Form 51-102F1

Management Discussion and Analysis

For

Stornoway Diamond Corporation

("Stornoway" or the "Corporation")

of Consolidated Financial Condition and Results of Operations

As at and for the year ended December 31, 2017

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

The following management discussion and analysis ("MD&A") of the Corporation's financial condition and results of operations for the year ended December 31, 2017 should be read in conjunction with the audited consolidated financial statements ("financial statements") for years ended December 31, 2017 and 2016, together with the notes thereto. These financial statements have been prepared in Canadian dollars, which is the Corporation's presentation and functional currency, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Corporation's significant accounting policies are set out in Note 2 of the audited consolidated financial statements for the year ended December 31, 2017.

Additional information on the Corporation, including the most recently filed Corporation's Annual Information Form ("AIF") and other continuous disclosure documents can be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com and from the Corporation's website at www.stornowaydiamonds.com. To the extent applicable, updated information contained in this MD&A supersedes older information contained in previously filed continuous disclosure documents. Information contained on the Corporation's website is not incorporated by reference herein and does not form part of this MD&A. This MD&A contains forward-looking statements that are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may vary materially from management's expectations. See the "Forward Looking Statements" section later in this MD&A for further information. Unless otherwise noted, all amounts are presented in Canadian Dollars.

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

The Board of Directors approved this MD&A on March 23, 2018.

OVERVIEW

Stornoway is a Canadian diamond mining Corporation listed on the Toronto Stock Exchange ("TSX") and headquartered in Longueuil, Quebec. Stornoway's principal focus is its 100% owned Renard Diamond Mine located in north-central Quebec. Stornoway formally declared commercial production at Renard effective January 1, 2017. Stornoway's strategy is to build a growth-oriented Corporation that succeeds in the business of mining and selling rough diamonds. Stornoway's long-term view of the rough diamond market is positive, based on its outlook for a tightening mine supply and growing demand, particularly in developing markets, which is expected to support real, long-term price growth. The Corporation has a management team with experience at each stage of the diamond pipeline, from exploration through development, mine construction, operations and marketing.

On July 8, 2014, Stornoway entered into definitive agreements which are intended to provide a comprehensive funding package for the construction of the Renard Diamond Project, with an initial estimated capital cost of $811 million, including contingencies and escalation. In total, gross proceeds of $946 million (assuming a US$1.00:CAD$1.10 conversion) has been funded, or committed for funding, through a combination of senior and subordinated debt facilities, equity issuance, a forward sale of diamonds (the "Stream"), and an equipment finance facility (collectively the "Financing Transactions"). On July 8, 2014, concurrent with the closing of the Financing Transactions, the Corporation received gross proceeds of $458 million[1], which after deducting financing and transaction expenses of $27 million paid on the closing date, resulted in net proceeds of $431 million. The Corporation commenced borrowing under its equipment finance facility in August 2014. Funding of US$250 million from the Stream were received in three tranches, the first and second tranches totalling US$80 million each and the third tranche totalling US$90 million, were received on March 31, 2015, September 30, 2015 and, March 30, 2016 respectively. In addition, prior to their expiry on July 8, 2016, 91,912,732 common share purchase warrants, representing 97.5% of the warrants issued on July 8, 2014, were exercised at a price of $0.90 per share for total proceeds to the Corporation of $82.7 million. These funds received were used to support the completion of the construction of the Renard Mine. On June 28, 2017, the Corporation drew on the Senior Secured loan for an amount of $50 million, $30.1 million of which was used for the repayment of an unsecured debt facility that matured on June 30, 2017. Subsequently, on November 6, 2017, the Corporation borrowed $80 million of the remaining available balance.

Mine construction at the Renard Diamond Project commenced on July 10, 2014. In February 2016, the project's construction schedule was re-baselined with first ore delivery to the Renard diamond process plant expected prior to the end of September 2016 and commercial production (60% of plant capacity achieved over 30 days) expected on or about December 31, 2016. This represented a five-month improvement on the previous schedule, which assumed commercial production in the second quarter of 2017. The re-baselined schedule resulted in a commensurate reduction in the forecast cost to complete, from $811 million to $775 million. First ore processing was achieved on July 15, 2016, and commercial production was formally declared January 1, 2017, with the final cost to complete the project at $774 million.

[1] As at July 8, 2014, CAD$:US$ conversion rate of $1.0674

SUMMARY OF SIGNIFICANT OPERATIONAL AND FINANCIAL HIGHLIGHTS

Fourth quarter and 2017 results incorporate the impact of an accounting policy change recently adopted by the Corporation in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors" wherein certain costs associated with the development of the underground mine that were previously expensed will now be capitalized and amortized over the period during which the underground infrastructure can be expected to contribute to the revenue-earning capability of the mine. See "Changes in Accounting Policy" for a reconciliation of changes impacting the 2017 interim consolidated financial statements.

- For the year ended December 31, 2017, Stornoway reported net loss of $114.6 million ($0.14 per share on a basic and fully diluted basis), compared to net income of $19.6 million in 2016 ($0.03 per share basic and fully diluted). Included in 2017 earnings is a non-cash impairment charge of $171.0 million, reflecting a lower diamond price environment than was originally forecast by the Corporation. Net income before impairment[3] for the fourth quarter was $11.1 million and $15.0 million for the year.
- During 2017, the Renard Diamond Mine attained commercial production, completed the processing ramp-up on schedule and accomplished two full quarters at or above plant nameplate operating capacity;
- Mining in the Renard 2-3 and Renard 65 open pits in the fourth quarter comprised 827,181 tonnes, with 442,476 tonnes of ore extracted. For the full year, open pit mining stood at 4,475,854 tonnes (102% of plan), with 2,091,782 tonnes of ore extracted.
- A total of 398,267 carats were recovered in the fourth quarter from the processing of 518,817 tonnes of ore at a grade of 77 carats per hundred tonnes ("cpht"). For the full year, a total of 1,642,934 carats were recovered from 1,956,436 tonnes of ore at 84 cpht (98%, 97% and 99% of plan respectively).
- Diamond sales of 486,633 carats[2] were completed in the fourth quarter with gross proceeds[3,4] of $52.6 million at an average price of US$86 per carat ($108 per carat[5]). For the full year, Stornoway sold 1,701,561 carats for gross proceeds[3,4] of $186.2 million at an average price of US$85 per carat ($109 per carat[6]).
- In August 2017, the Corporation's Board of Directors approved an extraordinary capital budget of $22 million for a program of plant improvements aimed at improving the quality profile of the Renard production. Commissionning is scheduled to commence by the end of the first quarter of 2018.
- In the fourth quarter, cash operating costs per tonne processed[3,7] were $42.10 per tonne ($54.85 per carat) and capital expenditures[3,7] were $47.7 million. For the full year, cash operating costs per tonne processed [3,7] were $45.02 per tonne ($53.60 per carat) and capital expenditures[3,7] were $126.9 million.
- In the fourth quarter, the Corporation reported adjusted EBITDA[3,7] of $25.2 million, or 45.5% of revenues, and $85.0 million, or 43.3% of revenues, for the full year ended December 31, 2017.
- At year end, cash, cash equivalents and short-term investments stood at $81.0 million and available liquidity[3] to the Corporation, including available credit facilities, stood at $101.8 million.

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[2] Including 32,989 carats that were sold in the third quarter for which revenue was recognized in the fourth quarter.
[3] See "Non-IFRS Financial Measures" section
[4] Before stream and royalty
[5] Based on an average $:US$ conversion rate of $1.26
[6] Based on an average $:US$ conversion rate of $1.29
[7] See "Change in Accounting Policy" section

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

KEY OPERATIONAL AND FINANCIAL HIGHLIGHTS

	For the three months ended		For the year ended	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
OPERATIONAL HIGHLIGHTS				
Lost time incidents rate ("LTI")	**Nil**	2.8	**0.4**	1.6
Average daily manpower (workers)	**324**	313	**318**	278
Open pit tonnes mined (tonnes)	**827,181**	1,512,874	**4,475,854**	7,840,130
Tonnes processed (tonnes)	**518,817**	324,118	**1,956,436**	399,162
Carats recovered (carats)	**398,267**	339,493	**1,642,934**	448,887
Carats sold (carats)	**486,633**	38,913	**1,701,561**	38,913
Capital expenditures[3,7]	**47,641**	–	**126,928**	–
Underground development (meters)	**1,227**	987	**4,871**	2,729
FINANCIAL HIGHLIGHTS				
Revenues	**55,483**	–	**196,502**	–
Cost of goods sold[7]	**43,251**	–	**149,235**	–
Impairment charge	**171,000**	–	**171,000**	–
Selling, general and administrative expenses	**4,237**	1,337	**17,841**	10,148
Exploration expenses	**335**	305	**2,095**	2,646
Gain on sale of interests in exploration properties	**–**	–	**(400)**	–
Financial expenses	**3,103**	(10,007)	**7,994**	15,454
Foreign exchange (gain) loss	**653**	2,780	**(7,919)**	(1,454)
Net loss (income) income before tax[7]	**(167,096)**	5,585	**(143,344)**	(26,794)
Income tax recovery	**(48,526)**	(46,435)	**(28,711)**	(46,435)
Net (loss) income[7]	**(118,570)**	52,020	**(114,633)**	19,641
Net income before impairment[3]	**11,110**	52,020	**15,047**	19,641
(Loss) earnings per share – Basic and diluted[7]	**(0.14)**	0.06 / 0.05	**(0.14)**	0.03
Adjusted EBITDA[3,7]	**25,224**	(1,642)	**85,002**	(12,794)
Adjusted EBITDA margin (%)[3,7]	**45%**	N/A	**43%**	N/A

Certain measures, including non-IFRS measures and reconciliations to the nearest IFRS measure were updated during the fourth quarter as a result of a change in accounting policy. As a result, the impact of this change on these quarterly measures for the first three quarters of 2017 is described in the "Change in Accounting Policy" section for purposes of measuring year-to-date performance.

OTHER SELECTED FINANCIAL INFORMATION

	December 31, 2017	December 31, 2016
Cash, cash equivalents and short-term investments	**81,039**	85,988
Total assets	**1,256,300**	1,311,613
Current monetary liabilities[8]	**64,853**	52,672
Total debt[9]	**308,107**	249,503
Equity	**583,207**	689,541
Common shares outstanding (shares)	**835,263,337**	828,452,337

[8] Includes payables and accrued liabilities, and the current portion of long-term debt
[9] Consists of long-term debt, including current portion of long-term debt, and the convertible debentures

OPERATIONAL HIGHLIGHTS

Environment, Health, Safety and Communities

No lost time incidents ("LTI") were recorded during the quarter, for a year to date LTI rate of 0.4 for contractors and zero for Stornoway employees. Average daily manpower at site in December averaged 324 workers (Stornoway and contractors) of which 12% were Crees of the Eeyou Istchee. Stornoway employees stood at 505 as at December 31, 2017, including 437 mine located employees, of which 12% were Crees, 26% were from Chibougamau and Chapais, and 62% were from outside the region.

One incident of administrative environmental non-conformity was identified during the quarter with regards to an accidental glycol spill which was discovered and cleaned, but reported outside of the 24-hour prescribed delay.

Commercial Production, Ramp-Up and Completion Certification

Commercial Production at Renard is defined as an average processing rate of 60% of plant name-plate capacity over a 30 day period. This was achieved on December 3, 2016, with an average processing rate of 4,120 tonnes per day over the preceding 30 day period compared to a name-plate capacity of 6,000 tonnes per day. Stornoway formally declared commercial production on the first day of the month following the month in which it is achieved, which was January 1, 2017. The attainment of Commercial Production marked the end of the project's initial capital expenditure period.

Production ramp-up was completed on schedule at the end of the second quarter of 2017, with an average processing rate of 6,149 tonnes per day achieved in June 2017. Since then, two full operating quarters have been completed at average processing rates of 5,957 tonnes per day and 6,014 tonnes per day respectively.

Subsequent to the year end, on February 7, 2018, the Corporation announced the attainment of full Completion Certification at the Renard Mine pursuant to the terms of Stornoway's July 2014 material project finance agreements. Under these agreements, Completion entails the delivery of certificates for the mine's physical facilities, the attainment of certain sustained production targets and operating cost efficiencies, certification on the performance of the Corporation's diamond marketing activities, and certification of compliance with the terms of the Corporation's material finance agreements. Completion further entails the satisfaction of certain financial covenants contained within the material project finance agreements, including projected and historical debt service ratios, tangible net worth and Mineral Reserve tail ratios.

Mining and Processing

During the fourth quarter, 827,181 tonnes were mined from the Renard 2-3 and Renard 65 open pits, with 442,476 tonnes of ore extracted. 518,817 tonnes of ore were processed with a diamond recovery of 398,267 carats at an attributable grade of 77cpht. The processed ore was derived from the Renard 2 and Renard 3 kimberlites, and sourced from the open pit, the ore stockpiles and from development drifts in the underground mine.

OPERATIONAL HIGHLIGHTS – *continued* –

Mining and Processing – *continued* –

For the year ended December 31, 2017, 4,475,854 tonnes were mined from the Renard 2-3 and Renard 65 open pits, compared to a plan of 4,369,532 tonnes (102%), with 2,091,782 tonnes of ore extracted. 1,956,436 tonnes of ore were processed with a diamond recovery of 1,642,934 carats at an attributable grade of 84cpht, compared to a plan of 1,999,000 tonnes and 1,694,312 carats at 85 cpht (98%, 97% and 99% of plan respectively).

Carat production was lower than planned in the fourth quarter and on a full year basis, due to the unscheduled batch processing of lower grade Renard 65 ore in November for the purpose of obtaining a valuation sample of Renard 65 diamonds (as described below).

Diamond Sales

During the fourth quarter, Stornoway sold a total of 486,633 carats in 2 tender sales with gross proceeds[3,4] of $52.6 million, at an average price of US$86 per carat ($108 per carat[5]). These amounts include 32,989 carats that were sold during the third quarter for which revenue was recognized in the fourth quarter when the shipment for the goods occurred. For the year, Stornoway sold 1,701,561 carats for gross proceeds[3,4] of $186.2 million, at an average price of US$85 per carat ($109 per carat[6]). At year-end, the Corporation held no excess diamond inventory other than normal course goods in progress.

Renard 65 Diamond Valuation

During November 2017, a parcel of 5,741 carats of diamonds were recovered from the processing of specially batched Renard 65 ore in the Renard process plant. This parcel, combined with a 946 carat parcel of Renard 65 diamonds recovered by bulk sampling in 2012, were valued by TID Consulting ("TID"), an independent agency, between December 5 and 8, 2017 utilizing current Stornoway sales pricing data. The combined sample of 6,687 carats returned a valuation of US$133 per carat. TID have recommended the adoption of a modeled price for Renard 65 diamond production of US$140 per carat, with sensitivities of US$129 per carat and US$151 per carat.

Commentary on Diamond Production and the Rough Diamond Market

During 2017, the quality and size distribution of diamond recoveries at Renard were negatively impacted by high levels of diamond damage incurred during processing, producing a commensurate reduction in the average price achieved at sale. The Corporation believes that significant value improvement may be achieved upon the successful reduction of breakage to more acceptable levels. The source of the breakage has been localized, primarily, within the secondary cone crusher and tertiary high pressure grinding roll crusher, and appears associated with the high proportion of hard, internal dilution inherent in Renard ore producing an abrasive environment within the crushers. The Corporation believes that the introduction of ore-waste sorting, approved under an extraordinary capital plan by the Board of Directors in August 2017 *(see "Capital Projects")*, will contribute to a higher quality diamond product through the removal of a large proportion of the abrasive dilution from the crushing circuits. Commissioning of the new ore-waste sorting circuit is expected to commence by the end of the first quarter of 2018.

OPERATIONAL HIGHLIGHTS – *continued* –

Commentary on Diamond Production and the Rough Diamond Market – *continued* –

Between the first sale of Renard diamonds in November 2016, and the tenth sale in December 2017, the average run of mine pricing for Renard diamonds, after accounting for size distribution and quality variations, increased in real terms by 13.5%. This increasing trend reflected a positive reaction by the rough market to the qualities, colours and polished yields of the Renard diamond production, and increasing participation in the Corporation's diamond tenders. This result was attained despite a challenging rough diamond market in 2017, which was characterized by an increase in sales from rough producers (including from three new diamond mining projects) and flat to low sales growth for polished diamonds and diamond jewellery. These market conditions were exacerbated by the Indian demonetization events of late 2016 which impacted rough diamond pricing for smaller and lower quality items during the course of 2017. By year end, the effect of the Indian demonetization event had largely been removed from the rough diamond market, and a strong holiday selling season, particularly in Asian markets, had resulted in moderate price growth at the start of 2018 for both rough and polished diamonds.

Subsequent to the year end, the Corporation announced on January 29, 2018 that in the first tender of 2018, 138,687 carats were sold for gross proceeds[3,4] of US$14.4 million at an average price of US$104 per carat. This is the highest price for Renard diamonds achieved to date, and reflected the strengthening diamond market and appreciable improvements in breakage levels, size distribution and quality mix.

Capital Projects

Under the changed accounting policy, capital expenditures[3,7] in the fourth quarter were $47.7 million, primarily related to the development of the underground mine and the construction of the ore-waste sorting circuit. For the year ended December 31, 2017, capital expenditures[3,7] stood at $126.9 million. Under the changed accounting policy, cash operating costs were lower and capital expenditures were higher than was contemplated in the 2017 guidance.

