which hosts the Fort a la Corne cluster of kimberlite pipes approximately 220 km to the southwest. Subsequent follow-up sampling confirmed the potential for multiple kimberlites or kimberlite clusters localized within a 15km by 20km source area. No kimberlites are currently known in the vicinity of the Pikoo Project, and their identification would represent a significant new discovery in Canadian diamond exploration.

Resource Property Write-offs

During the year ended April 30, 2011, the Company wrote-off $2.15 million of capitalized acquisition costs where no future exploration programs are planned for the foreseeable future (April 30, 2010 –$21.0 million). The majority of this write-off ($2.1 million) relates to the Churchill Project where the Company is not participating in future exploration programs for the foreseeable future. The majority of the Comparative Year's write-off related to properties in Ontario ($13.7 million), Nunavut ($5.3 million) and for the Churchill Project ($2.0 million) where no future exploration programs were planned for the foreseeable future.

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 available on SEDAR at www.sedar.com.

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

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

The Company has no exposure to asset-backed commercial paper through its short-term investments, which are invested in chartered bank-issued high-interest savings accounts, Bankers' Acceptance or Bankers' Deposit Notes or Guaranteed Investment Certificates ("GICs") to minimize, to the extent possible, the Company's credit risk. The majority of the Company's receivables consist of sales tax receivables due from the federal government and receivables from a company that is using 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 year 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 fund the Company's feasibility study at the Renard Diamond Project, conduct exploration programs at several of the Company's exploration properties and for general working capital over the next year. The Company has minimum commitments under its operating leases totalling $1.4 million for the five-year period ended April 30, 2016 (please see "*Commitments*" schedule below). A portion of these payments may be recovered through sub-leases. The Company will need to secure some form of additional financing to further develop the Renard Diamond Project, assuming receipt of a positive bankable feasibility study during 2011, a production decision by the Company's Board of Directors, and receipt of the required regulatory approvals and permits for mine construction during 2012. 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.

SUMMARY OF QUARTERLY RESULTS

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

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

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 Expenditures
Three months ended April 30, 2011	$6,204	$ 0.08	$0.08	$ 3,801
Three months ended January 31, 2011	2,346	0.03	0.03	2,039
Three months ended October 31, 2010	3,915	0.05	0.05	2,352
Three months ended July 31, 2010	1,037	0.00	0.00	303
Three months ended April 30, 2010	14,063	0.21	0.21	991
Three months ended January 31, 2010	1,320	0.02	0.02	628
Three months ended October 31, 2009	5,891	0.09	0.09	1,304
Three months ended July 31, 2009	1,696	0.03	0.03	1,295

(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.

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

In a typical quarter, the Company's professional fees will increase when property option and joint venture agreements are in development and negotiation, and investor relations activities increase in proportion to shareholder inquiries, communications and as a result of the Company's periodic "roadshows". Stock-based

compensation expense varies, and is dependent upon the size, timing and estimated fair value of the stock option grants (see "*Critical Accounting Estimates"* below for details on the key assumptions used*)*.

The Company's activities in the Current Year were focused on negotiating and concluding the acquisition of 50% of the Renard Diamond Project not already owned by the Company, as well as related financing activities, a drilling program at the Renard Project, the commencement of a formal feasibility study at Renard and grass-roots exploration throughout Canada. Loss from continued operations presented in the table above includes the Company's quarterly exploration expenditures.

FOURTH QUARTER

The Company's net loss of $6.2 million for the three months ended April 30, 2011 (the "**Current Quarter**") was significantly lower than the $14.1 million loss in the three months ended April 30, 2010 (the "**Comparative Quarter**") due to a smaller write-off of capitalized acquisition costs (Current Quarter - $2.1 million; Comparative Quarter - $15.5 million) and despite a significant increase in exploration costs in the Current Quarter (Current Quarter - $3.8 million; Comparative Quarter - $991,000). Total expenses increased to $5.9 million in the Current Quarter, as compared to $2.5 million in the Comparative Quarter, including exploration expenses. During the Current Quarter, stock-based compensation (Current Quarter - $219,000; Comparative Quarter - $28,000), exploration expenses (Current Quarter - $3.8 million; Comparative Quarter - $991,000), salaries, benefits and director's fees (Current Quarter - $1.07 million; Comparative Quarter - $585,000), regulatory and shareholder communications expense (Current Quarter - $200,000; Comparative Quarter - $170,000) and office and sundry expense (Current Quarter - $169,000; Comparative Quarter - $153,000) all increased. Please see the analysis under "Results of Operations" above for a more detailed explanation of these variances. The Company's loss per share of $0.08 in the Current Quarter compares to a $0.21 loss per share in the Comparative Quarter.

