

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

Containing Information up to and including July 15, 2010

OVERALL PERFORMANCE

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

As of July 15, 2010, the Company holds interests, directly or through joint ventures, in a property portfolio of some 21 properties representing approximately 3.1 million acres that can be roughly subdivided into 168,000 acres of ‘development’ stage projects (the Foxtrot Property, which includes the Renard Diamond Project), 1.6 million acres of ‘advanced’ exploration properties (Aviat, Qilalugaq, Churchill and Timiskaming) and 3.1 million acres of ‘early stage’ projects (Hammer Property and others). Collectively these properties contain some 170 kimberlite bodies.

Forward-Looking Statements

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

Forward-looking statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage.

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

¹ **Note to Reader**

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

All forward-looking statements and information are based on Stornoway's current beliefs as well as assumptions made by and information currently available to Stornoway concerning anticipated financial performance, business prospects, strategies, regulatory developments, development plans, exploration, development and mining activities and commitments. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

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

These factors include, but are not limited to, developments in world diamond markets, changes in diamond valuations, risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar, changes in exploration, development or mining plans due to exploration results and changing budget priorities of Stornoway or its joint venture partners, changes in project parameters as plans continue to be refined; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, the effects of competition in the markets in which Stornoway operates, the impact of changes in the laws and regulations regulating mining exploration and development, judicial or regulatory judgments and legal proceedings, operational and infrastructure risks and the additional risks described in Stornoway's most recently filed Annual Information Form, 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. When relying on our forward-looking statements to make decisions with respect to Stornoway, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Stornoway does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by Stornoway or on our behalf, except as required by law.

Highlights for the year ended April 30, 2010 and up to July 15, 2010:

During the year ended April 30, 2010 and the period ended July 15, 2010, the Company's primary focus was the completion of two updated National Instrument ("NI") 43-101 compliant technical reports for the Renard Diamond Project in North Central Québec.

The first NI 43-101 technical report was a revised mineral resource estimate that was announced in early December 2009; the technical report was filed in January 2010. Highlights of this work include:

- A total Indicated Mineral Resource of **23.0 million carats** and a total Inferred Mineral Resource of **13.3 million carats**, increases of **228%** and **195%** respectively over the previous estimates published in December 2008.
- At Renard 2, an Indicated Mineral Resource of **18.0 million carats**, grading **103 carats per hundred tonnes ("cpht")** and an Inferred Mineral Resource of **6.4 million carats**, grading **120 cpht**.
- A diamond valuation of **US\$117 per carat** to be applied equally to each of the Renard 2, 3, 4 and 9 kimberlite pipes for resource estimation purposes.
- New geological models demonstrating extensive upside in multiple kimberlite bodies.

The second NI 43-101 technical report was an updated preliminary assessment announced in March 2010; the technical report was filed in May 2010. The updated preliminary assessment comprises a number of elements, including: a conceptual mine plan, capital and operating cost estimates, a cash flow model, a diamond processing plant design (with capital and operating cost estimates), and social, environmental and permitting aspects. The conceptual mine plan included in the preliminary assessment is based upon the revised mineral resource estimate reported in the NI 43-101 technical report filed by Stornoway in January 2010.

Highlights from the technical report for the preliminary assessment, on a 100% project basis, are as follows:

- Base case estimates of pre-tax Net Present Value (“NPV”) and Internal Rate of Return (“IRR”) at C\$885 million (at an 8% discount rate) and 24.8% respectively using a September 2009 diamond valuation of US\$117/carats and a US dollar exchange rate of C\$1.11.
- A conceptual mine life of 25 years based on a production rate of 1.8 million tonnes per year and a total diamond production of 30 million carats.
- Estimated pre-production capital cost of C\$450 million, including contingencies of \$65.8 million, which increases to a total capital cost of C\$511 million after sustaining capital and closure cost.
- Average life of mine operating cost of C\$39.45/tonne in a conceptual mine plan utilizing both open pit and underground mining.
- Estimates of pre-tax NPV and IRR at C\$1,173 million (at an 8% discount rate) and 29.7% respectively using current market assumptions for rough diamond pricing and the current US dollar exchange rate.

In addition to the filing of the two technical reports for the Renard Diamond Project, the Company also:

- Completed a drill program of 12,718 metres at Renard 2 during the summer of 2009, which resulted in a high confidence geological model approximately four times larger than the mineral resource estimate for Renard 2 originally provided in December 2008. This new information was included in the technical report filed by the Company in January 2010;
- Filed a Notice of Intent in February 2010, the first step in the mine permitting process for the Renard Diamond Project, which is expected to take 18 to 24 months;
- Announced, in April 2010, the completion of a 1,711 metre geological drill program at Renard 3, Renard 4 and Renard 65, resulting in intersections at depth in three separate kimberlites; and
- Appointed, in May 2010, Patrick Godin as Chief Operating Officer, and hired key members of a Quebec-based mining team to transition the Renard Diamond Project through feasibility, then into construction and ultimately production.

Other Exploration Highlights

- At the Aviat Project, reported a diamond content of 159 cpht for the 190.9 dry tonnes of kimberlite collected from the ES1 kimberlite, the largest body within the Eastern Sheet Complex;
- In July 2009, discovered, by prospecting, a new kimberlite on a mineral claim within the Hammer Property area of interest and at the head of a previously unexplained kimberlitic indicator mineral anomaly with diamond inclusion chemistry;
- At the Churchill Project, announced an overall diamond recovery of 86 cpht for a 17.3 dry tonne sample from the Notch kimberlite dyke and, in August 2010, announced an agreement with Kennecott Canada Exploration Inc. and Shear Minerals Inc. whereby Kennecott may acquire up to a 70% interest in the diamond rights to the Chesterfield Inlet Diamond Project, previously the northern part of the Churchill Project;
- Increased the Company’s ownership in the Qilalugaq Project, Nunavut, to 100% by providing BHP Billiton Diamonds Inc. with a 3% gross production royalty interest on diamonds and a 3% net smelter return royalty on other minerals. Stornoway has 100% of the diamond marketing rights for this project.
- Modeled diamond contents of between 26 and 38 cpht, a substantial improvement on historical sampling results for four kimberlite lithologies within the Renard 65 kimberlite, the largest kimberlite pipe in the Renard cluster. Demonstrated diamond size frequency distribution for Renard 65 to be similar to other Renard kimberlite pipes, confirming a single diamond population previously shown to be characterized by large, high value gems.
- Continued an ongoing assessment of the Company’s various exploration properties (covering approximately 3.1 million acres), in addition to a continued review of in-house regional geological,

geochemical and geophysical databases, with the objective of targeting acquisitions of promising diamond exploration properties within Canada.

Corporate Highlights

- In May 2009, the Company completed a brokered private placement, with Sandfire Securities Inc. as lead agent, consisting of 8,421,276 "flow-through" common shares of the Company for gross proceeds of \$1,431,617. Proceeds from this financing were used to fund Stornoway's 50% share of the exploration drill program at the Renard Diamond Project during the Summer of 2009.
- In February 2010, the Company filed a short-form prospectus with securities regulators and completed an equity financing. Including exercise of an over-allotment option, the Company issued 25,370,000 common shares at \$0.50 per share for gross proceeds of \$12.7 million. Proceeds from this financing will be used for feasibility-level work at the Renard Diamond Project and for working capital.
- In June 2010, the Company issued 8,775,000 "flow-through" common shares for gross proceeds of \$5,001,750 by way of a brokered private placement, with Desjardins Securities Inc. as lead agent. Proceeds from this financing will be used to fund Stornoway's 50% share of an exploration drill program at the Renard Diamond Project during 2010, as well as grass-roots exploration work at several of the Company's other Canadian exploration properties.

SELECTED ANNUAL INFORMATION

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

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

During the year ended April 30, 2010, the Company retrospectively changed its accounting policy for exploration expenditures and financing and interest costs to more appropriately align itself with policies applied by other comparable companies at a similar stage in the mining industry. Prior to the year ended April 30, 2010, the Company capitalized all such costs to resource property costs on an individual project basis until such time as the economics of an ore body could be defined and only wrote down capitalized costs when the property was abandoned and/or impaired or if the capitalized costs were not considered to be economically recoverable. Results for the years ended April 30, 2009 and 2008 have been restated accordingly. For a more detailed explanation of this change, please see "*Changes in Accounting Policies Including Initial Adoption*" below.

	12 months ended April 30, 2010	12 months ended April 30, 2009 (Restated)	12 months ended April 30, 2008 (Restated)
Total revenue ⁽¹⁾	\$ 47	\$ 196	\$ 739
Expenses	8,218	12,991	17,667
Write off of exploration costs on outside properties and properties abandoned	20,992	438	13,057
Future income tax recovery	5,807	1,471	13,163
Loss from continuing operations	(23,563)	(1,070)	(31,107)
Basic loss per Share	(0.09)	(0.00)	(0.16)

Net loss	(23,563)	(1,070)	(31,107)
Basic and diluted loss per Share	(0.09)	(0.00)	(0.16)
Total Assets	109,438	124,355	135,023
Total long-term financial liabilities ⁽²⁾	8,516	13,796	35,389

- (1) Total revenue consists of interest income and property management fees. The Company is an exploration stage company and has no income from operations.
- (2) Total long-term financial liabilities includes future income tax liabilities of \$7,806 as at April 30, 2010, \$13,162 as at April 30, 2009; and \$13,163 as at April 30, 2008.

RESULTS OF OPERATIONS

The Company's loss from operations for the year ended April 30, 2010 (the "Current Year") was \$23.6 million (a loss of \$0.09 per share) as compared to a loss of \$1.1 million restated (\$0.00 loss per share restated) for the year ended April 30, 2009 (the "Comparative Year"). The Company's loss for the Current Year is mainly due to a write-off of capitalized resource property costs (Current Year - \$21.0 million; Comparative Year - \$438,000 restated) and expenses of \$8.2 million (Comparative Year - \$13.0 million restated), including exploration expenses of \$4.2 million (Comparative Year - \$8.6 million restated). In the Comparative Year, the Company recorded a \$13.3 million gain on the early extinguishment of the debt component of a \$20.0 million convertible debenture, which significantly reduced the loss after taxes in the Comparative Year.

During the Current Year, the Company changed its accounting policy for exploration expenditures and financing and interest costs from capitalization to expense on a retrospective basis. Exploration expenditures are now charged to operations as they are incurred until the mineral property reaches the development stage. Financing and interest cost are also charged to operations. Significant costs related to property acquisitions, including allocations for undeveloped mineral interests, are capitalized until the viability of the mineral interest is determined. When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized. For a more detailed explanation of this change, please see "*Changes in Accounting Policies Including Initial Adoption*" below.

Expenses decreased (Current Year - \$8.2 million; Comparative Year - \$13.0 million restated) primarily because the Company spent less on exploration expenditures due to reduced budgets during calendar 2009. The decrease in professional fees (Current Year - \$184,000; Comparative Year - \$249,000) and exploration costs (Current Year - \$4.2 million; Comparative Year - \$8.6 million restated) reflects an overall decrease in activity levels and a reduction in field exploration program budgets for the Company in the Current Year when compared to the year ended April 30, 2009. Results from the Company's exploration programs during the Current Year are described below in the "*Exploration Update*" section. Salaries and benefits (Current Year - \$1.0 million; Comparative Year - \$1.1 million) increased from the Comparative Year, after adjusting for a \$495,000 payment for severance in the Comparative Year. Some administrative expenditures increased in the Current Year, including: administrative fees and rent (Current Year - \$455,000; Comparative Year - \$361,000), and office and sundry (Current Year - \$374,000; Comparative Year - \$288,000). Historically, a portion of the rent and office expense was allocated to the lab department. Expenses previously allocated to the lab department are now included with general and administrative expenses, after the lab department was restructured in June 2008. Expenses also include non-cash items including: accretion (Current Year - \$76,000; Comparative Year - \$76,000 restated), amortization (Current Year - \$933,000; Comparative Year - \$1,316,000 restated) and stock-based compensation (Current Year - \$573,000; Comparative Year - \$637,000 restated). Historically, the Company's stock options have vested in thirds over a one year period from the grant date. During the Current Year, the Board of Directors adopted a Stock Option Grant Policy (the "Policy"). This Policy sets annual stock option grants and 5-year option level targets for all optionees, based on responsibility levels. Stock options vest immediately on the grant date. As a result, the estimated fair-value of this option grant was recorded at the time of grant, rather than over the vesting period.