Development of the underground mine during the fourth quarter focussed on lateral development in kimberlite and waste for the drill drift on levels 160, 240 and 270, and also for the drawpoints on level 290. Development of the fresh air raise was also completed during this period. Lateral development comprised 1,227 meters compared to a plan of 1,062 meters (+16%). On a yearly basis, lateral development stood at 4,869 meters compared to a plan of 4,460 meters (+9%). Lateral development, in the first quarter of 2018, will focus on the drill drift and drawpoints for the upper portion of the mine as well as development of the main ramp towards the 470 level. The first production blast in the underground mine occurred successfully on December 20, 2017. Full production from the underground mine is on schedule to commence during the second quarter of 2018.

OPERATIONAL HIGHLIGHTS – *continued –*

Capital Projects *– continued –*

During the year the Corporation commissioned a modified method for the handling and disposal of processed kimberlite ("PK"). From the start of ore processing, PK had been de-watered with centrifuges for trucking to a dry-stack disposal site. High moisture content in the PK reduced its competence for stacking, and made disposal cumbersome. Under the modified disposal system, fine PK will be pumped for disposal into a modified containment facility, with water outflow collected and recirculated to the plant or treated at the existing water treatment facility. A degrit module has been installed in the process plant and civil works modifications completed at the containment facility to accommodate the disposal of the coarse PK. A modification to the mine's operating permit in support of these changes was received on schedule, and the new PK handling and disposal method has been operating successfully since the beginning of the third quarter.

In August, the Corporation's Board of Directors approved an extraordinary capital expenditure of $22 million for a program of plant improvement aimed at improving the quality profile of Renard production, to be funded from existing financial resources. At the centre of this plan is the introduction of an ore-waste sorting circuit rated at 7,000 tonnes of ore per day, and expandable, designed to extract waste in the +30mm-200mm size range immediately prior to its introduction to the secondary cone crusher. The ore-waste sorting circuit will include covered conveyors, a gravity fed tower containing primary, secondary and scavenging spectral sorters, and a waste rock load out. Work on the concrete foundations began in August, and all steel work and enclosures were completed subsequent to the quarter end. Commissioning is scheduled to commence by the end of the first quarter of 2018. In addition to an improved diamond size and quality profile through diamond breakage mitigation, the addition of this circuit is expected to have an ancillary benefit of reducing load on the rest of the Renard process plant, allowing for future potential plant expansion.

Under the changed accounting policy, cash operating costs are lower and capital expenditures are higher than was contemplated in the 2017 guidance. See *"Changes in Accounting Policy*" for a reconciliation of changes impacting the 2017 interim consolidated financial statements.

Exploration

In addition to the Renard Diamond Mine, Stornoway maintains interests in two advanced exploration stage properties (a 90% interest in the Aviat Project in Nunavut, and a 20% interest in the Timiskaming Project in Ontario), and also holds a portfolio of historical properties, many of which host previously discovered kimberlite bodies currently considered to be non-economic. Three new 100% owned properties were acquired by the Corporation in Ontario, Quebec and Saskatchewan (Wabi, CYP and MET, respectively) as targeted blocks situated close to infrastructure and with the potential to host diamondiferous kimberlites based on a combination of geochemical and geophysical data.

OPERATIONAL HIGHLIGHTS – *continued* –

Exploration – *continued* –

During 2017, Stornoway undertook prospecting, till sampling and geophysical surveys at a number of sites in Canada. Some sample results from 2017 remain outstanding but are expected shortly. Drilling completed in April 2017 on the 28,171 hectare Adamantin property, located approximately 100 kilometers south of the Renard Diamond Mine and 25 km west of the Route 167 Extension road, resulted in the discovery of two new kimberlite occurrences. In total, 12 discrete occurrences of gently dipping, near surface kimberlite sheets have now been discovered at Adamantin with true thicknesses up to 10 meters. A single +0.106-0.150mm diamond was recovered from 35 kg of reverse circulation drill chips collected during the April 2017 drilling. This result confirms the diamond bearing potential of the Adamantin kimberlites, as was previously inferred from local indicator mineral geochemistry and the presence of a diamond in the +0.25mm-0.50mm size fraction in a till sample. However, while there are likely to be additional undiscovered kimberlites at Adamantin, no further activity is planned on this property at the present time.

In the first quarter of 2017, the Corporation completed a property purchase agreement with North Arrow Minerals Inc. ("North Arrow") under which North Arrow has acquired the Corporation's remaining interests in the Qilalugaq and Pikoo Diamond Projects in exchange of 2,000,000 common shares of North Arrow. As additional consideration, the Corporation will receive 0.5% and 1.0% gross overriding royalties on diamonds and 0.5% and 1.0% net smelter returns royalties on base and precious royalties mine from the Qilalugaq and Pikoo Projects, respectively. North Arrow will also make a $2.5 million and a $1.25 million cash payments to the Corporation at the same time that first royalties payments relating to the Qilalugaq and Pikoo projects, respectively, are payable.

In December of 2017, Stornoway's Board of Directors approved a 2018 budget of $4.6 million for exploration and new project development. This work includes 5,000 meters of delineation drilling on Renard 3 aimed at the conversion of high grade mineral resources and their acceleration in the Renard mine plan, a drill program of 100 targets on the greater Renard Property aimed at new kimberlite discovery, and grassroots sampling and drilling on new claim acquisitions in both eastern and western Canada.

A program comprising 5,000 meters of underground drilling is planned to test the depth potential of the Renard 3 kimberlite below the base of the currently defined Mineral Reserves. The objective of this drill program is the conversion of Inferred Mineral Resources and Targets for Further Exploration ("TFFE") to Indicated Mineral Resource and, if warranted, new Mineral Reserves, with a view to the acceleration and expansion of underground mining of the high grade Renard 3 kimberlite. No targeted drilling at Renard 3 currently exists below a depth of 405 meters. However, in a 2015 deep directional drill program undertaken on the Renard 2 kimberlite, Renard 3 was interpreted to have been intersected fortuitously over 126.6 meters at a vertical depth of approximately 1,000m. The implied true width of this intersection was a minimum 47 meters, larger than in the area of the current Inferred Mineral Resources. This represents over 500 meters of untested exploration potential in the intervening undrilled levels, and a Target for Further Exploration of between 3.5 and 6.4 million carats (comprising 3.4 to 3.8 million tonnes

OPERATIONAL HIGHLIGHTS – *continued* –

Exploration – *continued* –

between 105 and 168 cpht). Any Renard 3 Mineral Resource[10] delineated above 700 meters depth is potentially mineable with the existing and currently planned underground mine infrastructure. The new 5,000m drill campaign in 2018 will take advantage of the Renard underground mine ramp which has now been developed to a depth of 310 meters. A budget of $0.6 million has been allocated to this work.

The Renard Property comprises more than 600 mineral claims representing about 33,600 ha of ground, and extends 10-12 km in all directions from the producing Renard Diamond Mine. In addition to the nine known kimberlite pipes in the Renard core area (five of which are in the present mine plan), there are at least eleven additional kimberlite dykes on the property. No systematic exploration work has been conducted on the Renard Property since 2007-08 when mine development activities commenced. Excluding drill holes on the known kimberlite pipes and dykes, only about 40 targets have been previously tested throughout the entire property. Starting in early March 2018, Stornoway will drill test 100 geophysical anomalies on the Renard Property identified from the recent reprocessing, compilation and interpretation of numerous historical airborne and ground geophysical surveys. These data have been integrated with geochemical results from some 4,700 historical surficial till samples to generate a list of high priority targets. The focus of this program is to look for pipe-like kimberlite bodies with the size and tonnage potential to provide meaningful new sources of ore-feed to the centrally located Renard mine process plant. A budget of $3.0 million has been allocated to complete this work.

Stornoway is actively pursuing programs of sampling, geological and geophysical surveys, land acquisition and drilling on multiple 100% owned grassroots diamond exploration projects within Canada. A budget of $1.0 million has been allocated for this grassroots exploration work which includes a targeted airborne geophysical survey on the MET project near the town of Témiscaming, follow-up ground geophysics and drilling if warranted.

[10] Note that mineral resources that are not mineral reserves do not have demonstrated economic viability. The potential quantity and grade of any exploration target is conceptual in nature, there has been insufficient information to define a mineral resource and it is uncertain if further exploration will result in it being delineated as a mineral resource.

FINANCIAL HIGHLIGHTS

Current Quarter

Revenues

Revenues during the quarter totalled $55.5 million (December 31, 2016 – Nil). This was the fourth quarter after the declaration of commercial production, with no revenues for the comparable quarter. See Diamond Sales section under Operational Highlights for more information.

The Corporation expects that the results for its mining operation will fluctuate depending on the number of sales events conducted during the quarter, rough diamond prices, and the volume, size and quality distribution of rough diamonds sold by the Corporation in each quarter. In the current quarter, two tender sales events occurred compared to two in the third quarter, two in the second quarter, and three in the first quarter of 2017.

Revenue includes $7.2 million related to the amortization of upfront proceeds received by the Corporation under the Renard Stream agreement in consideration for future commitments to deliver diamonds at contracted prices. These proceeds were initially recognized as deferred revenue and are subsequently recognized as revenue as deliveries under the Renard Stream agreement are made.

Cost of goods sold

The Corporation's cost of goods sold were $43.3 million (December 31, 2016 – $Nil) related to mining, processing, rough diamond sorting activities, site services and depreciation. Included in cost of goods sold is $2.3 million of operating expenses related to low grade ore stockpiles from open pit Renard 2-3 to be processed towards the end of the mine life, and therefore treated directly as a production cost. Depreciation included in cost of goods sold was $17.6 million in the quarter.

Cost of goods sold also includes a 2% royalty interest on diamond sales (calculated as 2% of the actual gross selling price in Canadian Dollars, minus the lesser of a 3% marketing charge and the actual diamond selling cost) and a 2% NSR on minerals other than diamonds. During the three months ended December 31, 2017, a royalty expense of $1.0 million (December 31, 2016 - $Nil) was payable to Diaquem, a related party.

Cash operating cost per tonne processed and carat recovered

For the three-month period ended December 31, 2017, cash operating cost per tonne processed[3,7] was $42.10 compared to a revised plan of $57.37, reflecting the change in accounting policy. The decrease is explained by lower mining costs and lower mine site general and administrative costs during the current quarter, mainly attributable to more underground development activities and less underground production activities compared to plan. The cash operating cost per carat recovered[3,7] was $54.85 versus a revised plan of $74.48.

Under the changed accounting policy, cash operating costs were lower and capital expentitures were higher than was contemplated in the 2017 guidance. See *"Changes in Accounting Policy"* for a reconciliation of changes impacting the 2017 interim consolidated financial statements.

FINANCIAL HIGHLIGHTS *– continued –*

Current Quarter *– continued –*

Impairment charge

Please refer to Year-to-Date section for details.

Selling, general and administrative expenses

Selling, general and administrative expenses represent a portion of the Corporation's operating costs for its head and regional offices, including salaries, benefits, director fees and share-based compensation, and all expenses incurred related to the diamond sales process. Total expenses of $4.2 million increased $2.9 million from $1.3 million in the comparable period, mainly attributable to $1.3 million in selling expenses (December 31, 2016 – $Nil). The remaining increase is primarily due to expensing salaries which were, during 2016, considered as directly attributable to the construction of the Renard Diamond Mine, and were as a result capitalized under Mine Under Construction in Property, Plant and Equipment.

Financial expenses

Financial expenses for the fourth quarter were $3.1 million (December 31, 2016 – gain of $10.0 million). During the quarter, the Corporation reported interest expense of $8.0 million (December 31, 2016 – $Nil) which was partially offset by an unrealized gain of $4.9 million relating to the change in the fair value of embedded derivatives contained in the Corporation's convertible debentures (December 31, 2016 – unrealized gain of $14.9 million). Also, in the fourth quarter of 2016, the Corporation has terminated the cost over-run facility arranged as part of the Financing Transactions, and has expensed the related $5.2 million previously capitalized under deferred transaction costs.

Foreign exchange gain (loss)

A net foreign exchange loss of $0.7 million in the fourth quarter (December 31, 2016 - $2.8 million loss) was mainly due to a $0.5 million foreign exchange loss on the convertible debentures, and a $0.2 million foreign exchange loss on the equipment financing facility, which are denominated in US dollars, reflecting the appreciation of the Canadian dollar relative to the US dollar.

Income taxes

During the three months ended December 31, 2017, the Corporation recognized a tax recovery of $48.5 million representing an effective tax rate of 29.0%, compared to the combined Canadian federal and provincial statutory income tax rate of 26.8%. The difference with statutory rate is mainly due to mining taxes.

FINANCIAL HIGHLIGHTS – *continued –*

Current Quarter *– continued –*

Net loss

The Corporation reported net loss of $118.6 million (December 31, 2016 – net income of $52.0 million) due mainly to higher finance expenses and an impairment charge of $171 million being recognized in the consolidated statements of (loss) income, related to mineral properties in property, plant and equipment, reflecting an outlook of lower than expected diamond pricing.

Excluding the $171.0 million impairment charge and the $41.3 million related deferred income tax recovery, net income before impairment was $11.1 million during the Current Quarter, compared to $52.0 million in the Comparative Quarter. The decrease is explained by the recognition, in the Comparative Quarter, of $35.4 million of tax attributes not previously recognized, and higher financial expenses in the Current Quarter, partly offset by a gross profit of $12.2 million (December 31, 2016 - $Nil).

Adjusted EBITDA

The Corporation reported adjusted EBITDA[3,7] of $25.2 million representing 45.4% of revenue in the Current Quarter (December 31, 2016 – $1.6 million loss). The increase in adjusted EBITDA as compared to 2016 was due to 2 tender sales events concluded in the current quarter, and none in the comparable quarter, as the Renard Diamond Mine was in the construction phase.

Year-to-Date

Revenues

Revenues during the year ended December 31, 2017 totalled $196.5 million (December 31, 2016 – Nil). See Diamond Sales section under Operational Highlights for more information.

Revenue includes $25.0 million related to the amortization of upfront proceeds received by the Corporation under the Renard Stream agreement in consideration for future commitments to deliver diamonds at contracted prices.

Cost of goods sold

The Corporation's cost of goods sold were $149.2 million (December 31, 2016 – Nil) related to mining, processing, rough diamond sorting activities, site services and depreciation. Included in cost of goods sold is $23.0 million of operating expenses related to low grade ore stockpiles from open pit Renard 2-3 to be processed towards the end of the mine life, and therefore treated directly as a production cost. Depreciation included in cost of goods sold was $57.7 million during the year.

Cost of goods sold also includes a 2% royalty interest on diamond sales (calculated as 2% of the actual gross selling price in Canadian Dollars, minus the lesser of a 3% marketing charge and the actual diamond selling cost) and a 2% NSR on minerals other than diamonds. During the year ended December 31, 2017, a royalty expense of $3.6 million (December 31, 2016 - $Nil) was payable to Diaquem, a related party.

FINANCIAL HIGHLIGHTS – *continued* –

Year-to-Date – *continued* –

Cash operating cost per tonne processed and carat recovered

For the year ended December 31, 2017, cash operating cost per tonne processed[3,7] was $45.02 compared to a revised plan of $48.67, reflecting the change in accounting policy. The decrease is explained by lower mining costs and lower mine site general and administrative costs during the year compared to plan. The cash operating cost per carat recovered[3,7] was $53.60 versus a revised plan of $57.42.

Under the changed accounting policy, cash operating costs were lower and capital expentitures were higher than was contemplated in the 2017 guidance. See *"Changes in Accounting Policy*" for a reconciliation of changes impacting the 2017 interim consolidated financial statements.

Impairment charge

As at December 31, 2017, the Corporation assessed the recoverable amount of its cash generating units ("CGUs"). The Corporation determined that only one CGU existed at the consolidated level as at December 31, 2017, namely, the Renard Mine CGU. As at December 31, 2017, the carrying value of the Renard Mine CGU exceeded its estimated recoverable amount resulting in an impairment charge of $171 million being recognized in the consolidated statements of (loss) income, related to mineral properties in property, plant and equipment, reflecting an outlook of lower than expected diamond pricing.

The Renard Mine CGU's recoverable amount of $685 million as at December 31, 2017 was determined using FVLCD, which was calculated based on projected future cash flows utilizing the latest information available and Management's estimates, including; throughput and grade, revenues, operating costs, general and administrative costs, capital expenditures, foreign exchange rates and diamond price, including anticipated increases in pricing by way of size distribution and quality profile improvements following plant adjustments and improving market dynamics. Projected future cash flows also include cash flows arising from mineral resources that are expected to be converted as mineral reserves.

These projected cash flows were prepared using a 2% inflation estimate, a 2.5% escalation factor on diamond pricing, and discounted using a post-tax discount rate of 9% on cash flows from proven and probable mineral reserves, and 11% on cash flows from mineral resources expected to be converted as mineral reserves, in each case representing the estimated weighted average cost of capital. These rates were estimated based on the capital asset pricing model where the costs of equity and debt were based on, among other things, estimated interest rates, market returns on equity, share volatility, leverage and risks specific to the mining sector and the Renard Mine CGU. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs.

FINANCIAL HIGHLIGHTS – *continued* –

Year-to-Date – *continued* –

Impairment charge – *continued* –

Sensitivities

The projected cash flows and estimated FVLCD can be affected by any one or more changes in the estimates used. Changes in diamond price per carat and discount rate have the most substantial influence on the Renard Mine CGU's valuation. A 10% change in diamond price per carat and foreign exchange rates would each change FVLCD by approximately $20 million, while a 0.5% increment in the discount rate would change FVLCD by approximately $23 million. If the Renard Mine CGU were to continue to operate at current diamond pricing levels, there would be a further impairment charge.