LIQUIDITY

The Company's cash and cash equivalents increased from $9.2 million at April 30, 2010 to $22.7 million at April 30, 2011. In addition, as at April 30, 2011 the Company has a further $11.8 million classified as short-term deposits, of which $328,000 is held as collateral security for the Company's credit cards and $8,000 is 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 $11.8 million classified as a short-term deposit is held in a GIC and a term deposit that is cashable any time after 30 days from the investment date.

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 Canadian exploration expenditures ("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 *(expressed in thousands of Canadian Dollars)*.

Flow-through commitment at June 29, 2010	$	5,002
Qualifying expenditures to April 30, 2011		(2,487)
Flow-through funds on hand at April 30, 2011	$	2,515

As at April 30, 2011, the Company had spent approximately 50% of the proceeds from this offering on exploration programs at a number of its 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. The Company expects to spend all remaining flow-through funds prior to December 31, 2011.

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 intends to use the net proceeds of the Offering to complete a feasibility level program of work at the Renard Diamond Project, located in north-central Québec, and for general working capital purposes.

The Company expects to apply the net proceeds as follows:

Description of Expenditure	Anticipated Use	Actual Use*
Renard Diamond Project	$000s	$000s
Mine, plant and surface infrastructure design	7,000	1,550
Environmental and socio-economic studies	2,200	535
Project management and support costs	2,400	885
Other work related to the feasibility study	2,800	202
Estimated cost to complete	-	11,521
	14,400	14,693
Annual commitment fee payable for Credit Support Agreement	1,750	146
Estimated costs related to the Transaction	2,050	2,715
General working capital, administrative expenses and salary expenses (including technical)	14,363	15,009
	18,163	17,870
	32,563	**32,563**

*for the three months ended April 30, 2011

Stornoway intends to use the net proceeds from the Offering to complete a bankable feasibility study on the Renard Diamond Project during 2011, with a goal of making a production decision by the end of 2011, and for general working capital and administrative expenses in 2011 and 2012. In order to complete the bankable feasibility study, Stornoway must submit a “project description” to the Quebec government and obtain all required permits, finish resource and reserve estimate work, including geotechnical drilling at site, complete a revised economic assessment, finalize the mine, plant and surface infrastructure design as well as complete environmental and socio-economic impact studies. Stornoway expects to complete the bankable feasibility study within the third calendar quarter of 2011, but receipt of the required permits and other approvals is not expected until the first part of 2012.

WORKING CAPITAL

The Company’s working capital as at April 30, 2011 was $30.1 million (April 30, 2010 - $9.5 million). During the Current Year, the Company’s cash position increased by $13.5 million to $22.7 million at April 30, 2011 as compared to the Comparative Year, where the Company’s cash position increased by $7.7 million to $9.2 million in cash and cash equivalents. An increase in accounts payable and accrued liabilities (Current Year - $849,000; Comparative Year –$1.2 million), stock-based compensation expense (Current Year - $1.9 million; Comparative Year - $573,000), amortization (Current Year - $714,000; Comparative Year - $933,000), write-off of resource property costs (Current Year - $2.2 million; Comparative Year - $21.0 Million), future income tax recovery (Current Year - $3.2 million; Comparative Year - $5.8 million), and a decrease in other receivables (Current Year - $721,000; Comparative Year –$264,000) represent the largest reconciling items from the consolidated statement of loss and deficit to the consolidated statement of cash flows - operating activities, for the year ended April 30, 2011.

