SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 26, 2014

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
and
MANAGEMENT INFORMATION CIRCULAR

This Notice and Management Information Circular,
along with accompanying materials, require your immediate attention.

May 28, 2014

NOTICE OF SPECIAL MEETING

NOTICE IS HEREBY GIVEN that a special meeting (the "**Meeting**") of holders of common shares (the "**Common Shares**") and holders of non-voting convertible shares (the "**Non-Voting Convertible Shares**" and, together with the Common Shares, the "**Shares**") of Stornoway Diamond Corporation ("**Stornoway**" or the "**Corporation**") will be held at the offices of Norton Rose Fulbright Canada LLP, 1 Place Ville Marie, Suite 2500, Montreal, Quebec, Canada H3B 1R1, on June 26, 2014, at 10:00 a.m. (Eastern Time).

At the Meeting, holders of Common Shares (the "**Common Shareholders**") will be asked to consider, and if thought advisable, to authorize, approve, confirm and ratify, with or without variation, the following items:

1. The following transactions with wholly-owned subsidiaries of Investissement Québec ("**IQ**"), an insider of the Corporation (collectively, the "IQ Transactions"): (i) the issuance by the Corporation, on a private placement basis, to Ressources Québec, a wholly-owned subsidiary of IQ, as principal and as mandatary for the Government of Québec ("**RQ**"), of 142,857,142 subscription receipts of the Corporation (the "**Private Placement Subscription Receipts**") and the corresponding 142,857,142 Common Shares issuable to RQ pursuant to the terms of the Private Placement Subscription Receipts upon the satisfaction or waiver of the Escrow Release Conditions (as defined in the accompanying management information circular (the "**Circular**")) and 8,571,428 Common Shares issuable to RQ as payment in full of RQ's *pro rata* share of the Private Placement Fee (as defined in the Circular); and (ii) the entering into by Stornoway Diamonds (Canada) Inc., a wholly-owned subsidiary of Stornoway ("**SDCI**"), of a senior secured loan to be provided by Diaquem Inc., a wholly-owned subsidiary of IQ ("**Diaquem**"), evidenced by a senior secured loan agreement (the "**Senior Secured Loan**"), including the payment of all up front fees, standby fees and interest to Diaquem pursuant to such Senior Secured Loan.

2. The entering into by the Corporation of various agreements providing for the issuance, on a private placement basis, of Common Shares or securities exercisable or exchangeable for, or convertible into, or that provide the right to acquire, Common Shares (collectively, the "**Private Placements**") comprised of the following transactions:

    (a) the issuances of securities described above as item (i) of the IQ Transactions;

    (b) the issuance to Caisse de dépôt et placement du Québec ("**CDPQ**") of: (i) 31,428,571 Private Placement Subscription Receipts and the corresponding 31,428,571 Common Shares issuable to CDPQ pursuant to the terms of the Private Placement Subscription Receipts upon the satisfaction or waiver of the Escrow Release Conditions; and (ii) 1,885,714 Common Shares issuable to CDPQ as payment in full of CDPQ's *pro rata* share of the Private Placement Fee;

    (c) the issuance to Orion Co-Investments I LLC ("**Orion Equity Co-Invest**") of: (i) 171,254,203 Private Placement Subscription Receipts and the corresponding 171,254,203 Common Shares issuable to Orion Equity Co-Invest pursuant to the terms of the Private Placement Subscription Receipts upon the satisfaction or waiver of the Escrow Release Conditions; and (ii) 10,275,252 Common Shares issuable to Orion Equity Co-Invest as payment in full of Orion Equity Co-Invest's *pro rata* share of the Private Placement Fee;

    (d) the issuance to Orion Co-Investments I Limited ("**Orion**") and other mutually acceptable purchasers of all of the Common Shares issuable upon conversion of the US$79 million (subject to increase up to US$90 million) unsecured convertible debentures (the "**Convertible Debentures**") to be purchased by Orion and other mutually acceptable

Convertible Debenture purchasers, at a conversion price of $0.945 (as adjusted in the event of a Change of Control (as defined in the Circular));

(e) the potential issuance to the trustee under the indenture for the Convertible Debentures of Common Shares for sale by the trustee to satisfy the interest obligations under the Convertible Debentures;

(f) the potential issuance to CDPQ of Common Shares in lieu of the cash payment of interest on an unsecured cost overrun facility in an amount of $28 million to be provided to Stornoway by CDPQ (the "**COF**"); and

(g) the issuance to CDPQ of warrants exercisable to acquire 14,000,000 Common Shares (the "**COF Warrants**") in consideration for CDPQ providing the COF to Stornoway and the issuance of the 14,000,000 Common Shares issuable to CDPQ upon exercise of the COF Warrants in accordance with their terms (subject to the adjustment (reduction) of the COF Warrant Exercise Price of $0.945 by an amount equal to the difference between the Subsequent Offering Price (as defined in the Circular) and the Equity Investment Price of $0.70 upon the occurrence of a Price Protection Event (as defined in the Circular)).

Also at the Meeting, holders of Shares (the "**Shareholders**") will be asked to consider, and if thought advisable, to authorize and approve, with or without variation, the following items:

3. The filing of articles of amendment (the "**Articles of Amendment**") to amend the articles of continuance of the Corporation in accordance with subsection 173(g) of the *Canada Business Corporations Act* in order to cancel and repeal the Corporation's non-voting convertible shares in the capital of the Corporation (the "**Non-Voting Convertible Shares**") and the rights, privileges, restrictions and conditions attaching thereto.

4. Such further or other business as may properly come before the Meeting and at any adjournment(s) or postponement(s) thereof.

The full texts of the resolutions to be proposed at the Meeting are set forth in Schedule A to the Circular. Approval of the IQ Transactions requires an ordinary resolution of Common Shareholders approved by at least a majority of the votes cast thereon but excluding any votes cast by RQ or its affiliates, including IQ, as well as any votes cast by their respective directors, senior officers and joint actors, if any. Approval of the Private Placements requires an ordinary resolution of Common Shareholders approved by at least a majority of the votes cast thereon. Approval of the Articles of Amendment requires a special resolution of Shareholders approved by at least two-thirds (⅔) of the votes cast thereon by all Shareholders voting together, as well as by at least two-thirds (⅔) of the votes cast thereon by the Common Shareholders and by the holder of the outstanding Non-Voting Convertible Shares as of the Record Date, each voting separately as a class.

The board of directors of the Corporation has fixed May 28, 2014 as the record date for determining Shareholders who are entitled to receive notice of and to vote at the Meeting. Only Shareholders whose names have been entered in the register of Stornoway at the close of business on that date will be entitled to receive notice of and vote at the Meeting.

As a result, and for greater certainty, any Common Shares issued after the Record Date upon the conversion of the Non-Voting Convertible Shares cannot be voted at the Meeting.

The Circular provides additional information relating to the matters to be dealt with at the Meeting and is deemed to form part of this notice.

A Shareholder may attend the Meeting in person or may be represented by proxy. If you are a registered Shareholder, you are requested, whether or not you intend to attend the Meeting, to complete, sign, date and return the enclosed form of proxy either by mail in the enclosed envelope addressed to Computershare Investor Services Inc., 100 University Avenue, 8th Floor, Toronto, Ontario, M5J 2Y1, Canada, Attention: Proxy Unit, or by fax at 1-866-249-7775, Attention: Proxy Unit. You can also vote using the telephone or over the Internet by following the instructions on the enclosed form of proxy.

If you are a non-registered Shareholder (meaning you own Shares through another person such as a securities broker, clearing agency, financial institution, trustee or custodian), please refer to the section in the accompanying Circular entitled "Non-registered Shareholders" for information on how to vote your Shares.

Proxies must be received by no later than 10:00 a.m. (Eastern Time) on June 25, 2014 or, in the event that the Meeting is adjourned or postponed, then not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time the adjourned Meeting is reconvened or the postponed Meeting is held.

Shares represented by properly executed forms of proxy in favour of the persons designated in the enclosed form of proxy will be voted in accordance with instructions therein on any ballot that may be held. Shares will be voted IN FAVOUR of all the resolutions to be presented at the Meeting, the complete text of each resolution being set forth in Schedule A to the accompanying Circular, if no specification has been made in the form of proxy.

DATED in the City of Longueuil, in the Province of Québec, this 28th day of May, 2014.
By Order of the Board of Directors,
(signed) Matthew Manson
Matthew Manson, President and Chief Executive Officer

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#400, 1111 St-Charles Street West
Longueuil, Québec, J4K 5G4

MANAGEMENT INFORMATION CIRCULAR

GLOSSARY OF TERMS

"**2011 Feasibility Study**" means the report titled "The Renard Diamond Project, Quebec, Canada, Feasibility Study, NI 43-101 Technical Report" dated as of November 8, 2011;

"**Acquisition**" means the acquisition by Stornoway of Diaquem's 50% interest in the Renard Diamond Project completed on April 1, 2011;

"**Additional Convertible Debenture Commitments**" has the meaning attributed thereto under the section titled "The Financing Transactions – Background to and General Description of the Financing Transactions – Negotiation of the Financing Transactions and Board Approval Process";

"**Additional Orion Commitment**" means a commitment of Orion to purchase $10 million of Convertible Debentures, as such commitment may be reduced as described under the section titled "The Financing Transactions";

"**Additional RQ Commitment**" means RQ's commitment to cause the Bridge Facility to be amended to provide that the outstanding obligations thereunder, inclusive of principal and capitalized interest (or such lesser amount as described under the section titled "The Financing Transactions") shall be extended and incorporated into the Senior Secured Loan, Tranche A to form a part thereof on terms and conditions mutually acceptable to each Investor, the Corporation and SDCI, in the discretion of each of them;

"**Agnico-Eagle**" has the meaning attributed thereto under the section titled "Business of the Meeting and Shareholder Approval – Voting Agreements and Undertakings";

"**AIF**" means the annual information form of Stornoway dated July 25, 2013 for the fiscal year ended April 30, 2013;

"**Articles of Amendment**" has the meaning attributed thereto under the section titled "Business of the Meeting and Shareholder Approval – Articles of Amendment Resolution";

"**Articles of Amendment Resolution**" means the special resolution set forth in Schedule A to the Circular authorizing and approving the Articles of Amendment;

"**Articles of Continuance**" has the meaning attributed thereto under the section titled "Business of the Meeting and Shareholder Approval – Articles of Amendment Resolution";

"**Ashton**" means Ashton Mining of Canada, Inc.;

"**Availability Period**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Debt Financing Facilities – Senior Secured Loan – Conditions Precedent to Closing and Funding of the Senior Secured Loan";

"**Board of Directors**" means the board of directors of Stornoway;

"**Bridge Facility**" has the meaning attributed thereto under the section titled "Summary Description of the

Business – Existing Credit Facilities – Credit Facility with Diaquem";

"**CBCA**" means the *Canada Business Corporations Act*;

"**CDPQ**" means Caisse de dépôt et placement du Québec;

"**CEAA**" means the Canadian Environmental Assessment Agency;

"**Change of Control**" means: (i) any transaction (whether by purchase, merger or otherwise) whereby a person or persons acting jointly or in concert directly or indirectly acquires the right to cast, at a general meeting of Shareholders of Stornoway, more than 50% of the votes that may be ordinarily cast at a general meeting; or (ii) an amalgamation, consolidation or merger of Stornoway with or into any other person, any merger of another person into Stornoway, unless the holders of voting securities of Stornoway immediately prior to such amalgamation, consolidation or merger hold securities representing 50% or more of the voting control or direction in Stornoway or the successor entity upon completion of the amalgamation, consolidation or merger; or (iii) any conveyance, transfer, sale, lease or other disposition of all or substantially all of Stornoway's and its subsidiaries' assets and properties, taken as a whole, to another arm's length person;

"**Change of Control Conversion Price**" means conversion price of the Convertible Debentures upon the occurrence of a Change of Control, calculated as follows:

COCCP = ECP/(1+(CP x (c/t))) where:

COCCP is the Change of Control Conversion Price;

ECP = is the Conversion Price in effect on the Effective Date;

CP = initial premium of 35%;

c = the number of days from and including the date of the Change of Control Event (the "**Effective Date**") to but excluding the Maturity Date; and

t = the number of days from and including the Settlement Date to but excluding the Maturity Date.

"**Circular**" means this management information circular, including the schedules hereto, which is being sent to Shareholders in connection with the Meeting;

"**CNM**" means the Cree Nation of Mistissini;

"**COF**" means an unsecured cost overrun facility in an amount of $28 million to be provided by CDPQ to Stornoway;

"**COF Agreement**" means the definitive documents providing for the COF;

"**COF Maturity Date**" means the date falling on the first Payment Date to occur at least seven years from the Financing Transactions Closing Date;

"**COF Warrant Exercise Price**" means $0.945 per share, being 135% of the Equity Investment Price;

"**COF Warrants**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Debt Financing Facilities – Unsecured Cost Overrun Facility with COF Warrants – COF Warrants";

"**Co-Lead Underwriters**" means, collectively, Scotia Capital Inc., Dundee Securities Ltd. and RBC Dominion Securities Inc.;

"**Collateral**" means any property, assets or collateral that is subject to security granted pursuant to the Definitive Agreements;

"**Collateral Agent**" means the administrative agent and custodian jointly appointed by the Stream Buyers under the Streaming Agreement;

"**Commencement of Commercial Production**" means the first day of the month immediately following the month in which the Renard Diamond Project's processing plant first processes ore at an average rate of 3,550.7 tons per day;

"**Commencement of Commercial Production Date**" means October 1, 2017, extendible day for day for *force majeure* events up to a maximum of 180 days;

"**Common Shareholders**" means the holders of Common Shares and, unless the context otherwise requires, refers to registered holders of Common Shares;

"**Common Shares**" means the common shares in the capital of the Corporation;

"**Common Terms and Intercreditor Agreement**" means the common terms and intercreditor agreement to be entered into between the Senior Secured Lender (under the Senior Secured Loan), the Stream Buyers (under the Stream) and the counterparties under the permitted hedging agreements;

"**Completion**" shall occur upon delivery to the Senior Secured Lender of certain certificates of SDCI (verified, where appropriate, by the Independent Engineer, including in respect of sustainability of performance consistent with the levels required to achieve Completion as well as production levels including that the processing facility has been processing ore for at least thirty (30) days at an average rate of 5,326 tons per day);

"**Completion Date**" means March 31, 2018, extendible day for day for *force majeure* events up to a maximum of 365 days;

"**Conversion Price**" means $0.945, being a conversion price calculated at a 35% premium to the Equity Investment Price;

"**Convertible Debentures**" means the US$79 million unsecured convertible debentures to be acquired from Stornoway by the Convertible Debenture Purchasers, subject to increase up to US$90 million prior to the Financing Transactions Closing Date;

"**Convertible Debenture Purchasers**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Debt Financing Facilities – Convertible Debentures";

"**Corporation**" or "**Stornoway**" or "**we**" or "**us**" or "**our**" means Stornoway Diamond Corporation;

"**Cree Parties**" means the CNM, the Grand Council of the Crees (Eeyou Istchee) and the Cree Regional Authority;

"**D1**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream – Streaming Agreement";

"**D2**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream – Streaming Agreement";

"**D3**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream – Streaming Agreement";

"**Debt Financing Facilities**" means, collectively, the Senior Secured Loan, the Convertible Debentures and the COF;

"**Deemed Interest**" means an amount equal to the interest and other income that would have otherwise been earned on the 50% of the Underwriters' Fee paid to the Underwriters if such fee had been held in escrow as part of the Escrowed Funds and not paid to the Underwriters;

"**Defaulted Deposit Portion**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream – Streaming Agreement";

"**Defaulting Stream Buyer**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream – Streaming Agreement";

"**Definitive Agreements**" means, collectively, all definitive documentation for the Financing Transactions (other than the Equipment Facility);

"**Deposit**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream – Streaming Agreement";

"**Deposit Conditions Precedent**" means the conditions precedent in favour of the Stream Buyers to funding of each of D1, D2 and D3 pursuant to the Streaming Agreement, as described under "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream";

"**Diaquem**" means Diaquem Inc.;

"**Early Repayment Amount**" means the payment of the un-offset Deposit amount plus an interest rate to be agreed to;

"**Earned Interest**" means an amount equal to the interest and other income actually earned on the investment of the Escrowed Funds from, and including, the date of the Public Offering Closing up to, but excluding, the Termination Date;

"**Environmental Assessment Decision**" means the principal regulatory approval from the federal government which, with the Quebec Certificate of Authorization, is required before mine construction can commence, and which was issued by the CEAA on July 12, 2013 for the Renard Diamond Project;

"**Equipment Facility**" means equipment financing to be made available to SDCI by an equipment financier in a net amount of US$35 million;

"**Equity Investment**" means, collectively, the Public Offering (including the Over-Allotment Option, if exercised) and the Subscription Receipt Private Placements;

"**Equity Investment Price**" means $0.70, or US$0.64232, as applicable, being the subscription price of one Subscription Receipt under the Public Offering and one Private Placement Subscription Receipt under the Subscription Receipt Private Placements;

"**Escrow Agent**" means Computershare Trust Company of Canada;

"**Escrow Release Conditions**" means, collectively, (i) the Corporation and the other parties thereto having entered into Definitive Agreements acceptable to the Co-Lead Underwriters, acting reasonably (on behalf of the Underwriters) in respect of the Stream, the Senior Secured Loan, the Convertible Debentures and the COF and such Definitive Agreements remaining in force and there having not been any material amendment thereto that has not been approved by the Co-Lead Underwriters, acting reasonably (on behalf of the Underwriters), (ii) the Corporation having entered into an investor agreement with each of Orion Equity Co-Invest and CDPQ on terms and conditions satisfactory to each of the Investors and such investor agreements remaining in force, (iii) the receipt of all required regulatory and other approvals, including Shareholder Approval and TSX approval, (iv) approval of the Existing Lenders to the terms of the Stream, (v) the absence of any Pre-Closing Material Adverse Change, (vi) the QP Condition Precedent, (vii) confirmation from RQ that, subject to the issuance of a certificate of amendment to the Articles of Continuance, the RQ Conditions Precedent have been satisfied or waived, and (viii) the Corporation having provided evidence satisfactory to each of the Co-Lead Underwriters (on behalf of the Underwriters) that the Corporation and Orion Equity Co-Invest, RQ and CDPQ have provided, or are concurrently providing, a notice to the Subscription Receipt Agent certifying that the escrow release conditions in respect of the Concurrent Private Placements have been satisfied or waived;

"**Escrowed Funds**" means the gross proceeds from the Public Offering, less 50% of the Underwriters' Fee;

"**Excluded Properties**" means any ore bodies or properties which form part of the Renard Diamond Project other than the Properties;

"**Existing Lenders**" means, collectively, Fonds and Diaquem;

"**Fairness Opinion**" has the meaning attributed thereto under the section titled "The Financing Transactions – Background to and General Description of the Financing Transactions – Negotiation of the Financing Transactions";

"**Financing Commitment Letter**" means, collectively, the financing commitment letter and the Term Sheets attached as schedules thereto entered into on April 9, 2014 among the Corporation, SDCI and the Investors, as amended from time to time;

"**Financing Transactions**" means, collectively, the series of financing transactions contemplated by the terms of the Financing Commitment Letter, which include the Equity Investment, the Stream, the Debt Financing Facilities and the Equipment Facility, and "**Financing Transaction**" means any one of the Financing Transactions;

"**Financing Transactions Closing**" means the closing of each of the Financing Transactions (other than the Equity Investment, which closed at the Public Offering Closing, and the Equipment Facility, which is expected

to close after the Financing Transactions Closing);

"**Financing Transactions Closing Date**" means the date on which the Financing Transactions Closing occurs, which is expected to be on or before July 1, 2014, or such other date as the Corporation and the Investors shall agree;

"**First Payment Date**" means the earlier of (i) the first Payment Date occurring six months following Commencement of Commercial Production, and (ii) the first Payment Date which falls 42 months after the Financing Transactions Closing Date;

"**Fonds**" means, collectively, Fonds de solidarité FTQ and the Fonds régional de solidarité FTQ Nord-du-Québec, S.E.C.;

"**Fonds Security**" means the hypothec in the amount of $24 million securing the 1% contingent secured royalty interest in the Renard Diamond Project granted by SDCI to the Existing Lenders in connection with the May 2012 Loan;

"**Framework Agreement**" means, collectively, the framework agreement and an associated letter of intent dated November 15, 2012, entered into by SDCI with the Government of Québec for the financing and completion of the Renard Mine Road;

"**General Conditions Precedent**" has the meaning attributed thereto under the section titled "The Financing Transactions – Background to and General Description of the Financing Transactions";

"**Gross Proceeds**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream – Streaming Agreement";

"**Impact and Benefits Agreement**" or "**Mecheshoo Agreement**" means the Impact and Benefits Agreement dated March 27, 2012 between SDCI and the CNM, The Grand Council of the Crees (Eeyou Istchee) and The Cree Regional Authority;

"**Indenture**" means the trust indenture to be entered into between the Corporation and the trustee named therein relating to the Convertible Debentures;

"**Independent Engineer**" means RPA, including its successors or permitted assigns in such capacity;

"**Initial Stream Deposit Date**" means March 31, 2015;

"**Intercreditor Principles**" means the general core principles for the intercreditor provisions to be contained in the Common Terms and Intercreditor Agreement among the Senior Secured Lender, the hedge counterparties to the permitted hedge agreements and the Stream Buyers;

"**Interim MD&A**" means the Corporation's management's discussion and analysis of financial condition and results of operations for the three- and nine-month periods ended January 31, 2014;

"**Investor Agreement**" means the Investor Agreement dated April 1, 2011 among Stornoway, Diaquem and IQ, as amended;

"**Investors**" means Orion, CDPQ, together with RQ and/or Diaquem (including in its capacity as the Senior Secured Lender), as the context may require, and "**Investor**" means any one of the Investors;

"**Invoice**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream – Streaming Agreement";

"**IQ**" means Investissement Québec, the parent company of RQ and of Diaquem;

"**IQ Transactions**" has the meaning attributed thereto under the section titled "Business of the Meeting and Shareholder Approval – IQ Transactions Resolution and Private Placements Resolution – IQ Transactions Resolution";

"**IQ Transactions Resolution**" means the ordinary resolution of Common Shareholders set forth in Schedule A to the Circular authorizing, approving, confirming and ratifying the IQ Transactions;

"**LNG**" means liquefied natural gas;

"**LNG Study**" means the feasibility study undertaken during 2013 on the viability of a LNG fuelled power plant for the Renard Diamond Project, the results of which were announced by the Corporation in October 2013;

"**Loan A**" has the meaning attributed thereto under the section titled "Summary Description of the Business – Existing Credit Facilities – Renard Mine Road Loan from the Ministère des Finances et de l'Économie;