Selling, general and administrative expenses

Selling, general and administrative expenses represent a portion of the Corporation's operating costs for its head and regional offices, including salaries, benefits, director fees and share-based compensation, and all expenses incurred related to the diamond sales process. Total expenses of $17.8 million increased $7.7 million from $10.1 million in the comparable period, mainly attributable to $4.0 million in selling expenses (December 31, 2016 – $Nil).

Moreover, during 2016, some salaries were being considered as directly attributable to the construction of the Renard Diamond Mine, and were as a result capitalized under Mine Under Construction in Property, Plant and Equipment. In 2017, these salaries are recorded in net (loss) income under selling, general and administrative expenses. This mainly accounts for the $2.2 million increase in salaries, benefits and directors' fees, including share-based compensation.

Exploration expenses

Exploration expenses of $2.1 million (December 31, 2016 – $2.6 million) were primarily related to work done on the Corporation's Adamantin property (see Exploration Update).

Financial expenses

Financial expenses for the year ended December 31, 2017 were $8.0 million (December 31, 2016 $15.5 million). During the year, the Corporation reported interest expense of $28.4 million (December 31, 2016 – $Nil) which was partially offset by an unrealized gain of $21.7 million relating to the change in the fair value of embedded derivatives contained in the Corporation's convertible debentures (December 31, 2016 – unrealized loss of $8.9 million). Also, during 2016, the Corporation terminated the cost over-run facility arranged as part of the Financing Transactions, and expensed the related $5.2 million previously capitalized under deferred transaction costs.

FINANCIAL HIGHLIGHTS – *continued –*

***Year-to-Date** – continued –*

Foreign exchange gain (loss)

A net foreign exchange gain of $7.9 million in 2017 (December 31, 2016 - $1.5 million gain) was mainly due to a $6.2 million foreign exchange gain on the convertible debentures, and a $2.3 million foreign exchange gain on the equipment financing facility, which are denominated in US dollars, reflecting the appreciation of the Canadian dollar relative to the US dollar.

Income taxes

During the year ended December 31, 2017, the Corporation recognized a tax recovery of $28.7 million representing an effective tax rate of 20.0%, compared to the combined Canadian federal and provincial statutory income tax rate of 26.8%. The difference with statutory rate is due to a permanent difference arising from the impairment of property, plant and equipment, and mining taxes, and to a mining tax credit of $9.8 million that was received in the first quarter of 2017. The tax credit relates to costs incurred towards the construction of the Route 167 Extension from November 1, 2012 to October 31, 2013 and was recognized as a credit against property, plant and equipment. As a result, a $9.8 million deferred income tax liability was recognized to reflect the relinquishing of future Quebec mining tax deductions. For further details, see Note 16a) of the audited consolidated financial statements for the year ended December 31, 2017.

Net loss

The Corporation reported net loss of $114.6 million (December 31, 2016 – net income of $19.6 million) due mainly to higher finance expenses and an impairment charge of $171 million being recognized in the consolidated statements of (loss) income, related to mineral properties in property, plant and equipment, reflecting an outlook of lower than expected diamond pricing.

Excluding the $171.0 million impairment charge and the $41.3 million related deferred income tax recovery, net income before impairment was $15.0 million in 2017, compared to $19.6 million in 2016. The decrease is explained by the recognition, in 2016, of $35.4 million of tax attributes not previously recognized and by deferred taxes of $9.8 million recognized in the first quarter of 2017 relating to a mining tax credit, partly offset by a gross profit of $47.2 million (December 31, 2016 - $Nil).

Adjusted EBITDA

The Corporation reported adjusted EBITDA[3,7] of $85.0 million representing 43.3% of revenue (December 31, 2016 – $12.8 million loss). The increase in adjusted EBITDA as compared to 2016 was due to nine tender sales events concluded in 2017 and recorded in net (loss) income, and none in 2016, as the Renard Diamond Mine was in the construction phase.

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

2017 ACTUAL RESULTS COMPARED TO GUIDANCE

	For the year ended	
	December 31, 2017	2017 Guidance
MINING AND PROCESSING		
Open Pit Tonnes Mined	**4,475,854**	4,369,000
Underground Tonnes Mined	**447,391**	505,000
Tonnes Processed	**1,956,436**	1,999,000
Carats Recovered	**1,642,934**	1,694,000
Grade (cpht)	**84**	85
Cash Operating Cost per Tonne Processed[3,7]	**$45.02**	$48.67
Cash Operating Cost per Carat Recovered[3,7]	**$53.60**	$57.42
SELLING AND MARKETING		
Carats Sold	**1,701,561**	1,796,000
Average Diamond Pricing Achieved[3]	**US$ 85 / carat**	US$ 100-132 / carat
CAPITAL		
Capital Expenditures[3,7]	**$ 126.9 million**	$ 100.7 million[(2]
Underground Development, including ventilation raises (meters)	**2,871**	2,300
Underground Stope Preparation (meters)	**2,552**	2,600

(1) 2017 Guidance presented in the table reflects, when indicated, the change in accounting policy. See "Changes in Accounting Policy" for a reconciliation of changes impacting the 2017 Guidance.

(2) Capital Expenditures guidance does not include the approved extraordinary capital expenditure the plant improvement program.

Commentary

Mining activities during 2017 were close to or above guidance, with open pit mining at 4,475,854 tonnes, or 102% of plan, with 2,091,782 tonnes of ore extracted, and underground production mining at 447,391 tonnes, or 89% of plan, with 136,491 tonnes of ore extracted. Underground development activities, including ventilation raises, stood at 5,423 meters, or 111% of plan.

Processing at Renard was in line with guidance, with 1,956,436 tonnes of ore processed with a diamond recovery of 1,642,934 carats at an attributable grade of 84cpht, compared to a plan of 1,999,000 tonnes and 1,694,312 carats at 85 cpht (98%, 97% and 99% respectively). Carat production was lower than planned the fourth quarter and on a full year basis, due to the unscheduled batch processing of lower grade Renard 65 ore in November for the purpose of obtaining a valuation sample of Renard 65 diamonds (see "*Operational Highlights: R65 Diamond Valuation*").

Cash operating costs per tonne and costs per carat, at $45.02 per tonne processed[3,7] and $53.60 per carat recovered[3,7], were lower than guidance of $48.67 and $57.42 respectively, which was updated to conform with the change in accounting policy (See *"Changes in Accounting Policy"*). The decrease is explained by lower mining costs and lower mine site general and administrative costs during the year.

Diamond sales results were impacted by the timing of tender sales, market factors, and the mix and quality of product sold. Diamond recoveries at the Renard Mine through 2017 were impacted by high levels of diamond breakage, and a higher than expected recovery of smaller diamonds than planned. In addition, diamond pricing for smaller and lower quality items were severely impacted by the impacts of de-monetization in India in late 2016, recovery from which was slow during the course of 2017 and remained incomplete at year end.

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

2017 ACTUAL RESULTS COMPARED TO GUIDANCE – *continued* –

Commentary *– continued –*

Capital expenditures[3,7], at $126.9 million were higher than guidance of $100.7 million, which was updated to conform with the change in accounting policy (See *"Changes in Accounting Policy*"). The increase is explained by the incurrence of expenditures related to the extraordinary capital expenditure of $22 million approved by the Corporation in August 2017 for a program of plant improvement aimed at improving the quality profile of Renard production, including the new ore-waste sorting circuit, and additional costs relating to the modified method for the handling and disposal of processed kimberlite.

2018 GUIDANCE

The information contained in this section of the MD&A contains forward-looking statements that are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may vary materially from management's expectations. See the Forward-Looking Statements and Risks and Uncertainties sections for further information. The Corporation's guidance for 2018 is set out in the following table. Please note that guidance for 2018, as previously disclosed, has been updated to conform with the change in accounting policy (See *"Changes in Accounting Policy*").

	2018 Guidance
MINING AND PROCESSING	
Open Pit Tonnes Mined	**2.7 million**
Underground Tonnes Mined	**2.2 million**
Tonnes Processed	**2.5 million**
Carats Recovered	**1.6 million**
Grade (cpht)	**65**
Cash Operating Cost per Tonne Processed	**$48-50**
Cash Operating Cost per Carat Recovered	**$75-77**
SELLING AND MARKETING	
Carats Sold (+7 DTC)	**1.1 million**
Carats Sold (-7 DTC)	**0.5 million**
Average Diamond Pricing (+7 DTC)	**US$ 125-165**
Average Diamond Pricing (-7 DTC)	**US$ 15-19**
CAPITAL	
Capital Expenditures	**$100 million**

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

MINERAL RESERVES UPDATE

Mineral Reserves as of December 31, 2017 have been updated based on mining depletion. Exclusive of the Mineral Reserves, the Renard Diamond Mine includes additional Indicated Mineral Resources of 2.8 million carats (6.1 million tonnes at 46 cpht), Inferred Mineral Resources of 13.1 million carats (23.4 million tonnes at 56 cpht), and 33.0 to 71.1 million carats of non-resource exploration upside (76.2 to 113.2 million tonnes at grades ranging from 20 to 168 cpht). Readers are cautioned that the potential quantity and grade of any such exploration target is conceptual in nature, there has been insufficient exploration to define a mineral resource, and it is uncertain if further exploration will result in the target being delineated as a mineral resource. All kimberlites remain open at depth. The 2017 Updated Mineral Resource incorporates geological data on kimberlite contacts and internal geology as revealed on the 160 meter, 270 meter and 290 meter levels in the Renard underground mine.

PROVEN MINERAL RESERVES	Tonnes (thousands)	Grade (cpht)	Carats (thousands)
STOCKPILE			
Renard 2, all units	1,741	25.7	447
Renard 2	–	145.8	1
CRB-2A	397	32.1	127
CRB	1344	23.8	319
Renard 3	114	72.3	82
Renard 65	211	35.3	74
Renard 2 U/G	15	39.0	6
TOTAL PROVEN MINERAL RESERVES – STOCKPILE	**2,081**	**29.3**	**610**

PROBABLE MINERAL RESERVES	Tonnes (millions)	Grade (cpht)	Carats (millions)
OPEN PIT			
Renard 2, all units	124	66.9	83
Renard 2	87	82.3	72
CRB-2A	29	32.0	9
CRB	8	21.0	2
Renard 3	217	108.8	236
Renard 65	4,506	30.0	1,351
TOTAL PROBABLE MINERAL RESERVES – OPEN PIT	**4,847**	**34.4**	**1,669**

PROBABLE MINERAL RESERVES	Tonnes (millions)	Grade (cpht)	Carats (millions)
UNDERGROUND			
Renard 2	18,477	82.2	15,182
Renard 3	1,145	68.2	780
Renard 4	3,458	48.3	1,671
TOTAL PROBABLE MINERAL RESERVES – UNDERGROUND	**23,261**	**76.3**	**17,740**
TOTAL PROVEN AND PROBABLE RESERVES	**30,187**	**66.3**	**20,020**

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

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2017, the Corporation had current monetary assets of $81.0 million to settle current monetary liabilities of $64.9 million, which includes payables and accrued liabilities, and the current portion of long-term debt. The Corporation's trade and other payables have contractual maturities of less than 30 days and are subject to normal trade terms. The Corporation regularly evaluates its available liquidity to ensure it has sufficient cash resources to meet its operating and capital requirements.

Based on management's current forecasts, the Corporation has sufficient available liquidity to meet its capital requirements up to the commencement of the underground mining operations. Available Liquidity[3] to the Corporation, comprising of cash and cash equivalents and available credit facilities, stood at $101.8 million.

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

Consolidated cash flows

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

	For the three months ended		**For the year ended**	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Cash flow provided by (used in) operating activities, before changes in non-cash working capital	**20,876**	(1,820)	53,079	104,753
Changes in non-cash working capital	**(8,512)**	(22,885)	12,785	(29,925)
Cash provided by (used in) operating activities[7]	**12,364**	(24,705)	65,864	74,828
Cash provided by (used in) investing activities[7]	**(58,403)**	(284)	(119,433)	(165,871)
Cash provided by (used in) financing activities	**67,980**	(2,104)	76,921	77,286
Effect of foreign exchange rate changes on cash and cash equivalents	**90**	569	(184)	(2,042)
Net increase (decrease) in cash and cash equivalents	**22,031**	(26,524)	23,168	(15,799)
Cash and cash equivalents – Beginning of Period	**43,430**	68,817	42,293	58,092
Cash and cash equivalents – End of Period	**65,461**	42,293	**65,461**	42,293

LIQUIDITY AND CAPITAL RESOURCES – *continued* –

Consolidated cash flows – *continued* –

Current Quarter

Cash and cash equivalents increased by $22.0 million in the Current Quarter (December 31, 2016 – decreased by $26.5 million). These cash flow movements are mainly explained by the following activities.

Cash flows provided by operating activities

Cash provided by operating activities was $12.4 million in the Current Quarter (December 31, 2016 – $24.7 million used in operating activities), explained by operating cash flows before changes in non-cash working capital of $20.9 million (December 31, 2016 – operating cash outflows of $1.8 million), and changes in non-cash working capital of $(8.5) million (December 31, 2016 - $(22.9) million). This is mainly explained by a decrease in operating payables and accrued liabilities, and by an increase in receivables, of $6.2 million and $4.9 million, respectively (December 31, 2016 – mainly due to an increase in inventories, and by a decrease in operating payables and accrued liabilities, of $15.3 million and $8.0 million, respectively).

Cash flows used in investing activities

Cash used in investing activities was $58.4 million in the current period (December 31, 2016 - $0.3), reflecting cash outlays of $43.9 million for property, plant and equipment (December 31, 2016 - $38.4 million, net of capitalized pre-commercial production revenue of $8.5 million), $14.0 million for the senior secured loan debt service account, and $6.4 million invested in short-term investments (December 31, 2016 – sale of short-term investments in the amount of $38.3 million).

Cash flows provided by financing activities

Cash provided by financing activities was $68.0 million in the current period (December 31, 2016 - $2.1 million used in financing activities). On November 6, 2017, the Corporation borrowed $80 million of the remaining available balance under the Senior Secured Loan. This is partially offset by $16.0 million in principal repayments on long-term debt (December 31, 2016 - $5.1 million).

LIQUIDITY AND CAPITAL RESOURCES – *continued* –

Consolidated cash flows – *continued* –

Year-to-date

Cash and cash equivalents increased by $23.2 million, from $42.3 million at December 31, 2016, to $65.5 million at December 31, 2017. These cash flow movements are mainly explained by the following activities.

Cash flows provided by operating activities

Cash provided by operating activities was $65.9 million in the current period (December 31, 2016 - $74.8 million), explained by operating cash flows before changes in non-cash working capital of $53.1 million (December 31, 2016 - $104.8 million, largely driven by proceeds received for the third tranche of from the Stream), and changes in non-cash working capital of $12.8 million (December 31, 2016 - $(29.9) million). This is mainly explained by an increase in operating payables and accrued liabilities of $17.4 million (December 31, 2016 – mainly due to an increase in inventories).

Cash flows used in investing activities

Cash used in investing activities was $119.4 million in the current period (December 31, 2016 - $165.9 million), reflecting cash outlays of $149.1 million for property, plant and equipment (December 31, 2016 - $289.0 million), and $14.0 million for the senior secured loan debt service account, partially offset by the sale of short term investment in the amount of $28.1 million (December 31, 2016 - $107.3 million). In addition, the Corporation received, in the first quarter, a mining tax credit of $9.8 million relating to the construction of the Route 167 Extension road, which was credited against property, plant and equipment.

Cash flows provided by financing activities

Cash provided by financing activities was $76.9 million in the current period (December 31, 2016 - $77.3 million). On June 28, 2017, the Corporation borrowed $50 million under the Senior Secured Loan, net of financing fees of $2.5 million, $30.1 million of which was used for the repayment of an unsecured debt facility that matured on June 30, 2017 (see Note 13b) of the consolidated financial statements), which carried a higher interest rate. Subsequently, on November 6, 2017, the Corporation borrowed $80 million of the remaining available balance. Moreover, in addition to the unsecured debt repayment described above, the Corporation made $25.3 million in principal repayments on long-term debt during 2017 (December 31, 2016 - $9.4 million). In the comparative period, the Corporation received proceeds in the amount of $84.6 million relating to options and warrants exercised.

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

LIQUIDITY AND CAPITAL RESOURCES – *continued* –

Commitments and obligations

In the normal course of business, the Corporation enters into contracts that give rise to commitments. The following table summarizes the Corporation's contractual obligations (see Notes 9 and 26 of the audited consolidated financial statements for the year ended December 31, 2017):

	Up to 1 year	1-5 years	Over 5 years	Total
Unsecured debt facility (# 1)	5,708	12,828	-	**18,536**
Other secured debt	1,571	6,286	7,857	**15,714**
Renard mine road debt facility	6,000	32,552	46,372	**84,924**
Senior secured loan	27,796	96,421	30,067	**154,284**
Obligations under finance leases[(1)]	10,163	28,700	1,343	**40,206**
Convertible debentures[(1)]	6,371	118,030	-	**124,401**
Operating Lease Payments	493	772	-	**1,265**
Other operating commitments	6,746	22,172	21,954	**50,872**
	64,848	**317,761**	**107,593**	**490,202**

(1) *Amounts in US dollars are subject to variable interest rates and are determined based on the current spot rate at December 31, 2017.*

Other Operating Commitments

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

Impact and Benefits Agreement

In March 2012, the Corporation entered into an impact and benefits agreement (the "Mecheshoo Agreement") for the Renard Diamond Mine with the Cree Nation of Mistissini and the Grand Council of the Crees (Eeyou Istchee)/Cree Regional Authority. The Mecheshoo Agreement is a binding agreement that will govern the long-term working relationship between the Corporation and the Cree parties during all phases of the Renard Diamond Mine. It provides for training, employment and business opportunities for the Cree during the Renard Diamond Mine construction, operation and closure, and sets out the principles of social, cultural and environmental respect under which the project will be managed. The Mecheshoo Agreement includes a mechanism by which the Cree parties will benefit financially from the success of the project on a long term basis, consistent with the mining industry's best practices for engagement with First Nations communities.