The Company’s primary operating activity is the acquisition and exploration of its resource property interests. During the Current Year, the Company spent $9.6 million (offset by $1.1 million of Quebec exploration tax credits received) to explore its resource properties (Comparative Year- $4.2 million), with the most significant expenditures on the RenardDiamond Project in Quebec. The Company’s most significant operating expenses during the Current Year included $1.7 million for salary, benefits and director’s fees (Comparative Year - $1.0 million), $575,000 (Comparative Year - $374,000) for office and sundry, and professional fees of $426,000 (Comparative Year -

$184,000). The Company's loss for the Current Year of $13.5 million (Comparative Year - $23.6 million) was reduced by cost recoveries of $544,000 (Comparative Year - $Nil) for a third party's use of the Company's North Vancouver laboratory facilities.

The Company's ability to generate cash is very much affected by the current market conditions, its share price and third party interest in its assets. The Company is very reliant on equity financings, which are dilutive to existing shareholders, to fund ongoing exploration and development activities, and for general corporate purposes. In previous years, the Company was able to sell non-core assets as one means to finance its operations and to further exploration on its material mineral property interests. The Company's ability to sell non-core assets in the future is dependent on interest in the Company's assets from third parties. In addition, the Company is eligible for investment tax credits with respect to its exploration activities in certain provinces, which may help the Company finance its operations to some extent; however, the timing and amounts of those tax credits cannot be reliably estimated. The funds that the Company does have which aren't allocated for short-term cash requirements are invested in tranches for up to 90 days in Bankers' Acceptance ("BA") or Bankers' Deposit Notes ("BDN") issued by various chartered banks or held in high interest savings accounts at several chartered banks. Some excess cash is also invested in GICs and term deposits, cashable after 30 days, which typically pay a higher interest rate than BAs or BDNs. The Company has no exposure to asset-backed commercial paper.

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 "*Highlights*" above, the Company and Investissement Quebec entered into a credit support agreement (the "Credit Support Agreement"), pursuant to which Investissement Quebec 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 Investissement Quebec on terms no less favourable than prevailing commercially reasonable market terms. In addition, Investissement Quebec shall be entitled to receive the same benefits, on a pro rata basis, as the lending syndicate. In respect of the lending syndicate, Investissement Quebec will have the right to be lead or co-lead lender and manager or co-manager.

The obligations of Investissement Quebec under the Credit Support Agreement will terminate on the earlier to occur of: (a) the date on which Stornoway notifies Investissement Quebec 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 Investissement Quebec, 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 Investissement Quebec 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 $1.43 million. The Company is able to reduce some of this liability through the sub-lease of excess space. The Company has sufficient financial resources to keep its material landholdings and the majority of its non-material landholdings in good standing into 2012 and beyond. The Company has also incurred sufficient exploration expenditures on these properties to keep them in good standing with the respective provincial and territorial governments through 2011 as well. The Company's management actively manages its landholdings in an effort to keep those landholdings with the greatest exploration potential in good standing for as long as possible. The Company's management regularly reviews its cash position against future plans and makes decisions regarding these plans accordingly. Exploration work in 2010 was primarily focused on the Company's Renard Diamond Project, directed to a resource expansion and optimization program, with additional drilling and diamond sampling. Funds from the short-form prospectus offering, which closed in January 2011, are being used towards the completion of a bankable feasibility study at Renard and for general working capital purposes. Funds from the flow-through financing, which closed in June 2010, 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 between 2010 and 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. These factors include: the receipt of a positive feasibility study and the required permits to construct a diamond mine at Renard, as well as a decision to proceed with further development. The Company's exploration plans for 2011 will also affect its cash requirements, and are subject to change. The Company's actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration activity.

The Company has historically financed its exploration programs through the issuance of equity capital, and through the use of a convertible debenture (issued in March 2007 and extinguished in July 2008) while at the same time trying to reduce shareholder dilution by securing joint venture partners where appropriate and in recent years, by the monetization of non-core assets. Between 2009 and mid-2011, Canadian equity capital markets have seen significant improvements as compared to late 2008 and early 2009. Interest in the diamond sector has also improved recently. The Company's management intends to continue to seek out the best opportunities to maximize shareholder value by furthering exploration programs on its most promising projects and by generating new discoveries.