The Company's interest income declined in the Current Year to \$47,000 from \$196,000 in the Comparative Year, due to smaller cash balances available for investment and historically low interest rates paid on funds invested.

Interest expense in the Current Year of \$68,000 (Comparative Year - \$104,000) includes a payment for Part 12.6 tax and Quebec tax related to the 2008 flow-through financing. In the Comparative Year, the Company wrote-down its investments by \$1.1 million (Current Year - \$Nil) as at the time of the impairment charge, the decline in fair value was deemed to be other than temporary. During the Current Year, the Company changed its accounting policy from capitalizing financing and interest costs to expensing. As a result, the Company recorded financing and interest costs of \$1.3 million in the Comparative Year restated (Current Year - \$Nil). During the Current Year, the Company recorded a future income tax recovery of \$5.8 million (Comparative Year - \$1.5 million restated), which decreased the Company's net loss after taxes to \$23.6 million (Comparative Year - \$1.1 million restated).

The Current Year loss of \$23.6 million was greater than the Company's net loss of \$1.1 million (restated) in the Comparative Year due mostly to a greater write-off of capitalized resource property costs (Current Year - \$21.0 million; Comparative Year - \$438,000 restated), and a \$13.3 million gain (net) on the early extinguishment of the Company's convertible debentures during the Comparative Year. In accordance with EIC-96 "Accounting for the early extinguishment of convertible securities through early redemption or repurchase", the Company recognized a gain, for accounting purposes, of \$13.9 million with respect to the liability component of the convertible debentures, which was settled with common shares using a deemed price of \$0.90 per share. At the date of the redemption, the Company's common shares traded at approximately \$0.30, resulting in a gain of \$13.9 million in the Comparative Year. As part of this redemption, the Company issued 2,222,222 common shares at a deemed value of \$0.90 to the holders. These common shares had a fair market value of \$667,000 (\$0.30 per share), which reduced the \$13.9 million gain on the early extinguishment of convertible debt to \$13.3 million in the Comparative Year. As at April 30, 2010 and to the date of this report, the Company has no outstanding debt.

As at April 30, 2010, total assets decreased to \$109.4 million from \$124.4 million (restated) at the April 30, 2009 year-end. Capitalized resource property costs decreased from \$114.7 million (restated) to \$93.9 million as at April 30, 2010. During the Current Year, the Company wrote-off capitalized resource property costs of \$21.0 million (Comparative Year - \$438,000 restated). The majority of this write-off (\$13.7 million) relates to properties in Ontario, Nunavut (\$5.3 million) and the Churchill Project (\$2.0 million), where no future exploration programs are planned for the foreseeable future. During the year ended April 30, 2010, the Company retrospectively changed its accounting policy for exploration expenditures to more appropriately align itself with policies applied by other comparable companies at a similar stage in the mining industry. Prior to the year ended April 30, 2010, the Company capitalized all such costs to resource property costs on an individual project basis until such time as the economics of an ore body are defined and only wrote down capitalized costs when the property was abandoned and/or impaired or if the capitalized costs were not considered to be economically recoverable.

The Company's cash, cash equivalents and short-term deposit amounts increased during the Current Year, from \$1.6 million as of April 30, 2009 to \$9.2 million as of April 30, 2010. The most significant changes in the Company's cash position resulted from a flow-through private placement in May 2009 and a short-form offering, for gross proceeds of \$1.4 million and \$12.7 million respectively. The Company's total liabilities, consisting primarily of future income tax liabilities (Current Year - \$7.8 million; Comparative Year - \$13.2 million restated), decreased to \$11.7 million as at April 30, 2010 from \$15.7 million (restated) as at April 30, 2009. Shareholder's equity decreased to \$97.7 million as at April 30, 2010 from \$108.6 million (restated) as at April 30, 2009.

EXPLORATION UPDATE

Stornoway's material mineral property is the Renard Diamond Project, part of the larger Foxtrot Property in the Otish Mountains located in Québec, Canada. The following discussion is an update to disclosure in documentation filed with regulatory agencies and is available for viewing under Stornoway's profile on the SEDAR website at www.sedar.com.

FOXTROT PROPERTY – RENARD KIMBERLITE BODIES, QUEBEC

The Foxtrot Property, containing the Renard cluster of kimberlite bodies, is a 50/50 joint venture between Stornoway's wholly owned subsidiary Les Diamants Stornoway (Canada) inc. ("**Les Diamants Stornoway**"), and SOQUEM Inc.'s ("**SOQUEM**") wholly owned subsidiary, Diaquem. Les Diamants Stornoway is the project operator. Since 1996, Les Diamants Stornoway and SOQUEM have evaluated an area of more than 400,000 square

kilometres of the eastern Archean Superior craton. Exploration conducted by the joint venture has resulted in the discovery of a new field of kimberlite intrusions on the Foxtrot property, notably the Renard cluster of kimberlite bodies, and a nearby system of kimberlite dykes, the Lynx-Hibou dykes.

Results from Summer 2009 Drill Program

In October 2009, Stornoway announced the completion of the summer drill program on the Renard 2 kimberlite pipe. A total of 24 holes were collared at Renard 2 (including three that extended existing older holes) and 12,718m of new core was collected. Five of the 24 holes were terminated early due to excess deviation that would have prevented critical deep pierce points from being obtained, and one hole was lost at depth due to technical difficulties. The new drilling was completed on a detailed in-fill pattern designed to convert previously announced new kimberlite zones on adjacent sides of Renard 2 to the indicated mineral resource category. This new information has been incorporated into a revised geological model comprising a tuffisitic kimberlite breccia (kimb2a or "Blue" kimberlite) and a dominantly coherent kimberlite (kimb2b or "Brown" kimberlite). Intersections of potentially high grade hypabyssal kimberlite breccia and hypabyssal kimberlite occur in both the Blue and Brown units. The new geological model also incorporates units of country rock breccia and cracked country rock.

As successive, more detailed drill campaigns at Renard 2 have unfolded, previously conservative geological models for the pipe based on limited data have given way to more detailed models with a higher degree of confidence and, concurrently, greater estimates of kimberlite tonnage. The previous mineral resource estimate, documented in the Company's NI 43-101 "Technical Report on the Preliminary Assessment of the Renard Project, Quebec, Canada" dated December 12, 2008 (the "**2008 PA Report**") for Renard 2 comprised 3.36 million tonnes of indicated mineral resource and 1.80 million tonnes of inferred mineral resource (calculated to 570m depth). At that time, additional upside within Renard 2 in the form of potential mineral deposit was estimated at 2.5 to 7.1 million tonnes of kimberlite (to 700m depth). In March 2009, following the winter campaign of deep drilling, the estimate for this material was upgraded to 10.5 to 12.3 million tonnes (to 700m depth). Following the summer 2009 campaign, the estimate for this material was further upgraded to 14.8 to 17.8 million tonnes (to 700m depth), based on regularly spaced drill intercepts. This upside material, originally characterized as potential mineral deposit, was incorporated into the new mineral resource estimation (see "Updated Resource Estimate" below).

Updated Resource Estimate

In December of 2009 the Company announced an updated mineral resource estimate for the Renard Diamond Project. The NI 43-101 compliant estimate of indicated and inferred mineral resources, summarized in Table 1 below, was compiled by Golder Associates Ltd. ("**Golder**"). The technical report is available for viewing under Stornoway's profile on the SEDAR website at www.sedar.com. Golder reviewed updated three dimensional geological models for each kimberlite body (prepared by Stornoway) and extensive project data collected since 2001. The mineral resource estimate comprises the integration of kimberlite volumes, density, petrology and diamond content data obtained from 81,894m of diamond drilling, 6,151m of reverse circulation ("**RC**") drilling, 12.7 tonnes of samples submitted for microdiamond analysis, 600.8 carats of diamonds (6,457 stones) recovered from RC drilling and 8,611.6 carats of diamonds (84,381 stones) recovered from surface trenching and bulk sampling.

Table 1: Total NI 43-101 Mineral Resource Estimate^{1,3}

Kimberlite	Grade (cpht) ^{4,5}	Tonnes (millions)	Contained Carats (millions)
<i>Indicated Resource</i>			
Renard 2	103	17.48	17.96
Renard 3	106	1.71	1.81
Renard 4	44	7.32	3.20
Renard 9	--	--	--
Lynx	--	--	--
Hibou	--	--	--
Total Indicated	87 (+44%)²	26.50 (+128%)²	22.96 (+228%)²
<i>Inferred Resource</i>			
Renard 2	120	5.36	6.42
Renard 3	122	0.15	0.19
Renard 4	41	4.57	1.87
Renard 9	46	5.75	2.63
Lynx	107	1.80	1.92
Hibou	144	0.18	0.26
Total Inferred	75 (+19%)²	17.81 (+149%)²	13.29 (+195%)²

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

²Percent increase from previously disclosed NI 43-101 Mineral Resource Estimate

³Totals may not add due to rounding.

⁴Carats per Hundred Tonnes.

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

The revised mineral resource estimate shown above demonstrates an increase in both tonnage and carats when compared to the mineral resource documented in the 2008 PA Report. Providing resource assumptions and economic parameters remain the same as in the 2008 PA Report, the mineral resources reported in Table 1 have reasonable prospects for economic extraction. However, mineral resources that are not mineral reserves do not have demonstrated economic viability.

Potential Mineral Deposit

In addition to the mineral resources, Golder reviewed the potential mineral deposit which totals 12.2 to 26.5 million carats (26.8 to 45.7 million tonnes at grades ranging from 23 to 168 cpht), as summarized in Table 2 below.

Table 2: Estimate of Potential Mineral Deposit^{1,2}

Kimberlite Body	Range of Grades (cpht) ^{3,4}			Range of Tonnes (millions)			Range of Contained Carats (millions)		
Renard 2	--	to	--	--	to	--	--	to	--
Renard 3	107	to	168	0.1	to	0.2	0.1	to	0.3
Renard 4	38	to	79	5.1	to	8.2	1.9	to	6.5
Renard 9	45	to	50	3.1	to	7.2	1.4	to	3.6
Renard 65	23	to	33	12.6	to	24.0	2.9	to	7.9
Lynx	96	to	120	3.1	to	3.2	3.0	to	3.8
Hibou	104	to	151	2.7	to	2.9	2.9	to	4.3
Total Potential Mineral Deposit				26.8	to	45.7	12.2	to	26.5

¹Potential mineral deposit does not constitute a mineral resource, and the reader is cautioned that the potential quantity and grade of any potential mineral deposit is conceptual in nature, and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

²Totals may not add due to rounding.

³Carats per Hundred Tonnes.

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

The potential mineral deposit for the Renard kimberlite pipes has been determined by projecting reasonable kimberlite volumes from the base of the inferred mineral resource to a depth of 700m below surface. In the case of the Lynx and Hibou dykes, the potential mineral deposit was established on the basis of known drill intersections of kimberlite for which insufficient diamond sampling exists to adequately estimate a diamond resource grade. A large quantity of kimberlite contained within the Renard 65 body has also been designated as potential mineral deposit given the sensitivity to diamond price growth over the expected mine-life at Renard. The reader is cautioned that the potential quantity and grade of any potential mineral deposit 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.

Tonnages and Grades

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

Cut-off depths for the mineral resource categories were defined within each pipe based on density of drill control and the consistency of grade data within the geological models. Indicated mineral resources at Renard 2 encompass kimberlite from surface to a depth of 600m, and inferred mineral resources extend vertically for another 100m. Indicated mineral resources for Renard 3 and 4 extend from surface to a vertical depth of 250m. Inferred mineral resources extend from 250m to 395m below surface for Renard 3, and from 250m to 380m below surface for Renard 4. Renard 9 does not have a large tonnage bulk sample, and consequently the inferred mineral resource extends from surface to 380m below surface. Inferred mineral resources for the Lynx and Hibou dyke systems are restricted to the areal extent of modeled kimberlite within 100m of surface trenches.