Royalty

The Renard Diamond Mine is subject to a 2% royalty interest on diamond sales (calculated as 2% of the actual gross selling price in Canadian Dollars, minus the lesser of: 3% marketing costs and the actual diamond selling costs) and a 2% NSR on minerals other than diamonds.

LIQUIDITY AND CAPITAL RESOURCES *– continued –*

Commitments and obligations *– continued –*

Financial Guarantee

SDCI is required to provide a financial guarantee to the Québec government of $15.2 million with respect to the Closure Plan for the Renard Diamond Project which was approved in December 2012. The first instalment of $7.6 million was satisfied in August 2014 by way of a surety bond. In August 2015, the surety bond was increased by $3.8 million to $11.4 million. In August 2016, the surety bond was increased by $3.8 million and now stand at $15.2 million. In connection with the surety bond, SDCI provided cash collateral of $3.0 million to the underwriter of the surety bond. This amount is recorded in Other Financial Assets on the Consolidated Statements of Financial Position.

Other Commitment

As at December 31, 2017, SDCI has signed commitments of $6.3 million for the purchase of property, plant and equipment, which are expected to be incurred in 2018.

Contingencies

Following flow-through financing agreements entered into with subscribers in 2013 under the look-back rules, the Corporation committed to incur, in 2014, Canadian Exploration Expenses with specific criteria in accordance with Canadian tax laws. In January 2018, the Corporation received a proposed assessment denying eligibility of certain expenses, representing $6.1 million renounced to the investors. Management does not concur with the interpretation of tax laws by the Canadian tax authorities and as such is rigorously defending its position. Given the facts and circumstances, while the outcome cannot be predicted with certainty, it is Management's opinion that the outcome will not have a material adverse effect on the Corporation's financial statements, and as such, no provision has been recognized as at December 31, 2017 for this matter.

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

FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist of cash and cash equivalents, short-term investments, receivables, other financial assets, publicly traded securities, accounts payable and accrued liabilities, long-term debt, and convertible debentures. The Corporation's financial instruments and risk management disclosure can be found in Note 9 of the audited consolidated financial statements for the year ended December 31, 2017.

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

The Corporation has designated these contracts as a cash flow hedge of highly probable future revenue. Below is a summary of derivative financial contracts outstanding:

				As at December 31, 2017
	Exchange rate range	Maturity	Notional amount	Fair value (CA$)
Derivatives designated as cash flow hedges (revenues):				
Currency option collars to sell (US$ for CA$)	1.2000 – 1.2650	0 to 12 months	US$ 35,000	(414)
Forward contracts to sell (US$ for CA$)	1.2360	0 to 12 months	US$ 17,500	(327)

As at December 31, 2016, the Corporation had not entered into foreign exchange forward contracts or currency option instruments.

The fair value of foreign exchange forward contracts is determined using the discounted value of the difference between the value of the contract at expiry calculated using the contracted exchange rate and the exchange rate a financial institution would use if it renegotiated the same contract under the same conditions as at the consolidated balance sheet date. The fair value of foreign exchange option contracts is determined using the Black-Scholes pricing model where, in addition to the exchange rate a financial institution would use if it renegotiated the same contract under the same conditions as at the consolidated balance sheet date, market-quoted volatilities are also factored into the valuation. In both cases, the discount rates are adjusted for the credit risk of the Corporation or of the counterparty, as applicable. When determining credit risk adjustments, the Corporation considers master netting agreements, if applicable.

For the three and twelve months ended December 31, 2017, the Corporation recognized unrealized losses of $0.5 million (December 31, 2016 – $Nil) and $0.3 million (December 31, 2016 – $Nil), respectively, in other comprehensive loss. For the three and twelve months ended December 31, 2017, the Corporation also recognized realized gains related to the effective portion of its hedging instruments of $0.1 million (December 31, 2016 – $Nil) and $0.5 million (December 31, 2016 – $Nil), respectively, within revenues.

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

SELECTED QUARTERLY INFORMATION

The following table sets out selected unaudited interim consolidated quarterly financial information of Stornoway covering the last eight quarters and is derived from the unaudited interim consolidated financial statements of the Corporation. Certain of the following 2017 measures were updated during the fourth quarter as a result of a change in accounting policy. As such, impact on quarterly measures for the first three quarters of 2017 were described in the "Change in Accounting Policy" section for purposes of measuring year-to-date performance.

	Revenues	Net (Loss) Income	Basic Earnings (Loss) per share	Diluted Earnings (Loss) per share
December 31, 2017	**55,483**	**(118,570)**	**(0.14)**	**(0.14)**
September 30, 2017[7]	49,977	2,000	Nil	Nil
June 30, 2017[7]	42,550	3,112	Nil	Nil
March 31, 2017[7]	48,492	(1,175)	Nil	(0.01)
December 31, 2016	Nil	52,020	0.06	0.05
September 30, 2016	Nil	(15,548)	(0.02)	(0.02)
June 30, 2016	Nil	5,779	0.01	Nil
March 31, 2016	Nil	(22,610)	(0.03)	(0.03)

Changes in the Corporation's quarterly results are largely driven, in 2017, by the number of tender sales events concluded during each quarter, as well as the number of carats included in each of these tenders, due to changes in grade. Fluctuations in the diamond market for certain diamond categories and the prevalence of certain diamond categories, due to changes in recoveries profile, may also impact quarterly results, as well as foreign exchange rates, given the Corporation's revenues and certain debt instruments are denominated in the US Dollar, and changes in the fair value of derivatives. For the fourth quarter of 2017, impairment charges have also impacted quarterly results.

Given the Corporation officially declared commercial production effective January 1, 2017, in 2016, quarterly results were mainly impacted by the Corporation's operation, exploration, development and financing activities. Historically, exploration and evaluation expenses, share-based compensation expenses, changes in the fair value of derivatives, and foreign exchange variations, had the most significant impact on the Corporation's quarterly results, followed by general and administrative expenses.

OUTSTANDING SHARE CAPITAL

Stornoway's authorized capital is an unlimited number of common shares. In certain circumstances, the Corporation may be required to issue common shares upon conversion of the Convertible Debentures (see Note 18 of the consolidated financial statements for year ended December 31, 2017 for further details).

As at March 22, 2018, there were 835,453,290 common shares, 38,613,334 stock options and 14,000,000 warrants issued and outstanding.

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

OUTSTANDING SHARE CAPITAL – *continued –*

Security Based Compensation Arrangements

The maximum number of common shares available for issuance pursuant to the Corporation's security based compensation arrangements, being the Stock Option Plan, the Deferred Share Unit Plan, the Performance Share Unit Plan and the Employee Share Purchase Plan, is 10% of the issued and outstanding common shares. On October 21, 2014, the Corporation's shareholders approved the Plan for a further three-year period. The Corporation did not seek shareholder approval to renew the term of the Plan, and as a result the last options issued under the Stock Option Plan were awarded on March 6, 2017. As at March 22, 2018, the following stock options are outstanding:

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Exercise Price (per share/option)	Weighted Average Remaining Contractual Life
$0.51 – $0.71	17,308,334	0.70	1.58
$0.73 – $1.11	21,305,000	0.88	3.87
	38,613,334	**0.80**	**2.84**

As of March 22, 2018, no units have been granted under the Corporation's Deferred Share Unit Plan and Performance Share Unit Plan.

During the period from January 1, 2018 to March 22, 2018, a total of 189,953 common shares have been issued under the Corporation's Employee Share Purchase Plan.

Warrants

As at March 23, 2018, 14,000,000 warrants are outstanding, which expire on July 8, 2019, are exercisable, in whole or in part at any time, at $0.945, and are subject to resale restrictions under applicable securities laws.

TRANSACTIONS WITH RELATED PARTIES

The Corporation entered into the following transactions with related parties not otherwise disclosed in these financial statements:

(i) For the year ended December 31, 2017, the Corporation incurred interest and commitment fees of $9.2 million and $ 3.6 million in royalties (December 31, 2016 - $7.6 million in interest and commitment fees) with Diaquem, Ressources Quebec ("RQ") and Investissement Quebec ("IQ"). Collectively, as at December 31, 2017, Diaquem, RQ and IQ own 25.1% of the Corporation's issued and outstanding common shares and therefore have significant influence over the Corporation;

(ii) For the year ended December 31, 2017, the Corporation incurred interest of $1.7 million (December 31, 2016 - $1.9, milllion) payable to Orion. As at December 31, 2017, Orion owns 15.6% of the Corporation's issued and outstanding common shares and US$20.5 million of the US$81.3 million Convertible Debentures issued and therefore has significant influence over the Corporation.

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

NON-IFRS FINANCIAL MEASURES

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

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

Certain measures, including non-IFRS measures and reconciliations to the nearest IFRS measure were updated during the fourth quarter as a result of a change in accounting policy. As such, impact on quarterly measures for the first three quarters of 2017 were described in the "Change in Accounting Policy" section for purposes of measuring year-to-date performance.

Net Income Before Impairment

"Net Income Before Impairment" is used by the Corporation to evaluate earnings trends more readily in comparison with results from prior periods, as it excludes impairment charges deemed not reflective of the underlying operations of the Corporation.

The following table provides a reconciliation of Net Income Before Impairment to net loss:

	For the three months ended		**For the year ended**	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Net (loss) income	**(118,570)**	52,020	**(114,633)**	19,641
Impairment charge	**171,000**	–	**171,000**	–
Deferred income tax recovery arising from impairment charge	**(41,320)**	–	**(41,320)**	–
Net Income Before Impairment	**11,110**	52,020	**15,047**	19,641

Adjusted EBITDA and Adjusted EBITDA Margin

"Adjusted EBITDA" and "Adjusted EBITDA Margin" are used by management and investors to assess and measure the underlying pre-tax operating performance of the Corporation and are generally regarded by management as better measures to evaluate performance trends.

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

NON-IFRS FINANCIAL MEASURES – *continued –*

Adjusted EBITDA and Adjusted EBITDA Margin – continued –

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

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

	For the three months ended		For the year ended	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Net (loss) income	**(118,570)**	52,020	**(114,633)**	19,641
Income tax recovery	**(48,526)**	(46,435)	**(28,711)**	(46,435)
Interest and other financial expenses	**8,002**	4,834	**29,736**	6,596
Depreciation	**17,564**	–	**57,671**	–
Impairment charges	**171,000**	–	**171,000**	–
Gain on sale of interests in exploration properties	**-**	–	**(400)**	–
EBITDA	**29,470**	10,419	**114,663**	(20,198)
Unrealized (gain) loss on fair value of derivatives	**(4,899)**	(14,841)	**(21,742)**	8,858
Foreign exchange gain (loss)	**653**	2,780	**(7,919)**	(1,454)
Adjusted EBITDA	**25,224**	(1,642)	**85,002**	(12,794)

Average Diamond Pricing Achieved

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

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

	For the three months ended		For the year ended	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Revenues	**55,483**	–	**196,502**	–
Realized cash flow hedges	**(90)**	–	**(547)**	–
Amortization of deferred stream revenues	**(7,157)**	–	**(25,025)**	–
Stream remittances	**4,380**	–	**15,256**	–
Proceeds achieved at sale	**52,616**	–	**186,186**	–
Carats sold	**486,633**	–	**1,701,561**	–
Average Diamond Pricing Achieved	**108**	–	**109**	–

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

NON-IFRS FINANCIAL MEASURES – *continued* –

Cash Operating Cost per Tonne Processed and per Carat Recovered

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

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

	For the three months ended		For the year ended	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Operating expenses	**24,669**	–	**87,940**	–
Variation in inventory, excluding depreciation	**(2,825)**	–	**129**	–
Cash Operating Costs	**21,844**	–	**88,069**	–
Tonnes processed	**518,817**	–	**1,956,436**	–
Carats recovered	**398,267**	–	**1,642,934**	–
Cash Operating Cost per Tonne Processed	**42.10**	–	**45.02**	–
Cash Operating Cost per Carat Recovered	**54.85**	–	**53.60**	–

Capital Expenditures

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

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

	For the three months ended		For the year ended	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Addition of property, plant and equipment (as per Note 10 of financial statements)	**49,123**	–	**131,657**	–
Change in asset retirement obligation included in Property, Plant and Equipment	**(421)**	–	**(2,322)**	–
Capital leases included in deposits	**–**	–	**(708)**	–
Critical and capital spare parts capitalized	**(164)**	–	**(404)**	–
Share based compensation capitalized	**(367)**	–	**(713)**	–
Other	**(530)**	–	**(582)**	–
Capital Expenditures	**47,641**	–	**126,928**	–

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

NON-IFRS FINANCIAL MEASURES – *continued* –

Available Liquidity

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

The following table provides a reconciliation of the Available Liquidity:

	December 31, 2017	December 31, 2016
Cash and cash equivalents	**65,461**	42,293
Short-term investments	**15,578**	43,695
Available capacity – Caterpillar equipment facility	**20,744**	4,473
Available Liquidity	**101,783**	90,461

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to apply accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. There is full disclosure of the Corporation's critical accounting policies and accounting estimates in notes 2 and 4 of the audited consolidated financial statements for the years ended December 31, 2017 and 2016.

CHANGE IN ACCOUNTING POLICY

On October 1, 2017, the Corporation changed its accounting policy with respect to the treatment of underground development expenditures, in which certain costs associated with the development of the underground mine, including mine declines, ore body access, drifts, draw points and chutes, mine shafts and ventilation raises, are considered to be underground capital development and are capitalized if they are expected to bear future economic benefits. Under the former accounting policy, underground development expenditures after reaching the orebody were regarded as operating development costs and were included in the cost of ore extracted.

The Corporation believes the new policy is preferable as it increases comparability and more closely aligns the accounting for these expenditures to the reality of its underground mining technique, in that a significant amount of development occurs after reaching the orebody, while lasting for several months before ore actually starts to be extracted according to the intended mining method.

Management determined that the amendment to methodology presented above represents a change in accounting policy in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, that needed to be adjusted retrospectively to the last three interim periods. The impact of this voluntary change in accounting policy on the interim consolidated financial statements is primarily to increase mineral properties included in property, plant and equipment, and reduce stockpile, work in progress and finished goods inventories, and cost of goods sold. Deferred income tax assets and liabilities were also impacted by the change in accounting policy. The change did not impact periods prior to January 1, 2017. The impact on each line item of the interim consolidated financial statements of the Corporation is shown in the Note 29 of the audited consolidated financial statements for the year ended December 31, 2017. Adjustments to interim non-IFRS financial measures and 2017 guidance are presented in the tables below:

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

CHANGE IN ACCOUNTING POLICY – *continued –*

Adjustments to Non-IFRS Financial Measures

Adjusted EBITDA and Adjusted EBITDA Margin

	For the three months ended March 31, 2017		
	Previously stated	**Adjustments**	**Adjusted**
Net (loss) income	(2,975)	1,800	**(1,175)**
Income tax	13,430	994	**14,424**
Interest and other financial expenses	7,361	-	**7,361**
Depreciation	13,389	(1,188)	**12,201**
Gain on sale of interests in exploration properties	(400)	-	**(400)**
EBITDA	30,805	1,606	**32,411**
Unrealized (gain) loss on fair value of derivatives	(10,091)	-	**(10,091)**
Foreign exchange gain (loss)	(1,019)	-	**(1,019)**
Adjusted EBITDA	19,695	1,606	**21,301**

	For the three months ended June 30, 2017		
	Previously stated	**Adjustments**	**Adjusted**
Net (loss) income	2,338	774	**3,112**
Income tax	2,211	845	**3,056**
Interest and other financial expenses	7,063	-	**7,063**
Depreciation	11,624	30	**11,654**
Gain on sale of interests in exploration properties	-	-	**-**
EBITDA	23,236	1,649	**24,885**
Unrealized (gain) loss on fair value of derivatives	(4,852)	-	**(4,852)**
Foreign exchange gain (loss)	(3,241)	-	**(3,241)**
Adjusted EBITDA	15,143	1,649	**16,792**

	For the three months ended September 30, 2017		
	Previously stated	**Adjustments**	**Adjusted**
Net (loss) income	(3,073)	5,073	**2,000**
Income tax	(1,673)	4,008	**2,335**
Interest and other financial expenses	7,310	-	**7,310**
Depreciation	18,666	(2,414)	**16,252**
Gain on sale of interests in exploration properties	-	-	**-**
EBITDA	21,230	6,667	**27,897**
Unrealized (gain) loss on fair value of derivatives	(1,900)	-	**(1,900)**
Foreign exchange gain (loss)	(4,312)	-	**(4,312)**
Adjusted EBITDA	15,018	6,667	**21,685**

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

CHANGE IN ACCOUNTING POLICY – *continued –*

Adjustments to Non-IFRS Financial Measures – continued –

Cash Operating Cost per Tonne Processed and per Carat Recovered

	For the three months ended March 31, 2017		
	Previously stated	Adjustments	Adjusted
Operating expenses	22,162	(1,606)	**20,556**
Variation in inventory, excluding depreciation	2,098	(573)	**1,525**
Cash Operating Costs	24,258	(2,177)	**22,081**
Tonnes processed	419,233	-	**419,233**
Carats recovered	385,151	-	**385,151**
Cash Operating Cost per Tonne Processed	57.86	(5.19)	**52.67**
Cash Operating Cost per Carat Recovered	62.98	(5.65)	**57.33**