The Company's consolidated financial statements for the years ended April 30, 2010 and April 30, 2011 have been prepared in accordance with Canadian GAAP.

The Company has a number of stock options and warrants outstanding which, if exercised, would increase the Company's available cash. 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 Statement of Loss and Deficit and the Consolidated Schedule of Resource Property Costs contained in its Consolidated Financial Statements for April 30, 2011 and April 30, 2010. The Company has also filed an Annual Information Form, dated June 30, 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 as follows (*expressed in thousands of Canadian Dollars*):

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

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.

On February 22, 2011, the Company's common shares were consolidated on a 1-new-for-4-old basis. *All share information presented in this Annual MD&A is presented on a post-consolidation basis.*

As at June 30, 2011, there were 118,615,740 common shares and 22,543,918 non-voting convertible shares issued and outstanding.

As at June 30, 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	0.48 years
$ 2.52 ~ $ 27.76	1,248,495	$ 4.68	2012	1.05 years
$ 0.40 ~ $ 29.68	984,301	$ 2.02	2013	2.39 years
$ 0.40 ~ $ 19.44	671,025	$ 1.18	2014	3.28 years
$ 2.24 ~ $ 5.36	1,167,600	$ 2.40	2015	4.12 years
$ 2.50	50,000	$ 2.50	2016	4.76 years
	4,149,171			

As at June 30, 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
364,368		

TRANSACTIONS WITH RELATED PARTIES

Related party transactions (See Note 10 of the consolidated financial statements as at April 30, 2011) are as follows:

a) As at April 30, 2011 the amounts due to related parties consisted of the following *(expressed in thousands of Canadian dollars)*:

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

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

b) During the year ended April 30, 2011, the Company paid or accrued $52,000 (April 30, 2010 - $50,000) for the reimbursement of administrative and technical time to Strongbow.

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

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as well as the reported expenses during the reporting period. Such estimates and assumptions affect the determination of the potential impairment of long-lived assets, estimated costs associated with reclamation of exploration properties, the estimated fair value of the Company's diamond inventory and the determination of stock-based compensation and future income taxes. Estimates and assumptions may be revised as new information is obtained, and are subject to change. Management believes that the Company's accounting policies and the estimates used in the preparation of the consolidated financial statements are appropriate in the circumstances, but are subject to judgments and uncertainties that are inherent in the financial reporting process. Actual results could differ from estimates and the differences could be material. The most critical accounting policies upon which the Company depends are those requiring estimates of impairment, assumptions about fair value and future income taxes. Please refer to Note 2 of the audited, consolidated financial statements of the Company for the years ended April 30, 2011 and 2010 for a description of all significant accounting policies.

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. Estimated future net cash flows relating to an asset or an asset group are calculated using estimated future prices, proven and probable reserves, and operating and capital costs on an undiscounted basis. An impairment charge is recorded if the undiscounted future net cash flows are less than the

carrying amount. Reductions in the carrying value of an asset or asset group, with a corresponding charge to operations, are recorded to the extent that the estimated future net cash flows on a discounted basis are less than the long-lived assets carrying value in accordance with CICA Handbook Section 3063, "Impairment of Long-lived Assets".

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

Capitalized acquisition costs for the Company's resource properties are its most significant long-lived asset. The Company's resource properties are at three different stages:

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

To test for impairment on its resource properties, management uses an undiscounted future cash flow method for the development stage project; an estimate of "in-situ" value for the advanced projects and the criteria set out in Paragraphs 16 and 18 of Accounting Guideline 11 – Enterprises in the Development Stage for the grass-roots exploration projects ("**AcG-11**").

The NI 43-101 report (2010 PA Report) filed by the Company in May 2010 contains a detailed cash flow model. Management has evaluated the cash flow model, (updated internally using estimates from the NI 43-101 compliant 2010 Mineral Resource Update filed in February 2011) against the carrying value of the Renard Diamond Project and is of the opinion that the estimated future cash flows (undiscounted) from the project exceed its carrying value of $216.3 million as at April 30, 2011 and that no write-down for impairment is warranted on this basis.