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

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

Notable Changes to the Mineral Resource Estimate since December 2008

The revised indicated and inferred mineral resource tonnages at Renard 2 (17.48 million tonnes and 5.36 million tonnes, respectively) represent increases of 420% and 198% compared to the December 2008 estimate and reflect the extension of known kimberlite to depths of 700m below surface during the 2009 drill program. At 700m below surface, the Renard 2 kimberlite lithologies measure approximately 116m by 224m, have a surface area of 2.1 hectares, and remain open at depth.

Changes to resource tonnages for Renard 3, 4 and 9 result from the application of a revised modeling technique that better reflects pierce points established by drilling and conforms to current geological emplacement models. Modifications to the Renard 3 model take into account three deep drill holes completed during the 2009 program.

The revised Renard 2 geological model comprises two primary kimberlite lithologies, a tuffisitic kimberlite breccia (kimb2a or "Blue" kimberlite) and a coherent kimberlite (kimb2b or "Brown" kimberlite). High grade hypabyssal kimberlite (kimb2c) occurs in both the Blue and Brown units. The Blue unit has higher average country rock

dilution than the Brown, and its grade is lower. The Renard 2 indicated mineral resource grade of 103 cpht is derived from a Blue-Brown ratio of 58% to 42% to 600m depth, whilst the inferred mineral resource grade of 120 cpht is derived from a more favourable Blue-Brown ratio of 43% to 57% between 600m and 700m depth. This represents increases in indicated and inferred mineral resource grades for Renard 2 of 27% and 39% respectively over the previous estimates.

Using the grade estimation methodology described above, indicated and inferred mineral resource grades for Renard 3 have decreased 9% and increased 1% respectively (to 106 cpht and 122 cpht), indicated and inferred mineral resource grades for Renard 4 have increased 19% and 32% respectively (to 44 cpht and 41 cpht), and the inferred mineral resource Grade for Renard 9 has increased 15% (to 46 cpht).

New geological models were constructed for the Lynx and Hibou dykes, and grades were determined primarily from bulk sample recoveries. Some 177,800 tonnes of kimberlite (256,000 carats) contained within the Hibou dyke and previously designated as potential mineral deposit have been elevated to the inferred mineral resource category on the basis of the large tonnage trench sampling completed subsequent to December 2008. Inferred tonnage at Lynx has increased by 35% to 1.8 million tonnes.

Diamond Breakage

As an additional quality control measure, Golder commissioned a detailed diamond breakage study on each Renard diamond sample utilized in the resource estimation process. This was conducted by Dr. Paddy Lawless, a leading authority on diamond breakage, between August and September 2009. The study determined that overall diamond breakage levels were high, and breakage was particularly severe in the RC samples, and in the bulk samples processed at the joint venture's wholly owned 10 tonne per hour DMS plant located at the project site. Diamond breakage in exploration sized samples has implications for grade and value determinations, and can occur in DMS processing plants because of aggressive ore crushing, excessive re-circulation of concentrates, and inter-particle impacts. Diamond breakage in RC samples is commonly attributed to both processing and the extraction method itself. Dr. Lawless' study determined potential grade losses of between 23% and 38% in the RC samples and between 15% and 28% in the bulk samples. A modest amount of diamond breakage can be expected in any diamond processing plant, including a commercial scale plant, so no attempt has been made to adjust the mineral resource grades to account for this effect. However, it is Golder's view that if appropriate diamond value management practices are followed in the production plant, improvements in grade and value recovery above that assumed in the mineral resource statement are possible upon production start-up.

Diamond Valuation

As part of the current resource work, the diamond size frequency distributions of all bodies were examined in detail with consideration given to the diamond breakage and plant recovery characteristics of each diamond sample. It is the opinion of Golder that the size frequency distributions of Renard 2, Renard 3, Renard 4 and Renard 9 are similar, and that it is appropriate to use a single size frequency distribution to determine value on the basis that there exists a similar diamond population within the four kimberlite pipes.

In conjunction with the updated resource work, WWW International Diamond Consultants Ltd. ("WWW") was commissioned to provide an updated diamond valuation of the Renard diamond bulk samples that had been previously valued in September 2007 and again in March 2008. The new diamond value models were obtained by applying WWW's September 2009 rough diamond price book to the existing valuation models established during the earlier exercises. WWW recommended a modeled "Base Case" diamond price estimate for both the Renard 2 and Renard 3 valuation samples of US\$117 per carat (estimated at a +1 DTC sieve size cut-off), with a "high" modeled price estimate of US\$131 per carat and a "low" modeled price estimate of US\$103 per carat. This is a 3% decrease compared to the previous diamond price model of US\$121 per carat determined in March 2008 (Stornoway press release dated April 28th 2008).

Consistent with the approach recommended by Golder, this price of US\$117 per carat will also be applied to Renard 4 and Renard 9.

The WWW recommended "base case" diamond price estimate for the Lynx valuation sample is US\$57 per carat, with a "high" modeled price estimate of US\$85 per carat and a "low" modeled price estimate of US\$48 per carat, a 14% decrease compared to the previous estimate.

Updated Preliminary Assessment

In March 2010, the Company announced the receipt of an updated Preliminary Assessment for the Renard Diamond Project. The study comprises a conceptual mine plan, capital and operating cost estimates, and cash flow model prepared by Scott Wilson Roscoe Postle Associates Inc. ("Scott Wilson RPA"), a diamond processing plant design, with capital and operating cost estimates, prepared by AMEC Americas Limited ("AMEC"), and social, environmental and permitting aspects contributed by Stantec Experts-conseil limitée ("Stantec"). The conceptual mine plan is based upon an NI 43-101 compliant mineral resource estimate prepared by Golder Associates Ltd. discussed above. The technical report is available for viewing under Stormoway's profile on the SEDAR website at www.sedar.com.

This updated Preliminary Assessment supercedes an initial NI 43-101 compliant Preliminary Assessment dated December 12, 2008, revised March 25, 2009), prepared by Agnico-Eagle Mines Limited ("Agnico") and AMEC, and reviewed by Scott Wilson RPA. Since the December 2008 report, a highly successful drill program (*as described under "Results from Summer 2009 Drill Program" above*) resulted in a tripling of both the indicated and inferred resources at Renard, prompting the March 2010 update. For the updated 2010 Preliminary Assessment, Scott Wilson RPA have redesigned the conceptual mine plan to best exploit the new, larger resource, and refreshed the capital and operating cost estimates. AMEC have also supplied updated cost estimates for a diamond processing plant design derived from the earlier study, but now expanded to a rated capacity of 5,000 tonnes per day.

Cost estimation in the updated Preliminary Assessment has largely been completed to a Pre-Feasibility standard: most capital and operating costs are drawn from direct supplier quotes, or unit costs established at comparable Québec and Nunavut mining operations, including those of Agnico. However, the conceptual nature of the mine design and the inclusion of inferred resources in the economic assessment define the study as a "Preliminary Assessment" under NI 43-101 Standards of Disclosure for Mineral Projects. Inferred mineral resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and therefore there is no certainty that the Preliminary Assessment will be realized.

Financial Model

A base case financial model has been prepared using a US dollar exchange rate of C\$1.11, as recommended for planning purposes by Scott Wilson RPA, and NPV has been calculated at an 8% discount rate. A diamond price estimate of US\$117/carat has been adopted following a diamond valuation and modeling exercise undertaken by WWW in September 2009, and has been applied equally to the Renard 2, 3, 4 and 9 kimberlite pipes. An annual diamond price escalation factor of 2.5% has been applied starting in 2011, consistent with a consensus of recent diamond industry price forecasts. On this basis, pre-tax NPV is C\$885 million, with a pre-tax IRR of 24.8% (Table 1).

Recovered Carats (m)	29.9
Tonnes Processed (m)	42.6
Recovered Grade (cpht)	70
Mine Life (years)	25
Total Cap-ex (C\$m)	\$511
Pay Back (years)	5
Average Op-ex (C\$/tonne)	\$39.45
Total Revenue (C\$m)	\$5,754
Total Operating Cash Flow (C\$m)	\$3,390
Pre-Tax NPV (C\$m)	\$885
Pre-Tax IRR	24.8%
After-Tax NPV (C\$m) ⁴	\$538
After-Tax IRR ⁴	20.5%

¹The preliminary assessment includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the preliminary assessment will be realized.

²Base case financial model utilizing a September 2009 diamond valuation by WWW International Diamond Consultants Ltd. of US\$117/ct, a 2.5% diamond price escalation starting in 2011, a US Dollar Exchange rate of C\$1.11, and an 8% discount rate.

³All figures are on a 100% project basis.

⁴Based on a generalised tax analysis for a comparable Quebec mining operation.

An alternate financial model has been prepared that shows the impact on project economics of using current estimates of rough diamond pricing and the current US dollar exchange rate. Since September 2009, WWW has reported a 25% increase in its rough diamond price index. Applying this diamond price uplift and a US dollar exchange rate of C\$1.02 (as of the date of this release) gives a pre-tax estimate of NPV of C\$1,173 million, a 33% gain over the base case model, and a pre-tax IRR of 29.7%.

Sensitivity Analysis

A sensitivity analysis of the base case pre-tax NPV (Table 2) illustrates the robust nature of the project. Among a basket of operating parameters, the project is most sensitive to revenue items such as grade and/or diamond price, and least sensitive to capital cost. The project is also highly leveraged to diamond price growth, given the large resource and long mine life, with pre-tax NPV sensitivities of \$C370 million to \$C1,633 million for a diamond price escalation factor of 0% to 5%.

	-20%	-10%	0%	+10%	+20%
US Dollar Exchange Rate	\$498	\$691	\$885	\$1,079	\$1,273
Operating Cost	\$1,014	\$950	\$885	\$821	\$757
Capital Cost	\$967	\$926	\$885	\$844	\$803
Grade/Diamond Price	\$498	\$691	\$885	\$1,079	\$1,273
		10%	8%	5%	
Discount Rate		\$642	\$885	\$1,440	
		0%	+2.5%	+5%	
Diamond Price Escalation		\$370	\$885	\$1,633	

¹All figures are on a 100% project basis and in C\$.

Conceptual Mine Plan

The conceptual mine plan includes both open pit and underground mining. Three open pits are contemplated at each of Renard 2, Renard 3 and Renard 4, with designs guided by Whittle pit software. The expected strip ratio of the open pits is 1.5:1 with ultimate pit depths of approximately 105m. During the first three years of operation, the production rate would be 3,500 tonnes per day, including 2,000 tonnes per day from the open pits and 1,500 tonnes per day from the underground mine. Following this, the production rate would increase to 5,000 tonnes per day as the underground mine is expanded, and would remain at this level for the balance of the mine life. Open pit mining would cease in year 6, after which production would be derived exclusively from the underground mine. Annual carat production is currently expected to ramp up from 1.1 million carats in year 1 to a maximum of 1.6 million carats by year 6.

Assisted block caving has been proposed as the underground mining method for the Renard 2 and Renard 4 kimberlites. Block caving is a typical low cost, underground mass mining method used in other diamond mining operations. Since 2008, an extensive geotechnical dataset has been assembled in support of the adoption of this mining method, and it is considered to be the optimum technique for the Renard kimberlites. Development levels at 100m intervals have been incorporated into the underground mine design to facilitate an “assisted” block cave through drilling and blasting of the kimberlite bodies. Blasthole open stoping has been proposed as the underground mining method for the Renard 3 and Renard 9 kimberlites due to the geometry and size of these bodies.

Mining dilution in the open pits is estimated to average 10%. Mining dilution in the underground mine is estimated at 17% on average, varying between 14% and 56% for individual bodies, and is based upon the adoption of a 3 meter dilution envelope around the kimberlite to be mined. However, current geotechnical data suggest that a lower rate of wall rock dilution in the underground mine may be achieved. Extraction of kimberlite from the underground stopes is estimated at 90%.