	For the three months ended June 30, 2017		
	Previously stated	Adjustments	Adjusted
Operating expenses	21,470	(1,649)	**19,821**
Variation in inventory, excluding depreciation	6,242	(3,180)	**3,062**
Cash Operating Costs	27,712	(4,829)	**22,883**
Tonnes processed	512,005	-	**512,005**
Carats recovered	417,362	-	**417,362**
Cash Operating Cost per Tonne Processed	54.12	(9.43)	**44.69**
Cash Operating Cost per Carat Recovered	66.39	(11.56)	**54.83**

	For the three months ended September 30, 2017		
	Previously stated	Adjustments	Adjusted
Operating expenses	29,561	(6,667)	**22,894**
Variation in inventory, excluding depreciation	(208)	(1,425)	**(1,633)**
Cash Operating Costs	29,353	(8,092)	**21,261**
Tonnes processed	506,381	-	**506,381**
Carats recovered	442,154	-	**442,154**
Cash Operating Cost per Tonne Processed	57.97	(15.98)	**41.99**
Cash Operating Cost per Carat Recovered	66.39	(18.30)	**48.09**

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

CHANGE IN ACCOUNTING POLICY – *continued –*

Adjustments to Non-IFRS Financial Measures – *continued –*

Capital Expenditures

	For the three months ended March 31, 2017		
	Previously stated	Adjustments	Adjusted
Addition of property, plant and equipment	20,423	**2,178**	**22,601**
Change in asset retirement obligation included in Property, Plant and Equipment	(2,130)	–	**(2,130)**
Capital leases included in deposits	(708)	–	**(708)**
Critical and capital spare parts capitalized	(240)	–	**(240)**
Share based compensation capitalized	–	–	**-**
Other	(262)	–	**(262)**
Capital Expenditures	17,083	**2,178**	**19,261**

	For the three months ended June 30, 2017		
	Previously stated	Adjustments	Adjusted
Addition of property, plant and equipment	25,101	**4,829**	**29,930**
Change in asset retirement obligation included in Property, Plant and Equipment	(774)	–	**(774)**
Capital leases included in deposits	–	–	**-**
Critical and capital spare parts capitalized	–	–	**-**
Share based compensation capitalized	(212)	–	**(212)**
Other	(140)	–	**(140)**
Capital Expenditures	23,975	**4,829**	**28,804**

	For the three months ended September 30, 2017		
	Previously stated	Adjustments	Adjusted
Addition of property, plant and equipment	21,495	**8,508**	**30,003**
Change in asset retirement obligation included in Property, Plant and Equipment	1,003	–	**1,003**
Capital leases included in deposits	–	–	–
Critical and capital spare parts capitalized	–	–	–
Share based compensation capitalized	(134)	–	**(134)**
Other	350	–	**350**
Capital Expenditures	22,714	**8,508**	**31,222**

Adjustments to 2017 Guidance

	Guidance for the year ended December 31, 2017		
	Previously stated	Adjustments	Adjusted
Cash Operating Cost per Tonne Processed[3]	$59.68	$(11.01)	**$48.67**
Cash Operating Cost per Carat Recovered[3]	$70.41	$(12.99)	**$57.42**
Capital Expenditures[3]	$78.7 million	$22.0 million	**$100.7 million**

RISKS AND UNCERTAINTIES

The Corporation's securities should be considered a speculative investment and involves significant risks and prospective investors should carefully consider, in light of their own financial circumstances, the risk factors and all of the other information disclosed in the Corporation's Canadian regulatory filings (available on SEDAR at www.sedar.com) prior to making an investment in the Corporation. If any of the events described in the risk factors below actually occur, our business, financial condition, prospects, results of operations or cash flow could be materially and adversely affected. The risks described herein and in other documents forming part of the Corporation's disclosure record are not the only risks facing the Corporation. Additional risks and uncertainties not currently known to the Corporation, or that the Corporation currently deems immaterial, may also materially and adversely affect its business.

Operational Risks

Limited Operating History; New Mining Operations

Commercial production at the Renard Diamond Mine was declared on January 1, 2017. Prior to the Renard Diamond Mine achieving commercial production, the Corporation did not have an interest in a mineral producing property. As a result, we have a limited operating history upon which to evaluate future financial and operating performance, including future cash flow, and to base estimates of future operating costs. Thus, it is possible that actual costs may increase significantly and economic returns may differ materially from the Corporation's estimates. Moreover, period-to-period comparisons of the Renard Diamond Mine's operating results and our sales data may not be meaningful and the results for any particular period should not be relied upon as an indication of future performance.

There can be no assurance that the Renard Diamond Mine will generate sufficient revenues to fund its continuing operations or that the Renard Diamond Mine or any of the properties the Corporation may hereafter acquire or obtain an interest in will generate earnings, operate profitably or provide a return on investment in the future. In addition, there can be no assurance that significant additional losses will not occur in the near future or that the Corporation will be profitable in the future.

While the Renard Diamond Mine is in commercial operation, various factors affect future cash flow and profitability, including costs, actual mineralization, consistency and reliability of ore grades, diamond quality and size distribution, commodity prices and efficient design of the mine, processing facility and equipment, and there can be no assurance that current or future estimates of these factors will reflect actual results and performance. In addition, the operations of the Renard Diamond Mine rely on new infrastructure for hauling ore and materials to the surface. The depth of the operations could pose significant challenges to the Corporation, such as geomechanical risks and ventilation, which may result in difficulties and delays in achieving production objectives.

It is common in new mining operations to experience unexpected problems, delays, cost overruns and operational difficulties, or failure in connection with the completion and successful functioning of the operational elements of new mines. The costs, timing and complexity of production and mining activities may be higher than anticipated as a result of various adjustments that may be found to be required to

RISKS AND UNCERTAINTIES – *continued* –

Operational Risks – *continued* –

Limited Operating History; New Mining Operations – *continued* –

optimise the efficiency of the operations and which may result in modifications to, or addition of, infrastructure and equipment or changes to mine plan. Such factors can add to the cost of mine development, production and operation and/or impair production and mining activities, thereby affecting the Corporation's profitability.

Production and Operating Costs

The economic parameters described in technical studies include a number of assumptions and estimates that could prove to be incorrect. Many unforeseen factors can impact the Corporation's future production and total cash costs of production, including cost of inputs used in mining and processing operations; cost of fuel, energy, supplies, labour and equipment; regulatory factors; taxes; foreign exchange rates; adverse climatic conditions, natural phenomena and industrial accidents, revisions to mine plans, risks and hazards associated with mining, and unexpected labour shortages or strikes. As such, there can be no assurance that production and production cost estimates will be achieved. Operational costs may also be affected by a variety of factors, including: changing waste-to-ore ratios, ore grade of mineralization, labour costs, the cost of commodities, general inflationary pressures, currency exchange rates, availability and terms of financing, and difficulty of estimating costs over a period of years. Many of these factors are beyond the Corporation's control. Moreover, short-term operating factors relating to the diamond deposits, such as the need for orderly development of the deposits or the processing of new or different grades of diamonds or the need to address unexpected levels of diamond breakage, may cause any mining operation to be unprofitable in any particular accounting period. Failure to achieve production or total cash cost estimates, or material increases in costs, could have an adverse impact on the Corporation's cash flows, business, financial condition and results of operations.

Start-Up and Ramp-up of a New Mine

It is common to experience unexpected costs, problems and delays during development, start-up and ramp-up of a new mine. During this time, the economic feasibility of production may change. The ramp-up of the Renard Diamond Mine by the Corporation is subject to a number of risks and challenges including unforeseen geological formations and characteristics of the ore body impacting ore processing, the implementation of new mining and recovery processes and process plant design to optimize rates of recovery and limit risk of diamond breakage, the underlying characteristics, quality and unpredictability of the exact nature of mineralogy of a deposit and the consequent accurate understanding of ore or concentrate production, including consistency of grades, size distribution and quality of diamonds, and the successful completion and operation of haulage ramp and conveyors to move ore, the processing facility and other operational elements. Any unexpected problems and delays in the completion and successful functioning of the operational elements of a new mine will result in additional costs being incurred beyond those already incurred and budgeted. There can be no assurance that current or future ramp-up plans of the Renard Diamond Mine or the construction of the underground portion of the mine will be successful or on budget.

RISKS AND UNCERTAINTIES *– continued –*

Operational Risks *– continued –*

Diamond recovery profile and breakage

During the first year of operation, the Renard diamond process plant has liberated a higher proportion of small diamonds than expected, and has induced higher levels of diamond breakage than expected. Both of these factors have a strong influence on average run-of-mine pricing. High levels of breakage can be expected to reduce number and quality of larger diamonds recovered, producing a commensurate reduction in the average price achieved at sale. At the same time, breakage can be expected to reduce recovered grade, as diamond fragments less than 1mm in diameter will not be recovered. Although diamond breakage occurs in all diamond process plants, the levels experienced at the Renard Diamond Mine during the course of 2017 were high by industry standards.

The average pricing being achieved in the Renard diamond sales to date has been impacted by the ongoing issues of diamond breakage in the process plant, which reduces the proportion of larger diamonds available for sale, and increases volatility in the proportion of small diamonds in the sales mix. Small diamonds continue to achieve substantially lower market pricing than was being achieved prior to the Indian de-monetization events of late 2016.

The quality of our diamond production and achieved diamond pricing will continue to be negatively influenced by this breakage unless and until it is resolved. There can be no assurance that ongoing mitigation activities will successfully reduce the breakage to a more acceptable level, produce a higher quality diamond product or reduce the proportion of small diamonds recovered. In addition, the costs, timing and complexity of mitigation activities may be higher and longer than anticipated. Unless and until the Corporation can successfully resolve the ongoing issues of diamond breakage in the process plant and reduce the proportion of small diamonds recovered, the Corporation’s business, financial condition and results of operations will be materially adversely affected.

The Corporation estimates the recoverable amount of non-financial assets using assumptions and if the carrying value of an asset is then determined to be greater than its actual recoverable amount, an impairment will be recognized, reducing the Corporation’s earnings

The Corporation conducts impairment assessments of non-financial assets at the end of each reporting period and the Corporation assesses whether there is any indication that non-financial assets (such as property, plant and equipment) may be impaired. If an indicator of impairment exists, the recoverable amount of the asset is calculated in order to determine if any impairment loss is required. Testing for impairment involves a comparison of the recoverable amount of the cash generating unit to its carrying value. An impairment charge is recognized for any excess of the carrying amount of the cash generating unit over its recoverable amount. Non-financial assets are tested for impairment when events or changes in circumstances suggest that the carrying amount of these assets may not be recoverable. The Corporation incurred a non-cash impairment charge in the amount of $171 million as at December 31, 2017 on the carrying value of the Corporation’s property, plant and equipment, reflecting an outlook of lower than expected diamond pricing.

RISKS AND UNCERTAINTIES – *continued* –

Operational Risks – *continued* –

The Corporation estimates the recoverable amount of non-financial assets using assumptions and if the carrying value of an asset is then determined to be greater than its actual recoverable amount, an impairment will be recognized, reducing the Corporation's earnings – *continued* –

An impairment test is subjective and requires management to make estimates and assumptions for a number of factors including estimates of production levels, mineral resources and mineral reserves, operating costs and capital expenditures reflected in the Corporation's life-of-mine plan, as well as economic factors beyond management's control, such as diamond prices, discount rates and observable net asset value multiples. Should management's estimates and assumptions regarding these factors be incorrect, the Corporation may be required to modify the impairment charges, which would impact the Corporation's earnings. It is difficult to predict if and when impairment charges may be incurred.

Uncertainty of Mineral Resources and Mineral Reserves

The Mineral Resources for the Renard Diamond Mine are prepared in accordance with NI 43 101. In this context, Mineral Resources are estimates and no assurance can be given that the anticipated tonnages, grades, size distribution and quality of diamonds will be achieved or that the indicated level of recovery will be realized. Mineral Reserves at the Renard Diamond Mine have been determined to be economic ore in the context of the 2016 Technical Report, in accordance with NI 43 101. The estimation of Mineral Reserves and Mineral Resources is a subjective process. Forecasts are based on engineering data, projected future rates of production, the timing of future expenditures, and assumed diamond prices, all of which are subject to numerous uncertainties and various interpretations. Estimates made at a given time may change significantly in the future when new information becomes available. Estimates of Mineral Reserves and Mineral Resources will change to reflect updated information as well as to reflect depletion due to production. Mineral Reserve and Mineral Resource estimates may be revised upward or downward based on the results of current and future drilling, testing or production levels, and on changes in mine design.

Variations in grades, size distribution and quality of diamonds, increased production costs or reduced recovery rates as well as market fluctuations and diamond prices may render the Mineral Reserves or Mineral Resources uneconomic to recover and may ultimately result in a restatement of Mineral Resources. Prolonged declines in the market price of diamonds may render Mineral Reserves uneconomical to recover and could materially reduce the Corporation's Mineral Reserves. Should such reductions occur, the Corporation may be required to take material impairment charges of its investment in property, plant and equipment, reduce the carrying value of one or more of its assets or delay or discontinue production or the development of new projects, resulting in reduced earnings and reduced cash flow.

Any material changes in the quantity of Mineral Reserves or Mineral Resources or the related grades may affect the economic viability of the Corporation's mining operations and could have a material adverse effect on the Corporation's business, financial condition, results of operations or prospects.

RISKS AND UNCERTAINTIES – *continued* –

Operational Risks – *continued* –

Uncertainty of Mineral Resources and Mineral Reserves – *continued* –

Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. Due to the uncertainty that may attach to Inferred Mineral Resources, there is no assurance that Mineral Resources will be upgraded to Proven and Probable Reserves. Inferred Mineral Resources are considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as Mineral Reserves.

Life of Mine Plan

The Corporation periodically reviews its life of mine planning for its Renard Diamond Mine. Significant changes in the life of mine plan can occur as a result of experience obtained in the course of carrying out the Corporation's mining activities, changes in mining methods and rates, process changes, investments in new equipment and technology, diamond price assumptions and other factors. There can be no assurance that the estimates in the Corporation's life of mine plan will be consistent with future economic factors or actual results and performance or that the Corporation will not amend its existing life of mine plan for its Renard Diamond Mine in the future. A decline in net cash flow may also require the Corporation to record an impairment charge against the carrying value of its net assets.

There is no certainty that FCDC will be able to meet its Subject Diamonds Interest delivery obligations

There is no certainty that FCDC will be able to meet its Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement for the Forward Sale of Diamonds. In the event FCDC was unable to meet its Subject Diamonds Interest delivery obligations, FCDC could be required to return non-offset portions of the Deposit to the Purchasers with an applicable rate of interest from the payment date of the Deposit, which in turn would materially and adversely affect the financial and operating results of the Corporation and its subsidiaries, the market price of the Corporation's securities and, ultimately, could result in the loss of the Corporation's entire interest in the Renard Diamond Mine.

There can be no assurance that the Corporation will be able to meet its fluctuating liquidity requirements and additional financing may be required

The Corporation's liquidity requirements fluctuate from quarter to quarter and year to year depending on, among other factors, the seasonality of mine operating expenses; reclamation spending and bonding requirements; tax and interest payments; exploration expenses; capital expenditure programs; the number of rough diamond sales events conducted during the quarter, and the volume, size and quality distribution of rough diamonds delivered from our mineral properties and sold by the Corporation in each quarter. We may also incur additional capital expenditures due to unforeseen geological or other conditions. For example, during the fiscal quarter ended December 31, 2017, a program of plant modification measures aimed at reducing ongoing issues of diamond breakage in the Renard Diamond Mine process plant was approved by the Board of Directors, with an expected capital cost of $22 million which was to be funded from existing financial resources.

RISKS AND UNCERTAINTIES – *continued* –

Operational Risks – *continued* –

There can be no assurance that the Corporation will be able to meet its fluctuating liquidity requirements and additional financing may be required – *continued* –

The Corporation's principal working capital needs include development and exploration capital expenditures, investments in inventory, interest expenses, loan repayments, prepaid expenses and other current assets, and accounts payable and income taxes payable. In addition, the Corporation will have substantial additional capital requirements to the extent that it decides to expand its present capacity, operations and exploration activities; construct additional new mining and processing operations at any of its properties; or take advantage of opportunities for potential strategic acquisitions required for growth, joint ventures or other business opportunities that may arise.

Our only current source of income is the sale of our diamonds produced at the Renard Diamond Mine. There can be no assurance that the Corporation will be able to meet each or all of its liquidity requirements.

These liquidity requirements could adversely affect the Corporation's ability to access the capital markets in the future. Additional financing may not be available when needed or, if available, the terms of such financing may not be favorable to the Corporation and, if raised by offering equity securities, or securities convertible into equity securities, any additional financing may involve substantial dilution to existing shareholders. A failure by the Corporation to meet its liquidity requirements or obtain the requisite financing as and when needed for future activities could result in a delay or indefinite postponement of exploration, development or production on any or all of the Corporation's properties, or in the Corporation being in default of contractual obligations, each of which could have a material adverse effect on the Corporation's business prospects or financial condition and on its ability to repay or refinance outstanding indebtedness.