Without an estimate of future undiscounted cash flows, other methods must be used to estimate a fair value for the other properties. Management believes that using an estimate of "in-situ" value for its advanced projects is a reasonable way to estimate fair value. The in situ method is a broad metric of project value, which uses an estimate of carats contained in the project and an estimate of carat value, factored to account for extracted value. A factor is applied to provide a risk adjusted expectation of value and also adjusts for value recovered and capital expenditures, operating costs and income tax expenses. Three of the advanced projects (Aviat, Churchill and Qilalugaq) are located within the Rae Craton in Nunavut and have approximately equivalent emplacement ages. Management has enough information to make a reasonable estimate of the contained carats for each project based on information available to date. Using a low-average-high range estimate of per carat values and a simple range of probabilities, combined with a low factor, a low and high estimate of fair value for each project was calculated. These estimated fair values exceeded the current carrying values for each of the Aviat and Qilalugaq properties, and accordingly, management determined no write-downs for impairment were required for these properties as of April 30, 2011.

As of April 30, 2011, management determined that the carrying value of the Churchill Property exceeded its estimated net realizable value by approximately $2.1 million. In making this determination, the Company considered the following factors: a) that the Company has no future plans to contribute to exploration programs on this property and b) that the Company has not been a contributing participant since the conclusion of the 2007 exploration program. Therefore, as of April 30, 2011 the carrying value for the Churchill property was reduced from $2.1 million to $Nil.

The Company uses the guidance set out in AcG-11 as the basis for determining whether its grass-roots properties should be written off. Paragraph 16 AcG-11 sets out factors that may indicate the need for a write-down:

a) unfavourable changes in the property or project economics;
b) an inability to access the site;
c) environmental restrictions on development;
d) an inability to create an efficient distribution mechanism; and

e) political instability of the region in which the property is located.

Paragraph 18 AcG-11 states: "In addition to the above general presumption, there should be a presumption of impairment in the carrying amount of property, plant and equipment and intangible assets of enterprises in the development stage engaged in extractive operations when any of the following conditions exist:

a) the enterprise's work program on a property has significantly changed so that previously identified resource targets or work programs are no longer being pursued;
b) exploration results are not promising and no more work is being planned for the foreseeable future; or
c) remaining lease terms are insufficient to conduct necessary studies or exploration work.

Using these conditions as a guideline for estimating whether an impairment exists on its grass-roots properties, and based on the Company's plan 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 resource properties as of April 30, 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.

Asset retirement obligations

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

The Company has recorded an asset retirement obligation, which reflects the present value of the estimated amount of undiscounted cash flow required to satisfy the asset retirement obligation in respect of the Renard Project in Quebec. The primary component of this obligation is the removal of equipment currently used at the site. If the Company decides not to go into production on the property, it is assumed that the asset retirement obligation will be incurred in 2011. Should the Company decide to proceed with a production decision on the Renard Project, the obligation will be realized further into the future. The credit adjusted risk free rate at which the estimated cash flows have been discounted to arrive at the obligation is 12%. The undiscounted amount of inflation-adjusted estimated future cash flows is $1,590,000.

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, which is not marked-to-market.

Stock-based compensation

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

Stock-based compensation is accounted for using the fair value based method. Under the fair value based method, compensation cost is measured at fair value of the options at the date of grant and is expensed over the vesting period of the award. The Company estimates the fair value using the Black- Scholes option-pricing model. The key assumptions used during the Current Year were: a risk-free interest rate of 1.7% ~ 2.7%, a dividend yield of 0%, an expected volatility of 84% ~ 99% and expected term of stock options of 3 ~ 5 years. The key assumptions used during the year ended April 30, 2010 were: a risk-free interest rate of 2.5% ~ 2.7%, a dividend yield of 0%, an expected volatility of 83% ~ 94% and expected term of stock options of 3 ~ 5 years. Option pricing models require

the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

During the Current Year, the Company recorded stock-based compensation expense of $1.9 million (Comparative Period - $573,000). The Company granted 1,195,000 stock options during the Current Year. The options have an exercise price range of $2.24 – $2.60 and expire five years from the grant date. The Company used the Black-Scholes Option Pricing Model to estimate a fair value of $1.8 million for this grant. During the year ended April 30, 2010, the Company granted options to purchase up to 848,750 shares of the Company's stock to employees and non-employees at an exercise price of $1.00. The Company used the Black-Scholes Option Pricing Model to estimate a fair value of $543,000 for these grants.