Access to the Renard 2, Renard 4 and Renard 9 underground workings would be through a shaft to the 800 meter level which would be developed during the first two years of mine production. The shaft can be extended should additional mineral resources be identified at depth. Early plant feed from the underground mine would be by way of a ramp at Renard 2 between the 150 and 200 meter levels. Access to the Renard 3 underground mine would be by way of a ramp at the bottom of the Renard 3 pit.

On the basis of this conceptual mine plan and production rate, there are currently sufficient mineral resources in the indicated and inferred categories to support a 25 year mine life. All kimberlite pipes remain open at depth.

Capital Cost

The total capital expense (“cap-ex”) is estimated to be C\$510.6 million, including life of mine sustaining capital at C\$54.0 million, a diamond processing plant at C\$101.0 million, and a contingency of C\$65.8 million (Table 3). Pay-back is estimated at five years. The contingency, equal to approximately 13% of the total cap-ex, was calculated for individual items using a risk based system with quoted costs having the highest level of confidence. The pre-production capital cost (cap-ex less post-production sustaining capital and closure cost) is estimated to be C\$449.7 million, including C\$68.9 million to complete shaft sinking and prepare for the assisted block caving on the 700 meter level. Working capital totaling C\$18.0 million has also been included to facilitate operations prior to receipt of revenues in the first year of production. Contractors would be utilized for site infrastructure construction, pre-stripping, and open pit mining.

Table 3: Estimate of Capital Costs (C\$m)^{1,2}	
Site Infrastructure	\$61.0
Underground Mine	\$41.6
Shaft Construction	\$68.9
Open Pit Mine	\$13.0
Surface Facilities	\$25.9
Diamond Processing Plant (AMEC)	\$101.0
Tailings Management Facilities	\$2.3
General Fees ³	\$70.2
Sustaining Capital	\$54.0
Closure Cost	\$6.9
Contingency	\$65.8
Total	\$510.6
¹ Totals may not add due to rounding.	
² All figures are on a 100% project basis.	
³ General fees include owners' costs, engineering, procurement, construction supervision, transportation and lodging.	

Operating Cost

Operating costs are anticipated to average C\$39.45/tonne, including average mining costs of C\$12.20/tonne, C\$12.45/tonne for ore processing and C\$13.43/tonne for surface services and general administration. Mining costs are calculated as an average of the underground costs (C\$13.46/tonne of resource mined) and open pit costs (C\$4.54/tonne of resource and waste mined) over the mine life. Operating costs were estimated through contractor quotes or real-case unit costs derived from operating mines. A diamond marketing cost of 3% of revenue has also been applied.

Diamond Processing Plant

The diamond processing plant has been designed by AMEC with a name plate capacity of 5,000 tonnes of kimberlite per day, or 1.8 million tonnes annually. Plant feed preparation would include initial jaw and cone crushing followed by tertiary crushing employing a high pressure grinding rolls crusher, scrubbing and screening with vibrating screens. Heavy mineral concentration would occur in a Dense Media Separation plant and the diamonds would be separated from the heavy mineral concentrate using X-ray sorting and grease table technology. Plant utilization is estimated at 78% with rated diamond recovery of 100% of the resource grade based on a bottom size cut-off of 1mm, and an upper size cut-off of 30mm, this being optimized for large diamond recovery. Flow sheet design was based on laboratory tests and metallurgical data recorded during the processing of the Renard kimberlite bulk samples.

Access

Site access is based on the assumed availability of an all-season, multi-service road from the south. This road, named the "Route 167 Extension", is currently the subject of a Feasibility Study and Social and Environmental Impact Assessment under the auspices of the Québec Ministry of Transport, which has committed \$130 million of major capital funding to its development. It is expected that the final funding arrangements for the road will include a component of cost recovery from industrial users, including the Renard Diamond Project. Until the finalization of these arrangements, no provision has been made in the project operating costs for any potential payment levied for road use. It was estimated in 2008 that, should this all-season road not be available at the time of mine construction, an additional capital expense of C\$39.4 million would be incurred to construct a winter road and the additional site infrastructure that seasonal access would dictate. Annual maintenance of the winter road and the associated logistical charges for mine operation was estimated to result in an increase to project operating costs of approximately C\$4.49/tonne for as long as the winter road was being utilized.

Environment, Permitting and Communities

The Renard Diamond Project falls within the social and environmental protection regime of the James Bay and Northern Québec Agreement (the “JBNQA”). On February 11, 2010 Stornoway filed the “Notice of Intent” with the JBNQA administrators, for review by its Evaluating Committee (the “COMEV”). The Notice of Intent is the first step in a mine permitting process expected to take between 18 and 24 months, and its purpose is to present the administrators with a description of the nature and scope of the project so as to obtain study requirements for a subsequent Social and Environmental Impact Assessment. In addition to the JBNQA, the project falls under the purview of the Canadian Environmental Assessment Act, requiring an equivalent federal assessment to be completed pursuant to the terms of the JBNQA. Once the provincial and federal administrators have issued authorizations for project development, final mine permits would be sought from the Québec *Ministère du Développement durable, de l'Environnement et des Parcs*, the *Ministère des Ressources Naturelles et de la Faune*, and all relevant federal authorities.

In the area where the Renard Diamond Project is located, the JBNQA provides for the protection of certain hunting, fishing and trapping rights of the James Bay Crees, and more specifically members of the Cree Nation of Mistissini (the “CNM”), the closest community to the project. The joint venture is currently engaged in discussions with the CNM and the Grand Council of the Crees (Eeyou Itschee) with the aim of concluding an Impact and Benefits Agreement associated with a potential mine development.

Taxes and Royalties

After-tax NPV is calculated using a generalized tax and royalty analysis consistent with mines currently in operation in Québec, and is provided on an indicative basis only. No assessment specific to the Renard Diamond Project has been performed. On this generalized basis, the corporate tax that has been applied averages 26.9% in the base case financial model. The after-tax analysis assumes a net royalty rate of 12%, which is the rate applicable to a metal mine in the province.

Notable Changes in Key Project Metrics since December 2008

As compared to the initial Preliminary Assessment at Renard (December 2008), the revised preliminary assessment (March 2010), is significantly better. The estimated pre-tax NPV of the project has improved from C\$56 million to \$C885 million, and the pre-tax IRR from 14.2% to 24.8%, using similar financial model assumptions (Table 4). This dramatic improvement in the potential economic viability of the project in one year was brought about, primarily, by a more than threefold increase in the indicated and inferred mineral resources at Renard following the 2009 resource expansion drill program (please see description “*Results from Summer 2009 Drill Program*” above). In addition, the higher processing capacity (supported by the larger plant, the shaft, and the assisted block-caving underground mining method) has reduced the overall operating cost per tonne by as much as 22%, and the larger stope designs at Renard 2 have resulted in an improvement in the overall mining dilution. All of these improvements have resulted in an increase in the average operating margin from 55% to 70%, despite adverse movements during the year in the US dollar exchange rate and the base case diamond price.

Table 4: Changes in Key Project Metrics since December 2008^{1,2}			
	December 2008 Preliminary Assessment³	March 2010 Updated Preliminary Assessment⁴	Percentage Change
Indicated Resource (Carats)	7.0	23.0	229%
Indicated Resource Grade (cpht)	60	87	45%
Inferred Resource (Carats)	4.5	13.3	195%
Inferred Resource Grade (cpht)	63	75	19%
Base Case Diamond Price (US\$/ct)	\$123	\$117	-5%
Base Case Diamond Price Escalation	2.5%	2.5%	---
US Dollar Exchange Rate (C\$)	\$1.14	\$1.11	-3%
Recovered Carats (m)	5.9	29.9	408%
Recovered Grade (cpht)	78	70	-10%
Tonnes Processed (m)	7.5	42.6	468%
Mine Life (years)	7	25	257%
Total Cap-ex (C\$m)	\$308	\$511	66%
Pre-Production Cap-ex ⁵ (C\$m)	\$283	\$450	59%
Pay-back (years)	4	5	25%
Average Op-ex (C\$/tonne)	\$50.35	\$39.45	-22%
Total Revenue (C\$m)	\$906	\$5,754	535%
Undiscounted Pre-Tax Cash Flow (C\$m)	\$194	\$3,390	1647%
Operating Margin (%)	55%	70%	27%
Pre-Tax IRR	14.2%	24.8%	75%
Pre-Tax NPV ⁶ (C\$m)	\$56	\$885	1481%
After-Tax ⁷ IRR	12.1%	20.5%	69%
After-Tax NPV ^{6,7} (C\$m)	\$34	\$538	1484%

¹The preliminary assessment includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the preliminary assessment will be realized.

²All figures are on a 100% project basis.

³Mineral Resource estimated at a +3DTC sieve size cut-off

⁴Mineral Resource estimated at a +1DTC sieve size cut-off

⁵Without post production sustaining capital and closure cost.

⁶Based on a 8% discount rate

⁷Based on a generalised tax analysis for a comparable Quebec mining operation.

Management's Analysis

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

A NI 43-101 compliant technical report on the updated Renard Diamond Project Preliminary Assessment was filed on SEDAR on May 5, 2010.

Spring 2010 Drill Program at Renard

In April 2010, the Company announced results from a spring drilling program at Renard. The drill program comprised geological, geotechnical and hydro-geological aspects, and resulted in substantial new intersections of kimberlite at depth in three separate kimberlites. Highlights are as follows:

- Intersection of significant thickness of kimberlite in a previously untested location on the eastern side of Renard 3 at 373 meters vertical depth. Hole terminated in kimberlite prior to reaching the expected projection of the pipe based on previous geological modeling.
- Significant expansion of Renard 65 at its eastern extent at 383 meters vertical depth.
- Significant expansion of Renard 4 at its southeastern extent. Hole terminated in kimberlite at 759 meters vertical depth.
- 2,436 meters of geotechnical and hydro-geological drilling completed successfully.

The purpose of the geological drill program was to test the depth extents of three kimberlite pipes with single, carefully planned holes in each body. As with last year's Renard 2 drill program, the results show that each pipe is larger at depth than previously modeled. This is encouraging, as it suggests that exploration upside remains to be delineated at Renard, on top of an existing mineral resource that can support a 25 year mine life in current conceptual mine planning.

Geological Drilling

The geological component of the winter drill program comprised three holes totaling 1,711 meters, targeted at the interpreted deep extensions of the Renard 3, Renard 4 and Renard 65 kimberlite pipes. In each case, the objective of the drilling was to test the scope of the kimberlites below the level of previous drilling, at depths where each has been previously classified as a potential mineral deposit ("PMD") with "high range" and "low range" interpretations of tonnage and diamond content. The results of this drilling in the context of the expected "High Range PMD" are outlined in Table 1 below. The reader is cautioned that the potential quantity and grade of any potential mineral deposit is conceptual in nature, and it is uncertain if further exploration will result in the target being delineated as a mineral resource. Micro-diamond data from each drill hole, which will allow an assessment of potential diamond content of the intersected kimberlite, are still pending.

Table 1: Geological Drill Results.										
Hole	Azimuth	Dip	Length	Kimberlite Intersection (meters down hole)			Horizontal Impact on Size of Kimberlite Body Compared to Previous Estimates ¹		Maximum Vertical Depth of Kimberlite Intersected	Vertical Depth of Existing NI 43-101 Compliant Resource
					From	To	Upper Contact (meters)	Lower Contact (meters)		
ID	(degree)	(degree)	(meters)						(meters)	(meters)
Renard 3										
R3-59	310	-75	391	Expected ¹	419	455	+23	n/a	373	395
				Actual	295	391				
				Difference ²	+124	n/a ³				
Renard 4										
R4-53	068	-76	789	Expected ¹	275	637	+7	> +35	759	380
				Actual	212	789				
				Difference ²	+63	> +152				
GR4-10	157	-66	513	Expected	131	398	-8	+7	366	
				Actual	180	412				
				Difference ²	-49	+14				
Renard 65										
R65-35	133	-53	531	Expected ¹	194	320	-9	+75	383	No Resource Established
				Actual	211	486				
				Difference ²	-17	+166				

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

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

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

Renard 3

At Renard 3, drill hole R3-9 was designed to test the east-west dimension of the pipe at approximately 400 meters vertical depth, and then to continue downwards to the west to test for a possible convergence of the Renard 3 and Renard 2 pipes at between 750 and 800 meters vertical depth. Based on previous geological modeling, it was expected that the hole would intersect the deep extension of Renard 3's "south lobe" at 419 meters down hole. Instead, the hole entered kimberlite at 295 meters down hole, 124 meters earlier than expected, and had to be terminated due to drilling difficulties after intersecting 96 meters of Coherent Kimberlite, a geological unit typically associated with a high diamond content.