Mineral Exploration and Development Activities Inherently Risky

The business of exploration for minerals and mining involves a high degree of risk that even a combination of experience, knowledge and careful evaluation may not be able to overcome. Few properties that are explored are ultimately developed into mineral deposits with significant value. Unusual or unexpected ground or water conditions, geological formation pressures, fires, rock bursts, power outages, labour disruptions, flooding, earthquakes, explosions, explorations, cave-ins, landslides, mechanical equipment and facility performance problems, and the inability to obtain suitable adequate machinery, equipment or labour and other unfavourable operating conditions are other risks involved in the operation of mines and the conduct of exploration and development programs. There are also physical risks to the exploration personnel working in the rugged terrain of remote parts of Canada, often in difficult climate conditions. The Corporation's exploration properties and any future mining operations will be subject to all the hazards and risks normally incidental to exploration, development and production of diamonds and other metals, any of which could result in work stoppages and damage to or destruction of exploration facilities, mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damage. Although the Corporation and its subsidiaries maintain liability

RISKS AND UNCERTAINTIES – *continued* –

Operational Risks *– continued –*

Mineral Exploration and Development Activities Inherently Risky – *continued* –

insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation or its subsidiaries could incur significant costs that could have a materially adverse effect upon their financial condition. The remoteness and restrictions on access of certain of the properties in which the Corporation and its subsidiaries have an interest could have an adverse effect on profitability in that infrastructure costs would be higher.

In addition, exploration activities may have caused environmental damage at certain of the Corporation's properties. It may be difficult or impossible to assess the extent to which such damage was caused by the Corporation and its subsidiaries or by the activities of others, in which case, any indemnities and exemptions from liability may be ineffective.

Diamond Exploration and Development

Diamond exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover diamond deposits but also from finding diamond deposits that, though present, are insufficient in terms of tonnage, grade or diamond value to return a profit from production.

With the exception of the Renard Diamond Mine, the remaining claims, permits and leases in which the Corporation and its subsidiaries hold an interest are in the exploration stage only and are without a known body of commercial ore. The business of diamond exploration in remote parts of Canada can be a lengthy, time consuming, expensive process and involves a high degree of risk. Upon discovery of a diamond bearing kimberlite, the primary host rock for diamonds, several stages of assessment are required before its economic viability can be determined. Assessment includes a determination of deposit size (tonnage), grade (carats/stone), diamond value (US$/carat) and the associated costs of extracting and selling the diamonds.

Development of the subject diamond properties would follow only if favorable results are obtained at each stage of assessment. Although the Corporation has reported recoveries of diamonds from material extracted from kimberlite occurrences on the Corporation's properties, the amount of material extracted is small and continuity of the diamond content of the kimberlitic body is not assured and cannot be assumed. The development of a diamond mine in remote parts of Canada has typically taken between seven and ten years from its initial discovery. Few diamond deposits discovered are ultimately developed into producing mines. There is no assurance that expenditures made in the Corporation's diamond exploration activities will result in any discoveries of commercially recoverable bodies of ore or that ore reserves will be mined or processed profitably. The long-term profitability of the Corporation's operations, and those of its subsidiaries, will in part be directly related to the costs and success of its exploration programs, which may be affected by a number of factors.

RISKS AND UNCERTAINTIES *– continued –*

Operational Risks *– continued –*

Regulations, Permits and Licenses

The Corporation's operations are subject to various laws and regulations governing the protection of the environment. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from processed kimberlite containment (tailings) areas, which would result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a direction of stricter standards, and enforcement, and higher fines and penalties for non-compliance. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. The Corporation intends to fully comply with all environmental regulations.

The current operations of the Corporation and its subsidiaries as well as anticipated future operations, including further exploration, development activities and commencement of production at the Corporation's mineral properties, including without limitation the Renard Diamond Mine, require permits from various domestic authorities and such operations are governed by laws and regulations governing prospecting, development, mining, production, exports, taxes (including income and mining taxes), labour standards, occupational health, storage and disposal of hazardous substances and other wastes and materials, waste water discharges and water quality, toxic substances, land use, environmental protection, mine safety and other matters. Compliance with the applicable environmental legislation, regulations and permits is required on an ongoing basis, and the requirements under such legislation, regulations and permits are evolving rapidly and imposing additional requirements. Companies engaged in exploration activities and in the development and operation of mines and related facilities, generally experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits.

There can be no assurance that various permits which the Corporation and its subsidiaries may require to obtain or renew in the normal course of business for its current and anticipated future operations and exploration activities, will be obtainable on reasonable terms or on a timely basis or, if they are obtained or renewed, as applicable, that the Corporation will be in a position to comply with or can afford to comply with all conditions that may be imposed.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

RISKS AND UNCERTAINTIES – *continued* –

Operational Risks – *continued* –

Regulations, Permits and Licenses – *continued* –

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, including in respect of taxes, could have a material adverse impact on the Corporation and its subsidiaries and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining projects.

Climate Change

Climate change is an international concern and as a result poses risk of both climate changes and government policy in which governments are introducing climate change legislation and treaties that could result in increased costs, and therefore, decreased profitability of our operations.

The Canadian government has established a number of policy measures in response to concerns relating to climate change. While the impact of these measures cannot be quantified at this time, the likely effect will be to increase costs for fossil fuels, electricity and transportation; restrict industrial emission levels; impose added costs for emissions in excess of permitted levels; and increase costs for monitoring and reporting. Compliance with these initiatives could have a material adverse effect on the Corporation's results of operations.

Our current regulatory risks associated with climate change mainly fall under our obligations under the Québec carbon market trading scheme. Increased public awareness and concern regarding global climate change may result in more legislative and/or regulatory requirements to reduce or mitigate the effects of greenhouse gas emissions. If the current trend of increasing regulation continues, the Corporation expects that this may result in increased costs at its operations.

In addition, the physical risks of climate change may also have an adverse effect on the operations of the Corporation. Global climate change could exacerbate certain of the threats facing our business, including the frequency and severity of weather-related events, resource shortages, changes in rainfall and storm patterns and intensities, water shortages and changing temperatures, which can disrupt our operations, damage our infrastructure or properties, create financial risk to our business or otherwise have a material adverse effect on our results of operations, financial position or liquidity. These may result in substantial costs to respond during the event, to recover from the event and possibly to modify existing or future infrastructure requirements to prevent recurrence. Climate changes could also disrupt our operations by impacting the availability and cost of materials needed for mining operations and could increase insurance and other operating costs.

RISKS AND UNCERTAINTIES – *continued* –

Operational Risks *– continued –*

There are risks associated with pursuing a blasthole shrinkage method with backfill to extract ore from the Renard Diamond Mine

In addition to open pit, the Corporation uses a blasthole shrinkage method with backfill to extract the Renard Diamond Mine ore body. The pursuit of this method to extract the ore body carries with it a certain degree of risk since it is characterized by the extraction of a massive volume of drilled and blasted kimberlite which could translate into the formation of a surface depression whose morphology depends on the characteristics of the mining, the rock mass properties and the topography of the ground surface.

Blasthole shrinkage mining can generally be applied on large and massive ore bodies with good geomechanical properties, unlike the caving methods. To minimize the risks associated with unplanned failure of the ore body during the mining process, a panel retreat sequence approach has been applied in the strategy, consequently having a positive effect on worker safety. A major challenge at the mine design stage is to predict the amount of external dilution coming from the exposed walls at the periphery of the ore body and from the waste backfill involved in the mining process.

The pursuit of this mining strategy involves the creation of underground tunnels down to a production level where the overlying rock, broken using drilling and blasting methods from drill levels located above, flows downward into drawpoints to be gathered and taken away for processing.

Certain of the core geotechnical risks associated with blasthole shrinkage with backfill are as follows:

- uncontrolled, dynamic, rock mechanic events or caving events resulting in rock burst, in airblasts, damage to draw points and/or other infrastructure; loss of control of cave propagation; and premature cave propagation to surface;
- undesirable wall failure in the periphery of the blasted ore and excessive waste backfill migration could result in a higher external dilution factor and a lower recovery factor affecting the project economics;
- wall and back failure in panels could also lead to a loss of productivity due to managing oversize blocks and hangups in the drawpoints;
- undesirable cave propagation outside or above the orebody such as a crown pillar resulting in potential flooding of the Renard Diamond Mine with mud and/or water; impact to workforce safety; and surface damage; and
- a high level of concentrated surface subsidence on breakthrough resulting in surface damage safety hazards on the surface; and disruption of aquifers in the vicinity of the Renard Diamond Mine.

The realization of any of these risks, assuming the blasthole shrinkage method with backfill is used, could have a material adverse impact on the progress of any extraction activities at the Renard Diamond Mine. There can be no assurance that the Corporation would be successful in overcoming any of the above risks and/or the results associated with such risks as part of the extraction of the Renard Diamond Mine.

RISKS AND UNCERTAINTIES – *continued* –

Operational Risks – *continued* –

Rock Mechanics and Hydrogeology

There are always unknown rock mechanics and hydrogeological conditions that cannot be predicted ahead of mining. These unknown conditions, such as faulting, zones of weak rock, or zones of unanticipated water inflow, may only be discovered during mining and may require significant changes to the mining plan resulting in additional costs and delays. While additional lab testing to reduce uncertainty in some of the rock properties is planned by the Corporation, it is never possible to carry out enough drilling ahead of time to identify all of these potential risks.

Supplies, Infrastructure, Weather and Inflation

The Corporation's property interests are located in remote, undeveloped areas, power must be generated on site, and the availability of infrastructure such as road and surface access, skilled labour, fuel and power at an economic cost, cannot be assured. These are integral requirements for exploration, development and production facilities on mineral properties. Due to the remoteness of its exploration projects, the Corporation and its subsidiaries are forced to rely heavily on air transport for the supply of goods and services. Air transport to and from remote regions in Canada is very susceptible to disruptions due to adverse weather conditions, resulting in unavoidable delays in planned programs and/or cost overruns.

When mining investment and activity in Canada is high, companies typically experience a shortage of experienced technical staff, and heavy demand for drillers, geophysical surveying crews and other goods (including process plant and mining equipment long lead items) and services needed by the mining community. Prices for goods and services will fluctuate in relation to the level of investment in the mining sector; it is reasonable to expect that increased demand could impact the Corporation's future economic projections and competitiveness. These fluctuations can be unpredictable, can occur over short periods of time and may have a material adverse impact on the Corporation's operating costs. An increased demand results in a meaningful increase in costs for these goods and services. Improvements in the economic conditions for the mining industry as a whole will typically result in increases to both the costs of planned exploration, development activities and operations, which must also be factored into economic models used in projections for future development and potential operations. Increased demand for and cost of goods or services could result in delays if goods or services cannot be obtained in a timely manner due to inadequate availability, and may cause scheduling difficulties due to the need to coordinate the availability of goods or services, any of which could materially increase project exploration, development, production and/or construction costs. These factors could have a material impact on the Corporation's share price.

RISKS AND UNCERTAINTIES – *continued* –

Operational Risks – *continued* –

Risk related to the limited supply offer of Liquefied Natural Gas ("LNG")

The Corporation has a long-term contract for the supply of LNG required for power at the Renard Diamond Mine. There are currently limited suppliers of LNG that can supply the Renard Diamond Mine at comparable costs to the current supplier. In the event the Corporation's LNG supplier was to be unable to fulfil its contractual obligation to deliver LNG to the Renard Diamond Mine and an alternative contract on substantially the same terms may not be entered into with an alternative LNG supplier, the costs related to the Renard Diamond Mine power requirements would increase. While the failure to deliver LNG under the current LNG contract is subject to indemnification obligations by the Corporation's counterparty, the LNG supplier does not have the obligation to indemnify the Corporation in the context of all delivery failures, including in the event of a force majeure event affecting the supplier, and where an indemnity obligation exists, the amount of such indemnity may not fully offset the cost increases the Corporation could suffer, which cost increases could adversely affect the Corporation's business, financial condition and results of operations.

The Corporation and its subsidiaries are dependent upon its Renard Diamond Mine

Stornoway has a 100% interest in the Renard Diamond Mine through its wholly-owned subsidiary, SDCI. The Renard Diamond Mine accounts for all of the Corporation's and its subsidiaries' diamond production and will continue to account for all of its diamond production in the future unless additional properties are acquired or developed and brought into production. Any adverse condition affecting the Renard Diamond Mine could be expected to have a material adverse effect on the Corporation's financial performance, as well as that of its subsidiaries, and results of operations until such time as the condition is remedied. In addition, the Corporation's ongoing development of the Renard Diamond Mine involves the exploration and extraction of ore from new areas and may present new or different challenges for the Corporation.

Unless the Corporation and its subsidiaries can successfully bring into production another mine project or otherwise acquire profitable mineral properties before the end of the Renard Diamond Mine's mine life, the Corporation's results of operations will be adversely affected. There can be no assurance that the Corporation and its subsidiaries will be able to expand the Mineral Reserves or the Mineral Resources of the Renard Diamond Mine, or extend the reserve-based mine life of the Renard Diamond Mine beyond 14 years. Further, there can be no assurance that Corporation's current exploration and development programs will result in any new economically viable mining operations or yield new Mineral Reserves to replace and expand current Mineral Reserves.

RISKS AND UNCERTAINTIES *– continued –*

Operational Risks *– continued –*

Depletion of Mineral Reserves

The Corporation's ability to replace its existing Mineral Reserves as they are produced and depleted will be dependent upon locating or acquiring new mineral deposits, expanding production from existing economic Mineral Reserves, or extending and expanding existing mining operations by, among other things, bringing Mineral Resources into the Mineral Reserve category.

There is, however, a risk that depletion of reserves will not be offset by future discoveries. Exploration for minerals is highly speculative in nature and involves many risks. Many, if not most mining projects are unsuccessful and there are no assurances that current or future exploration programs will be successful. Further, significant costs are incurred to establish mineral reserves, open new pits and construct mining and processing facilities. Development projects have no operating history upon which to base estimates of future cash flows and are subject to the successful completion of feasibility studies, obtaining necessary government permits, obtaining title or other land rights and the availability of financing. In addition, assuming discovery of an economic mine or pit, depending on the type of mining operation involved, many years may elapse before commercial operations commence. Accordingly, there can be no assurances that our current programs will result in any new commercial mining operations or yield new reserves to replace or expand current reserves.

See "Risk Factors –Start-Up and Ramp-up of a New Mine".

Information Systems Security Threats

The Corporation relies on secure and adequate operations of information technology systems in the conduct of its operations. Access to and the security of the information technology systems are critical to the Corporation's operations. These systems are subject to disruption, damage or failure from a variety of sources, including, but not limited to, cable cuts; damage to physical plants; natural disasters; terrorism; fire; power loss; hacking, cyber-attacks and other information security breaches; non-compliance by third party service providers; computer viruses; vandalism and theft. The Corporation's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, information technology systems and software. The systems that are in place may not be enough to guard against loss of data due to the rapidly evolving cyber threats. The Corporation may be required to increasingly invest in better systems, software, and use of consultants to periodically review and adequately adapt and respond to dynamic cyber risks or to investigate and remediate any security vulnerabilities. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. Failures in our information technology systems could translate into operational delays, compromising, loss or disclosure of confidential, proprietary, personal or sensitive information and third party data, or destruction or corruption of data. Accordingly, any failure of information systems or a component of information systems could adversely impact the Corporation's reputation, business, financial condition and results of operations, as well as compliance with its contractual obligations, compliance with applicable laws, and potential litigation and regulatory enforcement proceedings. Information technology systems failures could also materially adversely affect the effectiveness of the Corporation's internal controls over financial reporting.

RISKS AND UNCERTAINTIES – *continued* –

Operational Risks *– continued –*

Title Risk

Although the Corporation has exercised the usual due diligence with respect to determining title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Corporation’s mineral property interests may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. Surveys have not been carried out on all of the Corporation’s mineral properties. Therefore, depending on the laws of the jurisdiction in which such properties are situated, their existence and area could be in doubt.

Labour Relations

While the Corporation has good relations with its employees, there can be no assurance that it will be able to maintain positive relationships with its employees. In addition, relations between the Corporation and its employees may be impacted by regulatory or governmental changes introduced by the relevant authorities in whose jurisdictions the Corporation carries on business. Adverse changes in such legislations or in the relationship between the Corporation and its employees could have a material adverse impact on the Corporation’s business, results of operations and financial condition.

Relationships with local communities and other stakeholders may impact the operations of the Renard Diamond Mine

Our relationships with the communities near the Renard Diamond Mine and other stakeholders are critical to ensure the future success of the operations at the Renard Diamond Mine and any future development. There is an increasing level of public concern relating to the perceived effect of mining activities on the environment and on communities impacted by such activities. Publicity adverse to operations of the Renard Diamond Mine, or the mining industry generally, could have an adverse effect on the Renard Diamond Mine and may impact relationships with the communities in which we operate and other stakeholders. While we are committed to operating in a socially responsible manner, there can be no assurance that our efforts in this respect will mitigate this potential risk.

The Corporation has been and is actively engaged in certain community projects close to the Renard Diamond Mine operations to improve both local employment opportunities and local quality of life. Such projects may negatively impact our relationships with such local communities if the projects fail to provide the expected benefits.

RISKS AND UNCERTAINTIES – *continued* –

Financing Risks

We have a substantial amount of indebtedness which may adversely affect our cash flow and our ability to operate our business, and the terms of the agreements governing our debt and diamond streaming may restrict our current or future operations

We have a significant amount of debt. The Corporation's degree of leverage and indebtedness, as well as the restrictive covenants and other limitations imposed under the agreements governing our debt and diamond streaming, could have adverse consequences for the Corporation and its subsidiaries, including: limiting the Corporation's ability to obtain additional financing for working capital, capital expenditures, exploration and development, debt service requirements, acquisitions and general corporate or other purposes; restricting the Corporation's flexibility and discretion to operate its business; having to dedicate a portion of the cash flows of the Corporation and its subsidiaries from future mining operations, if any, to the payment of interest on its indebtedness and not having such cash flows available for other purposes; exposing the Corporation and its subsidiaries to increased interest expense on borrowings at variable rates; limiting the Corporation's ability to adjust to changing market conditions; placing the Corporation at a competitive disadvantage compared to its competitors that have less debt or greater financial resources; making the Corporation vulnerable in a downturn in general economic conditions; and making the Corporation unable to make expenditures that are important to its growth and strategies.