"**Loan B**" has the meaning attributed thereto under the section titled "Summary Description of the Business – Existing Credit Facilities – Renard Mine Road Loan from the Ministère des Finances et de l'Économie;

"**Management Proxyholders**" has the meaning attributed thereto under the section titled "Appointment of Proxyholder";

"**Material Adverse Change**" means any change of circumstances or any event which has, or would reasonably be expected to have, a Material Adverse Effect; provided that changes in international diamond prices or the diamond market or the effects or prospective effects thereof on Stornoway and/or SDCI shall not be considered a material adverse change for purposes of this definition;

"**Material Adverse Effect**" means an event or circumstance which has a material adverse effect on (a) Stornoway's, SDCI's or any guarantor's ability to perform its respective material obligations (including, for certainty, any payment and diamond delivery obligations) under the Stream or the Senior Secured Loan, as applicable, or any other material indebtedness, (b) the security created by or under the Stream or the Senior Secured Loan, as applicable, or (c) (i) the ability of SDCI to achieve Commencement of Commercial Production by the Commencement of Commercial Production Date, (ii) the ability of SDCI to achieve Completion by the Completion Date, or (iii) SDCI's ability to construct and operate the Renard Diamond Project in all material respects in accordance with the Mine Plan and use the facilities described in the Project Description;

"**Maturity Date**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Debt Financing Facilities – Convertible Debentures";

"**May 2012 Loan**" has the meaning attributed thereto under the section titled "Summary Description of the Business – Existing Credit Facilities – Unsecured Debt Facility;

"**Meeting**" means the special meeting of Shareholders of the Corporation convened pursuant to the Circular and the attached Notice of Meeting, as well as any adjournment(s) or postponement(s) thereof;

"**MFE**" means the Québec *Ministère des Finances et de l'Économie*;

"**MFE Financing Agreement**" means the financing agreement entered into on December 6, 2012 among SDCI and the MFE providing for the Renard Mine Road Loan for the construction of the Renard Mine Road;

"**MI 61-101**" means Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Specific Transactions* (Regulation 61-101 *respecting Protection of Minority Security Holders in Specific Transactions* in Québec);

"**Mine Plan**" means the initial mine plan delivered by SDCI to the Senior Secured Lender;

"**New Securities**" means all Common Shares, or other voting or equity shares, or convertible securities (other than securities of Stornoway issued or issuable to officers, directors or employees of, or consultants to, Stornoway pursuant to stock option or stock purchase plans or similar agreements) that Stornoway may, from time to time, propose to sell and issue;

"**NI 43-101**" means National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*;

"**Non-Governmental Investments**" means non-governmental obligations of, or guaranteed by, a Canadian chartered bank;

"**Non-Voting Convertible Shares**" means the non-voting convertible shares in the capital of the Corporation;

"**Notice of Meeting**" means the notice of Meeting appearing at the front of and forming part of this Circular;

"**Optimization Study**" means the optimization review of the Renard Diamond Project undertaken by the Corporation in 2012 and announced in January 2013, the results of which are included in the Renard Technical

Report;

"**Orion**" means Orion Co-Investments I Limited;

"**Orion Equity Co-Invest**" means Orion Co-Investments I LLC;

"**Outside Date**" means the 40-year anniversary of the date on which the final Deposit is disbursed by the Stream Buyers;

"**Over-Allotment Option**" means an option granted to the Underwriters by the Corporation, exercisable in whole or in part at any time not later than the earlier of (i) the 30th day following the date of the Public Offering Closing, and (ii) the occurrence of a Termination Event, to purchase up to an additional 20,290,000 Subscription Receipts at a price of $0.70 per Subscription Receipt on the same terms and conditions as under the Public Offering, solely for market stabilization purposes and to cover over-allotments, if any;

"**Payment Date**" means each semi-annual payment date which falls on June 30 and December 31 of each year;

"**Per Carat Cash Price**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream – Streaming Agreement";

"**Pre-Closing Material Adverse Change**" means any change, event or circumstance which is or would reasonably be expected to be material and adverse to the business, operations, results of operations, properties, assets (tangible or intangible), liabilities, obligations, prospects or condition (financial or otherwise) of Stornoway and SDCI, taken as a whole, or prevent, or materially delay or hinder the ability of Stornoway or SDCI to consummate on a timely basis the Financing Transactions or from performing their respective obligations thereunder in all material respects;

"**Pre-Emptive Right**" means Diaquem's pre-emptive right pursuant to the terms of the Investor Agreement to purchase its *pro rata* share of all New Securities;

"**Price Protection Event**" means the occurrence of a Subsequent Equity Offering, whether on a public offering or private placement basis, where the Subsequent Offering Price is lower than the Equity Investment Price;

"**Primary Capital**" means Primary Capital Inc., independent financial advisor to the Special Committee;

"**Private Placement Earned Interest**" means the interest and other income (if any) actually earned on the investment of the Private Placement Escrowed Funds from, and including, the date of the Public Offering Closing up to, but excluding, the Termination Date;

"**Private Placement Escrowed Funds**" means the gross proceeds from the sale of the Private Placement Subscription Receipts;

"**Private Placement Fee**" means a fee of 6.0% of the aggregate amount subscribed for under the Subscription Receipt Private Placements payable by Stornoway through the issuance of Common Shares on a *pro rata* basis to the Investors, upon the satisfaction or waiver of the Escrow Release Conditions;

"**Private Placement Fee Shares**" means Common Shares to be issued at the Equity Investment Price in satisfaction of the Private Placement Fee on a *pro rata* basis to the Investors;

"**Private Placement Share**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Equity Investment – Subscription Receipt Private Placements";

"**Private Placement Subscription Receipts**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Equity Investment – Subscription Receipt Private Placements";

"**Private Placements**" has the meaning attributed thereto under the section titled "Business of the Meeting and Shareholder Approval – IQ Transactions Resolution and Private Placements Resolution – Private Placements Resolution";

"**Private Placements Resolution**" means the ordinary resolution of Common Shareholders set forth in Schedule A to the Circular authorizing, approving, confirming and ratifying the Private Placements;

"**Project Costs**" means all capital expenditures made by SDCI for the purposes of the engineering, design, construction, financing, start-up and development of the Renard Diamond Project, including escalation, contingencies, initial working capital, taxes, duties, expenditures for plant equipment, spares and other capital goods, inventory, capital expenditures required to maintain the Renard Diamond Project at its design capacity (including repairs and replacements funded by insurance proceeds), interest during construction, financing fees and expenses, permitted payments under the Services Agreement and other Renard Diamond Project development costs;

"**Project Description**" means a description of the physical facilities of the Renard Diamond Project to be set forth in an appendix to the Common Terms and Intercreditor Agreement;

"**Properties**" means the Renard 2, Renard 3, Renard 4, Renard 9, and Renard 65 kimberlites at the Renard Diamond Project;

"**Public Offering**" means the distribution and offering of the Subscription Receipts by the Corporation pursuant to the Short Form Prospectus and the Common Shares and Warrants issuable pursuant to the terms of the Subscription Receipts;

"**Public Offering Closing**" means the closing of the Public Offering, which occurred on May 23, 2014;

"**QP Condition Precedent**" means that a qualified person (as defined in NI 43-101) shall have reviewed the report prepared by SNC-Lavalin Inc. and AMEC Americas Limited in connection with their engineering, procurement and construction management work on the Renard Diamond Project, including an updated budget and timeline for completion, and certified for and on behalf of the Corporation, without personal liability, that the disclosure regarding the Renard Diamond Project in the Short Form Prospectus, including the budget and timeline for completion, remains complete and accurate in all material respects, which condition is to the benefit of and may be waived by each of the Co-Lead Underwriters and the Investors in their sole discretion;

"**Record Date**" has the meaning attributed thereto under the section titled "Voting Shares and Principal Holders thereof";

"**Related Party Transaction**" means a "related party transaction", as such term is defined in MI 61-101, involving the Corporation as the issuer;

"**Remaining Bridge Facility Obligations**" means an amount equal to that portion of the Additional RQ Commitment that shall have been reduced as a result of the exercise of the Over-Allotment Option, or as a result of Additional Convertible Debenture Commitments, as applicable, and which is required to be repaid by the Corporation in accordance with the terms of the Bridge Facility on the Financing Transactions Closing Date, as described under the section titled "Summary Description of the Business – Repayment of Borrowings";

"**Renard Diamond Project**" means Stornoway's 100% owned Renard diamond project located in north-central Québec, which is held through its wholly-owned subsidiary SDCI;

"**Renard Mine Airport**" means the new regional aerodrome enhancing air transport in the Monts Otish region of Québec;

"**Renard Mine Airstrip**" has the meaning attributed thereto under the section titled "Summary Description of the Business – Existing Credit Facilities – Renard Mine Road Loan from the Ministère des Finances et de l'Économie;

"**Renard Mine Road**" means the 97 km long mining-grade road on segments "C" and "D" of the Route 167 Extension;

"**Renard Mine Road Loan**" means the credit facility provided under the MFE Financing Agreement, consisting of Loan A and Loan B;

"**Renard Technical Report**" means a technical report with an effective date of February 28, 2013 and titled "The Renard Diamond Project, Québec, Canada, Feasibility Study Update, NI 43-101 Technical Report, February 28, 2013";

"**Reserved Amount**" means (i) the Remaining Bridge Facility Obligations, and (ii) an amount of up to $20 million to fund corporate and working capital requirements of Stornoway;

"**Restated and Amended Investor Agreement**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Equity Investment – Subscription Receipt Private Placements – Governance Rights";

"**Rolled Bridge Facility Obligations**" means the outstanding obligations of the Corporation under the Bridge Facility inclusive of principal and capitalized interest net of the Remaining Bridge Facility Obligations, that RQ has agreed to extend and incorporate into the Senior Secured Loan, Tranche A upon terms and conditions mutually acceptable to each Investor, the Corporation and SDCI, in the discretion of each of them;

"**Route 167 Extension**" means the extension of Route 167 from Témiscamie to the Renard Diamond Project mine site;

"**RPA**" means Roscoe Postle Associates Inc.;

"**RQ**" means Ressources Québec (as mandatary for the Government of Québec);

"**RQ Conditions Precedent**" has the meaning attributed thereto under the section titled "The Financing Transactions – Background to and General Description of the Financing Transactions";

"**SDCI**" means Stornoway Diamonds (Canada) Inc., a wholly-owned subsidiary of the Corporation;

"**Senior Obligations**" means (i) all obligations owing to the Senior Secured Lender under the Senior Secured Loan, (ii) all obligations owing to the Stream Buyers under the Streaming Agreement, and (iii) all obligations owing to hedge counterparties under permitted hedging agreements;

"**Senior Secured Lender**" means Diaquem;

"**Senior Secured Loan**" means, collectively, the Senior Secured Loan, Tranche A and the Senior Secured Loan, Tranche B;

"**Senior Secured Loan Agreement**" means, collectively, the definitive documents providing for the Senior Secured Loan;

"**Senior Secured Loan, Tranche A**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Debt Financing Facilities – Senior Secured Loan";

"**Senior Secured Loan, Tranche B**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Debt Financing Facilities – Senior Secured Loan";

"**Services Agreement**" means the services agreement to be entered into between SDCI and Stornoway (pursuant to which Stornoway will agree to provide certain management services to SDCI in connection with the construction and operation of the diamond mine at Renard, including sales assistance, operational security support, technical support, advisory services and support, finance administration, management information systems support, geological support, risk management activities, policies and procedures, and other types of services or support as may be established by mutual agreement, in exchange for a monthly fee to be charged by Stornoway based on the cost to Stornoway for the time spent by its employees and the reimbursement of expenses incurred, not to exceed $5 million annually in constant Q2 2011 terms;

"**Settlement Amount**" means: (a) during the period commencing on the Financing Transactions Closing Date and ending on the date on which 18 million carats shall have been sold pursuant to the Streaming Agreement, the un-offset Deposit amount plus US$100 million; (b) during the period commencing on the date that 18 million carats have been sold pursuant to the Streaming Agreement and ending on the date that 30 million carats have been sold pursuant to the Streaming Agreement, the un-offset Deposit amount plus US$50 million; and (c) after the date that 30 million carats have been sold pursuant to the Streaming Agreement, the un-offset Deposit amount plus zero;

"**Settlement Date**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream – Streaming Agreement";

"**Shareholders**" means the holders of either or both of Common Shares and/or Non-Voting Convertible Shares and, unless the context otherwise requires, refers to registered holders of such Shares;

"**Shareholder Approval**" means the requisite approval of each of the IQ Transactions Resolution, the Private Placements Resolution and the Articles of Amendment Resolution by the Shareholders of the Corporation at the Meeting as set out in this Circular;

"**Shares**" means the Common Shares and the Non-Voting Convertible Shares;

"**Short Form Prospectus**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Equity Investment – Public Offering";

"**SOQUEM**" means Société Québécoise d'Exploration Minière inc.;

"**Special Committee**" has the meaning attributed thereto under the section titled "The Financing Transactions – Background to and General Description of the Financing Transactions – Negotiation of the Financing Transactions";

"**Sponsor and Shareholder Guarantee**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream – Streaming Agreement – Guarantees and Security";

"**Standby Fee**" means a standby fee of 1% *per annum* based on the average daily undisbursed Deposits commencing on the Financing Transactions Closing Date;

"**Standstill Obligation**" means a standstill obligation pursuant to which IQ has agreed and consented that it will not, acting alone or in concert with a subsidiary, increase, directly or indirectly, the aggregate ownership interest of IQ and its subsidiaries in the Common Shares to more than twenty-five percent (25%) without the prior written consent of the Corporation;

"**Stock Option Plan**" means the Corporation's existing stock option plan;

"**Stream**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream – Streaming Agreement";

"**Stream Buyers**" means, collectively, Orion and/or one or more of its designated affiliates and/or respective limited partners or investors and an affiliate of CDPQ (designated by CDPQ in its sole discretion);

"**Stream Collateral**" means the Subject Diamond Interest, the Stream Net Proceeds and a 20% undivided interest in the mining lease for the Renard Diamond Project;

"**Stream Net Proceeds**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream – Streaming Agreement";

"**Stream Proceeds Account**" means the stream proceeds account to be established by the Stream Buyers in their name (or that of their agent);

"**Stream Upfront Deposit Offset Date**" means the date on which the Deposit has been fully offset under the Streaming Agreement;

"**Streaming Agreement**" means a diamond streaming agreement pursuant to which SDCI shall agree to sell to the Stream Buyers, and the Stream Buyers shall agree to purchase from SDCI, at the times and under the conditions set out therein, the Subject Diamonds Interest;

"**Streaming Purchase Price**" means the purchase price payable by the Stream Buyers to SDCI for the Subject Diamonds Interest;

"**Subject Diamonds Interest**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream – Streaming Agreement";

"**Subscription Receipt Agent**" means Computershare Trust Company of Canada;

"**Subscription Receipt Private Placements**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Equity Investment – Subscription Receipt Private Placements";

"**Subscription Receipts**" means the subscription receipts of the Corporation offered pursuant to the Short Form

Prospectus;

"**Subsequent Equity Offering**" means additional Common Share financing(s) made during the period between the Financing Transactions Closing Date and the Commencement of Commercial Production Date;

"**Subsequent Offering Price**" means the offering price pursuant to a Subsequent Equity Offering;

"**Syndication Agreement**" means the syndication agreement to be entered into between Orion and CDPQ on the Financing Transactions Closing Date to cover any Defaulted Deposit Portion under the Streaming Agreement, and which will provide for an advance notice and reallocation mechanism applicable between the Stream Buyers prior to any payment date for Deposits, with a view to addressing any anticipated funding default by any Stream Buyer and providing the non-Defaulting Stream Buyers with the right (but not the obligation) to proportionately take up the Defaulting Stream Buyer's position under the Streaming Agreement;

"**Termination Date**" means the date on which a Termination Event occurs;

"**Termination Event**" means the earlier of (i) 5:00 p.m. (Eastern time) on July 1, 2014 or such later date and time as may be agreed by the Corporation and the Investors, but not later than October 1, 2014, and (ii) Stornoway advising the Co-Lead Underwriters (on behalf of the Underwriters) or announcing to the public that Stornoway and the Investors have determined not to proceed with the Financing Transactions;

"**Term Sheets**" means each of the term sheets (including the general terms and conditions term sheet) attached as schedules to the Financing Commitment Letter, and "**Term Sheet**" means any one of the Term Sheets;

"**Threshold Number**" means the first 30 million carats produced from the Renard Diamond Project;

"**Transaction Expenses**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitment Letter";

"**Transfer Agent**" has the meaning attributed thereto under the section titled "Completion and Return of Proxy";

"**Trustee(s)**" means a trustee, collateral agent and *fondé de pouvoir* under Article 2692 of the Civil Code of Québec;

"**TSX**" means the Toronto Stock Exchange;

"**Underwriters**" means the underwriters of the Public Offering, being, collectively, the Co-Lead Underwriters and Desjardins Securities Inc., National Bank Financial Inc., Laurentian Bank Securities Inc. and Paradigm Capital Inc.;

"**Underwriters' Fee**" means the fee of $0.035 per Subscription Receipt issued and sold by the Corporation pursuant to the Public Offering (and, if applicable, pursuant to the Over-Allotment Option) paid to the Underwriters by the Corporation pursuant to the Underwriting Agreement;

"**Underwriting Agreement**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Equity Investment – Public Offering";

"**United States**" means the United States of America, its territories and possessions, any State of the United States, and the District of Columbia;

"**Warrant Exercise Price**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Equity Investment – Public Offering";

"**Warrants**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Equity Investment – Public Offering"; and

"**Warrant Shares**" has the meaning attributed thereto under the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Equity Investment – Public Offering".

GENERAL

Stornoway is providing this Circular and a form of proxy in connection with management's solicitation of proxies for use at the Meeting to be held on June 26, 2014 and at any adjournment(s) or postponement(s) thereof. Unless the context otherwise requires, when we refer in this Circular to the Corporation, its subsidiaries are also included.

INFORMATION CONTAINED IN THIS CIRCULAR

Information contained herein is given as of May 28, 2014 except as otherwise noted.

If any matters which are not now known should properly come before the Meeting, the accompanying form of proxy will be voted on such matters in accordance with the best judgment of the person voting upon them.

Shareholders should not construe the contents of this Circular as legal, tax or financial advice and should consult with their own professional advisors as to the relevant legal, tax, financial or other matters in connection herewith.

CURRENCY AND EXCHANGE RATE INFORMATION

This Circular contains references to Canadian dollars and United States dollars. All dollar amounts referenced, unless otherwise indicated, are expressed in Canadian dollars referred to as "$" or "CAD", and United States dollars are referred to as "U.S. dollars", "US$" or "USD". The following table reflects the high, low and average rates of exchange in United States dollars for one Canadian dollar for the periods noted, based on the Bank of Canada noon spot rate of exchange.

	Fiscal Year Ended			Nine-Month Period Ended	
	April 30, 2013	**April 30, 2012**	**April 30, 2011**	**January 31, 2014**	**January 31, 2013**
High	$1.0380	$1.0630	$1.0586	$0.9819	$1.0380
Low	$0.9573	$0.9384	$0.9217	$0.8911	$0.9901
Average	$0.9964	$1.0076	$0.9857	$0.9500	$1.0102

On May 27, 2014, the noon buying rate as reported by the Bank of Canada was US$1.00 = $1.0869 or $1.00 = US$0.9200.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

These forward-looking statements 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. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Forward-looking statements relate to future events or future performance and reflect current expectations or beliefs regarding future events and include, but are not limited to, statements with respect to: (i) the amount of Mineral Resources and exploration targets; (ii) the amount of future production over any period; (iii) net present value and internal rates of return of the mining operation; (iv) assumptions relating to recovered grade, average ore recovery, internal dilution, mining dilution and other mining parameters set out in the 2011 Feasibility Study or the Optimization Study; (v) assumptions relating to gross revenues, operating cash flow and other revenue metrics set out in the 2011 Feasibility Study or the Optimization Study; (vi) mine expansion potential and expected mine life;

(vii) expected time frames for completion of permitting and regulatory approvals and making a production decision; (viii) the expected time frames for the completion of the Route 167 Extension and the financial obligations or costs incurred by Stornoway in connection with such road extension; (ix) future exploration plans; (x) future market prices for rough diamonds; (xi) the economic benefits of using LNG rather than diesel for power generation; (xii) sources of and anticipated financing requirements; (xiii) the Financing Transactions Closing; (xiv) the completion and release of the proceeds of the Public Offering and the Subscription Receipt Private Placements and funding of the Convertible Debentures and the use of proceeds therefrom; (xv) the completion, effectiveness or availability, as the case may require, of the other Financing Transactions and the use of proceeds therefrom; (xvi) the Corporation's expectations regarding receipt of the Deposits under the Streaming Agreement and its ability to meet its Subject Diamonds Interest delivery obligations hereunder; (xvii) the impact of the Financing Transactions on the Corporation's operations, infrastructure, opportunities, financial condition, access to capital and overall strategy; and (xviii) the receipt of required regulatory and other approvals, including Shareholder Approval. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "anticipates", "plans", "projects", "estimates", "assumes", "intends", "strategy", "goals", "objectives", "schedule" or variations thereof or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements.