In the existing geological model for Renard 3, as utilized in the December 2009 NI 43-101 compliant mineral resource statement, the south lobe of Renard 3 is interpreted to have a horizontal dimension of approximately 15 x 45 meters at this depth, based on the projection of drill controlled contacts downwards. On the same basis, the new drill hole R3-59 suggests that the south lobe is larger, increasing to a minimum dimension of 35 x 45 meters, although additional drilling would be required to confirm this estimate.

The early termination of drill hole R3-59 means that the potential convergence of the Renard 2 and Renard 3 kimberlite pipes remains untested. However, the new drill data reported today suggests that, at the very least, Renard 3 has more size potential at depth than has been indicated by previous geological modeling.

Renard 4

At Renard 4, drill hole R4-53 was designed to test the size of the deep extension of the pipe at its southern and southeastern extents. The hole was terminated in kimberlite at 789 meters down hole, 152 meters beyond the previously modeled pipe contact, at a vertical depth of 759 meters below surface. This is the deepest intersection of kimberlite to date at the project. Subsequent to this drilling, a geotechnical drill hole, GR4-10, was extended to provide additional control on the Renard 4 geological model on its northern and southern sides, and was terminated at 513 meters down hole after successfully locating both contacts. The full range of expected kimberlite lithologies

were intersected in both drill holes including Coherent Kimberlite (“Brown” kimberlite), Tuffisitic Kimberlite Breccia (“Blue” kimberlite), Hypabyssal Kimberlite and Kimberlite Breccia, and Country Rock Breccias.

In the current geological model, Renard 4 is classified as PMD between 380 meters vertical depth, which is the base of the inferred mineral resource, and 700 meters vertical depth. The new drilling would suggest that the body extends to greater depths, and is significantly larger, than previously modeled, specifically on its southeastern side. Additional drilling will be required to further delineate this expansion. The relationship of Renard 4 to the nearby Renard 9 kimberlite is not known but, as with Renard 2 and Renard 3, current geological data are consistent with the two bodies converging at depth.

Renard 65

In the geological modeling utilized in the recent NI 43-101 compliant mineral resource statement, the Renard 65 body was represented only as PMD, with a low range estimate based on its projection to 280 meters below surface, and a high range estimate based on its projection to 700 meters below surface. The new drill hole, R65-35, was designed to test the vertical extent of the body and its dimension on the east-west axis. The eastern margin of the pipe was successfully delineated at 486 meters down hole, 166 meters beyond its previously modeled location, at a vertical depth of 383 meters. Both Coherent Kimberlite and Tuffisitic Kimberlite Breccia were intersected in the hole. At this depth, the cross-sectional dimension of Renard 65 has been previously estimated at approximately 25 x 300 meters, based on the projection of drill controlled contacts downwards. Again, the new drilling suggests this estimate is understated, and could potentially be increased to approximately 100 x 300 meters when using the same modeling methodology. Additional drilling will be required to confirm this estimate.

Geotechnical and Hydro-geological Drilling

In addition to the geological drilling discussed above, the winter drill program at Renard also comprised geotechnical and hydro-geological drilling designed to collect additional data pertaining to feasibility level open pit and underground mine design on the Renard 2, Renard 3 and Renard 4 bodies. A total of 26 new holes were completed for 2,436 meters of drilling. Eight holes were completed at Renard 2 (540 meters), eight holes at Renard 3 (573 meters) and ten holes at Renard 4 (1,323 meters). Most of the holes were short, averaging 77 meters in length, although Renard 4 hole GR4-10 was extended to collect additional geological information and is summarized in Table 1. Select historical drill holes were also re-entered to collect hydro-geological data. Shallow geotechnical drilling that intersected kimberlite generally confirmed the outline of geological models used in the December 08, 2009 NI 43-101 compliant mineral resource statement, but may ultimately result in a slight tonnage increase for Renard 4 between surface and 75 meters below ground level.

Management’s Conclusion

Each of the three geological drill holes discussed above has identified additional tonnage potential in each of the three kimberlites tested. All of this material is within the scope of the currently designed conceptual mine plan described in the March 2010 updated Preliminary Assessment. Additional geological drilling is planned for the summer drilling season, and Stornoway expects to recommend to the joint venture an increase in the scope of this program.

Core from each kimberlite lithology intersected by drilling has been sampled for micro-diamond analysis to estimate the potential diamond content of the deeper portions of each kimberlite based on diamond grade models that have already been established for each pipe. For Renard 65, these analyses will be particularly important given the pipe’s currently limited diamond dataset, consistent recovery of larger stones and the recognition of multiple kimberlite facies with variable diamond contents.

R65 Results

On July 13, 2010, the Company announced results for a diamond content modeling exercise undertaken on the Renard 65 kimberlite. Previously reported preliminary geological modeling at Renard 65, suggested a potential mineral deposit of between 12.6 and 24.0 million tonnes of kimberlite, calculated from surface to 280m depth and from surface to 700m depth, respectively. Recent drilling confirmed additional upside size potential at depth. Stornoway’s diamond content modeling utilized existing macro diamond datasets supplemented by new micro-diamond sampling, and integrated with recent geological modeling. Highlights of this exercise are as follows:

- Modeled diamond contents of between 26 and 38 cpht for commercial sized diamonds within four distinct kimberlite lithologies, a substantial improvement on historical sampling results.
- A diamond size frequency distribution for Renard 65 that is similar to other Renard kimberlite pipes, confirming a single diamond population previously shown to be characterized by large, high value gems.

Ongoing petrological work suggests that Renard 65 consists of pipe-filling volcanoclastic to coherent kimberlite units (“Kimb65a”, “Kimb65b”, “Kimb65d” and “Kimb65e”) and a distinct hypabyssal kimberlite unit (“Kimb65c”). These five lithologies have similarities to those in the other Renard kimberlite pipes. Preliminary geological modeling suggests volcanoclastic kimberlite unit Kimb65a, representing the most diluted Renard 65 lithology, comprises between 55% and 65% of the kimberlite pipe down to a depth of 240 meters. However, relative proportions of each unit below this depth are not known at this time.

A total of 1.7 tonnes of kimberlite was collected from five drill holes completed since April 2008, and submitted for diamond recovery by standard caustic dissolution. No sample was available for “Kimb65e”, and consequently no diamond content model was created for this lithology. The results of the new caustic work, expressed in standard square mesh sieve size categories as a composite dataset, are shown in the table below.

	Sample weight processed (kg)	0.106 to 0.150mm	0.150 to 0.212mm	0.212 to 0.300mm	0.300 to 0.425mm	0.425 to 0.600mm	0.600 to 0.850mm	0.850 to 1.18mm	1.18 to 1.70mm	1.70 to 2.36mm	Total Stones
Kimb65	1,690.58	79	66	51	44	23	12	8	5	4	292

Modeled estimates of commercial diamond recovery grades for four of five lithological units identified to date within Renard 65 are shown in the table below. The models estimate the likely occurrence of diamonds in all commercial size categories (+1 DTC sieve size.)

R65 Geological Unit	Diamond grade models at production plant recovery ^{1,3} (cpht) ⁴	
	<i>Un-Diluted</i>	<i>Diluted</i> ⁵
Kimb65a	60	26
Kimb65b	37	30
Kimb65c	40	38
Kimb65d	47	31
Kimb65e	n/a	n/a

¹The estimated diamond content, expressed as carats per hundred tonnes, may not be representative of the overall diamond content of the body due to a number of factors, including location and size of the samples or drill holes

²For commercial sized stones retained on a +1.18 mm square mesh screen

³For commercial sized stones retained on a +1 or greater DTC screen

⁴Carats per hundred tonnes

⁵Represents the measured dilution in the samples processed for microdiamonds. May not be representative of the lithological unit sampled

Diamond size frequency distribution curves for Renard 65 closely resemble those for Renard 2, 3, 4 and 9, and support the previously reported interpretation of a single diamond population within the Renard kimberlite pipes. Diamond grade can vary within each pipe based on lithology and dilution, but the size frequency distribution of the diamond population and consequently the diamond value is identical across all the pipes. This diamond value was estimated at US\$117 per carat, with sensitivities of US\$131 per carat and US\$103 per carat, following an updated pricing exercise in September 2009.

Diamond breakage studies, undertaken as part of the NI 43-101 compliant mineral resource estimate, have indicated that breakage during the collection and processing of several historical samples has been “severe”. Diamonds collected during the Renard 65 RC drill program early in the history of the project exhibit the highest level of breakage, with implied diamond weight losses of at least 38%. The “severe” breakage in the historical samples is consistent with the higher diamond contents now seen in the new Renard 65 models.

Petrographic and geochemical studies on available Renard 65 drill core are ongoing, and a revised geological model is in preparation. Additional deep drilling of the Renard 65 kimberlite will be undertaken as part of the summer 2010 exploration program. Scoping level assessments are underway to better understand the optimum development scenario for the kimberlite should a formal mineral resource be established from the current work. Currently, no additional large scale sampling at Renard 65 is contemplated prior to the commencement of production at the project.

Stornoway considers Renard 65 to have the potential to contribute future mineable resources, given its location, amenability to open-pit mining, and recent evidence that suggests its size and diamond content may have been understated, but the reader is cautioned that the potential quantity and grade of any potential mineral deposit is conceptual in nature, and the diamond content models reported today do not constitute mineral resource grades. It is uncertain if further exploration will result in Renard 65 being delineated as a mineral resource.

OTHER PROPERTY INTERESTS

AVIAT PROPERTY, NUNAVUT

The Company's 90% interest in the 437,500 acre Aviat Property is governed by a joint venture agreement with Hunter Exploration Group (“Hunter”). Hunter holds a 10% interest, carried to production. The Company holds 100% of the diamond marketing rights for the Aviat Project.

The Company did not conduct a field exploration program at Aviat during 2009. The Company expects to conduct a market valuation exercise on the full parcel of diamonds recovered from the ES1 kimberlite sheet once the world rough diamond market, which is currently experiencing internal financial volatility, has stabilized such that pricing information suitable for long term, advanced level, exploration planning can be obtained. Although this valuation work, being based on a small parcel of diamonds, will provide only a preliminary sense of the average diamond price at Aviat, it will be sufficient, in conjunction with the October 2008 conceptual study, to provide a qualified estimate of value contained within the ESC. This estimate will in turn support subsequent desktop studies aimed at determining optimum mining scenarios for the ESC. The conclusions of these studies will dictate the nature and type of future sampling required to obtain a NI 43-101 compliant mineral resource statement at Aviat.

CHURCHILL PROPERTY, NUNAVUT

The Company initially acquired a partial interest in the diamond rights at the Churchill Property in June 2002. Currently, the Company's interest in the Churchill Diamond Project is approximately 38%, with the remaining 62% interest held by Shear Minerals Ltd. (“Shear”). Stornoway had elected not to participate for its share of the 2008 exploration budget on the Churchill Project and its ownership could potentially dilute from 41.86% to 37.7%. As of the time of writing (July 2010), the Company does not know the full cost of the 2008 exploration program, and has not been informed by Shear of any dilution calculations. Shear did not propose either 2009 or 2010 exploration programs. Shear is the operator of the Project and is currently sole-funding exploration. Shear's President, Pamela Strand, P. Geol., is a Qualified Person under NI 43-101 and is responsible for the supervision of the Churchill Diamond Project. The Churchill Diamond Project currently encompasses approximately 713,900 acres situated on the mainland tundra (barren lands), near the community of Rankin Inlet in the Kivalliq Region of Nunavut, Canada.

Notch Diamond Results – March 2010

On March 8, 2010, Shear advised Stornoway that processing a minibulk sample from the Notch kimberlite at the Churchill Diamond Project had been completed, with an overall diamond recovery of 86.2 carats per hundred tonne (“cph”). A total of 129 diamonds greater than 1.18 mm were recovered from 17.26 dry tonnes of Notch kimberlite. The five largest recovered stones weigh 0.92, 0.81, 0.77, 0.63, 0.63 carats.