The Company also uses the Black-Scholes option-pricing model to value other share compensation. During the Current Year, the Company issued 131,625 warrants as part of a brokered private placement in June 2010. These warrants were estimated to have a fair value of $157,300, using the Black-Scholes option-pricing model with the following assumptions: 1.38% risk-free interest rate; an expected life of eighteen months, 105% volatility.

Future income tax assets and liabilities

Future income tax assets and liabilities are measured using statutory rates that are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The Company recorded a future income tax liability as part of the 2006 acquisition of Ashton Mining of Canada Inc. ("Ashton") and Contact Diamond Corporation ("Contact") and made certain assumptions with respect to the values of certain of Ashton and Contact's tax pools and loss-carry forward balances. Differences in the actual tax rates applied and in the timing of the settlement of temporary differences could have a material impact on the Company's reported tax assets and liabilities.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Exploration Expenditures

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

Exploration expenditures are now charged to operations as they are incurred until the mineral property reaches the development stage. Financing and interest costs are now charged to operations as well. Significant costs related to property acquisitions, including allocations for undeveloped mineral interests, are capitalized until the viability of the mineral interest is determined. When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized. The impact of this change on the previously reported April 30, 2009 consolidated financial statements is as follows *(expressed in thousands of dollars):*

	April 30, 2009 As previously reported $	Restatement $	April 30, 2009 As restated $
Resource property costs	171,193	(56,456)	114,737
Rough diamond inventory	-	330	330
Future income tax liabilities	20,782	(7,709)	13,073
Office and sundry	347	(60)	287
Accretion	-	76	76
Amortization	-	1,316	1,316
Exploration costs	-	8,556	8,556
Financing and interest costs	-	1,323	1,323
Stock-based compensation	364	273	637

Write-off of resource property costs	14,452	(14,014)	438
Future income tax recovery	(391)	(1,080)	(1,471)
Earnings (loss) for the year	(4,679)	3,609	(1,070)
Earnings (loss) per share	(0.02)	0.02	0.00
Deficit at April 30, 2009	(66,811)	(48,506)	(115,317)
Deficit at April 30, 2008	(63,397)	(52,115)	(115,512)

International financial reporting standards

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian standards and interpretations for years beginning on or after January 1, 2011. The process of changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect reported financial position and results of operations, and also affect certain business functions. The Company will be required to prepare fully IFRS compliant financial statements for the year ended April 30, 2012, with the first interim financials prepared under IFRS for the period from May 1 to July 31, 2011.

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

First-Time Adoption of IFRS

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

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

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

• Derecognition of financial assets and financial liabilities;

• Hedge accounting;

• Non-controlling interest;

• Leases;

• Designation of previously recognized financial instruments;

• Investments in subsidiaries, jointly controlled entities and associates;

• Fair value measurement of financial assets or financial liabilities at initial recognition.

Expected areas of significance:

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

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

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

The standard-setting bodies that promulgate IFRSs and Canadian GAAP have significant ongoing projects that could affect the ultimate differences between IFRSs and Canadian GAAP and their impact on the Company's consolidated financial statements in future years. In particular, management expects that there may be additional new or revised IFRSs issued during 2011 in relation to consolidation, discontinued operations, financial instruments, fair value measurement, leases, revenue recognition, employee benefits and joint ventures. Processes are in place to ensure that such potential changes are monitored and evaluated. The future impacts of IFRSs will also depend on the particular circumstances prevailing in those years.