Forward-looking statements are made based upon certain assumptions by Stornoway or its consultants and other important factors that, if untrue, could cause the actual results, performances or achievements of Stornoway to be materially different from future results, performances or achievements expressed or implied by such statements. Such statements and information are based on numerous assumptions regarding present and future business prospects and strategies and the environment in which Stornoway will operate in the future, including the price of diamonds, anticipated costs and Stornoway's ability to achieve its goals, anticipated financial performance, regulatory developments, development plans, exploration, development and mining activities and commitments. Although management considers its assumptions on such matters to be reasonable based on information currently available to it, they may prove to be incorrect. Certain important assumptions by Stornoway or its consultants in making forward-looking statements include, but are not limited to: (i) required capital investment and estimated workforce requirements; (ii) estimates of net present value and internal rates of return; (iii) receipt of regulatory approvals on acceptable terms within commonly experienced time frames; (iv) the assumption that a production decision will be made, and that decision will be positive; (v) anticipated timelines for the commencement of mine production; (vi) anticipated timelines related to the completion of the Route 167 Extension and the impact on the development schedule at Renard; (vii) market prices for rough diamonds and the potential impact on the Renard Diamond Project; (viii) future exploration plans and objectives; (ix) the satisfaction or waiver of the Escrow Release Conditions; (x) the satisfaction or waiver of all conditions to the completion, effectiveness or availability, as the case may require, of each of the Financing Transactions; (xi) the successful completion of the Financing Transactions; (xii) the receipt of the Deposits under the Streaming Agreement and the Corporation's ability to meet its Subject Diamonds Interest delivery obligations thereunder; and (xiii) Stornoway's ability to consummate the Financing Transactions to enable it to finance the development and construction of the Renard Diamond Project.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that estimates, forecasts, projections and other forward-looking statements will not be achieved or that assumptions do not reflect future experience. We caution readers not to place undue reliance on these forward-looking statements as a number of important risk factors could cause the actual outcomes to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates, assumptions and intentions expressed in such forwardlooking statements. These risk factors may be generally stated as the risk that the assumptions and estimates expressed above do not occur, including the assumption in many forward-looking statements that other forward-looking statements will be correct, but specifically include, without limitation: (i) risks relating to variations in the grade, kimberlite lithologies and country rock content within the material identified as Mineral Resources from that predicted; (ii) variations in rates of recovery and breakage; (iii) the uncertainty as to whether further exploration of exploration targets will result in the targets being delineated as Mineral Resources; (iv) developments in world diamond markets; (v) slower increases in diamond valuations than assumed; (vi) risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar; (vii) increases in the costs of proposed capital and operating expenditures; (viii) increases in financing costs or adverse changes to the terms of available financing, if any; (ix) tax rates or royalties being greater than assumed; (x) uncertainty of results

of exploration in areas of potential expansion of resources; (xi) changes in development or mining plans due to changes in other factors or exploration results; (xii) changes in project parameters as plans continue to be refined; (xiii) risks relating to the receipt of regulatory approvals or the implementation of the existing Impact and Benefits Agreement with aboriginal communities; (xiv) the effects of competition in the markets in which Stornoway operates; (xv) operational and infrastructure risks; (xvi) execution risk relating to the completion of the Route 167 Extension; (xvii) the General Conditions Precedent and/or the Escrow Release Conditions not being satisfied or waived; (xviii) failure to receive regulatory approvals (including stock exchange) or other approvals or otherwise satisfy the conditions to the completion, effectiveness or availability, as the case may require, of each of the Financing Transactions; (xix) failure to complete the Financing Transactions on acceptable terms or at all; (xx) changes in the terms of the Financing Transactions; (xxi) the funds of some of the Financing Transactions not being available to the Corporation; (xxii) the Corporation being unable to meet its Subject Diamonds Interest delivery obligations under the Streaming Agreement; (xxiii) future sales or issuances of Common Shares lowering the Common Share price and diluting the interest of existing shareholders; and (xxiv) the additional risk factors discussed in the Corporation's other disclosure documents and the Corporation's anticipation of and success in managing the foregoing risks. Stornoway cautions that the foregoing list of factors that may affect future results is not exhaustive and new, unforeseeable risks may arise from time to time.

SOLICITATION AND PURPOSE OF THE MEETING

The information contained in this Circular is provided in connection with the solicitation of proxies by or on behalf of the management of Stornoway for use at the Meeting. At the Meeting, Shareholders will be asked to consider and vote on the matters specified in the accompanying Notice of Meeting, and on such other business as may properly come before the Meeting.

The Board of Directors of Stornoway unanimously recommends that the Common Shareholders vote their Common Shares **IN FAVOUR** of each of the IQ Transactions Resolution and the Private Placements Resolution and that Shareholders vote their Shares **IN FAVOUR** of the Articles of Amendment Resolution. See the section titled "Business of the Meeting and Shareholder Approval".

It is expected that solicitation of proxies will be made primarily by mail but proxies may also be solicited personally by employees or agents of Stornoway. The cost of solicitation of proxies will be borne by Stornoway.

DATE, TIME AND PLACE OF THE MEETING

The Meeting will be held at the offices of Norton Rose Fulbright Canada LLP, 1 Place Ville Marie, Suite 2500, Montreal, Quebec, Canada H3B 1R1, on June 26, 2014, at 10:00 a.m. (Eastern Time).

APPOINTMENT OF PROXYHOLDER

The purpose of a proxy is to designate persons who will vote the proxy on a Shareholder's behalf in accordance with the instructions given by the Shareholder in the proxy. The persons whose names are printed in the enclosed form of proxy are officers or Directors of the Corporation (the "**Management Proxyholders**").

A Shareholder has the right to appoint a person other than a Management Proxyholder to represent the Shareholder at the Meeting by striking out the names of the Management Proxyholders and by inserting the desired person's name in the blank space provided or by executing a proxy in a form similar to the enclosed form. A proxyholder need not be a Shareholder.

VOTING BY PROXY

Only registered Shareholders or duly appointed proxyholders are permitted to vote at the Meeting. Shares represented by a properly executed proxy will be voted or be withheld from voting on each matter referred to in the Notice of Meeting in accordance with the instructions of the Shareholder on any ballot that may be called for and if the Shareholder specifies a choice with respect to any matter to be acted upon, the Shares will be voted accordingly.

If a Shareholder does not specify a choice and the Shareholder has appointed one of the Management Proxyholders as his, her or its proxyholder, the Management Proxyholder will vote in favour of the matters specified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting.

DISCRETIONARY AUTHORITY

The enclosed form of proxy also gives discretionary authority to the person named therein as proxyholder with respect to amendments or variations to matters identified in the Notice of the Meeting and with respect to other matters which may properly come before the Meeting. At the date of this Circular, management of the Corporation knows of no such amendments, variations or other matters to come before the Meeting.

COMPLETION AND RETURN OF PROXY

To be valid, the enclosed form of proxy must be signed, dated and returned to Computershare Investor Services Inc. (the "**Transfer Agent**") by no later than 10:00 a.m. (Eastern Time) on June 25, 2014 or, in the event the Meeting is adjourned or postponed, 48 hours (excluding Saturdays, Sundays and holidays) before the time the adjourned Meeting is reconvened or the postponed meeting is held. Such form of proxy must be returned in the enclosed envelope addressed to Computershare Investor Services Inc., 100 University Avenue, 8th Floor, Toronto, Ontario, M5J 2Y1, Canada, Attention: Proxy Unit, or by fax at 1-866-249-7775, Attention: Proxy Unit. A Shareholder can also vote using the telephone or over the Internet by following the instructions on the enclosed form of proxy.

NON-REGISTERED SHAREHOLDERS

Only Shareholders whose names appear on the records of the Corporation as the registered holders of Shares or duly appointed proxyholders are permitted to vote at the Meeting. You are a non-registered Shareholder if your bank, trust company, securities broker or dealer or other financial institution or intermediary holds your Shares for you. If you are not sure whether you are a non-registered Shareholder, please contact Computershare by telephone at 1-514-982-7555 or toll-free at 1-800-564-6253 or by e-mail at service@computershare.com.

Non-registered Shareholders are either "objecting beneficial owners" or "OBOs", who object that intermediaries disclose information about their identity and ownership in the Corporation, or "non-objecting beneficial owners" or "NOBOs", who do not object to such disclosure. The Corporation does not send proxy-related materials directly to OBOs or NOBOs and intends to pay for an intermediary to deliver the proxy-related materials to NOBOs.

If you are a non-registered holder, **you should carefully follow the instructions on the request for voting instructions or form of proxy that you receive from the intermediary, in order to vote the Shares that you hold with that intermediary**.

Since neither Stornoway nor the Transfer Agent generally has access to the names of non-registered holders, if you wish to attend the Meeting and vote in person, you should insert your own name in the blank space provided in the request for voting instructions or form of proxy to appoint yourself as proxy holder and then follow your intermediary's instructions for returning the request for voting instructions or proxy form. Do not complete the voting section of the form as your vote will be taken at the Meeting.

REVOCATION OF PROXIES

A registered Shareholder who has given a proxy may revoke such proxy by:

- completing and signing a proxy bearing a later date and depositing it with the Transfer Agent as described above;
- depositing an instrument in writing executed by the Shareholder or by the Shareholder's attorney authorized in writing (a) at the registered office of Stornoway at any time up to and including the last business day preceding the day of the Meeting, or any adjournment or postponement thereof, at which the proxy is to be used, or (b) with the scrutineers of the Meeting, to the attention of the chair of the Meeting, prior to the commencement of the Meeting on the day of the Meeting, or any adjournment or postponement thereof; or
- in any other manner permitted by law.

If you are a non-registered Shareholder, you may revoke voting instructions that you have given to your intermediary at any time by written notice to the intermediary. However, your intermediary may be unable to take any action on the revocation if you do not provide your revocation sufficiently in advance of the Meeting.

VOTING OF PROXIES

The Management Representatives designated in the enclosed form of proxy will vote the Shares in respect of which they are appointed proxyholders on any ballot that may be called for in accordance with the instructions of the Shareholder as indicated on the form of proxy. **In the absence of such direction, the Shares will be voted by the Management Representatives IN FAVOUR of each of the IQ Transactions Resolution, the Private Placements Resolution and the Articles of Amendment Resolution.**

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

Each Shareholder of record at the close of business on May 28, 2014 (the "**Record Date**") is entitled to receive notice of, and will be entitled to vote on specified resolutions at, the Meeting. As of the Record Date, Stornoway had a total of 153,533,071 issued and outstanding Common Shares, each carrying one vote, and 22,543,918 Non-Voting Convertible Shares. The Non-Voting Convertible Shares do not generally carry any right to vote, however, they each carry one vote with respect to the Articles of Amendment Resolution.

Each holder of Common Shares is entitled to one vote at the Meeting or any adjournment or postponement thereof for each Common Share registered in the holder's name as at the Record Date, notwithstanding any transfer of any Common Shares on the books of Stornoway after the Record Date. Each holder of Non-Voting Convertible Shares is entitled to one vote at the Meeting, solely with respect to the Articles of Amendment Resolution, for each Non-Voting Convertible Share registered in the holder's name as at the Record Date, notwithstanding any transfer of any Non-Voting Convertible Shares on the books of Stornoway after the Record Date.

As of the Record Date, Diaquem held all of the issued and outstanding Non-Voting Convertible Shares. Diaquem and Stornoway have agreed that all 22,543,918 Non-Voting Convertible Shares held by Diaquem will be converted into the same number of Common Shares in accordance with the existing rights, privileges, restrictions and conditions attaching to the Non-Voting Convertible Shares on the third (3rd) business day preceding the Meeting in accordance with the existing rights, privileges, restrictions and conditions attaching to the Non-Voting Convertible Shares.

To the knowledge of the Corporation, as of the Record Date, the only person who beneficially owned, directly or indirectly, or exercised control or direction over shares carrying 10% or more of the voting rights attached to all Shares of the Corporation is as follows:

Name	*Number of Common Shares*	*% of Issued Common Shares*
Diaquem, a wholly-owned subsidiary of SOQUEM INC., itself a wholly-owned subsidiary of IQ.	35,504,737[(1)]	23.1%[(2)(3)]

(1) Diaquem also holds 22,543,918 Non-Voting Convertible Shares convertible into 22,543,918 Common Shares, representing all of the issued and outstanding Non-Voting Convertible Shares. Diaquem and Stornoway have agreed that all 22,543,918 Non-Voting Convertible Shares held by Diaquem will be converted into the same number of Common Shares in accordance with the existing rights, privileges, restrictions and conditions attaching to the Non-Voting Convertible Shares on the third (3rd) business day preceding the Meeting in accordance with the existing rights, privileges, restrictions and conditions attaching to the Non-Voting Convertible Shares. Since the Common Shares issuable upon conversion will not have been outstanding on the Record Date, the holder thereof will not be entitled to vote such Common Shares at the Meeting.

(2) Assuming the conversion of all Non-Voting Convertible Shares into Common Shares on a one-for-one basis and otherwise in accordance with their terms to take place on the third (3rd) business day preceding the Meeting, Diaquem would hold, together with the 35,504,737 Common Shares it already holds, approximately 33.0% of the issued and outstanding Common Shares immediately after such conversion.

(3) Although it is anticipated that, as disclosed in this Circular, all Non-Voting Convertible Shares will have been converted into Common Shares on a one-for-one basis in accordance with their terms on the third (3rd) business day preceding the Meeting, since such Non-Voting Convertible Shares were issued and outstanding on the Record Date, the holder thereof is entitled to vote at the Meeting with respect to the Articles of Amendment Resolution. See the section titled "Business of the Meeting and Shareholder Approval – Articles of Amendment Resolution".

SUMMARY DESCRIPTION OF THE BUSINESS

General

Stornoway is a leading Canadian diamond exploration and development company whose Common Shares are listed on the TSX. Stornoway's principal focus is its 100% owned Renard Diamond Project located in north-central Québec, a feasibility-stage project with the potential to become Québec's first diamond mine. Stornoway maintains a 90% interest in the Aviat Project in Nunavut, an "advanced" stage exploration project. Stornoway also has exposure, through exploration option agreements, to exploration at several early stage grass roots projects throughout Canada in geologically prospective, underexplored regions.

Stornoway's material mineral property is the Renard Diamond Project, part of the larger Foxtrot Property, in north-central Québec. Since April 1, 2011, Stornoway has held a 100% interest in the Renard Diamond Project through its wholly-owned subsidiary, SDCI. Previously, the Renard Diamond Project was a 50-50 joint venture with SOQUEM, through its wholly-owned subsidiary, Diaquem. Stornoway was the operator of the joint venture. Stornoway acquired its initial 50% interest in the Renard Diamond Project upon the acquisition of Ashton. On April 1, 2011, Stornoway completed the Acquisition, thereby increasing its ownership interest in the Renard Diamond Project to 100%. Under the terms of the Acquisition, Diaquem became a significant shareholder of the Corporation, and retained a direct royalty interest of 2% on future diamond production. Diaquem is a wholly-owned subsidiary of SOQUEM, itself a wholly-owned subsidiary of IQ, the Québec government's main industrial and financial holding company. Subject to completion of the Financing Transactions, Stornoway is poised to commence construction of Quebec's first diamond mine and the only diamond mine in Canada with all-season road access.

Existing Credit Facilities

Credit Support Agreement with IQ

On April 1, 2011, in conjunction with the Acquisition, Stornoway entered into a $100 million credit support agreement with IQ to fund a portion of future construction and development costs at the Renard Diamond Project, under which commitment fee payments equal to 1.75% *per annum* are payable by the Corporation. The obligations of IQ will terminate on the earlier to occur of: (a) the date on which the Corporation notifies IQ in writing that the credit support agreement is terminated; (b) the date of the initial borrowing under the IQ commitment; and (c) April 1, 2015. It is

presently contemplated that the IQ commitment will terminate and be replaced with the Senior Secured Loan on the Financing Transactions Closing Date.

Credit Facility with Diaquem

On October 2, 2013, Stornoway entered into an unsecured non-revolving bridge credit facility of up to $20 million with Diaquem, Stornoway's largest Shareholder, (the "**Bridge Facility**"). The proceeds of the Bridge Facility are being used in connection with the development of the Renard Diamond Project and for general corporate purposes, including costs relating to Stornoway's ongoing financing activities.

Under the Bridge Facility, Diaquem agreed to loan up to an aggregate amount of $20 million to Stornoway in two tranches. An initial tranche of $10 million was drawn in October 2013 and, on March 24, 2014, Stornoway announced that it had drawn the second tranche of $10 million to be used in connection with the development of the Renard Diamond Project and for general corporate purposes, including costs relating to ongoing financing activities, as a result of which the Bridge Facility is now fully drawn. Concurrently with the drawdown of the second tranche, Diaquem agreed to extend the maturity date of the Bridge Facility from March 28, 2014 to the earlier of (a) June 27, 2014, and (b) the date on which financial closing and initial disbursement occurs with respect to the financing of the Renard Diamond Project. A commitment fee equal to 1% of the amount funded under each tranche is payable by Stornoway.

Principal on the Bridge Facility bears interest at a rate of 12% *per annum*. Stornoway has the right to satisfy up to 50% of the interest payable on the aggregate of the amounts loaned to Stornoway pursuant to the Bridge Facility by issuing Common Shares to Diaquem at an issue price of 95% of the volume weighted average price of such shares for the five (5) trading days preceding the interest payment date, while the remaining portion of interest payable on such amounts is to be paid in cash. The Bridge Facility agreement contains additional representations, covenants, commitments and funding conditions customary for a facility of this nature.

On May 12, 2014, the Corporation, SDCI and the Investors agreed to certain amendments to the Financing Commitment Letter, including to reflect the Additional RQ Commitment with respect to the Rolled Bridge Facility Obligations; the amount of the Rolled Bridge Facility Obligations is subject to reduction, depending on whether the Over-Allotment Option is exercised by the Underwriters and whether there would have been Additional Convertible Debenture Commitments. In the event the Over-Allotment Option is exercised by the Underwriters, or that Additional Convertible Debenture Commitments are received, 66 ⅔% of (i) the aggregate net proceeds to the Corporation relating to the exercise of the Over-Allotment Option and (ii) the Additional Convertible Debenture Commitments, as applicable, shall reduce the RQ Additional Commitment by a corresponding amount, not to exceed $20 million plus any capitalized interest. The amount of any such reduction shall constitute "Remaining Bridge Facility Obligations", which shall be required to be repaid by the Corporation from the initial net proceeds of the Financing Transactions on the Financing Transactions Closing Date. In the event the Over-Allotment Option is not exercised by the Underwriters, and there are no Additional Convertible Debenture Commitments, the outstanding obligations under the Bridge Facility, inclusive of principal and capitalized interest, shall constitute "Rolled Bridge Facility Obligations". As a result, assuming closing of the Financing Transactions, the net proceeds from the Financing Transactions in an amount of up to $20 million plus any capitalized interest that would otherwise have been required by the Corporation to repay the obligations owing under the Bridge Facility shall continue to be available to the Corporation to fund expenses in connection with the Renard Diamond Project upon the terms and conditions applicable to the Additional RQ Commitment.

Renard Mine Road Loan from the Ministère des Finances et de l'Économie

On December 6, 2012, the Corporation's subsidiary, SDCI, entered into the MFE Financing Agreement providing the Renard Mine Road Loan of up to $84.7 million for construction of the Renard Mine Road. The first tranche ("**Loan A**") of up to $77 million has an annual interest rate of 3.35% and a term of 15 years. Repayment of both principal and interest begins 48 months following first drawdown, which occurred in December 2012. Repayment can be deferred for up to two (2) years due to any delay in the attainment of commercial production at the Renard Diamond Project past July 1, 2016. The second tranche ("**Loan B**") was established as an overrun facility of up to $7.7 million, with an annual interest rate of 6.3%, and repayments concurrent with Loan A. Both Loans A and B are unsecured, subordinated, and may be prepaid by SDCI without penalty.

The terms of the MFE Financing Agreement were amended in October 2013 to permit SDCI to use part of the $77 million Loan A to construct an airstrip for the Renard Diamond Project (the "**Renard Mine Airstrip**"). As consideration for this amendment, the $7.7 million overrun facility (Loan B) was terminated. In December 2013, SDCI drew $8.5 million from Loan A, increasing the total outstanding principal to $69.9 million as at January 31, 2014.

SDCI is not required to use the full amount of Loan A in the event construction costs for the Renard Mine Road and the Renard Mine Airstrip are less than the amount of the loan, and interest will only be calculated on the basis of total drawdowns requested by SDCI. SDCI undertook to complete construction of the Renard Mine Road no later than June 30, 2015, subject to certain terms, including terms of the Framework Agreement.

Unsecured Debt Facility

On May 3, 2012, the Corporation entered into a $20 million unsecured debt facility with the Existing Lenders (the "**May 2012 Loan**"). The proceeds of the May 2012 Loan were required to and have been used to finance pre-development work at the Renard Diamond Project. The loan has been provided 75% by the Fonds and 25% by Diaquem. In connection with the May 2012 Loan, SDCI granted the Existing Lenders a 1% contingent secured royalty interest in the Renard Diamond Project, secured by the Fonds Security, which is only triggered upon the occurrence of certain specified events, such as a payment default or a default following a change of control of the Corporation, in each case capped at an amount equal to the aggregate value of the principal and interest then outstanding on the May 2012 Loan. The May 2012 Loan agreement contains additional representations, covenants and commitments customary for a facility of this nature.

In connection with the Financing Commitment Letter, Stornoway has made a formal request to the Existing Lenders to subordinate the payments owing to the Existing Lenders under the May 2012 Loan and royalty as well as the Fonds Security to the payments owing by the Corporation or SDCI, as the case may be, under the Stream and the Senior Secured Loan as well as to the security in favour of the Trustee(s), and Stornoway anticipates coming to an agreement with the Existing Lenders on arrangements that will permit such subordination and pursuant to which the Existing Lenders will consent to the Stream and the Senior Secured Loan. If the Existing Lenders do not agree to subordination terms, the Corporation intends to enter into arrangements to prepay the amounts outstanding under the May 2012 Loan on terms to be agreed with the Existing Lenders.

15 million share purchase warrants were granted to the Existing Lenders in connection with the May 2012 Loan. The interest rate on the May 2012 Loan is 12% *per annum*, payable 100% in cash or 50% in cash and 50% in Common Shares (the number of Common Shares to be issued is calculated using the five-day volume weighted average share price preceding the interest payment date), at the Corporation's option, prior to commencement of commercial production, as defined in the May 2012 Loan agreement, and 100% in cash thereafter. The calculated effective interest rate of this loan is 15.1%. Principal is to be repaid in equal monthly instalments commencing approximately one month following the date of commencement of commercial production at the Renard Diamond Project, but not before May 3, 2016 and not later than May 3, 2017. The final maturity date is May 3, 2021.

Repayment of Borrowings

A portion of the proceeds from the Financing Transactions will be used to repay the Corporation's outstanding borrowings, as they become due. On May 12, 2014, the Corporation, SDCI and the Investors agreed to certain amendments to the Financing Commitment Letter, including to reflect the Additional RQ Commitment with respect to the Rolled Bridge Facility Obligations; the amount of the Rolled Bridge Facility Obligations is subject to reduction, depending on whether the Over-Allotment Option is exercised by the Underwriters and whether there would have been Additional Convertible Debenture Commitments. In the event the Over-Allotment Option is exercised by the Underwriters, or that Additional Convertible Debenture Commitments are received, 66 ⅔% of (i) the aggregate net proceeds to the Corporation relating to the exercise of the Over-Allotment Option and (ii) the Additional Convertible Debenture Commitments, as applicable, shall reduce the RQ Additional Commitment by a corresponding amount, not to exceed $20 million plus any capitalized interest. The amount of any such reduction shall constitute "Remaining Bridge Facility Obligations", which shall be required to be repaid by the Corporation from the initial net proceeds of the Financing Transactions on the Financing Transactions Closing Date. In the event the Over-Allotment Option is not exercised by the Underwriters, and there are no Additional Convertible Debenture Commitments, the outstanding

obligations under the Bridge Facility, inclusive of principal and capitalized interest, shall constitute "Rolled Bridge Facility Obligations". As a result, assuming closing of the Financing Transactions, the net proceeds from the Financing Transactions in an amount of up to $20 million plus any capitalized interest that would otherwise have been required by the Corporation to repay the obligations owing under the Bridge Facility shall continue to be available to the Corporation to fund expenses in connection with the Renard Diamond Project upon the terms and conditions applicable to the Additional RQ Commitment. However, if the Escrow Release Conditions are not satisfied or waived before the occurrence of a Termination Event, the Corporation would not have financing in place to repay either the Bridge Facility ($20 million outstanding balance, plus interest, which amount would be payable as the Bridge Facility would not become Rolled Bridge Facility Obligations under such circumstances) or the long-term debt (as at January 31, 2014 principal owing is $89.9 million, with $69.9 million of this total borrowed for construction of the Renard Mine Road and Renard Mine Airstrip and $20 million borrowed for pre-development work at the Renard Diamond Project and general working capital). The resulting shortfall in cash flows should the Financing Transactions terminate would result in the existence of a material uncertainty which would cast significant doubt as to the Corporation's ability to continue as a going concern. See "The Financing Transactions – Use of Proceeds".