The diamond results are from two separate surface samples collected by hand trenching along the Notch kimberlite dyke in October 2008. Sample grades are based on diamonds recovered on a 1.18mm square mesh sieve size or larger. The Notch kimberlite is a 1.75m wide vertical kimberlite dyke that trends for more than 3 km based on geophysical interpretation. Complete diamond recoveries were as follows:

Sample Number	Sample Weight Dry (Tonnes)	Diamond Recovery cph (+1.18mm)	Weight of Diamonds Recovered Carats (+1.18mm)	Number of Stones Recovered (+1.18mm)
Notch Bulk Sample	17.26	86.2	14.87	129

Samples were submitted to the Saskatchewan Research Council Geoanalytical Laboratories (“SRC”) and run through their 5 tonne per hour Dense Media Separation (“DMS”) Plant using a 0.85mm cutoff. A heavy mineral concentrate was generated and then passed through a 2-stage X-ray sorter with a grease table audit of the X-ray rejects. Resulting concentrates were hand sorted and weighed in a secure glove box facility. The recovered diamonds will be described, categorized and assessed for any breakage. An audit of the X-ray and grease table rejects is currently underway using caustic fusion.

CHESTERFIELD PROJECT, NUNAVUT

In August 2009, Shear and the Company signed an indicative proposal with Kennecott Canada Exploration Inc. (“**Kennecott**”) to jointly explore the northern portions of the Churchill Diamond Project and in July 2010, the parties executed a joint venture agreement. This area, to be referred to as the Chesterfield Inlet Diamond Project (the “**Chesterfield Project**”), comprises approximately 70,000 acres located within and near the indicator mineral dispersion North Corridor of the larger Churchill Diamond Project. The Chesterfield Project area is located approximately 15 km north of the Josephine River Corridor and portions can be accessed by gravel road from the community of Chesterfield Inlet. The focus of the new partnership will be the exploration of the northern regions of the property, starting with a comprehensive geophysical and geochemical review that was followed up by a modest field program during 2009. Plans for 2010 are not known at the present time.

Under the terms of the agreement, Shear and the Company have jointly granted Kennecott the right and option to acquire, subject to existing underlying royalties, up to a 70% interest in the diamond rights to the Chesterfield Project. Under the terms of the agreement, Kennecott may acquire a 51% interest in the Chesterfield Project (the “**First Option**”) by incurring \$100,000 in exploration expenditures before December 31, 2010 and by incurring an additional \$1,900,000 in exploration expenditures before December 31, 2012. If the First Option is satisfied, Kennecott may earn an additional 19% interest (the “**Second Option**”) in the Chesterfield Project by incurring an additional \$4,500,000 in exploration expenditures before December 31, 2016. Shear will be the Operator during the First Option.

HAMMER PROPERTY

In 2008, Stornoway and North Arrow Minerals Inc. (“**North Arrow**”) revised the Bear Property joint venture agreement to include an area of interest (“**AOI**”) outside of the original Bear Property claims, known as the “**Hammer AOP**”. A claim was staked in October of 2008 to cover a potential source area, adjoining one of the claims remaining from the original Bear Property. Subsequently, a joint venture covering the AOI (the two claim 2,533 acre Hammer Property) was signed between Stornoway (75%) and North Arrow (25%), with Stornoway acting as the operator.

In July 2009, a new kimberlite was discovered by prospecting on a mineral claim within the Hammer AOI and at the head of a previously unexplained kimberlitic indicator mineral anomaly with diamond inclusion chemistry. The Hammer kimberlite appears associated with a prominent topographic feature that is 225m long, between 15 and 100m wide, and has a surface expression of approximately 1 hectare, although the true nature and size of the body is not known at this time. Weathered kimberlite breccia in bedrock was identified within hand dug pits, in addition to numerous scattered kimberlite occurrences of surface float and frost heaved kimberlite fragments. Till samples

collected down-ice of the Hammer kimberlite have returned the full suite of traditional kimberlite indicator minerals, including both pyrope and eclogite garnets.

Permafrost conditions and equipment constraints prevented the collection of a large sample of fresh kimberlite for representative microdiamond analysis, but caustic fusion of a 6.6kg kimberlite sample returned a diamond on the 0.106mm square mesh screen, confirming that the body is diamondiferous.

Plans for 2010 will include ground geophysical surveys, the results of which will be used by Stornoway and North Arrow to determine additional work to properly assess the Hammer discovery.

OTHER PROPERTIES (VARIOUS INTERESTS)

Stornoway and its wholly owned subsidiaries hold varying interests in a number of other diamond properties and prospects, as well as significant regional geological, geochemical and geophysical databases. The Company's technical team reviews these properties and databases as time allows, in addition to other properties or information that may become available, so that the Company can continue to maintain a portfolio of promising diamond projects that fill the 'pipeline' from grassroots to development stage. Exploration activities, including drilling, will be undertaken where warranted and where permitted by logistical and budgetary considerations. Results will be reported as appropriate.

Results from the Company's previous generative exploration program have been, and will continue to be, used to identify and acquire targeted landholdings thought to have the potential to host diamondiferous kimberlites. The Company anticipates continued property acquisitions and exploration work, subject to funds being available for grass-roots exploration and the Company's ability to fund its other exploration priorities.

In September 2009, the Company and Bayswater Uranium Corporation agreed to modify the Itza Lake property agreement, whereby the Company may earn up to an 80% interest in the diamond rights to the Itza Property in Nunavut. The Company may earn a 60% interest in the property by issuing 76,601 common shares (with a fair value of \$49,025 at the time of issuance) and by incurring \$4,000,000 in exploration expenditures over a five year period, with a minimum first year expenditure of \$500,000. In September 2009, the agreement was amended to extend the deadline to incur the minimum first year expenditure of \$500,000 from September 1, 2009, to September 1, 2011. As of April 30, 2010, the Company had spent \$237,000 to explore the Itza property.

RISKS AND UNCERTAINTIES

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

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

The historically low interest rates in recent years and smaller cash balances available for investment have resulted in a decrease in interest income, which previously could partially offset the Company's general and administrative expenses. The Company's overhead expenses cannot be financed with "flow-through" dollars (restricted for use on "grass-roots" exploration at the Company's Canadian mineral properties) so the Company's management makes decisions with a view to utilizing its "hard dollars" as effectively as possible. The majority of the Company's expenses at the present time are denominated in Canadian Dollars so its exposure to foreign exchange risk is limited.

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

The Company's liquidity risk, the risk that the Company won't be able to meet its obligations as they come due, has been mitigated as compared to the same period in 2009 because the Company was able to complete a significant equity financing during the year ended April 30, 2010 (see "*Capital Resources*" below for a description of the Company's financing activities). Although there has been a significant improvement in the equity market in Canada since 2009, overall market conditions remain volatile. The Company's management actively monitors its cash-flows and in 2009, implemented several cost-cutting measures to reduce its liquidity risk. Several of the measures implemented will remain in place for the foreseeable future. The Company spent all of the flow-through funds raised in May 2009 on a drill program at the Renard Diamond Project during the Summer of 2009. The Company's material mineral properties are all in good standing and the Company has sufficient financial resources to keep those properties in good standing through 2010, even with reduced exploration budgets during 2009. Subsequent to the year-end, on June 29, 2010, the Company raised \$5,001,750 of "flow-through" funds for exploration at its Canadian properties. The Company regularly reviews its landholdings with a view to reducing or consolidating those landholdings to focus on specific areas of interest and exploration potential.

The Company has no long-term debt as a result of the early redemption of the convertible debentures in July 2008 and, as of the report date, the Company has positive working capital which will be used to continue to advance feasibility-level work at the Renard Diamond Project, conduct exploration programs at several of the Company's exploration properties and for general working capital over the next year. The Company's management continues to evaluate alternatives to reduce its overhead expenditures. The Company has minimum commitments under its operating leases of between \$331,000 and \$439,000 per year until April 2015 (please see "*Commitments*" schedule below). A portion of these payments may be recovered through sub-leases. The Company will need to secure some form of additional financing to continue operations during 2011 and beyond. The Company's management will continue to consider various alternatives, within the context of existing market conditions. There can be no guarantee that the Company's management will be successful in these endeavours. Please see Note 1 of the audited, consolidated financial statements for the year ended April 30, 2010 for more information.

SUMMARY OF QUARTERLY RESULTS

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

Period	Interest Income ⁽¹⁾	Loss or (Income) from Continued Operation and Net Loss (Income)	Basic Loss (Earnings) per share ⁽²⁾ from Continued Operation and Net Loss (Income)	Fully Diluted Loss (Income) per share ⁽²⁾ - from Continued Operation and Net Loss (Income)
Three months ended April 30, 2010	\$ 15	\$ 14,072	\$ 0.05	\$ 0.05
Three months ended January 31, 2010 (restated)	8	1,419	0.01	0.01
Three months ended	8	6,061	0.02	0.02

October 31, 2009 (restated)				
Three months ended July 31, 2009 (restated)	17	2,011	0.01	0.01
Three months ended April 30, 2009 (restated)	18	(1,308)	(0.01)	(0.01)
Three months ended January 31, 2009 (restated)	39	4,310	0.02	0.02
Three months ended October 31, 2008 (restated)	35	3,327	0.01	0.01
Three months ended July 31, 2008 (restated)	104	(5,259)	(0.03)	(0.03)

(1) The Company has no operating revenues.

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

Quarterly results will vary in accordance with the Company's exploration and financing activities. Resource property write-offs typically have the most significant impact on the Company's quarterly results. These write-offs typically vary in accordance with exploration results and changes to the Company's land position and can rarely be predicted in advance. The Company's cash flow is affected by the seasonality of the exploration business, and fluctuations in general and administrative expenses are typically seasonal as well.

During the Current Year, the Company changed its accounting policy for exploration expenses and interest and financing costs (see "*Changes in Accounting Policies Including Initial Adoption*" below). The quarterly income or loss figures in the table above are most directly affected by the size and timing of the Company's exploration expenditures and resource property write-offs. Quarterly results for the year ended April 30, 2009 have been restated to give effect to the change in accounting policy, which was adopted on a retrospective basis during the Current Year.

The Company's activities in the Current Year were focused on an ongoing resource expansion and optimization program at the Renard Diamond Project in Quebec, resulting in the filing of two updated NI 43-101 technical reports (see "*Exploration Update*" above). The work completed at Renard during the Current Year conformed with Stornoway's stated objective of conducting modest, value-driven, exploration programs focused on the Company's key, advanced projects during a very challenging economic environment. It compliments ongoing desktop work at Stornoway's 90% owned Aviat Project designed to provide a qualified estimate of contained value and potential mining methods for Aviat's large Eastern Sheet Complex (Stornoway Press Release dated May 05, 2009), and continuing readiness to exploit, on an opportunistic and inexpensive basis, new discovery prospects identified within Stornoway's grassroots exploration portfolio.

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

FOURTH QUARTER

The Company's net loss of \$14.1 million for the three months ended April 30, 2010 (the "**Current Quarter**") was significantly higher than the \$1.3 million net income (restated) in the three months ended April 30, 2009 (the "**Comparative Quarter**") due to a larger write-off of capitalized acquisition costs (Current Quarter - \$15.5 million; Comparative Quarter - \$1.4 million restated). Total expenses increased to \$2.5 million in the Current Quarter, as compared to \$1.5 million (restated) in the Comparative Quarter due to increased exploration expenditures (Current Quarter - \$991,000; Comparative Quarter - \$600,000 restated) and salaries and benefits expense (Current Quarter - \$585,000; Comparative Quarter - \$209,000). During the Current Quarter, the Company paid a cash bonus to all employees, related to the 2009 calendar year. During the Current Quarter, administrative fees and rent increased as

rent expense previously allocated to the lab department is now included as part of general corporate costs (Current Quarter - \$125,000; Comparative Quarter - \$96,000); regulatory and shareholder communication expense (Current Quarter - \$170,000; Comparative Quarter - \$59,000) increased significantly in the Current Quarter due to additional disclosure costs related to the completion and filing of two NI 43-101 reports for the Renard Diamond Project, as well as a \$30,000 payment to support a mining industry advocacy group in Quebec; professional fees increased (Current Quarter - \$49,000; Comparative Quarter - \$42,000) and office and sundry expense (Current Quarter - \$153,000; Comparative Quarter - \$81,000) also increased significantly. The Company's loss per share of \$0.05 in the Current Quarter compares to a \$0.01 earnings per share (restated) in the Comparative Quarter.