The ability of the Corporation to meet its debt service requirements will depend on its ability to generate cash in the future, which depends on many factors, including the financial performance of the Corporation, debt service obligations, the realization of financing activities, the identification of commercially recoverable quantities of ore or the profitable mining or processing of ore reserves and working capital and future capital expenditure requirements. There can be no assurance that the Corporation will generate cash flow in amounts sufficient to pay outstanding indebtedness or to fund any other liquidity needs.

Also, the ability of the Corporation to borrow funds in the future to make payments on outstanding debt will depend on the satisfaction of covenants, including certain financial covenants, in existing credit agreements and other agreements. In addition, the restrictive covenants contained in instruments governing our debt and in the Debt Financing Facilities and the Purchase and Sale Agreement limit our operating flexibility and could prevent us from taking advantage of business opportunities.

Our failure to comply with these covenants may result in an event of default. If such event of default is not cured or waived, we may suffer adverse effects on our operations, business or financial condition, including termination of the Debt Financing Facilities and acceleration of our debt, or FCDC being required to return non-offset portions of the Deposit to the Purchasers (with an applicable rate of interest from the payment date of the Deposit). There can be no assurance that the assets of the Corporation or SDCI, as applicable, would be sufficient to repay such indebtedness or any non-offset portions of the Deposit in full, and such default could result in secured creditors' realization of collateral. See "Risk Factors – The Corporation, Ashton and SDCI provided guarantees and security over substantially all of their consolidated assets".

RISKS AND UNCERTAINTIES – *continued* –

Financing Risks *– continued –*

The Corporation, Ashton and SDCI provided guarantees and security over substantially all of their consolidated assets

Obligations under the Purchase and Sale Agreement and the Senior Secured Loan are guaranteed and secured by certain guarantees and first priority security interests granted by SDCI, the Corporation and Ashton over substantially all of their consolidated assets, subject to certain exceptions. These security interests and guarantees may impact the Corporation's ability to secure future financing.

Stornoway has a 100% interest in the Renard Diamond Mine through its wholly-owned subsidiary, SDCI. The respective terms of the Forward Sale of Diamonds, entered into by FCDC, a wholly-owned subsidiary of SDCI, and of the Senior Secured Loan, include various covenants, including certain financial covenants, that must be satisfied by SDCI. There can be no assurance that such covenants will be satisfied, or that FCDC will be able to meet its Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement. Any default under the Purchase and Sale Agreement or the Senior Secured Loan, including any covenants thereunder, could result in the loss of the Corporation's entire interest in the Renard Diamond Mine.

Variations in Interest Rates

The Senior Secured Loan bears interest, at SDCI's option, at either (i) a floating rate equal to the most common prime rate announced by Schedule I Canadian banks, plus 4.25% per annum, or (ii) subject to availability, at a fixed rate based on the then available Government of Québec bonds for any applicable periods plus 5.25% per annum. Variations in interest rates could result in significant changes in the amount required to be applied to debt service and would affect the financial results of operations of the Corporation and its subsidiaries. If SDCI does not earn sufficient income from the Renard Diamond Mine to meet its debt service obligations under the Senior Secured Loan, the Trustee(s), for and on behalf of the Purchasers and the Senior Secured Lender and the counter-parties to permitted hedging agreements, could foreclose on the Corporation's indirect ownership interest in the Renard Diamond Mine.

Foreign exchange risk

Foreign exchange fluctuation may affect the Corporation's financial performance. Diamonds are sold in international markets at prices denominated in U.S. dollars. However the Corporation's activities and offices are located in Canada resulting in a majority of the Corporation's costs and expenses being incurred in Canadian dollars. Accordingly, decreases in the value of the U.S. dollar versus the Canadian dollar could materially affect the Corporation's financial position and results of operations.

RISKS AND UNCERTAINTIES – *continued* –

Business Environment and Industry Risks

Market for Diamonds

The mining industry, in general, is intensely competitive and, while the Renard Diamond Mine is in commercial operations, there is no assurance that a profitable market will exist for the sale of the diamonds produced.

The success of the Renard Diamond Mine will be significantly dependent on the future price of rough diamonds. If the market price for rough diamonds was to drop and the price realized by the Corporation on diamond sales were to decrease, the Corporation's profitability and cash flows would be negatively affected. A drop in the price of rough diamonds would also influence the Corporation's decision to proceed with further exploration or development and could materially and adversely affect the Corporation's ability to obtain additional financing should the circumstances require. A significant decline in the market price of rough diamonds may also require the Corporation to reduce its Mineral Reserves and Mineral Resources or alter or delay its exploration program and development plans, which could have a material adverse effect on the Corporation's value. A decline in the long-term price of rough diamonds may also require the Corporation to record an impairment charge against the carrying value of its net assets.

The prices of rough diamonds have fluctuated widely in recent years, and are affected by numerous factors beyond the Corporation's control such as international economic and political trends, global or regional consumption and demand patterns, increased production and the influence of other diamond producers, especially due to the small concentration of producers and sellers within the market and increased competition from the sale of synthetic diamonds. The effect of these factors on the price of diamonds cannot be accurately predicted and there can be no assurance that the market price of diamonds will remain at current levels or that such prices will improve. Low or negative growth in the worldwide economy, renewed or additional credit market disruptions, natural disasters or the occurrence of terrorist attacks or similar activities creating disruptions in economic growth could result in decreased demand for luxury goods such as diamonds, thereby negatively affecting the price of diamonds. Similarly, a substantial increase in the worldwide level of diamond production or the release of stocks held back during periods of lower demand could also negatively affect the price of diamonds. In each case, such developments could have a material adverse effect on the Corporation's results of operations.

There is no assurance that the price of diamonds recovered from any diamond deposit will be such that they can be mined at a profit.

RISKS AND UNCERTAINTIES – *continued* –

Business Environment and Industry Risks – *continued* –

Synthetic Diamonds

Synthetic diamonds are diamonds that are produced by artificial processes in laboratories, as opposed to natural diamonds, which are created by geological processes and found in nature. An increase in the acceptance of synthetic gem-quality diamonds could negatively affect the market prices for natural stones. Although significant questions remain as to the ability to produce synthetic diamonds economically within a full range of sizes and natural diamond colours, and as to consumer acceptance of synthetic diamonds, synthetic diamonds are becoming a larger factor in the market. Should synthetic diamonds be offered in significant quantities or consumers begin to readily embrace synthetic diamonds, on a large scale, demand and prices for natural diamonds may be negatively affected.

Marketability of Diamonds

The marketability of diamonds acquired or discovered by the Corporation and its subsidiaries may be affected by numerous factors which are beyond the control of the Corporation and which cannot be accurately predicted, such as market fluctuations, financing costs, the particular attributes of the deposit, such as its size and grade, the proximity and capacity of processing facilities, processing equipment, and such other factors as government regulations, including regulations relating to taxes, royalties, importing and exporting of minerals, requirements for "value added" processing of rough diamonds in Canada and environmental protection, the combination of which factors may result in the Corporation and its subsidiaries not receiving an adequate return of investment capital.

Intensity of Competitive Conditions and Increased or New Competition

The mining industry is intensely competitive in all its phases, and some of the Corporation's competitors have greater financial and technical resources available to them, and as a result, may be able to devote greater resources to their activities. Competition may intensify as new competitors enter into the markets in which the Corporation operates. Competition in the diamond mining industry is primarily for mineral rich properties which can be developed and produced economically and businesses compete for the technical expertise to find, develop, and produce such properties, the skilled labour to operate the properties and the capital for the purpose of financing development of such properties. Such competition may result in the Corporation being unable to acquire desired properties, recruit or retain qualified employees or acquire the capital necessary to fund its operations and develop its properties. The Corporation's inability to compete with other mining companies for these mineral deposits or capital could have a material adverse effect on the Corporation's results of operations and business.

RISKS AND UNCERTAINTIES *– continued –*

Business Environment and Industry Risks *– continued –*

Difficult global economic conditions could have a material adverse effect on our business, financial condition, results of operations and prospects

The Corporation's financial results are tied to United States, Eurozone, India, China and world economic conditions and their impact on levels of consumer confidence and consumer spending. The current global financial conditions have been characterized by increased volatility in financial and equity markets. Increased uncertainty regarding regional and global financial stability could cause the Corporation to experience revenue declines due to deteriorated consumer confidence and spending, and a decrease in the availability of credit and on the Corporation's ability to raise capital, which could have a material adverse effect on the Corporation's business, financial condition, results of operations or prospects.

In addition, the Corporation may be affected by economic conditions affecting its customers which are made up of diamond polishers and traders. For example, the demonetization of the Indian currency in November 2016 caused disruptions in the demand for trading of rough diamonds by diamond polishers and traders. This consequently had a negative effect on pricing and demand for rough diamonds, particularly certain smaller and lower value diamonds. Any such events may have an impact on the Corporation's customers which could have a material adverse effect on the Corporation's business, financial condition, results of operations or prospects.

Market Risks

Price Volatility of Common Shares

The market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Corporation's control, including the following:

- actual or anticipated fluctuations in the Corporation's quarterly results of operations;
- changes in estimates of our future results of operations by us or securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Corporation;
- change of the Corporation's executive officers and other key personnel;
- release or other transfer restrictions on outstanding Common Shares;
- sales or perceived sales of additional Common Shares;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Corporation or its competitors; and
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in the Corporation's industry or target markets.

RISKS AND UNCERTAINTIES – *continued* –

Market Risks – *continued* –

Price Volatility of Common Shares – *continued* –

This volatility of the market price for the Common Shares may also affect the ability of holders of Convertible Debentures to sell the Convertible Debentures at an advantageous price.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Corporation's operating results, underlying asset values or prospects have not changed.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Corporation's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in limited or no investment in the Common Shares by those institutions, which could adversely affect the trading price of the Common Shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Corporation's operations could be adversely impacted and the trading price of the Common Shares may be adversely affected. These broad market fluctuations may adversely affect the market prices of the Common Shares and the Convertible Debentures.

Orion, RQ, Diaquem and CDPQ will have significant influence with respect to matters put before the shareholders, which may have a negative impact on the trading price of the Common Shares

Based on public information available to it, the Corporation believes that (i) RQ and its affiliates (including Diaquem) owns 209,746,573 Common Shares, which in the aggregate represents approximately 25.11% of the issued and outstanding Common Shares, (ii) Orion owns 130,083,596 Common Shares, which in the aggregate represents approximately 15.57% of the issued and outstanding Common Shares, and (iii) CDPQ owns 44,724,660 Common Shares, which in the aggregate represents approximately 5.35% of the issued and outstanding Common Shares.

RISKS AND UNCERTAINTIES – *continued* –

Market Risks – *continued* –

Assuming the COF Warrants are exercised by CDPQ in accordance with their terms and the Convertible Debentures are converted in accordance with their terms (absent a Change of Control event), it is anticipated that (i) RQ and its affiliates (including Diaquem) would own 213,496,573 Common Shares, which in the aggregate would represent approximately 22.63% of the issued and outstanding Common Shares, (ii) Orion would own 153,213,461 Common Shares, which in the aggregate would represent approximately 16.24% of the issued and outstanding Common Shares, and (iii) CDPQ would own 58,724,660 Common Shares, which in the aggregate would represent approximately 6.23% of the issued and outstanding Common Shares.

In addition, pursuant to the Amended and Restated Investor Agreement entered into in connection with the Financing Transactions Closing, Orion is entitled to designate one (1) candidate for election or appointment to the Board of Directors as long as Orion maintains a fully diluted share ownership stake in Stornoway at or above 5%. Diaquem also has certain governance rights which were granted to it in connection with the Acquisition, as described under the heading "Election of Directors" in the Management Information Circular, which rights were restated in the Amended and Restated Investor Agreement.

Accordingly, these shareholders will have significant influence with respect to all matters submitted to the Corporation's shareholders for approval, including without limitation the election and removal of directors, amendments to the articles of continuance and by-laws of the Corporation and the approval of certain business combinations. Other holders of Common Shares will have a limited role in the Corporation's affairs. This concentration of holdings may cause the market price of the Common Shares to decline, delay or prevent any acquisition or delay or discourage take-over attempts that shareholders may consider to be favourable, or make it more difficult or impossible for a third party to acquire control of the Corporation or effect a change in the Board of Directors and management. Any delay or prevention of a change of control transaction could deter potential acquirors or prevent the completion of a transaction in which the Corporation's shareholders could receive a substantial premium over the then current market price for their Common Shares.

In addition, Orion, RQ, Diaquem and/or CDPQ's interests may not in all cases be aligned with interests of the other shareholders of the Corporation. Orion, RQ, Diaquem and/or CDPQ may have an interest in pursuing acquisitions, divestitures and other transactions that, in the judgment of their management, could enhance their equity investment, even though such transactions might involve risks to the other shareholders of the Corporation and may ultimately affect the market price of the Common Shares.

RISKS AND UNCERTAINTIES – *continued* –

Market Risks *– continued –*

Future Sales or Issuances of Securities and Dilution to Shareholders

The Corporation may issue additional Common Shares pursuant to the exercise of outstanding options and warrants, the conversion of the Convertible Debentures as well as in order to give effect to the Corporation's business plan, all of which may dilute the ownership interest of existing holders of Common Shares. The Corporation cannot predict the size of future issuances of securities or the effect, if any, that future issuances and sales of securities will have on the market price of the Corporation's securities. Sales or issuances of substantial numbers of Common Shares or warrants, or the perception that such sales could occur, may adversely affect prevailing market prices of the Common Shares or warrants and/or other securities convertible into Common Shares.

With any additional sale or issuance of Common Shares or warrants and/or other securities convertible into Common Shares, investors will suffer dilution to their voting power and the Corporation may experience dilution in its earnings per share.

Future Sales of Common Shares by Existing Shareholders

Subject to compliance with applicable securities laws, the Corporation's officers, directors, significant shareholders (including Orion, RQ, Diaquem and CDPQ) and their affiliates may sell some or all of their Common Shares in the future. No prediction can be made as to the effect, if any, such future sales of Common Shares will have on the market price of the Common Shares prevailing from time to time. However, the future sale of a substantial number of Common Shares by the Corporation's officers, directors, significant shareholders and their affiliates, or the perception that such sales could occur, could adversely affect prevailing market prices for the Common Shares.

Structural Subordination of the Common Shares

In the event of a bankruptcy, liquidation or reorganization of the Corporation, holders of certain of its indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets of the Corporation before any assets are made available for distribution to the shareholders. The Common Shares will be effectively subordinated to most of the other indebtedness and liabilities of the Corporation.

RISKS AND UNCERTAINTIES *– continued –*

Other Risks

Public Company Obligations

As a publicly listed company, the Corporation is subject to evolving rules and regulations promulgated by a number of governmental and self-regulated organizations, including the Canadian Securities Administrators, the TSX, and the International Accounting Standards Board, which govern corporate governance and public disclosure regulations. These rules and regulations continue to evolve in scope and complexity creating many new requirements, which increase compliance costs and the risk of non-compliance. The Corporation's efforts to comply with these rules and obligations could result in increased general and administration expenses and a diversion of management time and attention from revenue-generating activities.

Dependence on Management and Key Personnel

The Corporation is very dependent upon the personal efforts and commitment of its existing management, the loss of any one of whom could have a material adverse effect on the Corporation's business, results of operations and financial condition. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Corporation could result, and other persons would be required to manage and operate the Corporation.

The success of the Corporation depends, to a significant extent, on its ability to develop skills, to retain managers and qualified mining personnel, and to recruit and integrate additional managers and qualified mining personnel. Human resource risk includes the risk of delays in the recruitment of or inability to retain and motivate experienced managers and skilled mining personnel that are essential to success. There is no assurance that the Corporation will be successful in recruiting, integrating and retaining such managers and mining personnel as needed to accompany its planned operations. The failure to retain or attract a sufficient number of skilled and experienced managers and mining personnel could have a material adverse effect on the Corporation's business, results of operations and financial condition.

Tax Risk

The Corporation and its subsidiaries are subject to routine tax audits by various tax authorities. Future tax audits may result in additional tax and interest payments, including in respect of potential indemnification obligations to third parties for taxes which may be payable by them, which could negatively affect our financial condition and operating results. Changes in tax rules and regulations or the interpretation of tax laws by the courts or the tax authorities may also have a substantial negative impact on the Corporation's and its subsidiaries' business.

RISKS AND UNCERTAINTIES – *continued* –

Other Risks – *continued* –

Insurance Risk

The mining industry is subject to significant risks that could result in damage to or destruction of property and facilities, personal injury or death, environmental damage and pollution, delays in production, expropriation of assets and loss of title to mining claims. No assurance can be given that insurance to cover the risks to which the Corporation's activities are subject will be available at all or at commercially reasonable premiums. The Corporation and its subsidiaries currently maintain insurance within ranges of coverage that it believes to be consistent with industry practice for companies of a similar stage of development. The Corporation and its subsidiaries carry liability insurance with respect to its exploration operations, but is not currently covered by any form of environmental liability insurance, since insurance against environmental risks (including liability for pollution) or other hazards resulting from exploration and development activities is prohibitively expensive. The payment of any such liabilities would reduce the funds available to the Corporation and its subsidiaries. If the Corporation and its subsidiaries are unable to fully fund the cost of remedying an environmental problem, it might be required to suspend operations or enter into costly interim compliance measures pending completion of a permanent remedy.