THE FINANCING TRANSACTIONS

Background to and General Description of the Financing Transactions

Background

Stornoway's primary focus is the development of the Renard Diamond Project, one of the world's few new diamond projects under development. In November 2011, Stornoway released the results of the 2011 Feasibility Study at Renard, followed by the Optimization Study in January 2013, which highlighted the potential of the project to become a significant producer of high value rough diamonds over a long mine life. The Optimization Study confirmed that the Renard Diamond Project has the potential to be a project with strong cash flows.

A substantial amount of additional financing is required to further develop the Renard Diamond Project, which has an estimated initial capital cost of $754 million. This amount does not include allowances for escalation, repayment of existing indebtedness or additional amounts which may be required pursuant to the contemplated terms of any financing transaction. The Corporation's current financial resources are insufficient to meet the anticipated development expenditures required to advance the Renard Diamond Project to the commencement of commercial production and the Corporation requires access to additional sources of funding to further develop the project. The Financing Transactions, if consummated in accordance with their terms, are expected to provide the Corporation with the means to finance the development of the Renard Diamond Project through to the commencement of commercial production, including project costs, contingencies, working capital requirements and financing fees and expenses.

Since the release of the 2011 Feasibility Study, the Corporation has worked to reduce the initial capital cost estimate of the Renard Diamond Project with only a modest impact on the project's operating costs. The LNG Study announced in October 2013 will be incorporated into the project execution plan and is expected to result in substantially reduced operating costs, with a modest incremental capital cost of $2.6 million over the cost of using diesel generators. In addition, the availability of year-round road access to the Renard Diamond Project via the Route 167 Extension and the Renard Mine Road will facilitate the construction and operation of the mine.

With the opening of the Renard Mine Road for year-round construction traffic in September 2013 and the advancement of civil works at the Renard Mine Airstrip, and with the mining lease and both the Québec Certificate of Authorization and a positive Environmental Assessment Decision from the CEAA in hand, the timely completion of project financing is now the principal driver of the development schedule, which, in connection with the Optimization Study, called for first construction mobilization prior to the end of 2013, with principal capital expenditures in 2014 and 2015 and commercial production achieved in mid-2016. Assuming that the Financing Transactions Closing occurs on or about July 1, 2014, there will be an approximate 12-month delay in the construction schedule contemplated under the Optimization Study.

Stornoway's development team is presently engaged in preliminary engineering work, ongoing design optimization and permitting for site specific activities under the project's federal and Québec provincial government certificates of authorization. Management considers all prerequisites for commencing project construction have now been met, subject to the completion of the Financing Transactions.

Negotiation of the Financing Transactions and Board Approval Process

The Corporation has been pursuing a financing strategy for the Renard Diamond Project based on a combination of project debt, equity and the forward sale of diamonds. The Corporation has been actively exploring a broad range of financing options for the project within the debt, bond and equity markets, in addition to financing options tied to future diamond supply. Discussions and negotiations have taken place over the last 18 to 24 months with Stornoway's significant Shareholders and other potential investors, including the Investors.

On August 15, 2013, the Board of Directors formed a special committee of independent directors (the "**Special Committee**"**)** comprised of directors Yves Harvey (Chair), Peter Nixon, Ebe Scherkus and Hume Kyle. The Special Committee was given the mandate, on behalf of the Board of Directors, to consider the terms of a potential transaction that was under discussion at that time, to consider the form, structure and terms of any alternative transactions that may be contemplated, to provide advice and guidance to the Board of Directors with respect to any such transactions and to make such recommendations to the Board of Directors as it considers appropriate. Between September 2013 and April 2014, the Special Committee met on eleven occasions to receive updates from senior management of the Corporation on financing alternatives that were being pursued and to oversee the Corporation's discussions and negotiations with the Investors, which commenced in late 2013, with respect to the key terms of the Financing Transactions. During this time, the Board of Directors received regular updates from senior management and the Special Committee on the financing process.

On January 10, 2014, the Special Committee formally engaged Primary Capital as its independent financial advisor to, among other things, prepare and deliver a fairness opinion to the Special Committee (if so requested) as to the fairness, from a financial point of view, to holders of Common Shares (other than the Investors) of any proposed financing transaction. Negotiations between the Corporation and the Investors continued in early 2014 on the terms of the Financing Commitment Letter, during which time the Investors conducted their due diligence review of the Corporation and Primary Capital performed its analysis.

At a meeting of the Special Committee held on February 27, 2014, Primary Capital rendered its oral opinion to the Special Committee that the Financing Transactions were fair, from a financial point of view, to the Common Shareholders other than the Investors. The Corporation and the Investors continued to pursue their discussions and on March 31, 2014, the Special Committee met again to review the updated terms of the Financing Commitment Letter and to receive an overview from senior management on key transaction terms and timing of announcement. At such meeting, and after having reviewed the changes to the terms of the Financing Commitment Letter since February 27, 2014, Primary Capital reaffirmed its oral opinion to the effect that, as of such date, the Financing Transactions are fair, from a financial point of view, to the Common Shareholders other than the Investors. After thoroughly reviewing the terms of the Financing Commitment Letter, and discussing certain key issues and the proposed process and timing for announcement with senior management, Primary Capital and the Corporation's counsel, the Special Committee resolved unanimously to recommend that the Board of Directors approve the Financing Transactions and authorize the Corporation to enter into the Financing Commitment Letter.

On April 1, 2014, the Board of Directors met to discuss the proposed terms of the Financing Transactions and to receive management's report. The Board of Directors was advised that Primary Capital had reaffirmed its oral opinion to the Special Committee and, at the request of the Board of Directors, the Chair of the Special Committee reviewed and summarized the committee's deliberations. After careful consideration of the terms of the Financing Commitment Letter, the oral fairness opinion provided by Primary Capital and the report of the Special Committee, the Board of Directors unanimously determined that the Financing Transactions are fair to Shareholders and in the best interests of the Corporation. Accordingly, the Board of Directors approved the Financing Transactions and authorized the Corporation to enter into the Financing Commitment Letter.

On April 9, 2014, the Corporation and SDCI entered into the Financing Commitment Letter with the Investors providing for the Financing Transactions.

On May 7, 2014, the Corporation, SDCI and the Investors agreed to amend the Financing Commitment Letter to provide that the Subscription Receipts to be distributed under the Public Offering will entitle each holder to receive, without payment of additional consideration or further action, one-half of one Warrant, in addition to one Common Share. The parties to the Financing Commitment Letter further agreed: (i) that any net proceeds to the Corporation resulting from exercise of the Warrants would be required to be made available to SDCI and applied to fund Renard Diamond Project expenses; (ii) if Warrants are exercised while any commitments are unfunded under the Senior Secured Loan, Tranche A, the Senior Secured Loan, Tranche B or the COF, the net proceeds to the Corporation resulting from exercise of the Warrants shall be used prior to borrowing or further borrowing under such facilities (unless the Investors consent otherwise); (iii) the Corporation and/or SDCI, as applicable, shall not reduce the commitments of (a) RQ in relation to the Senior Secured Loan, (b) CDPQ in relation to the COF, (c) the Convertible Debenture Purchasers in relation to the Convertible Debentures, (d) the Stream Buyers in relation to the Deposit, or (e) the Equipment Facility, without the prior consent of the Investors; and (iv) to amend the Private Placement Fee and the discount applicable upon issuance of the Convertible Debentures.

On May 12, 2014, the Corporation, SDCI and the Investors agreed to further amend the Financing Commitment Letter to confirm, *inter alia*, (i) that the closing of a public offering of Subscription Receipts in a minimum amount of $184 million, as a condition to closing of the Financing Transactions, be changed to the closing of a public offering of Subscription Receipts in a minimum amount of $132 million, (ii) Orion's commitment in respect of the Convertible Debentures be changed from US$50 million to US$24.09 million, (iii) the Additional RQ Commitment, (iv) that the Corporation has received commitments to purchase a minimum amount of US$54.91 million in the form of Convertible Debentures, and that such purchase of a minimum amount of US$54.91 million in the form of Convertible Debentures, on terms reasonably satisfactory to the Investors, the Corporation, SDCI and the Underwriters, be a condition to closing of the Financing Transactions, and (v) that in the event the Over-Allotment Option is exercised by the Underwriters, or that additional commitments for the Convertible Debentures are received in excess of US$79 million prior to the Financing Transactions Closing Date ("**Additional Convertible Debenture Commitments**"), as applicable, the Additional Orion Commitment and the Additional RQ Commitment shall be reduced, on a *pro rata* basis, by the aggregate net proceeds to the Corporation resulting from the exercise of such Over-Allotment Option and by any Additional Convertible Debenture Commitments, as applicable, such that 66⅔% of such proceeds and Additional Convertible Debenture Commitments, as applicable, shall reduce the RQ Additional Commitment by a corresponding amount, not to exceed $20 million plus any capitalized interest, and 33⅓% of such proceeds and Additional Convertible Debenture Commitments, as applicable, shall reduce the Additional Orion Commitment by a corresponding amount, not to exceed $10 million.

At the meeting of the Board of Directors held on May 12, 2014 to approve the amendment to the Financing Commitment Letter described above, Primary Capital reaffirmed its oral opinion and rendered a written opinion dated as of May 12, 2014 to the effect that, as of such date (and having reviewed the various amendments to the Financing Commitment Letter), the Financing Transactions are fair, from a financial point of view, to Common Shareholders other than the Investors (the "**Fairness Opinion**"). A copy of the Fairness Opinion is attached as Schedule B to this Circular.

Management's objective in financing the Renard Diamond Project has been to raise sufficient capital to support construction of the project, through a balanced combination of debt, equity and the forward sale of diamonds, to achieve an optimal overall cost of capital and maximize shareholder value growth and management believes that the Financing Transactions are consistent with this objective, and will allow the valuation of the Corporation to be re-rated from an explorer/developer to a producer. The Financing Transactions, if consummated in accordance with their terms, are expected to provide the Corporation with the means to finance the development of the Renard Diamond Project through to the commencement of commercial production, including project costs, contingencies, working capital requirements and financing fees and expenses. See "The Financing Transactions – Use of Proceeds".

On May 12, 2014, the Corporation and the Underwriters priced the Public Offering at the Equity Investment Price (with the Subscription Receipt Private Placements also being priced at the Equity Investment Price), and both the Public Offering and the Subscription Receipt Private Placement closed on May 23, 2014.

It is anticipated that the Financing Transactions Closing will occur on the Financing Transactions Closing Date, subject to the fulfillment of the following conditions (collectively, the "**General Conditions Precedent**"): (i) the Public Offering Closing and the closing of the Subscription Receipt Private Placements having occurred; (ii) the negotiation, execution and delivery of all Definitive Agreements reflecting the Term Sheets in form and substance satisfactory to Stornoway, SDCI and each of the Investors; (iii) the receipt of all required regulatory and other approvals, including Shareholder Approval at the Meeting and TSX approval; (iv) approval of the Existing Lenders to the terms of the Stream; (v) confirmation from RQ that, subject to the issuance of a certificate of amendment to the Articles of Continuance, RQ Conditions Precedent have been satisfied; (vi) the absence of any Pre-Closing Material Adverse Change; and (vii) the purchase of a minimum amount of US$54.91 million of Convertible Debentures, on terms reasonably satisfactory to the Investors, the Corporation, SDCI and the Underwriters; and (viii) the release to the Corporation of the Escrowed Funds, together with the Earned Interest (if any), less 50% of the Underwriters' Fee, and the Private Placement Escrowed Funds, together with the Private Placement Earned Interest (if any).

The Financing Transactions are intended to provide a comprehensive financing package for the construction of the Renard Diamond Project and, as such, the completion, effectiveness or availability, as the case may require, of each of the Financing Transactions (excluding the Equipment Facility) is conditioned on the completion, effectiveness or availability, as the case may require, of each of the other Financing Transactions (excluding the Equipment Facility).

In addition, RQ's aggregate commitment under the relevant Financing Transactions is subject to the following additional conditions for the benefit of RQ, to be satisfied on or prior to the Financing Transactions Closing Date, and which conditions may be waived or extended in whole or in part by RQ in its sole discretion: (i) the terms of the Investor Agreement having been amended in a manner satisfactory to RQ, acting reasonably, to eliminate the Standstill Obligation; and (ii) all 22,543,918 Non-Voting Convertible Shares held by Diaquem having been converted into the same number of Common Shares in accordance with the existing rights, privileges, restrictions and conditions attaching to the Non-Voting Convertible Shares and the Articles of Continuance having been amended in accordance with subsection 173(g) of the CBCA in order to cancel and repeal the Non-Voting Convertible Shares and the rights, privileges, restrictions and conditions attaching thereto ("**RQ Conditions Precedent**").

Financing Commitment Letter

The following is a summary of certain terms of the Financing Commitment Letter. This summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to the provisions of the Financing Commitment Letter, a copy of which was filed on the Corporation's SEDAR profile (www.sedar.com), however, such document is not and shall not be deemed to form part of or be incorporated by reference into this Circular.

Pursuant to the Financing Commitment Letter, Stornoway has agreed that all reasonable due diligence expenses of Orion and CDPQ including, but not limited to, legal, mining, finance and tax consulting costs incurred, and all reasonable legal fees and expenses incurred by Orion, RQ and CDPQ in connection with the Financing Transactions (collectively, the "**Transaction Expenses**"), will be for the account of Stornoway.

The Financing Commitment Letter will expire on the earlier to occur of: (i) the Financing Transactions Closing Date; and (ii) October 1, 2014.

Financing Commitments/Elements of the Financing Transactions

The Financing Transactions will be structured across several different types of capital as follows:

Financing Transaction	Investor(s)	Amount
Equity Investment	Orion	US$110,000,000
	RQ	$100,000,000
	CDPQ	$22,000,000
	Public	$132,020,000
Convertible Debentures		US$79,000,000[1]
Convertible Debenture Purchasers	Orion	US$24,090,000[2]
	Other purchasers	US$54,910,000[3]
Stream	Orion	US$200,000,000
	CDPQ	US$50,000,000
Senior Secured Loan, Tranche A	RQ	$100,000,000[4]
Senior Secured Loan, Tranche B	RQ	$20,000,000
COF	CDPQ	$28,000,000

(1) Subject to increase up to US$90 million.
(2) Subject to reduction of up to US$9.09 million (being the US dollar equivalent to $10 million based on an exchange rate of US$1.00 to $1.10) to the extent that the Over-Allotment Option is exercised and/or Additional Convertible Debenture Commitments are received. See "Summary Description of the Business – Repayment of Borrowings".
(3) In addition to Orion's commitment to purchase US$24.09 million of Convertible Debentures, Stornoway received commitments from other purchasers to purchase US$54.91 million of Convertible Debentures.
(4) Subject to increase up to an amount of $20 million plus any capitalized interest corresponding to the Rolled Bridge Facility Obligations. See "Summary Description of the Business – Repayment of Borrowings".

The Equipment Facility in an amount of US$35 million will be in addition to the foregoing and would be utilized as required to meet equipment financing needs.

Equity Investment

Public Offering

Stornoway filed a final short form prospectus on May 12, 2014 (the "**Short Form Prospectus**") to qualify the distribution of 188,600,000 Subscription Receipts at a price of $0.70 per Subscription Receipt. If the Over-Allotment Option is exercised in full, an additional 28,290,000 Subscription Receipts will be issued and sold by the Corporation. The Public Offering was underwritten by the Underwriters and closed on May 23, 2014.

The Public Offering was made pursuant to an underwriting agreement dated May 12, 2014 (the "**Underwriting Agreement**") among the Corporation and the Underwriters, pursuant to which the Corporation agreed to issue and sell and the Underwriters agreed to purchase, as principals, at the Public Offering Closing, subject to the conditions stipulated in the Underwriting Agreement, 188,600,000 Subscription Receipts at a price of $0.70 per Subscription Receipt for total gross proceeds of $132,020,000, payable in cash to the Escrow Agent (less 50% of the Underwriters' Fee). The Subscription Receipts were offered to the public in all of the provinces of Canada.

Each Subscription Receipt entitles the holder thereof to receive, upon the satisfaction or waiver of the Escrow Release Conditions and without payment of additional consideration or further action, one Common Share and one-half of one common share purchase warrant of the Corporation (each whole common share purchase warrant, a "**Warrant**"). Upon the satisfaction or waiver of the Escrow Release Conditions, the Escrowed Funds, together with the Earned Interest (if any), less 50% of the Underwriters' Fee, will be released to the Corporation and 50% of the Underwriters' Fee will be remitted to the Co-Lead Underwriters for the benefit of the Underwriters.

Each Warrant will entitle the holder to purchase one common share of the Corporation (each, a "**Warrant Share**") at a price of $0.90 (the "**Warrant Exercise Price**"), being approximately 129% of the Equity Investment Price. The Warrants will be exercisable for a period of 24 months following their date of issuance, after which time the

Warrants will expire and become null and void. The Warrant Exercise Price and the number of Warrant Shares issuable upon exercise will be subject to adjustment in certain circumstances.

If the Escrow Release Conditions are not satisfied or waived prior to the occurrence of a Termination Event, holders of the Subscription Receipts shall, commencing on the third (3rd) business day following the Termination Date, be entitled to receive from the Escrow Agent an amount equal to the full subscription price therefor plus their *pro rata* share of the Earned Interest, and their *pro rata* share of the Deemed Interest, less applicable withholding taxes, if any. In the event that the gross proceeds of the Public Offering are required to be remitted to purchasers of the Subscription Receipts, the Corporation has agreed and undertaken to pay the Escrow Agent an amount equal to 50% of the Underwriters' Fee plus the Deemed Interest such that 100% of the gross proceeds of the Public Offering, plus the Earned Interest and the Deemed Interest, can be delivered to purchasers of the Subscription Receipts.

Holders of Subscription Receipts are not, as such, Shareholders and will not have any voting or pre-emptive rights or other rights as Shareholders, including any direct or indirect entitlement whatsoever relating to or arising from any dividends declared or paid on the Common Shares prior to the satisfaction or waiver of the Escrow Release Conditions, if at all. Consequently, holders of Subscription Receipts (as well as holders of the Private Placement Subscription Receipts) are not, in their capacity as holders of Subscription Receipts, entitled to receive notice of or to vote at the Meeting. From and after the date the Escrow Release Conditions are satisfied or waived, the former holders of Subscription Receipts will be entitled as holders of Common Shares to receive dividends declared by the Corporation, if any, to vote and to all other rights available to holders of Common Shares.

The TSX has conditionally approved the listing of the Common Shares and the Warrants issuable pursuant to the terms of the Subscription Receipts as well as the Warrants Shares issuable upon exercise of the Warrants. Listing is subject to the Corporation fulfilling all of the listing requirements of the TSX on or before July 8, 2014.

The Public Offering Closing and the closing of the Subscription Receipt Private Placements were inter-conditional upon one another and they both closed on May 23, 2014. See "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Equity Investment – Subscription Receipt Private Placements".

Subscription Receipt Private Placements

Pursuant to equity commitments under the terms of the Financing Commitment Letter, the Corporation has, concurrently with the Public Offering Closing, completed private placements of an aggregate of 345,539,916 Subscription Receipts to the Investors (the "**Private Placement Subscription Receipts**") at the Equity Investment Price, as follows: (1) 171,254,203 Private Placement Subscription Receipts to Orion Equity Co-Invest for gross proceeds of US$110 million; (2) 142,857,142 Private Placement Subscription Receipts to RQ for gross proceeds of $100 million; and (3) 31,428,571 Private Placement Subscription Receipts to CDPQ for gross proceeds of $22 million (collectively, the "**Subscription Receipt Private Placements**"). The number of Private Placement Subscription Receipts issued to Orion Equity Co-Invest, whose commitment was in United States dollars, was determined based on the Bank of Canada CAD/USD noon exchange rate on the business day prior to the date of the Public Offering Closing.

The Private Placement Fee will be payable by Stornoway by issuing an aggregate of 20,732,394 Private Placement Fee Shares on a *pro rata* basis to the Investors, upon the satisfaction or waiver of the Escrow Release Conditions. Pursuant to the terms of the Financing Commitment Letter, the obligations of each Investor to provide financing under their respective equity commitments is several.

Each Private Placement Subscription Receipt will entitle the holder thereof to receive, upon the satisfaction or waiver of the Escrow Release Conditions and without payment of additional consideration or further action, one Common Share (subject to customary adjustments in certain circumstances) (each, a "**Private Placement Share**"). The Short Form Prospectus does not qualify the distribution of the Private Placement Subscription Receipts, the Private Placement Shares to be issued pursuant to the terms of the Private Placement Subscription Receipts or the Private Placement Fee Shares to be issued in payment of the Private Placement Fee. Subscriptions for Private Placement Subscription Receipts were accepted by the Corporation concurrently with the Public Offering Closing.

However, the Private Placement Shares and the Private Placement Fee Shares will not be issued until the Escrow Release Conditions are satisfied or waived. Upon the satisfaction or waiver of the Escrow Release Conditions (if applicable), the Private Placement Escrowed Funds, together with the Private Placement Earned Interest, will be released to the Corporation and the Private Placement Shares and Private Placement Fee Shares will be remitted on a *pro rata* basis to the Investors.

If the Escrow Release Conditions are not satisfied or waived prior to the occurrence of a Termination Event, the subscription evidenced by each Private Placement Subscription Receipt will be automatically terminated and cancelled, and each Private Placement Subscription Receipt will entitle the holder thereof to receive an amount equal to the full subscription price and its *pro rata* share of the Private Placement Earned Interest, less applicable withholding taxes, if any, within three business days of the Termination Date.

Holders of Private Placement Subscription Receipts are not, as such, Shareholders and will not have any voting or pre-emptive rights or other rights as shareholders, including any direct or indirect entitlement whatsoever relating to or arising from any dividends declared or paid on the Common Shares prior to the satisfaction or waiver of the Escrow Release Conditions, if at all. Consequently, holders of Private Placement Subscription Receipts (as well as holders of the Subscription Receipts) are not, in their capacity as holders of Private Placement Subscription Receipts, entitled to receive notice of or to vote at the Meeting. From and after the date the Escrow Release Conditions are satisfied or waived, the former holders of Private Placement Subscription Receipts will be entitled as holders of Common Shares to receive dividends declared by the Corporation, if any, to vote and to all other rights available to holders of Common Shares.