LIQUIDITY

The Company's cash and cash equivalents increased from \$1.6 million at April 30, 2009 to \$9.2 million at April 30, 2010. In addition, the Company has a further \$1.6 million classified as short-term deposits, of which \$259,000 is held as collateral security for the Company's credit cards and a line of credit of \$8,000 to satisfy exploration bonding requirements. A Guaranteed Investment Certificate ("GIC") equivalent to the utilization of the line of credit is provided as collateral security. The remainder of \$1.4 million classified as a short-term deposit and is held in a GIC that is cashable anytime after 30 days from the investment date.

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

Proceeds from this financing will be used towards the completion of a bankable feasibility study on the Renard Diamond Project in 2010 and 2011 with a goal of making a production decision by the end of 2011, and for general working capital and administrative expenses into 2011. In order to complete the bankable feasibility study, the Company must submit a "Project Description" to the Quebec government and obtain all required permits, finish resource and reserve estimate work, including geotechnical drilling at site, complete a revised economic assessment, finalize the mine, plant and surface infrastructure design as well as complete environmental and socio-economic impact studies.

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

The Company's working capital as at April 30, 2010 was \$9.5 million (April 30, 2009 - \$3.9 million). During the Current Year, the Company's cash position increased by \$7.7 million to \$9.2 million at April 30, 2010 as compared to the Comparative Year, where the Company's cash position decreased by \$8.0 million to \$1.6 million in cash and cash equivalents. Write-off of resource property costs (Current Year - \$21.0 million; Comparative Year - \$438,000 restated), an increase in accounts payable and accrued liabilities (Current Year - \$1.2 million; Comparative Year - a decrease of \$1.6 million), a future income tax recovery of \$5.8 million (Comparative Year - \$1.5 million restated), amortization (Current Year - \$933,000; Comparative Year - \$1.3 million restated), as well as a write down of an investment in the Comparative Year (\$1.1 million) and a gain on early extinguishment of convertible debenture (\$13.3 million), also in the Comparative Year, represent the largest reconciling items from the consolidated statement of loss and deficit to the consolidated statement of cash flows - operating activities, for the year ended April 30, 2010. The Company's primary operating activity is the acquisition and exploration of its resource property interests. During the Current Year, the Company spent \$4.2 million to explore its resource properties (Comparative Year - \$8.6 million restated), with the most significant expenditures on the Foxtrot (Renard) property in Quebec. The Company's most significant operating expenses during the Current Year included \$1.0 million for salary expense (Comparative Year - \$1.1 million), \$933,000 for amortization (Comparative Year - \$1.3 million restated),

\$398,000 for regulatory and shareholder communications expense (Comparative Year - \$362,000), and administrative fees and rent expense of \$455,000 (Comparative Year - \$361,000).

The Company's ability to generate cash is very much affected by the current market conditions, its share price and third party interest in its assets. The Company is very reliant on equity financings, which are dilutive to existing shareholders, to fund ongoing exploration and development activities, and for general corporate purposes. In previous years, the Company was able to sell non-core assets as one means to finance its operations and to further exploration on its material mineral property interests. The Company's ability to sell non-core assets in the future is dependent on interest in the Company's assets from third parties. In addition, the Company is eligible for investment tax credits with respect to its exploration activities in certain provinces, which may help the Company finance its operations to some extent; however, the timing and amounts of those tax credits cannot be reliably estimated. The Company has no credit facilities that could be used for ongoing operations because it has no operating cash flow. The funds that the Company does have which aren't allocated for short-term cash requirements are invested in tranches for up to 90 days in Bankers' Acceptance ("BA") or Bankers' Deposit Notes ("BDN") issued by various chartered banks. Some excess cash is also invested in GICs, cashable after 30 days, which typically pay a higher interest rate than BAs or BDNs. The Company has no exposure to asset-backed commercial paper. With the early redemption of the Company's \$20.0 million convertible debenture in July 2008, the Company has no long-term debt.

The Company's most significant fixed costs relate to its leases for office space and then the costs associated with maintaining a TSX listing. The Company's minimum commitment for its premises for the five year period between 2011 and 2015 is \$1.69 million. The Company is able to reduce some of this liability through the sub-lease of excess space. The Company has sufficient financial resources to keep its material landholdings and the majority of its non-material landholdings in good standing into 2011. The Company has also incurred sufficient exploration expenditures on these properties to keep them in good standing with the respective provincial and territorial governments into 2011 as well. The Company's management actively manages its landholdings in an effort to keep those landholdings with the greatest exploration potential in good standing for as long as possible. The Company's management regularly reviews its cash position against future plans and makes decisions regarding these plans accordingly. Exploration work in 2009 was primarily focused on the Company's 50% interest in the Renard Diamond Project, directed to a resource expansion and optimization program, with additional drilling and diamond sampling. Funds from the "flow-through" private placements, which closed in November 2008 and May 2009, were primarily been used for the Company's share of this work. Funds from the short-form prospectus offering, which closed in February 2010, are being used to conduct exploration activities on the Renard Project, towards the completion of a bankable feasibility study at Renard and for general working capital purposes. In addition, the Company is conducting in-depth reviews, compilation and analysis of its exploration data acquired over several years of fieldwork to refine specific targets of interest on its current mineral properties and to identify new areas with exploration potential. The Company's management continues to seek ways to reduce its overhead expenditures through shared administrative functions, subleases and other means.

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

CAPITAL RESOURCES

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

Several factors will influence the Company's cash requirements in the near future. These factors include: the receipt of a positive feasibility study and the required permits to construct a diamond mine at Renard, as well as a decision with the Company's joint venture partner to proceed with further development. The Company's exploration plans for 2010 and 2011 will also affect its cash requirements, and are subject to change. The Company's actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration activity.

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

The Company's consolidated financial statements for the year ended April 30, 2010 and for the year ended April 30, 2009 have been prepared in accordance with Canadian GAAP and on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

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

In May 2009, the Company completed a brokered private placement, with Sandfire Securities Inc. as lead agent, which consisted of 8,421,276 "flow-through" common shares of the Company for gross proceeds of \$1,431,617. The "flow-through" common shares were issued at a price of \$0.17 per share. The Company paid a 7% cash commission on certain subscriptions received and issued 568,695 Compensation Warrants (the "**warrants**"). The warrants are exercisable at \$0.17 to acquire one non-flow-through common share and will expire May 29, 2011. During the Current Year, a total of 240,338 warrants were exercised for gross proceeds of \$41,000. Expenditures from the flow-through shares are expected to constitute Canadian exploration expense ("**CEE**") (as defined in the Income Tax Act) for the 2009 tax year and were renounced to the subscribers under the terms of the subscription agreement.

In February 2010, the Company raised gross proceeds of \$12.7 million from an equity financing. In addition to the cash fee paid to the Underwriters, the Company issued broker warrants entitling the Underwriters to subscribe for up to 1,522,200 common shares of the Company at \$0.50 per share until February 23, 2012. If exercised, proceeds from these warrants would increase the Company's cash position by about \$761,000.

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

At July 15, 2010, the Company had 15,463,485 stock options outstanding which, if exercised, would increase the Company's available cash by approximately \$11.8 million. However, the average exercise price of these options is \$0.76, in excess of the Company's current market price.

ADDITIONAL DISCLOSURE

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

COMMITMENTS

The Company is committed to minimum future operating lease payments for its premises in North Vancouver (to January 31, 2014) and for its Quebec office (to June 30, 2015) as follows:

Fiscal year ending April 30, 2011	\$ 439,000
Fiscal year ending April 30, 2012	403,000
Fiscal year ending April 30, 2013	405,000
Fiscal year ending April 30, 2014	331,000
Fiscal year ending April 30, 2015	109,000
	<hr/>
	\$ 1,687,000

In addition, the Company has GICs in the amount of \$259,000 as collateral security for its corporate credit cards and a line of credit of \$8,000 to satisfy exploration bonding requirements. A GIC equivalent to the utilization of the line of credit is provided as collateral security.

OUTSTANDING SHARE CAPITAL

Stornoway's authorized capital is unlimited common shares without par value. As at July 15, 2010, there were 297,493,456 common shares issued and outstanding.

As at July 15, 2010, the following options are outstanding:

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Exercise Price	Year of Expiry	Weighted Average Remaining Contractual Life
\$ 1.05 ~ \$ 1.08	375,100	\$ 1.06	2010	0.44 years
\$ 1.02 ~ \$ 1.25	1,392,700	\$ 1.17	2011	0.85 years
\$ 0.63 ~ \$ 6.94	5,118,980	\$ 1.16	2012	2.02 years
\$ 0.10 ~ \$ 7.42	4,267,205	\$ 0.48	2013	3.36 years
\$ 0.10 ~ \$ 4.86	2,889,100	\$ 0.29	2014	4.25 years
\$ 0.62 ~ \$ 1.34	1,420,400	\$ 0.69	2015	4.87 years
	<hr/>			
	15,463,485			

TRANSACTIONS WITH RELATED PARTIES

Related party transactions (See Note 10 of the consolidated financial statements as at April 30, 2010) are as follows:

- a) As at April 30, 2010, the amounts due to related parties consisted of the following (*expressed in thousands of Canadian dollars*):

	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Strongbow Exploration Inc. ("Strongbow"), a company with a director in common	4	2
Agnico-Eagle Mines Limited ("Agnico-Eagle"), a significant shareholder and a company with a director in common	1	3
	<hr/>	<hr/>
	\$ 5	\$ 5

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

- b) During the year ended April 30, 2010, the Company paid or accrued \$50,000 (2009 - \$70,000) for the reimbursement of administrative and technical time to Strongbow.

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

- c) During the year ended April 30, 2010, the Company paid, or accrued as payable on behalf of the Eastern Ungava JV, \$2,800 (2009 - \$169,000) to Agnico-Eagle, of which the Company's share is 50%, for work completed by Agnico-Eagle related to a preliminary assessment at the Renard Project.

- d) Included in receivables is \$1,100 (2009 - \$Nil) receivable from a director.

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

CRITICAL ACCOUNTING ESTIMATES

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

Impairment of long-lived assets

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

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

In making an assessment of the potential impairment of the Company's long-lived assets, management has used estimates of future mineral prices, mineral resource quantities, and operating, capital and reclamation costs, as well as making judgments on the potential of certain projects based on the available information at the balance sheet date.

These estimates are subject to certain risks and uncertainties that may affect the determination of the recoverability of the Company's long-lived assets. Although management has made its best estimates of potential impairment, the interpretation of these factors is subjective and will not necessarily result in precise determinations. Should an underlying assumption change, the resulting estimates could change by a material amount.

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

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

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

The NI 43-101 report (2010 PA Report) filed by the Company in May 2010 contains a detailed cash flow model. Management has evaluated the cash flow model against the carrying value of the Renard Diamond Project and is of the opinion that the estimated future cash flows (undiscounted) from the project exceed its carrying value of \$84.4 million as at April 30, 2010 and that no write-down for impairment is warranted on this basis.

Without an estimate of future undiscounted cash flows, other methods must be used to estimate a fair value for the other properties. Management believes that using an estimate of "in-situ" value for its advanced projects is a reasonable way to estimate fair value. The in situ method is a broad metric of project value, which uses an estimate of carats contained in the project and an estimate of carat value, factored to account for extracted value. A factor is applied to provide a risk adjusted expectation of value and also adjusts for value recovered and capital expenditures, operating costs and income tax expenses. The three advanced projects are all located within the Rae Craton in Nunavut and have approximately equivalent emplacement ages. Management has enough information to make a reasonable estimate of the contained carats for each project based on information available to date. Using a low-average-high range estimate of per carat values and a simple range of probabilities, combined with a low factor, a low and high estimate of fair value for each project was calculated. These estimated fair values exceeded the current carrying values for each of the Aviat and Qilalugaq properties, and accordingly, management determined no write-downs for impairment were required for these properties as of April 30, 2010.