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

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

		As at May 1, 2010		
ASSETS	Notes	CDN GAAP	Effect of transition to IFRS	IFRS
Current				
Cash and cash equivalents		$ 9.2	$ -	$ 9.2
Short-term deposits		1.6	-	1.6
Other receivables		1.6	-	1.6
Investments		0.2	-	0.2
Prepaid expenses		0.1	-	0.1
		12.7	-	12.7
Prepaid Fuel		0.2	-	0.2
Rough diamond inventory		0.3	-	0.3
Property, Plant and Equipment	(i)	2.3	~1.0 to 2.0	~3.0 to 4.0
Exploration and Evaluation assets	(ii)(iii)	93.9	~7.0 to 9.0	~101.0 to 103.0
		$ 109.4	$ ~8.0 to 11.0	$ ~117.0 to 120.0
LIABILITIES				
Current				
Accounts payable and accrued liabilities				
- Trade and due to related parties		$ 3.2	$ -	$ 3.2
Future Income Tax Liabilities	(ii)	7.8	~(7.0) to (8.0)	~0
Asset Retirement Obligations	(iii)	0.7	-*	0.7
		11.7	~7.0 to 8.0	~19.0 to 20.0
SHAREHOLDERS' EQUITY				
Share Capital		224.9		224.9
Contributed Surplus	(iv)	11.8	-*	11.8

Accumulated Other Comprehensive Loss	(0.1)	-	(0.1)
Deficit	(138.9)	~1.0	~(138.0)
	97.7	~1.0	~99.0
	$ 109.4	$ ~8.0 to 9.0	$ ~118.0 to 119.0

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

Next Steps

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, short-term deposits, other receivables, investments, accounts payable, accrued liabilities and amounts due to related parties. The carrying value of cash and cash equivalents, short-term deposits, other receivables, accounts payable, accrued liabilities 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 April 30, 2011 and April 30, 2010 are summarized as follows *(expressed in thousands of Canadian dollars):*

	April 30, 2011		April 30, 2010	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial Assets	**$**	**$**	**$**	**$**
Held-for-trading				
Short-term deposits	**11,777**	**11,777**	1,641	1,641
Loans and Receivables				
Cash and cash equivalents	**22,745**	**22,745**	9,212	9,212
Other receivables	**955**	**955**	1,582	1,582
Available for sale				
Investments	**242**	**242**	147	147
Financial Liabilities				
Accounts payable, accrued liabilities and due to related parties	**4,790**	**4,790**	3,184	3,184

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.

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.

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 (approximately 1% 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 (87% of receivables totalling $832,600 as at April 30, 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 April 30, 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 year ended April 30, 2011 would have been approximately $83,000.

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 April 30, 2011, the Company had cash and cash equivalents, and short-term deposits of $34.5 million (2010 - $10.9 million) as well as other receivables of $955,000 (2010 - $1.6 million) to settle current liabilities of $6.4 million (2010 - $3.2 million). See Note 14 of the audited, consolidated financial statements for the year ended April 30, 2011 for details on other commitments.

CAPITAL MANAGEMENT

The Company's objectives when managing capital are to:

a) Safeguard the Company's ability to continue as a going concern,
b) Have sufficient capital to continue to acquire, explore and develop the Company's mineral properties, and
c) Provide sufficient funds for the Company's corporate activities.

The capital of the Company consists of the items included in shareholders' equity. During the year ended April 30, 2011, a new class of non-voting, common shares (the "Convertible Shares") was created to facilitate the Renard Diamond Project acquisition from Diaquem. The Company's resource properties are in the exploration stage. As an exploration stage company, the Company is currently unable to self-finance its operations. The Company has historically relied on the monetization of non-core assets, a convertible debenture and, more recently, equity financings to finance its operations. In order to carry out the Company's planned exploration programs and to pay for administrative costs, the Company will spend its existing working capital and raise additional funds as required.

To effectively manage the Company's capital requirements, the Company's management has in place a planning and budgeting process. The Company is not subject to any externally imposed capital requirements.

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 year ended April 30, 2011 and have concluded that the Procedures in place as of the end of the fiscal period covered by the Required Filings are effective in providing reasonable assurance that material information relating to the Company is accumulated and communicated to management and reported within the time periods specified.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting as of April 30, 2011 and have concluded that the Company's internal controls over financial reporting are effective, and are sufficiently designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its consolidated financial statements for external purposes in accordance with the Company's GAAP. This evaluation was completed using the framework and criteria established in the Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). There have been no changes in internal control over financial reporting during the year ended April 30, 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 Annual MD&A. A copy of this Annual MD&A will be provided to anyone who requests it.

ADDITIONAL INFORMATION

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