The TSX has conditionally approved the listing of the Private Placement Shares and the Private Placement Fee Shares. The listing of such Private Placement Shares and Private Placement Fee Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX, including Shareholder Approval at the Meeting. The Private Placement Subscription Receipts, the Private Placement Shares and the Private Placement Fee Shares will be subject to statutory resale restrictions in accordance with applicable securities laws. The Private Placement Subscription Receipts will not be listed on any stock exchange.

The closing of the Subscription Receipt Private Placements and the Public Offering Closing were inter-conditional upon one another and they both closed on May 23, 2014. See "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Equity Investment – Subscription Receipt Private Placements".

Governance Rights

Pursuant to the terms of an investor agreement to be entered into between Orion Equity Co-Invest, CDPQ, IQ, Diaquem and the Corporation on the Financing Transactions Closing Date (the "**Restated and Amended Investor Agreement**"), Orion Equity Co-Invest will be entitled to designate one (1) candidate for election or appointment to the Board of Directors as long as Orion Equity Co-Invest maintains a fully diluted share ownership stake in Stornoway at or above 5%. Notwithstanding the foregoing, the parties may agree that the existing Investor Agreement will be amended as between the Corporation, IQ and Diaquem and that IQ and Diaquem will not be party to the Restated and Amended Investor Agreement.

Pre-Emptive Rights

Subject to applicable securities laws and approval of the TSX, pursuant to the Restated and Amended Investor Agreement, each of Orion Equity Co-Invest and CDPQ will be granted a pre-emptive right substantially on the same terms as the Pre-Emptive Right afforded to Diaquem pursuant to the Investor Agreement, provided, however, that such rights will terminate on the Commencement of Commercial Production Date. Options issued in conjunction with Stornoway's Stock Option Plan and securities issued under share-based compensation arrangements to directors, officers or employees of Stornoway, Common Shares issuable upon the exercise of existing convertible securities, Common Shares issued upon the conversion of outstanding Non-Voting Convertible Shares or their change into shares of another class, including by way of articles of amendment, and Common Shares issuable pursuant to the terms of the Financing Transactions (including securities issuable upon the exercise, exchange or

conversion of securities issued pursuant to the Financing Transactions) will be exempt from such pre-emptive rights.

Orion Equity Co-Invest and CDPQ shall be entitled to become party to an investor agreement providing for the pre-emptive rights described above, as well as qualification rights (subject to a limited number of demand qualification rights) and other rights as provided in the Investor Agreement, except that only Orion Equity Co-Invest shall benefit from the board representation right mentioned above.

Please see "Election of Directors" in the management information circular of the Corporation dated as at September 13, 2013, prepared in connection with Stornoway's annual general meeting of shareholders held on October 23, 2013, for details on Diaquem's existing governance rights granted to it in connection with the Acquisition, a copy of which was filed on the Corporation's SEDAR profile (www.sedar.com), however, such document is not and shall not be deemed to form part of or be incorporated by reference into this Circular.

Stream

Rationale for the Streaming Agreement

In considering various financing alternatives, the Corporation sought a balanced approach combining the forward sale of diamonds by way of the Stream, debt and equity to attempt to achieve an optimal cost of capital. Management believes that the Financing Transactions, if consummated, will result in a stream, debt and equity financing structure that minimizes shareholder dilution compared to other alternatives and is accretive to net asset value per share. Management is also of the view that the high operating margins of the Renard Diamond Project and capital requirements which are more significant in the earlier stages of construction make this project well suited for a streaming arrangement. The up-front Deposit of US$250 million for a 20% Subject Diamonds Interest represents 34% of the Renard Diamond Project's initial capital costs and 30% of the aggregate amount to be raised under the Financing Transactions. In addition, the impact of the Stream on the Renard Diamond Project's cash operating margins is mitigated by the positive impact of the LNG Study and, given that approximately 90% of capital expenditures related to the Renard Diamond Project are denominated in Canadian dollars, the 10% improvement in the C$ to US$ exchange rate since the Optimization Study (which assumed parity as between the Canadian dollar and US dollar).

Streaming Agreement

On the Financing Transactions Closing Date, subject to the fulfilment of the General Conditions Precedent, SDCI and the Stream Buyers will enter into the Streaming Agreement, pursuant to which SDCI shall sell to the Stream Buyers, and the Stream Buyers shall purchase from SDCI (the "**Stream**"), a 20% undivided interest (in a proportion of 16% to Orion and/or one or more of its designated affiliates and/or respective limited partners or investors and 4% to an affiliate of CDPQ (designated by CDPQ in its sole discretion)) in each of the run of mine diamonds produced (i) over the life of the Renard Diamond Project from the Properties and (ii) from the Excluded Properties until the Threshold Number is reached from production from all ore bodies forming part of the Renard Diamond Project, including the Properties (the "**Subject Diamonds Interest**"). The obligations of the Stream Buyers under the Streaming Agreement will be several and not joint.

The Streaming Agreement will apply to the Properties for the life of the Renard Diamond Project, and will further provide that at such time as the Threshold Number of carats shall have been produced, the Streaming Agreement will cease to apply to the Excluded Properties and the Stream Buyers shall have no further right under the Streaming Agreement to purchase diamonds produced from any of the Excluded Properties. The terms of the Streaming Agreement will also provide that SDCI shall not be permitted to enter into any tolling agreements with respect to the processing of ore of any third parties at its processing facility without the prior written consent of the Stream Buyers.

The Streaming Agreement will provide that the Stream Buyers shall make up-front payments to SDCI, representing prepayment of a portion of the purchase price payable for the Subject Diamonds Interest, in an aggregate amount of US$250 million (the "**Deposit**"), which shall be disbursed in three (3) installments with 30 days' notice as follows:

- The first deposit ("**D1**"): US$80 million on the Initial Stream Deposit Date;

- The second deposit ("**D2**"): US$80 million during a period between four (4) months and six (6) months after the Initial Stream Deposit Date; and
- The third deposit ("**D3**"): US$90 million during a period between ten (10) months and twelve (12) months after the Initial Stream Deposit Date.

The payment of each portion of the Deposit (D1, D2 and D3) will be subject to the satisfaction of the Deposit Conditions Precedent. In the event that a Stream Buyer (a "**Defaulting Stream Buyer**") defaults in its obligation to pay its portion of all or any part of D1, D2 or D3 when required on the date set forth in SDCI's funding notice (the "**Defaulted Deposit Portion**"), the percentage of the Subject Diamonds Interest shall be reduced rateably with respect to the Defaulted Deposit Portion and SDCI shall have the right, subject to the prior exercise of any rights by non-Defaulting Stream Buyers to purchase such Defaulted Deposit Portion in accordance with the terms of the Syndication Agreement to be entered into between the Stream Buyers, to replace the Defaulting Stream Buyer with another buyer with respect to such portion who will benefit from all the rights and be subject to all of the obligations under the definitive documentation in respect of the Defaulted Deposit Portion. In such event, SDCI shall be further entitled to thereupon replace the Defaulting Stream Buyer with respect to any remaining unfunded Deposits.

SDCI will be required to pay the Stream Buyers the Standby Fee, payable quarterly in arrears, with availability terminating on March 31, 2017; provided that in the event that D3 has not been funded on or before March 31, 2017 due to the occurrence of a force majeure and the Stream Buyers conclude, acting reasonably, that Completion is reasonably achievable in the following twelve (12) months, the Stream Buyers shall extend the period during which D3 may be paid by an additional twelve (12) months, to March 31, 2018, subject to the continued payment of the Standby Fee.

In addition to the foregoing, in the event that the Stream Buyers have not paid D3 by March 31, 2016 because the Deposit Conditions Precedent have not been satisfied or waived, SDCI will be required to pay the Stream Buyers an additional fee of 1% *per annum* based on the then-undisbursed Deposits commencing on March 31, 2016 and ending on March 31, 2018, payable quarterly in arrears, which fee will be in addition to the Standby Fee.

The Streaming Agreement will provide that the Deposit shall be utilized for development, construction, and working capital requirements of the Renard Diamond Project, including financing fees, financing expenses and interest and operating costs during construction.

Pursuant to the Streaming Agreement, the Deposit Conditions Precedent will include, but not be limited to, the following:

- the proceeds of the Equity Investment and the Convertible Debentures having been fully disbursed to Stornoway and subject to Stornoway retaining the Reserved Amount made available for utilization by SDCI;
- the absence of any Material Adverse Change;
- the absence of the occurrence or continuance of a default or an event of default under the Streaming Agreement;
- confirmation of ongoing representations and warranties;
- evidence in the form of a report from the Independent Engineer or otherwise satisfactory to the Stream Buyers that, at the time of a drawdown request, the Renard Diamond Project construction budget for Completion is reasonably within the scope of the funds available from the Financing Transactions including, for greater certainty, cash on Stornoway's and SDCI's balance sheet and any committed equipment financing and including for the purposes of this determination (i) in respect of D1, an amount equal to 25% of the aggregate funds available under the Senior Secured Loan, Tranche B and the COF, (ii) in respect of D2, an amount equal to 50% of the aggregate funds available under Senior Secured Loan, Tranche B and the COF, and (iii) in respect of D3, 100% of the aggregate funds available under the Senior Secured Loan, Tranche B and the COF;
- execution and delivery of definitive documentation relating to the Equipment Facility in form and substance acceptable to the Stream Buyers and RQ, acting reasonably;

- payment of fees and expenses of the Stream Buyers in respect of the Stream, the Convertible Debentures, the Equity Investment and all other documents and transactions contemplated in the Financing Commitment Letter owing as of such date having been made; and
- each of the following, updated through the time that the applicable portion of the Deposit is requested:
  - schedule of works;
  - budget and reconciliation; and
  - capital expenditures schedule.

The Streaming Agreement will also provide that the Streaming Purchase Price shall (1) until the Deposits have been fully offset, be equal to the Gross Proceeds (as defined below), payable by payment of the Per Carat Cash Price (as defined below) and the balance by offset against the Deposits in the manner described below, and (2) once the Deposits have been fully offset, be equal to the Per Carat Cash Price. The Streaming Agreement will provide that until the Deposits have been fully offset, the Deposits shall be applied in satisfaction of such portion of the Streaming Purchase Price, if any, that exceeds the Per Carat Cash Price, such portion of the Streaming Purchase Price being satisfied by offset against the Deposits, and the Deposits shall thereupon be reduced by the amount of such excess.

"**Gross Proceeds**" under the Streaming Agreement will mean the sale price of Subject Diamonds Interest on the market achieved by SDCI, whether directly or through a commissionaire, in its capacity as agent for the Stream Buyers. The parties agreed in the Financing Commitment Letter to cooperate to structure the sale and transfer of title of the Subject Diamonds Interest in a tax efficient manner.

The Streaming Agreement will also provide that the Stream Buyers shall, in addition to the Deposit (which shall be applied in satisfaction of the Streaming Purchase Price of the Subject Diamonds Interest in the manner described above), pay US$50 per carat for the Subject Diamonds Interest, subject to an increase of 1% *per annum* beginning three (3) years after the Commencement of Commercial Production (the "**Per Carat Cash Price**").

In addition to the Per Carat Cash Price, the Stream Buyers will be required to pay marketing expenses (as such term will be defined in the Definitive Agreements) incurred by Stornoway on behalf of the Stream Buyers, in respect of the Subject Diamonds Interest. The marketing expenses shall not be greater than 3.0% of the Gross Proceeds of each sale of Subject Diamonds Interest and shall be paid rateably over the course of each year in the manner set forth below in respect of the delivery and settlement of Subject Diamonds Interest.

The Stream Buyers and SDCI will cooperate to structure the delivery and settlement of the Subject Diamonds Interest in a mutually tax efficient manner (in relation to all taxes, duties and imposts). In addition, as a condition to the execution of the Streaming Agreement, the parties shall be required to be satisfied that the sale structure will not result in the creation of a permanent establishment or a taxable presence for a party in a jurisdiction where such party does not have one at the time that the Streaming Agreement is executed, where it would result in a liability for taxes in such jurisdiction. Title and risk of loss to the Subject Diamonds Interest shall pass to the Stream Buyers having due regard for the aforementioned requirements.

Diamonds to which the Streaming Agreement applies shall be delivered to a mutually agreed commissionaire located in Antwerp, Belgium, who will hold the Subject Diamonds Interest for sale, as will be more fully described in the Definitive Agreements.

SDCI will be required to ensure that all Gross Proceeds (subject to SDCI retaining a portion of such Gross Proceeds on account of payment by the Stream Buyers of the Per Carat Cash Price and the marketing expenses) ("**Stream Net Proceeds**") are deposited directly into the Stream Proceeds Account(s), by no later than the earlier of (i) the date on which any applicable commissionaire pursuant to any applicable marketing and sales agreement (or similar agreement) is required to pay such Gross Proceeds or any other proceeds relating to the sale of diamonds (which includes the Subject Diamonds Interest) to the Stream Buyers or SDCI or any related entity (as the case may be) and (ii) the fifth business day following each sale date (the "**Settlement Date**"). On a monthly basis, reconciliation of the actual marketing expenses and the marketing expenses retained by SDCI shall be made between the parties to the Streaming Agreement.

Details relating to the determination of Stream Net Proceeds (including Gross Proceeds and marketing expenses in respect of each sale of a Subject Diamonds Interest) will be provided in an invoice furnished by SDCI to the Stream Buyers, which shall be in a mutually acceptable form (the "**Invoice**"), on or before each Settlement Date. Each Invoice shall provide a detailed summary of the quality, grade and number of carats for each sale of a Subject Diamonds Interest and any other details in relation to the sale of the Subject Diamonds Interest provided by third parties. The Stream Buyers and SDCI will agree on penalties in the event of a failure to deliver Invoices or to promptly meet settlement requirements.

If Stream Net Proceeds from a sale of a Subject Diamonds Interest are less than zero, such negative amount shall be paid by the Stream Buyers out of the Stream Net Proceeds of the subsequent sale or sales of Subject Diamonds Interests until fully offset against subsequent sales.

The Streaming Agreement will include representations and warranties, affirmative and negative covenants and events of default customary for transactions of this nature, which will be in relation to Stornoway, its material subsidiaries and SDCI, respectively (in form and substance satisfactory to the Stream Buyers).

The Streaming Agreement will also address the consequences of events of default thereunder, including in respect of Defaulted Deposit Portions, and will provide for indemnification and termination provisions.

The Streaming Agreement will also include certain reporting covenants pursuant to which SDCI will be required to provide the Stream Buyers with monthly production and sales reports, agree to periodic audits and allow the Stream Buyers to visit and inspect the Properties at agreed upon intervals (subject to confidentiality terms). The Stream Buyers and SDCI shall constitute a technical committee to monitor progress on the Renard Diamond Project and report such progress to the Stream Buyers on a quarterly basis.

Guarantees and Security

See the section below titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Debt Financing Facilities – Senior Secured Loan – Security in respect of the Senior Secured Loan and the Streaming Agreement and Intercreditor Principles" in respect of certain security guaranteeing the obligations under the Streaming Agreement.

The obligations of SDCI under the Streaming Agreement will be fully and unconditionally guaranteed, on a joint and several basis, by Stornoway, Ashton and any other material subsidiary of Stornoway from time to time (the "**Sponsor and Shareholder Guarantee**"). Such guarantors will indemnify the Stream Buyers from losses and damages resulting from the failure by SDCI to comply with its obligations under the Streaming Agreement. Upon the later of (i) Completion having occurred, (ii) 50% of the Deposit having been offset and (iii) 50% of the Senior Secured Loan having been paid down, any security granted by Stornoway or any material subsidiary of Stornoway (other than SDCI) and the Sponsor and Shareholder Guarantee and any other guarantee will terminate, and a new guarantee by Stornoway (and all intermediate holding companies of SDCI) shall be executed in favour of the Stream Buyers; such guarantee shall be a performance and payment guarantee only, without restrictive, affirmative, financial or negative covenants or limitations. The Sponsor and Shareholder Guarantee, and the performance and payment guarantee mentioned in the immediately preceding sentence, as applicable, would include any obligation to pay the Early Repayment Amount and the Settlement Amount under the Streaming Agreement up to the later of: (i) Completion having occurred, (ii) 50% of the Deposit having been offset and (iii) 50% of the Senior Secured Loan having been paid down.

Term and Administration

The Streaming Agreement will apply to (i) the Properties for the life of the Renard Diamond Project and (ii) all other properties forming part of the Renard Diamond Project (in the case of (ii)) until the Threshold Number is reached. The Streaming Agreement will provide that any outstanding Deposits which have not been offset as described above on or before the Outside Date shall be remitted to Buyers on a proportionate basis on the Outside Date.

The Stream Buyers will jointly appoint a Collateral Agent to hold collateral, effect disbursements, communicate information to the Stream Buyers, distribute Stream Net Proceeds to the Stream Buyers and enforce agreements on their behalf. Costs related to the appointment of the Collateral Agent will be borne by the Stream Buyers proportionately to their participation in the Stream.

Debt Financing Facilities

Senior Secured Loan

On the Financing Transactions Closing Date, SDCI and Diaquem, a wholly-owned subsidiary of RQ, will deliver and execute the Senior Secured Loan Agreement that will provide for an initial $100 million of the Senior Secured Loan (the "**Senior Secured Loan, Tranche A**") with the possibility, at the option of SDCI, to increase the loan up to an amount of the further $20 million of the Senior Secured Loan (the "**Senior Secured Loan, Tranche B**"). The proceeds of the Senior Secured Loan shall be used to finance, in part, the engineering, design, construction, plant, equipment, start-up, interest, financing fees and expenses, other Renard Diamond Project development costs (including operating costs and Project Costs, which include the monthly fee and reimbursement of expenses under the Services Agreement) and working capital requirements of the Renard Diamond Project.

The Senior Secured Loan will, at SDCI's option, bear interest at (i) a floating rate equal to the most common prime rate announced by Schedule I Canadian banks, plus (a) prior to Completion, 4.75% *per annum,* and (b) after Completion, 4.25% *per annum,* or (ii) subject to availability, at a fixed rate based on the then available Government of Québec bonds for any applicable periods plus (a) prior to Completion, 5.75% *per annum,* and (b) after Completion, 5.25% *per annum*. Interest will be paid in arrears at the end of each quarter. Under the Senior Secured Loan Agreement, SDCI will have the option, upon prior notice, to convert advances bearing interest at the floating rate to a fixed rate as detailed above.

Upfront fees equal to 2.75% of the principal amount of the Senior Secured Loan, Tranche A and the Senior Secured Loan, Tranche B, shall be payable by SDCI, 25% of which will be payable on the Financing Transactions Closing Date and the remaining 75% of which shall be payable upon the initial funding date of the Senior Secured Loan, Tranche A (based on the full amount of Senior Secured Loan). In addition, there will be a standby fee of 1.75% *per annum,* payable quarterly in arrears, on the daily undrawn principal amount of the Senior Secured Loan during the Availability Period.

Conditions Precedent to Closing and Funding of the Senior Secured Loan

Closing of the Senior Secured Loan is to occur on the Financing Transactions Closing Date, subject to the following conditions precedent (amongst others) having been met or waived by the Senior Secured Lender, in addition to the fulfilment of the General Conditions Precedent:

- all necessary corporate authorizations having been obtained;
- all material permits, approvals, authorizations for the Renard Diamond Project having been obtained;
- all necessary bank accounts in respect of the Renard Diamond Project having been opened and all necessary bank account control agreements having been executed and delivered;
- insurance coverage in accordance with the Financing Commitment Letter being in effect;
- delivery of all required legal opinions;
- delivery by SDCI of a copy of the construction budget and initial mine plan;
- delivery of the auditor's report with respect to the financial model prepared in 2012;
- delivery of an updated financial model;
- publication of all required security;
- funding of the proceeds of the Convertible Debentures and release to the Corporation of the proceeds of the Public Offering and of the Subscription Receipt Private Placements (subject to the

Corporation retaining the Reserved Amount) having occurred; and

- RQ Conditions Precedent having been satisfied or waived.

The Senior Secured Loan will remain available in full as of the Financing Transactions Closing Date until the earlier of the full drawdown of the Senior Secured Loan and the First Payment Date (the "**Availability Period**").

The Senior Secured Loan, Tranche A may be drawn for an aggregate principal amount of up to $100 million in up to four drawdowns. The initial drawdown of the Senior Secured Loan, Tranche A shall be subject to the prior satisfaction of the following conditions (amongst others, as set forth in Schedule 2 of the Financing Commitment Letter):

- no event of default or prospective default under the Senior Secured Loan Agreement having occurred and continuing;
- SDCI having delivered a valid drawdown notice;
- absence of a Material Adverse Change;
- confirmation of ongoing representations and warranties;
- to the extent such drawdown is 90 days or more after the date of the Independent Engineer report with respect to D3 (see "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream"), the delivery of an update to the Independent Engineer's report in respect of D3 in form and substance satisfactory to the Senior Secured Lender, confirming that the Renard Diamond Project construction budget at such time is reasonably within the scope of the funds available from all of the Financing Transactions including, for greater certainty, cash on the Corporation's and SDCI's balance sheet and any committed equipment financing and including for the purposes of this determination, 100% of the aggregate funds available under the Senior Secured Loan, Tranche B and the COF;
- disbursement of the proceeds of D1, D2 and D3 having been fully made to SDCI, D1 and D2 and proceeds of the Convertible Debentures and the Equity Investment made available to SDCI having been fully utilized and at least 75% of D3 (see "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Stream") having been utilized;
- execution and delivery of definitive documentation relating to the Equipment Facility in form and substance acceptable to the Stream Buyers and the Senior Secured Lender, acting reasonably; and
- payment of fees and expenses of the Senior Secured Lender in respect of the Senior Secured Loan owing as of such date shall have been made.

Subsequent advances under the Senior Secured Loan, Tranche A shall be subject to the prior satisfaction of the following conditions:

- no event of default or prospective default under the Senior Secured Loan Agreement shall have occurred and be continuing;
- SDCI shall have delivered a valid drawdown notice;
- confirmation of ongoing representations and warranties; and
- payment of fees and expenses of the Senior Secured Lender in respect of the Senior Secured Loan owing as of such date shall have been made.