As of April 30, 2010, management determined that the carrying value of the Churchill Property exceeded its estimated net realizable value by approximately \$2.0 million. In making this determination, the Company considered the following factors: a) that the Company has no future plans to contribute to exploration programs on this property, b) that the Company has not been a contributing participant since the conclusion of the 2008 exploration program and c) the market's estimate of value for the Churchill Project could be approximated by considering the operator's current market capitalization. Therefore, as of April 30, 2010 for the carrying value for the Churchill property was reduced from \$4.1 million to \$2.1 million.

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

- a) unfavourable changes in the property or project economics;
- b) an inability to access the site;
- c) environmental restrictions on development;
- d) an inability to create an efficient distribution mechanism; and
- e) political instability of the region in which the property is located.

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

- a) the enterprise's work program on a property has significantly changed so that previously identified resource targets or work programs are no longer being pursued;

- b) exploration results are not promising and no more work is being planned for the foreseeable future; or
- c) remaining lease terms are insufficient to conduct necessary studies or exploration work.

Using these conditions as a guideline for estimating whether an impairment exists on its grass-roots properties, and based on the Company's plan to further evaluate and advance these properties by analyzing results received to-date, management has determined that the carrying values of certain of its grass-roots resource properties as of April 30, 2010 and as of the report date should be written-off, as no future exploration work is planned for the foreseeable future and limited exploration work has been carried out on the properties during the last three years.

During the Current Year, the Company wrote-off capitalized property interests of \$21.0 million. The majority of this write-off (\$13.7 million) relates to properties in Ontario, Nunavut (\$5.3 million) and for the Churchill Project (\$2.0 million) where exploration results suggest further exploration to be unwarranted, or where no future exploration programs are planned for the foreseeable future.

Asset retirement obligations

Asset retirement obligations are the estimated costs associated with reclamation of the Company's resource properties and are recorded as a liability at fair value. The liability is accreted over time through periodic charges to operations. In addition, asset retirement costs are capitalized as part of each asset's carrying value at its initial discounted value and are amortized over the asset's useful life. In the event the actual costs of reclamation exceed the Company's estimates, the additional liability for retirement and remediation costs may have an adverse effect on the Company's future results of operations and financial condition. The Company's asset retirement obligation relates to activities at its Renard Project in Quebec. At this time, the potential asset retirement obligations in respect of the Company's exploration camps cannot be reasonably estimated.

Stock-based compensation

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

Stock-based compensation is accounted for using the fair value based method. Under the fair value based method, compensation cost is measured at fair value of the options at the date of grant and is expensed over the vesting period of the award. The Company estimates the fair value using the Black-Scholes option-pricing model. The key assumptions used during the Current Year were: a risk-free interest rate of 1.9% ~ 2.7%, a dividend yield of 0%, an expected volatility of 83% ~ 94% and expected term of stock options of 3 ~ 5 years. The key assumptions used during the year ended April 30, 2009 were: a risk-free interest rate of 1.9%, a dividend yield of 0%, an expected volatility of 86% ~ 92% and expected term of stock options of 3 ~ 5 years. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

During the Current Year, the Company recorded stock-based compensation expense of \$573,000 (2009 - \$637,000). The Company granted 3,395,000 stock options during the year ended April 30, 2010. The options have an exercise price of \$0.25 and expire between four to five years from the grant date. The Company used the Black-Scholes Option Pricing Model to estimate a fair value of \$543,000 for this grant. During the year ended April 30, 2009 the Company granted options to purchase up to 3,478,500 shares of the Company's stock to employees and non-employees at an exercise price of \$0.10. The Company used the Black-Scholes Option Pricing Model to estimate a fair value of \$138,000 for these grants.

The Company also uses the Black-Scholes option-pricing model to value other share compensation. During the Current Year, the Company issued 568,695 warrants as part of a brokered private placement in May 2009. These warrants were estimated to have a fair value of \$41,400, using the Black-Scholes option-pricing model with the following assumptions: 1.23% risk-free interest rate; two-year term, 97.6% volatility.

Also during the Current Year, the Company issued a total of 1,522,200 warrants as part of the short-form offering in February 2010. These warrants were estimated to have a fair value of \$365,000, using the Black-Scholes option-pricing model (1.33% risk-free interest rate; two-year term, 100% volatility) with this amount being recorded in contributed surplus.

Future income tax assets and liabilities

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

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Exploration Expenditures

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

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

	April 30, 2009 As previously reported \$	Restatement \$	April 30, 2009 As restated \$
Resource property costs	171,193	(56,456)	114,737
Rough diamond inventory	-	330	330
Future income tax liabilities	20,782	(7,709)	13,073
Office and sundry	347	(60)	287
Accretion	-	76	76
Amortization	-	1,316	1,316
Exploration costs	-	8,556	8,556
Financing and interest costs	-	1,323	1,323
Stock-based compensation	364	273	637
Write-off of resource property costs	14,452	(14,014)	438
Future income tax recovery	(391)	(1,080)	(1,471)
Earnings (loss) for the year	(4,679)	3,609	(1,070)
Earnings (loss) per share	(0.02)	0.02	0.00
Deficit at April 30, 2009	(66,811)	(48,506)	(115,317)
Deficit at April 30, 2008	(63,397)	(52,115)	(115,512)

Goodwill and Intangible Assets

Effective May 1, 2009, the Company adopted Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires these costs be expensed as incurred unless the costs meet the asset recognition criteria. The adoption of this section did not have a significant impact on the Company’s consolidated financial statements.

Amendment to Financial Instruments – Disclosures

In June 2009, the CICA amended Section 3862, “Financial Instruments – Disclosures” to require enhanced disclosure about the fair value assessments of the financial instruments. The new disclosures are based on a fair value hierarchy that categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate the fair values. The fair value of assets and liabilities included in level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in level 2 are valued using inputs other than quoted prices for which all significant inputs are based on observable market data. Level 3 valuations are based on inputs that are not based on observable market data. The disclosures resulting from the adoption of this revised section are disclosed in Note 4 of the audited, consolidated financial statements for the years ended April 30, 2010 and 2009.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC – 173 “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”. The guidance requires that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. The adoption of this section did not have a material impact on the Company’s consolidated financial statements.

Mining Exploration Costs

On March 27, 2009, the CICA approved EIC-174 “Mining Exploration Costs” effective for financial statements issued after March 27, 2008. This guidance clarified that an entity that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The implementation of the guidance did not have any impact on the Company’s consolidated financial statements.

Future Accounting Pronouncements

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

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

International financial reporting standards

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

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

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

First-Time Adoption of IFRS

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

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

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

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

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

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

Expected areas of significance:

Standard	Description
Share-based payments (IFRS 2)	The Company will need to apply the graded vesting method for all stock options grants. This is not expected to have a material change upon transition to IFRS.
Property, plant and equipment (IAS 16)	The Company will continue to record its property, plant and equipment assets at cost, less accumulated amortization therefore there will be no change upon transition to IFRS.
Asset impairment (IAS 36)	The Company's capitalized resource property costs are its most significant long-lived asset and must be reviewed for impairment when circumstances suggest that the carrying values may be impaired. The adoption of this standard is not expected to have a material change on the Company's financial reporting.
Income taxes (IAS 12)	Management is currently evaluating how the adoption of this standard will impact the Company.

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

Next Steps

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

During the implementation phase, IFRS compliant financial statements and notes will be drafted and an opening balance sheet as at May 1, 2010 will be prepared. In addition, management will continue its review and assessment of the impact of transition on the Company's existing internal controls over financial reporting, its disclosure controls and its information technology and data systems. The last phase of post-implementation will involve monitoring of changes in IFRS and assessing the impact of those changes on the Company's reporting. While the Company has begun the detailed assessment process, the financial reporting impact of the transition to IFRS remains to be quantified. IFRS education and reports to the Audit Committee commenced in 2008 and continue to be ongoing.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, short-term deposits, other receivables, investments, accounts payable, accrued liabilities and amounts due to related parties.

The fair values of financial instruments April 30, 2010 and April 30, 2009 are summarized as follows (*expressed in thousands of dollars*):

	April 30, 2010		April 30, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial Assets				
<i>Held-for-trading</i>				
Cash and cash equivalents	9,212	9,212	1,550	1,550
Short-term deposits	1,641	1,641	1,344	1,344
<i>Loans and Receivables</i>				
Other receivables	1,582	1,582	1,984	1,984
<i>Available for sale</i>				
Investments	147	147	555	555
Financial Liabilities				
Accounts payable, accrued liabilities and due to related parties	3,184	3,184	1,943	1,943

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

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

Credit risk

Credit risk is the risk of financial loss to the Company if a counter-party to a financial instrument fails to meet its contractual obligations. The Company manages credit risk by investing its excess cash in short-term investments with an investment grade rating of "AAA" (R-1 high for money market securities) or better, issued by a Canadian chartered bank. The Company is exposed to credit risk by virtue of its receivables from companies with which it has exploration agreements or options (approximately 89% of receivables totalling \$1.4 million at April 30, 2010). Other miscellaneous receivables total approximately 4% of the Company's receivables while the remainder of the Company's receivables at the balance sheet date (7%), consist of federal and provincial sales tax refunds where management believes the risk of loss to be remote. The maximum exposure to credit risk at the reporting date is the carrying value of the Company's financial assets.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to interest rate risk with respect to its cash flow. The risk that the Company will realize a loss as a result of a decline in the fair value of any short-term investment included in cash and cash equivalents is limited because these investments, although readily convertible into cash, are generally held-to-maturity. As of April 30, 2010, management estimates that if interest rates had changed by 1% for those funds invested in guaranteed investment certificates ("GICs"), and 0.2% for the other cash equivalents assuming all other variables remained constant, the impact on the Company's loss for the year ended April 30, 2010 would have been approximately \$4,700.

Liquidity risk

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

The Company has no regular cash flow from its operating activities. The Company manages its liquidity risk by forecasting cash flow requirements for its planned exploration and corporate activities and anticipating investing and financing activities. Failure to realize additional funding, as required, could result in the delay or indefinite postponement of further exploration and development of the Company's properties. As at April 30, 2010, the Company had cash and cash equivalents, and short-term deposits of \$10.9 million (2009 - \$2.9 million) as well as other receivables of \$1.6 million (2009 - \$2.0 million) to settle current liabilities of \$3.2 million (2009 - \$1.9 million). Additional information regarding liquidity risk is disclosed in Note 1 of the audited, consolidated financial statements for the year ended April 30, 2010.

CAPITAL MANAGEMENT

The Company's objectives when managing capital are to:

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

The capital of the Company consists of the items included in shareholders' equity. The Company's mineral properties are in the exploration stage. As an exploration stage company, the Company is currently unable to self-finance its operations. The Company has historically relied on equity financings and, more recently, the monetization of non-core assets and a convertible debenture to finance its operations. In order to carry out the Company's planned exploration programs and to pay for administrative costs, the Company will spend its existing working capital and raise additional funds as required. To effectively manage the Company's capital requirements, the Company's management has in place a planning and budgeting process. The Company is not subject to any

externally imposed capital requirements. Additional information regarding capital management is disclosed in Note 1 of the audited, consolidated financial statements for the year ended April 30, 2010.

DISCLOSURE CONTROLS

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

The Certifying Officers evaluated the effectiveness of the Procedures for the year ended April 30, 2010 and have concluded that the Procedures in place as of the end of the fiscal period covered by the Required Filings are effective in providing reasonable assurance that material information relating to the Company is accumulated and communicated to management and reported within the time periods specified.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting as of April 30, 2010 and have concluded that the Company's internal controls over financial reporting are effective, and are sufficiently designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its consolidated financial statements for external purposes in accordance with the Company's GAAP. This evaluation was completed using the framework and criteria established in the Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). There have been no changes in internal control over financial reporting during the year ended April 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

APPROVAL

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

ADDITIONAL INFORMATION

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