Anti-Corruption Laws

The Corporation's operations are governed by, and involve interactions with, many levels of governments. The Corporation is required to comply with anti-corruption and anti-bribery laws, including the Criminal Code and the Corruption of Foreign Public Officials Act (CFPOA). In recent years, there has been a general increase in both the frequency of enforcement and the severity of penalties under such laws, resulting in greater scrutiny and punishment to corporations convicted of violating anti-corruption and anti-bribery laws. Furthermore, a corporation may be found liable for violations by not only its employees, but also by its contractors and third party agents. Although the Corporation has adopted steps to mitigate such risks, including the implementation of training programs and policies to ensure compliance with such laws, such measures may not always be effective in ensuring that the Corporation, its employees, contractors or third party agents will comply strictly with such laws. If the Corporation finds itself subject to an enforcement action or is found to be in violation of such laws, this may result in significant penalties, fines and/or sanctions imposed on the Corporation resulting in a material adverse effect on the Corporation's reputation, business, financial condition and results of operations.

Forward-Looking Statements may Prove Inaccurate

Investors are cautioned not to place undue reliance on forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties are found in this AIF under the heading "Cautionary Statement Regarding Forward-Looking Statements".

RISKS AND UNCERTAINTIES – *continued* –

Other Risks – *continued* –

Internal Control Over Financial Reporting

The Corporation is required to maintain internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its financial statements for external purposes. If the Corporation fails to maintain effective internal controls over financial reporting and disclosure controls and procedures, its business and results of operations could be harmed and it may be unable to report properly or timely the results of its operations. Ineffective internal control over financial reporting may also increase the risk of, or result in, fraud or misuse of corporate assets or lead to a default under one or more agreements to which the Corporation is a party. The effectiveness of the Corporation's controls and procedures could also be limited by simple errors or faulty judgments. Any such result could cause investors to lose confidence in the Corporation's reported financial information, which could have a material adverse effect on the trading price or market value of the Corporation's securities and its ability to raise capital.

No Current Plans to Pay Cash Dividends

The Corporation has no current plans to pay any cash dividends for the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of the Board of Directors and will depend on, among other things, the Corporation's financial results, cash requirements, contractual restrictions and other factors that the Board of Directors may deem relevant. In addition, the Corporation's ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness that the Corporation or its subsidiaries incur. As a result, investors may not receive any return on an investment in the Corporation's securities unless they sell the securities for a price greater than that which they paid for them.

Conflicts of Interest

The Corporation's directors and officers may serve as directors or officers, or may be associated with other reporting companies or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Corporation or its subsidiaries may participate, the directors and officers of the Corporation may have a conflict of interest in negotiating and concluding terms respecting the transaction. If a conflict of interest arises, the Corporation will follow the provisions of the CBCA dealing with conflicts of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Corporation's directors, disclose his interest and refrain from voting on the matter unless otherwise permitted by the CBCA. In accordance with the laws applicable to the Corporation, the directors and officers of the Corporation are required to act honestly, in good faith and in the best interests of the Corporation.

RISKS AND UNCERTAINTIES – *continued* –

Other Risks – *continued* –

On a regular basis, the Corporation evaluates potential acquisitions of mining properties and/or interests in other mining corporations, which may entail certain risks

Consistent with its growth strategy, the Corporation evaluates the potential acquisition of exploration, development and production assets on a regular basis. From time to time, the Corporation may also acquire securities of or other interests in corporations. The acquisition and integration of any future acquired businesses will involve a number of special risks, circumstances or legal liabilities, some or all of which could have a material adverse effect on the Corporation's business, results of operations and financial condition. Future acquired businesses may not achieve expected results of operations and may require unanticipated costs and expenditures. Integration of businesses may also place additional pressures on our systems of internal control over financial reporting. If we are unable to successfully integrate newly acquired businesses or if acquired businesses fail to produce targeted results, it could materially adversely affect our financial condition and results of operation.

In addition, to acquire properties and corporations, the Corporation could use available cash, incur debt, issue common shares or other securities, or a combination of any one or more of these. This could limit the Corporation's flexibility to raise additional capital, to operate, explore and develop its properties and to make additional acquisitions, and could further dilute and decrease the trading price of the common shares. When evaluating an acquisition opportunity, the Corporation cannot be certain that it will have correctly identified and managed the risks and costs inherent in the business that it is acquiring.

From time to time, the Corporation engages in discussions and activities with respect to possible acquisitions. At any given time, discussions and activities can be in process on a number of initiatives, each at different stages of development. Potential transactions may not be successfully completed, and, if completed, the business acquired may not be successfully integrated into the Corporation's operations. If the Corporation fails to manage its acquisition and growth strategy successfully it could have a material adverse effect on its business, results of operations and financial condition.

The Corporation may be party to certain mining joint ventures in the future, under which the Corporation's joint venture partners may be in a position to prevent the Corporation from meeting its objectives

Mining projects are often conducted through joint ventures. Joint ventures can often require unanimous approval of the parties to the joint venture or their representatives for certain fundamental decisions, such as an increase or reduction of registered capital, merger, division, dissolution, including indebtedness and the pledge of the joint venture assets, which means that each joint venture party has a veto right with respect to such decisions, which could in turn lead to a deadlock. Future joint venture partners may veto the Corporation's future business plans, with regard to a specific joint venture, and prevent the Corporation from achieving its objectives. Also, any failure of any partner to meet its obligations to the Corporation or other third parties, or any disputes with respect to third parties' respective rights and obligations, could have a negative impact on the Corporation.

RISKS AND UNCERTAINTIES – *continued* –

Other Risks – *continued* –

The Corporation may become subject to litigation and other legal proceedings that may adversely affect the Corporation's financial condition and results of operations

Like most companies, the Corporation is subject to the threat of litigation and may be involved in disputes with other parties in the future which may result in litigation or other proceedings. The Corporation's operations are subject to the risk of legal claims by employees, unions, contractors, lenders, suppliers, future joint venture partners, shareholders, governmental agencies or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation and other legal proceedings that the Corporation may be involved in the future, particularly regulatory actions, is difficult to assess or quantify. Plaintiffs may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. Defense and settlement costs can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, the litigation process could take away from the time and effort of the Corporation's management and could force the Corporation to pay substantial legal fees. There can be no assurance that the resolution of any particular future legal proceeding will not have an adverse effect on the Corporation's financial position and results of operations.

Reclamation estimates and obligations

The Corporation has secured its financial obligations for reclamation and closure costs with respect to the closure plan for the Renard Diamond Mine with surety bonds provided by leading global insurance companies in favour of the MERN, which surety bonds are secured by SDCI's property and assets. The Corporation has also provided cash collateral of $3.0 million to the underwriter of the financial guarantee.

The Corporation's actual reclamation and mine closure costs are uncertain at this time and planned expenditures may differ from the actual expenditures required. Therefore, the amount that we are required to spend could be materially higher than current estimates. Any additional amounts required to be spent on reclamation and mine closure may have a material adverse effect on our financial performance, financial position and results of operations. The Corporation could also be required to provide additional security in support of the surety bonds posted with the MERN. Any of these could result in additional constraints on liquidity.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

Based on this evaluation, the CEO and CFO concluded that the Company's DC&P and ICFR were designed and operating effectively as of December 31, 2017. ICFR was designed using the Internal Control – Integrated Framework (2013) developed by COSO (Committee of Sponsoring Organizations of the Treadway Commission).

NI 52-109 also requires Canadian public companies to disclose in their MD&A any change in ICFR that has materially affected, or is reasonably likely to materially affect, ICFR. No material changes were made to ICFR in the year ended December 31, 2017.

CAUTIONARY NOTE TO UNITED STATES INVESTORS CONCERNING ESTIMATES OF MEASURED, INDICATED AND INFERRED RESOURCES

This MD&A uses the terms "Measured", "Indicated" and "Inferred" Mineral Resources. United States investors are advised that while such terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission ("SEC") does not recognize them. "Inferred Mineral Resources" have a great amount of uncertainty as to their existence and as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies. **United States investors are cautioned not to assume that all or any part of Measured or Indicated Mineral Resources will ever be converted into Mineral Reserves. United States investors are also cautioned not to assume that all or any part of an Inferred Mineral Resource exists, or is economically or legally mineable.**

FORWARD-LOOKING STATEMENTS

This document contains forward-looking information (as defined in National Instrument 51 102 – Continuous Disclosure Obligations) and forward-looking statements within the meaning of Canadian securities legislation and the United States Private Securities Litigation Reform Act of 1995 (collectively referred to herein as "forward-looking information" or "forward-looking statements"). These forward-looking statements are made as of the date of this document and, the Corporation does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by law.

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

Forward-looking statements reflect current expectations or beliefs regarding future events and include, but are not limited to, statements with respect to: (i) the amount of Mineral Reserves, Mineral Resources and exploration targets; (ii) the estimated amount of future production over any period; (iii) net present value and internal rates of return of the mining operation; (iv) expectations and targets relating to recovered grade, size distribution and quality of diamonds, average ore recovery, internal dilution, mining dilution and other mining parameters set out in the 2016 Technical Report as well as levels of diamond breakage; (v) expectations, targets and forecasts relating to gross revenues, operating cash flows and other revenue metrics set out in the 2016 Technical Report, growth in diamond sales, cost of goods sold, cash cost of production, gross margins estimates, planned and projected diamond sales, mix of diamonds sold, and capital expenditures, liquidity and working capital requirements; (vi) mine and resource expansion potential, expected mine life, and estimated incremental ore recovery, revenue and other mining parameters from potential additional mine life extension; (vii) expected time frames for completion of permitting and regulatory approvals related to ongoing construction activities at the Renard Diamond Mine; (viii) the expected time frames for the completion of the open pit and underground mine at the Renard Diamond Mine; (ix) the expected financial obligations or costs incurred by Stornoway in connection with the ongoing development of the Renard Diamond Mine; (x) mining, development, production, processing and exploration rates, progress and plans, as compared to schedule and budget, and planned optimization, expansion opportunities, timing thereof and anticipated benefits therefrom; (xi) future exploration plans and potential upside from targets identified for further exploration; (xii) expectations concerning outlook and trends in the diamond industry, rough diamond production, rough diamond market demand and supply, and future market prices for rough diamonds and the potential impact of the foregoing on various Renard financial metrics and diamond production; (xiii) the economic benefits of using liquefied natural gas rather than diesel for power generation; (xiv) sources of and anticipated financing requirements; (xv) the ability to meet Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement; (xvi) the foreign exchange rate between the US dollar and the Canadian dollar; and (xvii) the anticipated benefits from recently approved plant modification measures and the anticipated timeframe and expected capital cost thereof. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "anticipates", "plans", "projects", "estimates", "assumes", "intends", "strategy", "goals", "objectives",

FORWARD-LOOKING STATEMENTS – *continued* –

"schedule" or variations thereof or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements.

Forward-looking statements are made based upon certain assumptions by Stornoway or its consultants and other important factors that, if untrue, could cause the actual results, performances or achievements of Stornoway to be materially different from future results, performances or achievements expressed or implied by such statements. Such statements and information are based on numerous assumptions regarding present and future business prospects and strategies and the environment in which Stornoway will operate in the future, including the recovered grade, size distribution and quality of diamonds, average ore recovery, internal dilution, and levels of diamond breakage, the price of diamonds, anticipated costs and Stornoway's ability to achieve its goals, anticipated financial performance, regulatory developments, development plans, exploration, development and mining activities and commitments, and the foreign exchange rate between the US and Canadian dollars. Although management considers its assumptions on such matters to be reasonable based on information currently available to it, they may prove to be incorrect. Certain important assumptions by Stornoway or its consultants in making forward-looking statements include, but are not limited to: (i) the accuracy of our estimates regarding capital and estimated workforce requirements; (ii) estimates of net present value and internal rates of return; (iii) recovered grade, size distribution and quality of diamonds, average ore recovery, internal dilution, mining dilution and other mining parameters set out in the 2016 Technical Report as well as levels of diamond breakage; (iv) the expected mix of diamonds sold, and successful mitigation of ongoing issues of diamond breakage in the Renard Diamond Mine process plant and realization of the anticipated benefits from plant modification measures within the anticipated timeframe and expected capital cost; (v) the stabilization of the Indian currency market and full recovery of prices; (vi) receipt of regulatory approvals on acceptable terms within commonly experienced time frames and absence of adverse regulatory developments; (vii) anticipated timelines for the development of an open pit and underground mine at the Renard Diamond Mine; (viii) anticipated geological formations; (ix) continued market acceptance of the Renard diamond production, conservative forecasting of future market prices for rough diamonds and impact of the foregoing on various Renard financial metrics and diamond production; (x) the timeline, progress and costs of future exploration, development, production and mining activities, plans, commitments and objectives; (xi) the availability of existing credit facilities and any required future financing on favorable terms and the satisfaction of all covenants and conditions precedent relating to future funding commitments; (xii) the ability to meet Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement; (xiii) Stornoway's interpretation of the geological drill data collected and its potential impact on stated Mineral Resources and mine life; (xiv) the continued strength of the US dollar against the Canadian dollar and absence of significant variability in interest rates; (xv) improvement of long-term diamond industry fundamentals and absence of material deterioration in general business and economic conditions; and absence of significant variability in interest rates; (xvi) increasing carat recoveries with progressively increasing grade in LOM plan; (xvii) estimated incremental ore recovery, revenue and other mining parameters from potential additional mine life extension with minimal capital expenditures; (xviii) availability of skilled employees and maintenance of key relationships with financing partners, local communities and other stakeholders; (xix) long-term positive demand trends and rough diamond demand meaningfully exceeding supply; (xx) high depletion rates from existing diamond mines; (xxi) global rough diamond production remaining stable;

FORWARD-LOOKING STATEMENTS – *continued* –

(xxii) modest capital requirements post-2018 with significant resource expansion available at marginal cost; (xxiii) substantial resource upside within scope of mine plan; (xxiv) opportunities for high grade ore acceleration and processing expansion and realization of anticipated benefits therefrom; (xxv) significant potential upside from targets identified for further exploration; and (xxvi) limited cash income taxes payable over the medium term.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that estimates, forecasts, projections and other forward-looking statements will not be achieved or that assumptions do not reflect future experience. We caution readers not to place undue reliance on these forward- looking statements as a number of important risk factors could cause the actual outcomes to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates, assumptions and intentions expressed in such forward-looking statements. These risk factors may be generally stated as the risk that the assumptions and estimates expressed above do not occur, including the assumption in many forward-looking statements that other forward-looking statements will be correct, but specifically include, without limitation: (i) risks relating to variations in the grade, size distribution and quality of diamonds, kimberlite lithologies and country rock content within the material identified as Mineral Resources from that predicted; (ii) variations in rates of recovery and levels of diamond breakage; (iii) the uncertainty as to whether further exploration of exploration targets will result in the targets being delineated as Mineral Resources; (iv) risks associated with our dependence on the Renard Diamond Mine and the limited operating history thereof; (v) unfavorable developments in general economic conditions and in world diamond markets; (vi) variations in diamond valuations and fluctuations in diamond prices from those assumed; (vii) insufficient demand and market acceptance of our diamonds; (viii) risks associated with the production and increased consumer demand for synthetic gem-quality diamonds; (ix) risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar and variability in interest rates; (x) inaccuracy of our estimates regarding future financing and capital requirements and expenditures, significant additional future capital needs and unavailability of additional financing and capital, on reasonable terms, or at all; (xi) uncertainties related to forecasts, costs and timing of the Corporation's future development plans, exploration, processing, production and mining activities; (xii) increases in the costs of proposed capital, operating and sustainable capital expenditures; (xiii) increases in financing costs or adverse changes to the terms of available financing, if any; (xiv) tax rates or royalties being greater than assumed; (xv) uncertainty of mine life extension potential and results of exploration in areas of potential expansion of resources; (xvi) changes in development or mining plans due to changes in other factors or exploration results; (xvii) risks relating to the receipt of regulatory approvals or the implementation of the existing Impact and Benefits Agreement with aboriginal communities; (xviii) the failure to secure and maintain skilled employees and maintain key relationships with financing partners, local communities and other stakeholders; (xix) risks associated with ongoing issues of diamond breakage in the Renard Diamond Mine process plant and the failure to realize the anticipated benefits from plant modification measures within the anticipated timeframe and expected capital cost, or at all; (xx) the negative market effects of recent Indian demonetization and continued impact on pricing and demand; (xxi) the effects of competition in the markets in which Stornoway operates; (xxii) operational and infrastructure risks; (xxiii) execution risk relating to the development of an operating mine at the Renard Diamond Mine; (xxiv) the Corporation being unable to meet its Subject Diamonds Interest delivery obligations under the Purchase and Sale Agreement; (xxv) future sales or issuances of Common Shares lowering the Common Share price and diluting the interest of existing

FORWARD-LOOKING STATEMENTS – *continued* –

shareholders; (xxvi) the risk of failure of information systems; (xxvii) the risk that our insurance does not cover all potential risks; (xxviii) the risks associated with our substantial indebtedness and the failure to meet our debt service obligations; and (xxix) the additional risk factors described herein and in Stornoway's annual and interim MD&A, its other disclosure documents and Stornoway's anticipation of and success in managing the foregoing risks. Stornoway cautions that the foregoing list of factors that may affect future results is not exhaustive and new, unforeseeable risks may arise from time to time.