The Senior Secured Loan, Tranche B may be drawn upon by SDCI during the Availability Period in a single tranche of up to $20 million subject to the prior satisfaction of the following conditions:

- no event of default or prospective default under the Senior Secured Loan Agreement or event of default under the COF Agreement shall have occurred and be continuing;
- SDCI shall have delivered a valid drawdown notice;

- confirmation of ongoing representations and warranties;
- disbursement of the Senior Secured Loan, Tranche A shall have been fully made, and not less than 90% of the funds available under such facility shall have been utilized;
- the Independent Engineer shall have been requested to perform a cost to complete test and such cost to complete test shows that the Renard Diamond Project is not fully funded (after giving effect to amounts drawn under the Senior Secured Loan, Tranche A and any cash on the Corporation's and SDCI's balance sheet) and that the funds available under the Senior Secured Loan, Tranche B and the COF will be sufficient to cure any such funding deficiency;
- payment of fees and expenses of the Senior Secured Lender in respect of the Senior Secured Loan owing as of such date shall have been made; and
- all conditions precedent to the disbursement of the COF (other than relating to the prior disbursement of the Senior Secured Loan, Tranche B) having been met.

As described elsewhere in this Circular, the Rolled Bridge Facility Obligations will be incorporated into the Senior Secured Loan, Tranche A upon terms and conditions mutually acceptable to each Investor, the Corporation and SDCI, in the discretion of each of them.

Repayment and Prepayment of the Senior Secured Loan

The Senior Secured Loan Agreement will provide that amounts borrowed under the Senior Secured Loan will be repaid on Payment Dates in accordance with the installment schedule to be set out therein.

The Senior Secured Loan, Tranche A will be repaid in full by the first Payment Date falling at least ten (10) years following the Financing Transactions Closing Date and the Senior Secured Loan, Tranche B will be repaid in full by the first Payment Date falling at least seven years following the Financing Transactions Closing Date, unless in either case it becomes due and payable, whether upon acceleration, repayment or otherwise, prior to such date.

The Senior Secured Loan may be voluntarily prepaid at any time on 15 days' prior notice (and amounts prepaid on the Senior Secured Loan may not be re-borrowed), subject to a minimum prepayment amount of $5 million and the payment of a prepayment penalty equal to (1) in the case of advances bearing interest at the floating rate, the principal amount of such advances being prepaid multiplied by 2%, and (2) in the case of advances bearing interest at the fixed rate, the difference between (i) the discounted value of the remaining principal and interest payments of such advances being prepaid calculated using Government of Canada Bond Yield for the remaining ~~term~~ plus 0.50% over (ii) the discounted value of the remaining principal and interest payments of such advances being prepaid calculated using the interest rate applicable for such advances. The Senior Secured Loan Agreement will also provide for circumstances resulting in mandatory prepayments, including a mandatory prepayment equal to at least 12.5% of excess cash flow payable after Commencement of Commercial Production until Completion, and mandatory prepayments equal to 50% of excess cash flow payable after Completion as well as mandatory prepayments resulting from casualty insurance proceeds to the extent required pursuant to the regime to be fully set forth in the Common Terms and Intercreditor Agreement (and subject to the Intercreditor Principles). Finally, the Senior Secured Loan will provide for a mandatory prepayment equal to all amounts outstanding under the Senior Secured Loan (plus the payment of the same prepayment penalty mentioned above) payable at the option of the Senior Secured Lender following the occurrence of a Change of Control of the Corporation.

The Senior Secured Loan Agreement will include representations and warranties, reporting obligations, affirmative and negative covenants and events of default that are customary for loans of this nature (subject to mutually agreed upon and customary materiality limitations, thresholds, grace periods and carve-outs).

Throughout the life of the Senior Secured Loan (assuming the full amount of both the Senior Secured Loan, Tranche A and the Senior Secured Loan, Tranche B are fully drawn in a lump sum in 2016 and that no mandatory prepayments or excess cash-flow payments are made by SDCI, as permitted under the terms thereof), the estimated maximum aggregate amount of all up front fees and standby fees payable to Diaquem is approximately $7,832,000, and the estimated maximum aggregate amount of interest payable to Diaquem is approximately $68,842,000, which

together exceed 10% of the Corporation's current market capitalization; consequently, the Corporation is seeking disinterested shareholder approval of the Senior Secured Loan pursuant to the TSX rules as part of the IQ Transactions Resolution.

Guarantees and Security

See the section titled "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Debt Financing Facilities – Senior Secured Loan – Security in respect of the Senior Secured Loan and the Streaming Agreement and Intercreditor Principles" below.

The obligations of SDCI under the Senior Secured Loan will be fully and unconditionally guaranteed, on a joint and several basis, by Stornoway, Ashton and any other material subsidiary of Stornoway from time to time. Such guarantors will be subject to customary representations, warranties, covenants and events of default under such guarantees. Upon the later of (i) Completion having occurred, and (ii) repayment of at least 50% of the principal of the Senior Secured Loan, any security granted by Stornoway or any material subsidiary of Stornoway (other than SDCI), and such guarantees, will terminate (other than a limited recourse pledge of the shares held in SDCI which will survive until repayment of the Senior Secured Loan).

Security in respect of the Senior Secured Loan and the Streaming Agreement and Intercreditor Principles

The Stream Buyers, the Senior Secured Lender and the counterparties to permitted hedging agreements will agree to either (i) share their respective security on a *pari passu* basis and on terms and conditions acceptable to each of them, with all such security to be granted to and held by a single Trustee, or (ii) take separate security granted in favour of one or more Trustees.

All Senior Obligations will rank equally and will share on a senior basis in a common security package (subject to the terms of the Intercreditor Principles) charging (to the extent permitted under relevant laws) all assets of SDCI (other than certain excluded property), including the mining concessions, property, plant and equipment, receivables, bank accounts, insurance policies and rights under material project agreements; provided that, as and from the Stream Upfront Deposit Offset Date, the Stream Buyers will cease to hold any lien or hypothec over Collateral (other than the Stream Collateral and the 80% undivided interest in the mining lease not forming part of the Stream Collateral) and the Senior Secured Lender and the counterparties to hedging agreements will have a first-ranking lien and hypothec on all Collateral, other than the Stream Collateral, provided that (as of and from the Stream Upfront Deposit Offset Date) the payment entitlement of the Stream Buyers from proceeds of the Collateral (other than the Stream Collateral) will rank *pari passu* with unsecured creditors, the whole as more fully set forth in the Intercreditor Principles below. Further, the Senior Secured Lender and the counterparties to permitted hedging agreements will not have any right, title, interest or entitlement in or to any part of the Stream Collateral.

The Stream Buyers, the Senior Secured Lender and the counterparties to permitted hedging agreements will also agree to subordination on specific collateral on reasonable terms: e.g., specified equipment (to equipment financiers), and will agree to a payment waterfall as provided in Schedule 2 of the Financing Commitment Letter including allowing certain payments to Diaquem, the Cree Parties and the Existing Lenders to be made as long as the Renard Diamond Project is in operation, other than in the context of an enforcement of their security. Allocation of insurance proceeds will be as provided in Schedule 2 of the Financing Commitment Letter. The Senior Secured Lender and the Stream Buyers will agree to a covenant package that permits a currency, interest, diesel price and natural gas price hedging program, which would allow for hedging obligations to be secured on a *pari passu* basis. Subordination provisions applicable to Diaquem, the Cree Parties and the Existing Lender security shall be as set out in Schedule 2 of the Financing Commitment Letter.

In connection with the Financing Commitment Letter, Stornoway has made a formal request to the Existing Lenders to subordinate the payments owing to the Existing Lenders under the May 2012 Loan and royalty to the payments owing by the Corporation or SDCI, as the case may be, under the Stream and the Senior Secured Loan, as well as the Fonds Security to the security in favour of the Trustee(s), and Stornoway anticipates coming to an agreement with the Existing Lenders on arrangements that will permit such subordination and pursuant to which the Existing Lenders will consent to the Stream and the Senior Secured Loan. If the Existing Lenders do not agree to

subordination terms, the Corporation intends to enter into arrangements to prepay the amounts outstanding under the May 2012 Loan on terms to be agreed with the Existing Lenders. See "Summary Description of the Business – Existing Credit Facilities – Unsecured Debt Facility".

Convertible Debentures

On the Financing Transactions Closing Date, subject to the fulfilment of the General Conditions Precedent, Orion and other mutually acceptable purchasers (the "**Convertible Debenture Purchasers**") will acquire US$79 million in Convertible Debentures (subject to increase up to US$90 million) to be issued by Stornoway with a maturity date falling on the first Payment Date to occur at least seven years from the Financing Transactions Closing Date ("**Maturity Date**"). There will be no principal repayments until the Maturity Date. The principal and any accrued and unpaid interest will be due and immediately payable in full on the Maturity Date. The Convertible Debentures will be issued to the Convertible Debenture Purchasers at a discount of 4.00% to the principal amount thereof.

Interest will accrue at a rate of 6.25% *per annum* from the Financing Transactions Closing Date, payable semi-annually on the last day of June and December of each year. The Convertible Debentures will rank (i) subordinate in right of payment to the payments of all secured obligations including Stream Net Proceeds to the Stream Buyers under the Streaming Agreement and payments required under the Senior Secured Loan, and (ii) *pari passu* with all outstanding unsecured indebtedness for borrowed money of Stornoway.

Unless an event of default under the Convertible Debentures has occurred and is continuing, Stornoway may elect, from time to time, subject to applicable regulatory approval (including, without limitation, TSX approval), to satisfy its obligation to pay interest on the Convertible Debentures, on the date on which it is payable under the Indenture: (i) in cash; (ii) by delivering a sufficient number of Common Shares, calculated by dividing the interest amount payable by the market price of the Common Shares at such time, to the trustee under the Indenture , for sale, to satisfy the interest obligations in accordance with the Indenture in which event holders of the Convertible Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Common Shares; or (iii) any combination of (i) and (ii) above. The share payment option described under (ii) above will only be exercisable on seven non-consecutive interest payment dates during the life of the Convertible Debentures.

The Convertible Debentures will be convertible at the holder's option into Common Shares at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date fixed for redemption thereof, at the Conversion Price, being $0.945, subject to adjustment in certain limited circumstances described below. The Corporation intends to apply to list the Convertible Debentures on the TSX prior to the expiry of the four-month and one day statutory hold period under Canadian securities legislation. Listing of the Convertible Debentures is subject to such securities satisfying the TSX's listing requirements, and there can be no assurance that the Corporation will be able to list the Convertible Debentures on the TSX. The holder converting its Convertible Debentures will receive accrued and unpaid interest thereon up to but excluding the date of conversion.

The number of Common Shares issuable upon conversion of the Convertible Debentures, which are denominated in United States dollars, will be determined based on the Bank of Canada CAD/USD noon exchange rate on the business day prior to the date of conversion. On May 27, 2014, the noon buying rate as reported by the Bank of Canada was US$1.00 = $1.0869 or $1.00 = US$0.9200.

Assuming the principal amount of the Convertible Debentures outstanding is the maximum amount of US$90 million and further assuming:

a. an exchange rate of US$1.00 to $1.00, the maximum number of Common Shares issuable to the Convertible Debenture Purchasers would be 95,238,095, which represents approximately 54.1% of the current number of issued and outstanding Shares,

b. an exchange rate of US$1.00 to $1.10, the maximum number of Common Shares issuable to the Convertible Debenture Purchasers would be 104,761,904, which represents approximately 59.5% of the current number of issued and outstanding Shares, and

c. an exchange rate of US$1.00 to $1.20, the maximum number of Common Shares issuable to the Convertible Debenture Purchasers would be 114,285,714, which represents approximately 64.9% of the current number of issued and outstanding Shares.

Assuming (i) the principal amount of the Convertible Debentures outstanding is the maximum amount of US$90 million, and (ii) that pursuant to the Corporation's right to satisfy its obligation to pay interest on the Convertible Debentures by delivering Common Shares to the trustee under the Indenture as described above, the Corporation elects to deliver Common Shares with an aggregate value of US$19,687,500 to the Indenture trustee, representing the maximum amount of interest payable on the Convertible Debentures by the delivery of Common Shares, and further assuming:

a. an exchange rate of US$1.00 to $1.00 and a market price of $1.50 per Common Share at the time of payment of such interest, the maximum number of Common Shares issuable to the Convertible Debenture Purchasers would be 13,125,000, which represents approximately 7.5% of the current number of issued and outstanding Shares,

b. an exchange rate of US$1.00 to $1.10 and a market price of $1.00 per Common Share at the time of payment of such interest, the maximum number of Common Shares issuable to the Convertible Debenture Purchasers would be 21,656,250, which represents approximately 12.3% of the current number of issued and outstanding Shares, and

c. an exchange rate of US$1.00 to $1.20 and a market price of $0.50 per Common Share at the time of payment of such interest, the maximum number of Common Shares issuable to the Convertible Debenture Purchasers would be 47,250,000, which represents approximately 26.8% of the current number of issued and outstanding Shares.

The Indenture will provide for the adjustment of the Conversion Price in certain circumstances including, without limitation, upon the subdivision or consolidation of the outstanding Common Shares, the issuance of Common Shares or securities convertible into Common Shares by way of stock dividend or distribution, the issuance of rights, options or warrants to all or substantially all of the holders of Common Shares in certain circumstances, or the distribution to all or substantially all of the holders of Common Shares of any other class of shares, rights, options or warrants, evidences of indebtedness or assets. Adjustments to the Conversion Price will not be made in respect of Common Shares or options issued in conjunction with Stornoway's Stock Option Plan or securities issued under share-based compensation arrangements to directors, officers or employees of Stornoway, Common Shares issuable upon the exercise of existing convertible securities, or Common Shares issuable pursuant to the terms of the Financing Transactions.

Under the terms of the Indenture, within 30 days following the consummation of a Change of Control, Stornoway will be required to make an offer in writing to holders of the Convertible Debentures to, at the holder's election, either: (i) purchase the Convertible Debentures at 100% of the principal amount thereof plus accrued and unpaid interest or (ii) convert the Convertible Debentures at an adjusted Change of Control conversion price.

Based on the Change of Control Conversion Price, the maximum number of Common Shares issuable upon a Change of Control, assuming the principal amount of Convertible Debentures outstanding is the maximum amount of US$90 million and that the Change of Control event occurs immediately following the issuance of the Convertible Debentures, would be as set forth below:

a. assuming an exchange rate of US$1.00 to $1.00, the maximum number of Common Shares issuable to the Convertible Debenture Purchasers would be 128,571,428, which represents approximately 73.0% of the current number of issued and outstanding Shares,

b. assuming an exchange rate of US$1.00 to $1.10, the maximum number of Common Shares issuable to the Convertible Debenture Purchasers would be 141,428,571, which represents approximately 80.3% of the current number of issued and outstanding Shares, and

c. assuming an exchange rate of US$1.00 to $1.20, the maximum number of Common Shares issuable to the Convertible Debenture Purchasers would be 154,285,714, which represents approximately 87.6% of the current number of issued and outstanding Shares.

The Convertible Debentures will not be redeemable before the third anniversary of the Financing Transactions Closing Date. On or after the third anniversary of the Financing Transactions Closing Date to and including the Maturity Date, Stornoway may, at its option, subject to providing not more than 60 and not less than 30 days' prior notice, redeem the Convertible Debentures, in whole or, from time to time, in part, at par plus accrued and unpaid interest, provided that the weighted average closing price of the Common Shares on the TSX during the 20 consecutive trading days ending on the trading day preceding the date on which the notice of redemption is given is not less than 135% of the Conversion Price.

Unsecured Cost Overrun Facility with COF Warrants

COF

On the Financing Transactions Closing Date, subject to the fulfilment of the General Conditions Precedent, CDPQ and/or one or more of its affiliates will execute and deliver the COF Agreement, which shall be available and drawn subject to the terms and conditions described below. The COF will mature on the COF Maturity Date and will bear interest at a rate of 10.0% *per annum* payable from the first date the COF is drawn, payable semi-annually on the last day of June and December of each year.

Unless an event of default under the COF has occurred and is continuing, Stornoway may elect, from time to time before Commencement of Commercial Production, subject to applicable regulatory approval, to satisfy its obligation to pay interest on the COF (if drawn): (i) in cash; (ii) by delivering sufficient Common Shares to CDPQ to satisfy the interest obligations in accordance with the COF; or (iii) any combination of (i) and (ii) above. The share payment option described under (ii) above will only be exercisable on five (5) non-consecutive interest payment dates during the life of the COF. Upon Commencement of Commercial Production, Stornoway will have the obligation to pay interest on the COF (if drawn) in cash.

Assuming that pursuant to the Corporation's right to satisfy its obligation to pay interest on the COF (if drawn) by issuing a sufficient number of Common Shares to CDPQ as described above, calculated by dividing the interest amount payable by the market price of the Common Shares at such time, the Corporation elects to issue Common Shares with an aggregate value of $7,000,000 to CDPQ, representing the maximum amount of interest payable on the COF by the issuance of Common Shares, and further assuming:

a. a market price of $1.50 per Common Share at the time of payment of such interest, the maximum number of Common Shares issuable to CDPQ would be 4,666,666, which represents approximately 2.7% of the current number of issued and outstanding Shares.

b. a market price of $1.00 per Common Share at the time of payment of such interest, the maximum number of Common Shares issuable to CDPQ would be 7,000,000, which represents approximately 4.0% of the current number of issued and outstanding Shares.

c. a market price of $0.50 per Common Share at the time of payment of such interest, the maximum number of Common Shares issuable to CDPQ would be 14,000,000, which represents approximately 8.0% of the current number of issued and outstanding Shares.

The COF Agreement will provide that within 30 days following the consummation of a Change of Control, Stornoway will be required to make an offer in writing to holders of the COF to purchase the COF at 100% of the principal amount thereof plus accrued and unpaid interest.

The COF will rank (i) subordinate in right of payment to the payment of all secured obligations, including Stream Net Proceeds to the Stream Buyers under the Streaming Agreement and payments required under the Senior Secured Loan and (ii) *pari passu* with all outstanding unsecured indebtedness for borrowed money of Stornoway. A standby fee of 1.00% *per annum* will be payable by Stornoway on undrawn amounts.

Conditions precedent to drawdown under the COF will be as follows:

- no event of default or prospective default under the Senior Secured Loan Agreement or event of default under the COF Agreement shall have occurred and be continuing;
- SDCI shall have delivered a valid drawdown notice;
- confirmation of ongoing representations and warranties;
- disbursement of the Senior Secured Loan, Tranche A shall have been fully made, such amounts shall have been fully committed for utilization and not less than 90% of the funds available under such facility shall have been utilized;
- the Independent Engineer shall have been requested to perform a cost to complete test and such cost to complete test shows that the Renard Diamond Project is not fully funded (after giving effect to amounts drawn under the Senior Secured Loan, Tranche A and any cash on the Corporation's and SDCI's balance sheet) and that the funds available under the Senior Secured Loan, Tranche B and the COF will be sufficient to cure any such funding deficiency;
- payment of fees and expenses of the Senior Secured Lender and CDPQ in respect of the Senior Secured Loan and the COF, respectively, owing as of such date shall have been made; and
- all conditions precedent to the disbursement of the Senior Secured Loan, Tranche B (other than relating to the prior disbursement of the COF) having been met.

COF Warrants

The COF Agreement will provide that, in consideration for providing the COF, Stornoway will issue to CDPQ on the Financing Transactions Closing Date warrants exercisable to acquire 14,000,000 Common Shares (the "**COF Warrants**"), at the COF Warrant Exercise Price (subject to adjustment in certain limited circumstances described below). The COF Warrants will be exercisable in whole or in part at any time, and will be subject to resale restrictions under applicable securities laws. The COF Warrants will have a five-year term from the Financing Transactions Closing Date and will not be listed on any securities exchange, including the TSX. The TSX has conditionally approved the listing of the Common Shares issuable upon exercise of the COF Warrants. The listing of such Common Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX, including Shareholder Approval at the Meeting,

The COF Agreement will provide for the adjustment of the COF Warrant Exercise Price in certain circumstances including, without limitation, upon the subdivision or consolidation of the outstanding Common Shares, the issuance of Common Shares or securities convertible into Common Shares by way of stock dividend or distribution, the issuance of rights, options or warrants to all or substantially all of the holders of Common Shares in certain circumstances, or the distribution to all or substantially all of the holders of Common Shares of any other class of shares, rights, options or warrants, evidences of indebtedness or assets. Adjustments to the COF Warrant Exercise Price will not be made in respect of Common Shares or options issued in conjunction with Stornoway's Stock Option Plan or securities issued under share-based compensation arrangements to directors, officers or employees of Stornoway, Common Shares issuable upon the exercise of existing convertible securities, or Common Shares issuable pursuant to the terms of the Financing Transactions.

Furthermore, for the period commencing on the Financing Transactions Closing Date and ending on the Commencement of Commercial Production Date, the Corporation has agreed to adjust the COF Warrant Exercise Price in the event that a Price Protection Event occurs. Upon the occurrence of a Price Protection Event, the Warrant Exercise Price will be adjusted (reduced) by an amount equal to the difference between the Subsequent Offering Price and the Equity Investment Price. The Corporation and CDPQ have agreed that the lowest price to

which the COF Warrant Exercise Price may be adjusted upon the occurrence of a Price Protection Event is $0.78, being the volume weighted average price of the Common Shares for the five (5) trading days ending May 12, 2014, being the date on which the Equity Investment Price was established.

Equipment Facility

The Equipment Facility will be in addition to the foregoing elements of the Financing Transactions and would be utilized as required to meet equipment financing needs.

Funding Sequence of Financing Transactions

The funding sequence of the Financing Transactions shall occur as follows, in each case subject to the applicable conditions precedent being satisfied:

(i) each of the elements of the Equity Investment closed on May 23, 2014;

(ii) on the Financing Transactions Closing Date, the Escrowed Funds, together with the Earned Interest (if any), less 50% of the Underwriters' Fee, will be released to the Corporation, the Private Placement Escrowed Funds, together with the Private Placement Earned Interest (if any), will be released to the Corporation, and the proceeds of the issuance of the Convertible Debentures will be fully disbursed to Stornoway and, subject to the Reserved Amount, made available to SDCI for utilization;

(iii) the funding of the Deposits under the Stream shall then occur in accordance with the terms and conditions described above;

(iv) following the funding in full of all Deposits and the utilization by SDCI of 100% of the Convertible Debentures and the Equity Investment made available to SDCI, and 100% of D1 and D2, and at least 75% of D3, SDCI shall be entitled to draw upon the Senior Secured Loan, Tranche A (as more fully described herein and in Schedule 2 of the Financing Commitment Letter); and

(v) following the drawdown of the full amount of the Senior Secured Loan, Tranche A and provided such amounts have been fully committed for utilization and at least 90% of the funds available under such facility shall have been utilized, Stornoway or SDCI, as the case may be, may draw down on the Senior Secured Loan, Tranche B and the COF, as follows:

a. first, in an amount of up to $20 million under the Senior Secured Loan, Tranche B, subject to the terms and conditions relating to such tranche set forth in Schedule 2 of the Financing Commitment Letter; and

b. second, in an amount of up to $28 million under the COF as set forth in Schedule 5 of the Financing Commitment Letter.

Use of Proceeds

The estimated net proceeds from the Public Offering, after deducting the Underwriters' Fee and expenses of the Public Offering (estimated to be approximately $2 million), will be approximately $123.4 million, assuming no exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the additional net proceeds to the Corporation, after deducting the Underwriters' Fee in respect of the Over-Allotment Option and expenses of the Public Offering in respect of the Over-Allotment Option (estimated to be approximately $0.3 million), will be approximately $18.5 million. The proceeds received from the Public Offering (including under the Over-Allotment Option, if exercised and all interest thereon) will be held in escrow until the earlier of the satisfaction or waiver of the Escrow Release Conditions and the occurrence of a Termination Event. The Underwriters' Fee and expenses of the Public Offering will be paid from the proceeds of the Public Offering.

The gross proceeds to the Corporation of the Subscription Receipt Private Placements were approximately $241.9 million. The net proceeds of the Subscription Receipt Private Placements to the Corporation were approximately $240.4 million (after deducting expenses of the Subscription Receipt Private Placements of approximately $1.5 million). The proceeds received from the Subscription Receipt Private Placements and all interest thereon will be

held in escrow until the earlier of the satisfaction or waiver of the Escrow Release Conditions and the occurrence of a Termination Event.

Assuming the fulfillment of the General Conditions Precedent, the Corporation will also have available to it on the Financing Transactions Closing Date the aggregate principal amount of US$79 million pursuant to the Convertible Debentures (subject to increase up to US$90 million). The proceeds of the issuance of the Convertible Debentures are to be disbursed and released concurrently with the release of the Escrowed Funds and Private Placement Escrowed Funds to the Corporation upon satisfaction or waiver of the Escrow Release Conditions. See "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Equity Investment – Subscription Receipt Private Placements" and "The Financing Transactions – Financing Commitments/Elements of the Financing Transactions – Equity Investment – Public Offering".

In addition, as described under "The Financing Transactions – Funding Sequence", assuming all conditions precedent to the completion of or advance of funds under the other Financing Transactions are ultimately satisfied or waived, the Corporation will also have available to it on various dates following the Financing Transactions Closing Date, in three (3) installments paid at intervals starting on the Initial Stream Deposit Date and ending no later than twelve (12) months after the Initial Stream Deposit Date, the aggregate principal amount of US$250 million pursuant to the payment of the Deposits under the Stream; following the payment in full of all Deposits and the utilization of 100% of D1 and D2 and at least 75% of D3 under the Stream, the principal amount of $100 million pursuant to the Senior Secured Loan, Tranche A; following the drawdown of the full amount of the Senior Secured Loan, Tranche A and provided such amounts have been fully committed for utilization and at least 90% of such Financing Transaction has been utilized, the principal amount of $20 million under the Senior Secured Loan, Tranche B, subject to the terms and conditions relating to such Tranche B set forth in the Financing Commitment Letter, and an amount of up to $28 million provided by CDPQ under the COF. The Equipment Facility of US$35 million will be in addition to the foregoing and would be utilized as required to meet equipment financing needs.

Stornoway intends to apply the proceeds of the Financing Transactions to finance the engineering, design and construction of the plant, the acquisition of equipment, mine development and start-up costs, interest during construction, fees and expenses related to the Financing Transactions, other development costs, working capital requirements of the Renard Diamond Project, to repay outstanding debt and for general corporate purposes. The project development schedule contained with the Optimization Study contemplated project construction mobilization starting in August 2013, with plant commissioning beginning in December 2015 and commercial production to be achieved by June 2016. Given the expected timing of the Financing Transactions Closing on or about July 1, 2014, Stornoway anticipates an approximately 12-month set-back to this schedule, with the project released for construction in June 2014, plant commissioning beginning in Q3 2016 and commercial production expected to be achieved in Q2 2017. This schedule set-back implies an estimated incremental increase of $10.6 million in the project's capital cost estimate that was contained within the Optimization Study, and as subsequently adjusted in the LNG Study, based on cost escalation factors currently in use in Quebec. Any delay in the completion of financing will require a reassessment of this schedule. The project development schedule is subject to the receipt of various permits in the ordinary course, financing and construction access to the site via the Route 167 Extension and the Renard Mine Road.

On May 12, 2014, the Corporation, SDCI and the Investors agreed to certain amendments to the Financing Commitment Letter, including to reflect the Additional RQ Commitment with respect to the Rolled Bridge Facility Obligations; the amounts of the Rolled Bridge Facility Obligations and the Additional Orion Commitment are subject to reduction, depending on whether the Over-Allotment Option is exercised by the Underwriters and whether there would have been Additional Convertible Debenture Commitments. In the event the Over-Allotment Option is exercised by the Underwriters, or that Additional Convertible Debenture Commitments are received, 66 ⅔% of (i) the aggregate net proceeds to the Corporation relating to the exercise of the Over-Allotment Option and (ii) the Additional Convertible Debenture Commitments, as applicable, shall reduce the RQ Additional Commitment by a corresponding amount, not to exceed $20 million plus any capitalized interest, and 33⅓% of such proceeds and Additional Convertible Debenture Commitments, as applicable, shall reduce the Additional Orion Commitment by a corresponding amount, not to exceed $10 million. The amount of any such reduction of the additional RQ Commitment shall constitute "Remaining Bridge Facility Obligations", which shall be required to be repaid by the Corporation from the initial net proceeds of the Financing Transactions on the Financing Transactions Closing Date.

In the event the Over-Allotment Option is not exercised by the Underwriters, and there are no Additional Convertible Debenture Commitments, the outstanding obligations under the Bridge Facility, inclusive of principal and capitalized interest, shall constitute "Rolled Bridge Facility Obligations". As a result, assuming closing of the Financing Transactions, the net proceeds from the Financing Transactions in an amount of up to $20 million plus any capitalized interest that would otherwise have been required by the Corporation to repay the obligations owing under the Bridge Facility shall continue to be available to the Corporation to fund expenses in connection with the Renard Diamond Project upon the terms and conditions applicable to the Additional RQ Commitment.

The following table provides additional details as to the anticipated sources and uses of the net proceeds of the Public Offering and certain other sources of funds available to Stornoway, assuming that the Over-Allotment Option is not exercised, together with the proceeds of all of the other Financing Transactions:

Source of Funds	**Assuming No Exercise of the Over-Allotment Option (millions of dollars)**	**Use of Funds**	**Assuming No Exercise of the Over-Allotment Option (millions of dollars)**
		Renard Diamond Project	
Public Offering	$ 132[1]	Capital Expenditures	$811[7]
Subscription Receipt Private Placements	$ 242[2]	Route 167 Extension	$ 70
Senior Secured Loan, Tranche A	$ 100[3]	Loan Principal Payments during Construction	$ 19
Convertible Debentures	$ 87[4]	Interest (cash) during Construction	$ 20
Equipment Facility	$ 39[5]	Debt Financing Costs and Stream Commitment Fee	$ 19
Stream	$ 275[6]	Mine Closure Guarantee	$ 16
Subtotal before Cost Overrun Facilities	$ 875	Preproduction Net Revenue	$(26)
Senior Secured Loan, Tranche B	$ 20	*Total Project Costs:*	$929
COF	$ 28	***General corporate purposes***	
Total Sources – Offering:	**$ 922**	Equity fees and transaction costs	$ 18
		General working capital, administrative expenses and salary expenses (including technical)	$ 14
Other Sources of Financing:		***Total Uses:***	**$961**
MFE Financing Agreement	$ 77		
Bridge Facility, Tranche B	$ 10		
Total Sources – Other	$ 87		
		Excess Funding (COF and Senior Secured Loan, Tranche B)	***$ 48***
Total Sources – Offering & Other	***$1,009***		

(1) If the Over-Allotment is exercised in full, $151.8 million. Amounts do not reflect any Earned Interest and do not reflect any proceeds which may be received upon exercise of the Warrants.
(2) Including an amount of US$110 million in respect of Orion Equity Co-Invest's subscription converted into Canadian dollars, but excluding any Private Placement Earned Interest.
(3) Subject to increase up to $20 million corresponding to the Rolled Bridge Facility Obligations.
(4) Assuming the principal amount of the Convertible Debentures is US$79 million converted into Canadian dollars based on an exchange rate of US$1.00 to $1.10. The Convertible Debentures will be issued to the Convertible Debenture Purchasers at a discount of 4% to the principal amount thereof. The 4% discount of US$3.1 million converted into Canadian dollars based on an exchange rate of US$1.00 to $1.10 is included as a use of proceeds in "Debt Financing Costs and Stream Commitment Fee" in the table above.
(5) US$35 million converted into Canadian dollars based on an exchange rate of US$1.00 to $1.10.
(6) US$250 million converted into Canadian dollars based on an exchange rate of US$1.00 to $1.10.
(7) Please refer to the table below titled "Estimated expenditures for July 2014 to June 2017" for further details.

Stornoway's significant target milestones during the calendar year 2014, which will be financed by the proceeds of the Financing Transactions and existing working capital, include: completion of early works at the project site; commencement of detailed engineering and the preparation of bid packages for long-lead and major items; installation of temporary camp facilities immediately following the commencement of construction to facilitate the building and installation of the permanent camp facilities later in 2014; completion of the Renard Mine Road and Renard Mine Airport for year-round use; building a concrete batch plant; and installing the raw water intake and pumphouse.

As of January 31, 2014, which is the balance sheet date of the Corporation's most recently filed Interim Financial Statements, Stornoway had positive working capital of $9.1 million, which is being used for the development of the Renard Diamond Project, interest and financing expenses, flow-through exploration expenses and for general working capital costs.

Stornoway's anticipated expenditures for the period between the commencement of mine construction (approximately June 2014) and the commencement of commercial production (approximately Q2 2017), assuming the development schedule for the Renard Diamond Project is maintained (which development schedule is based on the assumption that the Financing Transactions described herein will be completed as planned), total $961 million as set out in the table below:

Estimated expenditures for July 2014 to June 2017 (36 months) (in millions of dollars)	
Renard Diamond Project – Construction – Direct Costs	$476
Renard Diamond Project – Construction – Indirect Costs	$166
Renard Diamond Project – Project Management and Support Costs	$ 50
Total development capital costs, assuming the use of LNG for power generation	$692
Contingency	$ 62
Total initial capital cost	$754
Escalation allowance on initial capital cost	$ 46
Escalation allowance (management estimate) due to 12-month estimated project development schedule set-back	$ 11
Subtotal – Renard Diamond Project – Development capital costs	$811
Route 167 Extension	$ 70
Mine Closure Guarantee	$ 16
Preproduction Net Revenue	$ (26)
Loan Principal and Interest Payments during Construction	$ 39
Debt Financing Costs and Stream Commitment Fee	$ 19
Total Costs Related to the Renard Diamond Project	$929
Equity Fees and Transaction Costs	$ 18
General Working Capital & Administrative Purposes	$ 14
Total – Estimated expenditures for July 2014 to June 2017 (36 months)	**$961**

If required due to financing constraints, the expenditures outlined in the table above could be postponed. Mine construction activities at the Renard Diamond Project are expected to take about 27 months, with a further 6 to 9 months required for plant commissioning until commercial production is achieved. The majority of construction expenditures will be incurred during 2015 and 2016. Should Stornoway be unable to secure financing of at least $811 million for development capital costs, it is unlikely that a decision to proceed with construction would be taken because it would be inefficient and costly to have to put the project development on hold due to financing constraints. Construction of the $70 million Route 167 Extension is substantially complete, with $69.9 million drawn from the $77 million Renard Mine Road Loan available. The remaining amount under this facility is being used for civil work related to the Renard Mine Airport. Certain amounts in the table above relate to debt principal re-payment, as well as interest payments during construction. If the Financing Transactions described herein are terminated prior to the Financing Transactions Closing Date, the majority of the $58 million for loan principal and interest, debt financing and stream commitment fees between July 2014 and June 2017, would not be payable. Some

portion of the $18 million estimate for equity fees and transaction costs would also not be payable should the Financing Transactions be terminated.

The above-noted allocation represents Stornoway's intention with respect to its use of proceeds based on current knowledge and planning by management of Stornoway. There may be circumstances where, for sound business reasons, Stornoway reallocates the use of proceeds. Any unallocated funds from the net proceeds of the Public Offering and from the proceeds of the other Financing Transactions will be added to the general working capital of Stornoway. Until required for Stornoway's purposes, Stornoway intends to invest the proceeds of the Financing Transactions in short-term investment grade financial products, in accordance with its treasury policy.

Stornoway has received no revenue to date from the exploration activities on its properties and has negative cash flow from operating activities. As a mineral exploration company without any source of revenue from operations, Stornoway's principal source of funds is through equity or debt financings or from the sale of non-core assets.

The Corporation's ability to complete the Financing Transactions on acceptable terms or at all will depend on a number of factors beyond the Corporation's control, including general conditions affecting the debt and equity markets from time to time and, accordingly, there can be no assurance that any such transaction will be completed.

Even if the Financing Transactions are completed, if there are delays in the commissioning of the Renard Diamond Project or unanticipated increases in capital and operating costs, the Corporation may require additional third party financing or seek to complete further offerings of equity and/or debt securities to make required payments under its various credit facilities, to complete construction and commissioning of the Renard Diamond Project and to fund future working capital, capital expenditures, operating and exploration costs and other general corporate requirements. There is no assurance that such financing will be obtained or on terms satisfactory to the Corporation and, if raised by offering equity securities, any additional financing may involve substantial dilution to existing shareholders.

Some of the Financing Transactions are required to be paid to the Corporation or SDCI, as applicable, or funded in U.S. dollars, while funds raised in the Public Offering, which will constitute a significant portion of the total funds raised as part of the Financing Transactions, are denominated in Canadian dollars. In addition, the majority of the Corporation's expenses at the present time are denominated in Canadian dollars, including the anticipated development expenditures required to advance the Renard Diamond Project to the commencement of commercial production.

Effect of the Financing Transactions on Shareholders

As at May 27, 2014, the last trading day on the TSX prior to the date of this Circular, the Corporation's issued and outstanding share capital consisted of 153,533,071 Common Shares and 22,543,918 Non-Voting Convertible Shares. Therefore, on an as-converted basis, as at May 27, 2014, there were 176,076,989 issued and outstanding Common Shares.

On the Financing Transactions Closing Date, the Corporation expects to issue 181,529,455 Common Shares to Orion Equity Co-Invest, 151,428,570 Common Shares to RQ and 33,314,285 Common Shares to CDPQ pursuant to the Private Placement Subscription Receipts, including Shares to be issued in payment of the Private Placement Fee. A further 188,600,000 Common Shares and 94,300,000 Warrants are expected to be issued in connection with the Public Offering, 14,000,000 COF Warrants are expected to be issued to CDPQ in connection with the COF, and 91,957,671 Common Shares are expected to be issuable if all of the Convertible Debentures are converted in accordance with their terms (assuming the principal amount of the Convertible Debentures is US$79 million and an exchange rate of US$1.00 to $1.10).

After giving effect to the Financing Transactions, assuming no exercise of the Over-Allotment Option and further assuming (a) no exercise of the Warrants, (b) no exercise by CDPQ of the COF Warrants, and (c) no conversion of the Convertible Debentures, but assuming the conversion of each issued and outstanding Non-Voting Convertible Share into one Common Share, it is anticipated that (i) Orion Equity Co-Invest would own 181,529,455 Common Shares,

which in the aggregate would represent approximately 24.83% of the issued and outstanding Common Shares, (ii) RQ and its affiliates (including Diaquem) would own 209,477,225 Common Shares, which in the aggregate would represent approximately 28.66% of the issued and outstanding Common Shares, and (iii) CDPQ would own 44,724,660 Common Shares, which in the aggregate would represent approximately 6.12% of the issued and outstanding Common Shares.

After giving effect to the Financing Transactions, assuming no exercise of the Over-Allotment Option and further assuming (a) the COF Warrants are exercised by CDPQ in accordance with their terms, (b) all of the Convertible Debentures held by Orion are converted in accordance with their terms (assuming the principal amount of the Convertible Debentures is US$79 million and assuming that Orion purchases US$24.09 million in principal amount of the Convertible Debentures and an exchange rate of US$1.00 for $1.10) and that none of the other Convertible Debentures Purchasers convert their Convertible Debentures, (c) the conversion of each issued and outstanding Non-Voting Convertible Share into one Common Share, and (d) the exercise of the Warrants, it is anticipated that (i) Orion and Orion Co-Invest would, together, own 209,570,752 Common Shares, which in the aggregate would represent approximately 24.16% of the issued and outstanding Common Shares, (ii) RQ and its affiliates (including Diaquem) would own 209,477,225 Common Shares, which in the aggregate would represent approximately 24.15% of the issued and outstanding Common Shares, and (iii) CDPQ would own 58,724,660 Common Shares, which in the aggregate would represent approximately 6.77% of the issued and outstanding Common Shares.

Assuming the issuance of all Common Shares pursuant to the Financing Transactions (excluding the Public Offering), which includes Common Shares issuable pursuant to the terms of the Private Placement Subscription Receipts, the issuance of the Private Placement Fee Shares, the issuance of Common Shares upon conversion of the Convertible Debentures (based on US$90 million principal amount of Convertible Debentures outstanding and assuming an exchange rate of US$1.00 to $1.20 and a Common Share issue price of $0.50), the issuance of Common Shares in lieu of interest payments under the Convertible Debentures (assuming the maximum amount of interest payable by delivery of Common Shares, an exchange rate of US$1.00 to $1.20 and a Common Share issue price of $0.50), the issuance of Common Shares in lieu of interest payments under the COF (assuming the maximum amount of interest payable by the issuance of Common Shares and a Common Share issue price of $0.50), and the issuance of Common Shares upon exercise of the COF Warrants, the Corporation may be required to issue up to approximately 596 million Common Shares, representing approximately 338% of the current number of issued and outstanding Shares. The foregoing amounts are based on assumptions and could vary if, *inter alia*, the exchange rate between US dollars and Canadian dollars goes higher than US$1.00 to $1.20 or if the Common Share issue price is less than $0.50.

For greater certainty, the foregoing does not assume or give effect to any exercise of the 3,750,000 common share purchase warrants issued by the Corporation to Diaquem in May 2012 that are exercisable at $1.21 per share and which expire in May 2017.

BUSINESS OF THE MEETING AND SHAREHOLDER APPROVAL

At the Meeting, Common Shareholders will be asked to consider and vote on two resolutions relating to the Financing Transactions, namely the IQ Transactions Resolution and the Private Placements Resolution. In addition, all Shareholders will also be asked to consider and vote on a resolution relating to the Articles of Amendment, namely the Articles of Amendment Resolution.

IQ Transactions Resolution and Private Placements Resolution

IQ Transactions Resolution

The IQ Transactions Resolution seeks to approve and ratify (i) the issuance by the Corporation, on a private placement basis, to RQ, a wholly-owned subsidiary of IQ, as mandatary for the Government of Québec, of 142,857,142 Private Placement Subscription Receipts and the corresponding 142,857,142 Private Placement Shares issuable to RQ pursuant to the terms of the Private Placement Subscription Receipts upon the satisfaction or waiver of the Escrow Release Conditions, and 8,571,428 Private Placement Fee Shares issuable to RQ as payment in full of RQ's *pro rata* share of the Private Placement Fee; and (ii) the entering into by SDCI of the Senior Secured Loan with Diaquem, including the

payment of all up front fees, standby fees and interest to Diaquem pursuant to such Senior Secured Loan (collectively, the "**IQ Transactions**"). The 151,428,570 Common Shares issuable to RQ, as described above, represents approximately 86.0% of the current number of issued and outstanding Shares. Assuming (i) the Senior Secured Loan, Tranche A and the Senior Secured Loan, Tranche B are both fully drawn in a lump sum in 2016, and (ii) no mandatory prepayments or excess cash-flow payments are made by SDCI over the life of the Senior Secured Loan and as permitted under the terms thereof, the estimated maximum aggregate amount of up front fees, standby fees and interest payable to Diaquem pursuant to the Senior Secured Loan is a maximum amount of approximately $76,674,000, which represents approximately 56.6% of the Corporation's market capitalization as at May 12, 2014.

Approval by Common Shareholders

TSX Matters

Under the rules and policies of the TSX, the IQ Transactions require disinterested shareholder approval because it is a transaction pursuant to which the number of Common Shares that may be issued or issuable to an insider, when combined with any other Common Shares issued or issuable to insiders within the prior six months, would be greater than 10% of the number of currently issued and outstanding Common Shares on a non-diluted basis. The term "insider" includes, but is not limited to, a person who has beneficial ownership of, or control or direction over, directly or indirectly, securities of a reporting issuer carrying over 10% of the voting rights attached to all of the reporting issuer's outstanding voting securities as well as such 10% plus holders' associates and affiliates. Prior to the completion of the Financing Transactions, IQ exercised, directly or indirectly, control or direction over more than 10% of the issued and outstanding Shares and is thus an "insider" of the Corporation. As a result of the IQ Transactions, RQ will, as noted above, directly or indirectly, acquire Common Shares representing more than 10% of the issued and outstanding Shares of the Corporation as of the date of this Circular and immediately prior to the Financing Transactions Closing Date. Therefore, the IQ Transactions are subject to disinterested shareholder approval and the IQ Transactions Resolution must be adopted by a majority of the votes cast by Common Shareholders represented in person or by proxy and entitled to vote at the Meeting but excluding RQ and its affiliates, including IQ, as well as votes cast by their respective directors, senior officers and joint actors, if any.

Section 501(c) of the TSX Company Manual provides that for a "non-exempt issuer", if the value of the consideration to be received by an insider or related party exceeds 10% of the market capitalization of the issuer, then such transaction will generally be subject to disinterested shareholder approval. The Corporation is considered to be a "non-exempt issuer" for the purpose of the foregoing.

Related Party Transaction Considerations

As a reporting issuer in all provinces of Canada, the Corporation is subject to MI 61-101 and its rules regarding Related Party Transactions. MI 61-101 is intended to regulate certain transactions to ensure the protection and fair treatment of minority security holders. MI 61-101 requires, in certain circumstances, enhanced disclosure, approval by a majority of security holders excluding interested or related parties and the preparation of independent valuations.

The IQ Transactions constitute a Related Party Transaction as the Corporation is issuing securities to RQ, directly or indirectly, which qualifies as a "related party" (as defined in MI 61-101) of the Corporation. The Senior Secured Loan also constitutes a Related Party Transaction as SDCI is borrowing money from Diaquem, which is also a related party of the Corporation (including SDCI).

The Senior Secured Loan is not subject to the requirement that the Corporation obtain a formal valuation pursuant to subsection 5.4(1) of MI 61-101. Furthermore, the Senior Secured Loan is exempt from the minority shareholder approval requirement under paragraph 5.7(1)(f) of MI 61-101 as it constitutes a loan, which is not convertible or repayable as to principal or interest in equity or voting securities, on reasonable commercial terms no less advantageous to the Corporation (including SDCI) than if the loan had been obtained from a person dealing at arm's length with the Corporation. However, as noted above, disinterested shareholder approval of the Senior Secured Loan is required pursuant to applicable TSX rules.

The issuance to RQ of the Private Placement Subscription Receipts is exempt from the requirement that the Corporation obtain a formal valuation pursuant to paragraph 5.5(c) of MI 61-101 since such issuance is a distribution of securities of the Corporation for cash consideration only, and neither the Corporation nor, to the knowledge of the Corporation after reasonable inquiry, RQ, has knowledge of any material information concerning the Corporation or its securities that has not been generally disclosed or otherwise disclosed in this Circular.

The issuance to RQ of the Private Placement Fee Shares is exempt from the requirement that the Corporation obtain a formal valuation pursuant to paragraphs and subparagraphs 6.3(1)(d), 6.3(2) and 5.5(c) of MI 61-101 since the non-cash consideration received (i.e. the Private Placement Fee Shares) are Common Shares, which are securities of the Corporation for which there is a published market, and neither the Corporation nor, to the knowledge of the Corporation after reasonable inquiry, RQ, has knowledge of any material information concerning the Corporation or its securities that has not been generally disclosed or otherwise disclosed in this Circular.

MI 61-101 requires that, in addition to any other required securityholder approval, in order to complete a related party transaction, the approval of a simple majority of the votes cast by "minority" shareholders of each class of "affected securities", must be obtained. Applicable securities legislation defines an "affected security" as meaning, for a related party transaction, an equity security of the issuer. The Shares are thus "affected securities".

In relation to the IQ Transactions and for purposes of this Circular, the "minority" shareholders of the Corporation are all Common Shareholders represented in person or by proxy and entitled to vote at the Meeting but excluding RQ and its affiliates, including IQ, as well as their respective directors, senior officers and joint actors, if any.

Text and Requisite Approval of the IQ Transactions Resolution

The text of the IQ Transactions Resolution is set forth in Schedule A to this Circular. In order to be validly adopted, a majority of the votes cast thereon by Shareholders present or represented at the Meeting, but excluding any votes cast by RQ and its affiliates, including IQ, as well as votes cast by their respective directors, senior officers and joint actors, if any, must be cast in favour of the IQ Transactions Resolution. The total number of votes attaching to Common Shares that will be excluded from the vote on the IQ Transactions Resolution in accordance with the foregoing is 35,504,737.

Recommendation to Shareholders

Management of the Corporation and the Board of Directors recommend that Common Shareholders vote **IN FAVOUR** of the IQ Transactions Resolution.

Private Placements Resolution

The Private Placements Resolution seeks to approve and ratify:

1. The entering into by the Corporation of various agreements providing for the issuance, on a private placement basis, of Common Shares or securities exercisable or exchangeable for, or convertible into, or that provide the right to acquire, Common Shares of the Corporation (collectively, the "**Private Placements**") comprised of the following transactions:

    (a) The issuance of securities described above as item (i) of the IQ Transactions;

    (b) the issuance to CDPQ of: (i) 31,428,571 Private Placement Subscription Receipts and the corresponding 31,428,571 Private Placement Shares issuable to CDPQ pursuant to the terms of the Private Placement Subscription Receipts upon the satisfaction or waiver of the Escrow Release Conditions; and (ii) 1,885,714 Private Placement Fee Shares issuable to CDPQ as payment in full of CDPQ's *pro rata* share of the Private Placement Fee;

    (c) the issuance to Orion Equity Co-Invest of: (i) 171,254,203 Private Placement Subscription Receipts and the corresponding 171,254,203 Private Placement Shares issuable to Orion Equity Co-Invest pursuant to the terms of the Private Placement Subscription Receipts upon the satisfaction or waiver of the Escrow Release Conditions; and (ii) 10,275,252 Private

Placement Fee Shares issuable to Orion Equity Co-Invest as payment in full of Orion Equity Co-Invest's *pro rata* share of the Private Placement Fee;

(d) the issuance to Orion and other mutually acceptable purchasers of all of the Common Shares issuable upon conversion of the Convertible Debentures, at a conversion price of $0.945 (or as adjusted in the event of a Change of Control);

(e) the potential issuance to the trustee under the Indenture of Common Shares for sale by the trustee to satisfy the interest obligations under the Convertible Debentures;

(f) the potential issuance to CDPQ of Common Shares in lieu of the cash payment of interest on the COF; and

(g) the issuance to CDPQ of the COF Warrants in consideration for CDPQ providing to Stornoway the COF and the issuance of the 14,000,000 Common Shares issuable to CDPQ upon exercise of the COF Warrants in accordance with their terms (subject to the adjustment (reduction) of the COF Warrant Exercise Price of $0.945 by an amount equal to the difference between the Subsequent Offering Price and the Equity Investment Price of $0.70 upon the occurrence of a Price Protection Event).

Approval by Common Shareholders

Under the rules and policies of the TSX, shareholder approval is required for transactions involving the issuance of securities that materially affect the control of a listed company or that result in dilution greater than 25% of the issued and outstanding common shares if the price per security is less than the market price. Under such rules and policies, a transaction "materially affects control" if it gives any security holder or combination of security holders acting together the ability to influence the outcome of a vote of security holders, including the ability to block significant transactions. A transaction that results, or could result, in a new holding of more than 20% of the voting securities by one security holder or combination of security holders acting together is generally considered to materially affect control of the listed company, unless the circumstances indicate otherwise. Transactions resulting in a new holding of less than 20% of the voting securities may also materially affect control of the listed company, depending on the circumstances. As noted above, the Private Placements would likely, under the rules and policies of the TSX, materially affect the control of the Corporation. Upon completion of the Financing Transactions, Orion Equity Co-Invest and Orion, together, would hold more than 20% of the voting securities of the Corporation. In addition, the total dilution of all securities issuable under the Private Placements is greater than 25% of the outstanding Common Shares prior to the completion of the Financing Transactions and the Equity Investment Price was less than the market price of the Common Shares on the date on which the Equity Investment Price was determined. Therefore, the Private Placements are subject to shareholder approval and the Private Placements Resolution must be passed by a majority of the votes cast by Common Shareholders represented in person or by proxy and entitled to vote at the Meeting.

Text and Requisite Approval of the Private Placements Resolution

The text of the Private Placements Resolution is set forth in Schedule A to this Circular. In order to be validly adopted, a majority of the votes cast thereon by Common Shareholders present or represented at the Meeting must be cast in favour of the Private Placements Resolution.

Recommendation to Shareholders

Management of the Corporation and the Board of Directors recommend that Common Shareholders vote **IN FAVOUR** of the Private Placements Resolution.

Articles of Amendment Resolution

The authorized share capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of Non-Voting Convertible Shares. As at May 27, 2014, the last trading day on the TSX prior to the date of this Circular, the Corporation's issued and outstanding share capital consisted of 153,533,071 Common Shares and 22,543,918 Non-Voting Convertible Shares.

The Corporation was continued under the CBCA by virtue of its Articles of Continuance dated October 28, 2011 (the "**Articles of Continuance**").

As of the Record Date of May 28, 2014, Diaquem held all of the issued and outstanding Non-Voting Convertible Shares. Diaquem and Stornoway have agreed that all 22,543,918 Non-Voting Convertible Shares held by Diaquem will be converted into the same number of Common Shares in accordance with the existing rights, privileges, restrictions and conditions attaching to the Non-Voting Convertible Shares on the third (3rd) business day preceding the Meeting in accordance with the existing rights, privileges, restrictions and conditions attaching to the Non-Voting Convertible Shares.

At the Meeting, Shareholders will be asked to approve an amendment to the Articles of Continuance in accordance with subsection 173(g) of the *Canada Business Corporations Act* in order to cancel and repeal the Non-Voting Convertible Shares and the rights, privileges, restrictions and conditions attaching thereto (the "**Articles of Amendment**").

Approval by Shareholders

Under the CBCA, certain fundamental changes require special resolutions passed by not less than two-thirds (⅔) of the votes cast by the shareholders voting on the resolutions authorizing the alteration at a special meeting of shareholders and, in certain instances, where the rights of the holders of a class or series of shares are affected differently by the alteration than those of the holders of other classes or series of shares, special resolutions passed by not less than two-thirds (⅔) of the votes cast by the holders of shares of each class or series so affected, whether or not they are otherwise entitled to vote. As such, the approval of the Articles of Amendment and the passing of the Articles of Amendment Resolution requires a special resolution of Shareholders approved by at least two-thirds (⅔) of the votes cast thereon by all Shareholders represented in person or by proxy and entitled to vote at the Meeting voting together as well as by at least two-thirds (⅔) of the votes cast thereon by the Common Shareholders (excluding, for greater certainty, any Common Shares issued upon conversion of the Non-Voting Convertible Shares after the Record Date) and by the holder of the outstanding Non-Voting Convertible Shares as of the Record Date represented in person or by proxy and entitled to vote at the Meeting, each voting separately as a class.

Although it is anticipated that, as described elsewhere in this Circular, all Non-Voting Convertible Shares will have been converted into Common Shares on a one-for-one basis and otherwise in accordance with their terms on the third (3rd) business day preceding the Meeting, since such Non-Voting Convertible Shares were issued and outstanding on the Record Date, the holder thereof is entitled to vote at the Meeting with respect to the Articles of Amendment Resolution.

Text and Requisite Approval of the Articles of Amendment Resolution

The text of the Articles of Amendment Resolution is set forth in Schedule A to this Circular. In order to be validly adopted, two-thirds (⅔) of the votes cast thereon by Shareholders present or represented at the Meeting, voting together, and two-thirds (⅔) of the votes cast thereon by Common Shareholders (excluding, for greater certainty, any Common Shares issued upon conversion of the Non-Voting Convertible Shares after the Record Date) and holders of Non-Voting Convertible Shares as of the Record Date present or represented at the Meeting, each voting separately as a class, must be cast in favour of the Articles of Amendment Resolution.

Recommendation to Shareholders

Management of the Corporation and the Board of Directors recommend that Shareholders vote **IN FAVOUR** of the Articles of Amendment Resolution.

Voting Agreements and Undertakings

Pursuant to the Financing Commitment Letter, CDPQ has agreed to vote (or cause to be voted) all Common Shares beneficially owned or controlled, directly or indirectly, by CDPQ, in favour of the approval, consent, ratification and adoption of any resolution approving the Financing Transactions at the Meeting, which includes the IQ Transactions Resolution, the Private Placements Resolution and the Articles of Amendment Resolution. As of To the knowledge of the Corporation, as at December 31, 2013, CDPQ was the beneficial owner, directly or indirectly, of 11,410,375 Common Shares, representing approximately 7.4% of the issued and outstanding Common Shares.

In addition, on April 24, 2014, the Corporation and Agnico-Eagle Mines Limited ("**Agnico-Eagle**") entered into a voting support agreement pursuant to which Agnico-Eagle has agreed to vote (or cause to be voted) all Common Shares beneficially owned or controlled, directly or indirectly, by Agnico-Eagle, in favour of the approval, consent, ratification and adoption of a resolution approving the Financing Transactions (and any action required for the consummation of the transactions contemplated by the Financing Commitment Letter) at the Meeting, which includes the IQ Transactions Resolution, the Private Placements Resolution and the Articles of Amendment Resolution. As of April 24, 2014, Agnico-Eagle was the beneficial owner, directly or indirectly, of 14,752,244 Common Shares, representing approximately 9.61% of the issued and outstanding Common Shares.

AUDITORS

The auditor of the Corporation is PricewaterhouseCoopers LLP, Chartered Accountants, of Vancouver, British Columbia.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Except as set out under the section titled "Business of the Meeting and Shareholder Approval", no "informed person" or director of the Corporation and no associate or affiliate of the foregoing persons has or has had any material interest, direct or indirect, in any transaction since the commencement of the Corporation's most recently completed financial year or in any proposed transaction which in either such case has materially affected or would materially affect the Corporation or any of its subsidiaries. Applicable securities legislation defines an "informed person" as meaning any one of the following: (a) a director or executive officer of a reporting issuer; (b) a director or executive officer of a person or company that is itself an informed person or subsidiary of a reporting issuer; (c) any person or company who beneficially owns, or who exercises control or direction over directly or indirectly, voting securities of a reporting issuer or a combination of both carrying more than 10% of the voting rights attached to all outstanding voting securities of the reporting issuer other than voting securities held by the person or company as underwriter in the course of a distribution; and (d) a reporting issuer that has purchased, redeemed or otherwise acquired any of its securities, for so long as it holds any of its securities.

ADDITIONAL INFORMATION

Additional information relating to the Corporation, including the Corporation's most recent AIF and annual and interim financial statements and MD&A, can be found on the Corporation's SEDAR profile (www.sedar.com). Shareholders may contact the Corporation at 416-304-1026, ext. 103 to request copies of the Corporation's financial statements and MD&A.

Financial information is provided in the Corporation's comparative financial statements and MD&A for its most recently completed financial year which are filed on the Corporation's SEDAR profile (www.sedar.com), however, such documents are not and shall not be deemed to form part of or be incorporated by reference into this Circular.

OTHER MATTERS

Management of the Corporation is not aware of any other matter to come before the Meeting other than as set forth in the notice of Meeting. If any other matter properly comes before the Meeting, it is the intention of the persons named in the enclosed form of proxy to vote the shares represented thereby in accordance with their best judgment on such matter.

DATED this 28th day of May, 2014.

APPROVED BY THE BOARD OF DIRECTORS

"Matthew Manson"
Matthew Manson, Chief Executive Officer

SCHEDULE A – SHAREHOLDER RESOLUTIONS

IQ Transactions Resolution

BE IT RESOLVED, AS AN ORDINARY RESOLUTION, THAT:

1. The following transactions with wholly-owned subsidiaries of Investissement Québec ("**IQ**"), an insider of the Corporation (collectively, the "IQ Transactions"): (i) issuance by the Corporation, on a private placement basis, to Ressources Québec, a wholly-owned subsidiary of IQ, as mandatary for the Government of Québec ("**RQ**"), of 142,857,142 subscription receipts of the Corporation (the "**Private Placement Subscription Receipts**") at a price of $0.70 per Private Placement Subscription Receipt and the corresponding 142,857,142 Common Shares issuable to RQ pursuant to the terms of the Private Placement Subscription Receipts upon the satisfaction or waiver of the Escrow Release Conditions (as defined in the Corporation's management information circular dated May 28, 2014 (the "**Circular**")), and 8,571,428 Common Shares issuable to RQ as payment in full of RQ's *pro rata* share of the Private Placement Fee (as defined in the Circular); and (ii) the entering into by Stornoway Diamonds (Canada) Inc., a wholly-owned subsidiary of Stornoway ("**SDCI**"), of a senior secured loan to be provided by Diaquem Inc., a wholly-owned subsidiary of IQ ("**Diaquem**"), evidenced by a senior secured loan agreement (the "**Senior Secured Loan**"), including the payment of all up front fees, standby fees and interest to Diaquem pursuant to such Senior Secured Loan (collectively, the "**IQ Transactions**").

2. notwithstanding any approval of the shareholders entitled to vote on this resolution, the Board of Directors is hereby authorized to determine not to proceed with the IQ Transactions without further authorization, approval, ratification or confirmation by the shareholders; and

3. any one director or officer of the Corporation be, and each of them is hereby, authorized for and on behalf and in the name of the Corporation to execute and deliver all such documents and instruments and to take all such actions as such director or officer may determine necessary or desirable to implement this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of such documents and instruments or the taking of such action.

Private Placements Resolution

BE IT RESOLVED, AS AN ORDINARY RESOLUTION, THAT:

1. The entering into by the Corporation of various agreements providing for the issuance, on a private placement basis, of Common Shares or securities exercisable or exchangeable for, or convertible into, or that provide the right to acquire, Common Shares of the Corporation (collectively, the "**Private Placements**") comprised of the following transactions:

    (a) the issuance by the Corporation, on a private placement basis, to Ressources Québec, a wholly-owned subsidiary of Investissement Québec, as mandatary for the Government of Québec ("**RQ**"), of 142,857,142 subscription receipts of the Corporation (the "**Private Placement Subscription Receipts**") at a price of $0.70 per Private Placement Subscription Receipt and the corresponding 142,857,142 Common Shares issuable to RQ pursuant to the terms of the Private Placement Subscription Receipts upon the satisfaction or waiver of the Escrow Release Conditions (as defined in the Corporation's management information circular dated May 28, 2014 (the "**Circular**")), and 8,571,428 Common Shares issuable to RQ as payment in full of RQ's *pro rata* share of the Private Placement Fee (as defined in the Circular); and

    (b) the issuance to Caisse de dépôt et placement du Québec ("**CDPQ**") of: (i) 31,428,571 Private Placement Subscription Receipts at a price of $0.70 per Private Placement Subscription

Receipt and the corresponding 31,428,571 Common Shares issuable to CDPQ pursuant to the terms of the Private Placement Subscription Receipts upon the satisfaction or waiver of the Escrow Release Conditions; and (ii) 1,885,714 Common Shares issuable to CDPQ as payment in full of CDPQ's *pro rata* share of the Private Placement Fee;

(c) the issuance to Orion Co-Investments I LLC ("**Orion Equity Co-Invest**") of: (i) 171,254,203 Private Placement Subscription Receipts at a price of $0.70 per Private Placement Subscription Receipt and the corresponding 171,254,203 Common Shares issuable to Orion Equity Co-Invest pursuant to the terms of the Private Placement Subscription Receipts upon the satisfaction or waiver of the Escrow Release Conditions; and (ii) 10,275,252 Common Shares issuable to Orion Equity Co-Invest as payment in full of Orion Equity Co-Invest's *pro rata* share of the Private Placement Fee;

(d) the issuance to Orion Co-Investments I Limited ("**Orion**") and other mutually acceptable purchasers of all of the Common Shares issuable upon conversion of the US$79 million (subject to increase up to US$90 million) unsecured convertible debentures (the "**Convertible Debentures**") to be purchased by Orion and other mutually acceptable Convertible Debenture purchasers, at a conversion price of $0.945 (as adjusted in the event of a Change of Control (as defined in the Circular));

(e) the potential issuance to the trustee under the indenture for the Convertible Debentures of Common Shares for sale by the trustee to satisfy the interest obligations under the Convertible Debentures;

(f) the potential issuance to CDPQ of Common Shares in lieu of the cash payment of interest on an unsecured cost overrun facility in an amount of $28 million to be provided to Stornoway by CDPQ (the "**COF**"); and

(g) the issuance to CDPQ of warrants exercisable to acquire 14,000,000 Common Shares (the "**COF Warrants**") in consideration for CDPQ providing the COF to Stornoway and the issuance of the 14,000,000 Common Shares issuable to CDPQ upon exercise of the COF Warrants in accordance with their terms (subject to the adjustment (reduction) of the COF Warrant Exercise Price of $0.945 by an amount equal to the difference between the Subsequent Offering Price (as defined in the Circular) and the Equity Investment Price of $0.70 upon the occurrence of a Price Protection Event),

be, and each of them is hereby, authorized, approved, confirmed and ratified;

2. notwithstanding any approval of the shareholders entitled to vote on this resolution, the Board of Directors is hereby authorized to determine not to proceed with the Private Placements without further authorization, approval, ratification or confirmation by the shareholders; and

3. any one director or officer of the Corporation be, and each of them is hereby, authorized for and on behalf and in the name of the Corporation to execute and deliver all such documents and instruments and to take all such actions as such director or officer may determine necessary or desirable to implement this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of such documents and instruments or the taking of such action.

Articles of Amendment Resolution

BE IT RESOLVED, AS A SPECIAL RESOLUTION, THAT:

1. The amendment to the articles of continuance of the Corporation in accordance with subsection 173(g) of the *Canada Business Corporations Act* in order to cancel and repeal the Corporation's non-voting convertible shares in the capital of the Corporation and the rights, privileges, restrictions and conditions attaching thereto (the "**Articles of Amendment**"), be, and it is hereby, authorized and approved;

2. any director or officer of the Corporation be, and each of them is hereby, authorized and directed for and in the name of and on behalf of the Corporation to execute and deliver or cause to be delivered Articles of

Amendment to the Director under the *Canada Business Corporations Act* and to execute and deliver or cause to be delivered all documents and to take any action which, in the opinion of that person, is necessary or desirable to give effect to this special resolution;

3. notwithstanding any approval of the shareholders entitled to vote on this special resolution, the Board of Directors is hereby authorized in its sole discretion to revoke this special resolution in whole or in part at any time prior to the issuance by the Director under the *Canada Business Corporations Act* of a certificate of amendment of articles referred to in this special resolution without further authorization or approval of the shareholders; and

4. any one director or officer of the Corporation be, and each of them is hereby, authorized for and on behalf and in the name of the Corporation to execute and deliver all such documents and instruments and to take all such actions as such director or officer may determine necessary or desirable to implement this special resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of such documents and instruments or the taking of such action.

SCHEDULE B – PRIMARY CAPITAL FAIRNESS OPINION

See attached.

Bentall Four
1055 Dunsmuir Street, Suite 2624
P.O. Box 49080
Vancouver, British Columbia
V7X 1G4

May 12, 2014

The Special Committee of the Board of Directors of
Stornoway Diamond Corporation
1111 St. Charles Ouest
Bureau 400, Tour Ouest
Longueuil, Quebec
J4K 5G4

To the Special Committee of the Board of Directors:

Primary Capital Inc. ("Primary") understands that Stornoway Diamond Corporation ("Stornoway", and which term shall, to the extent required or appropriate in the context, include the affiliates of Stornoway) has entered into a financing commitment letter (with various term sheets attached as schedules thereto, as amended from time to time) with Orion Co-Investments I LLC, Ressources Québec, as principal and mandatory for the Government of Québec, and Caisse de dépôt et placement du Québec (collectively referred to as the "Financing Group"), providing for, among other things, a series of financing transactions to be entered into to finance the construction, development costs, working capital requirements and other costs and expenses of the Renard Diamond Project (collectively, the "Transaction"). The terms of the Transaction will be described in detail in a management proxy circular (the "Circular") to be prepared by Stornoway in connection with a special meeting of shareholders of Stornoway.

Primary further understands that a special committee (the "Special Committee") of the directors of Stornoway (the "Board of Directors") has been constituted to consider the Transaction and make recommendations thereon to the Board of Directors.

Engagement

By letter agreement dated January 10, 2014 (the "Letter Agreement"), the Special Committee retained Primary to act as the financial advisor to the Special Committee in connection with the Transaction and to, among other things, prepare and deliver an opinion as to the fairness, from a financial point of view, of the Transaction to Stornoway and/or its shareholders (the "Fairness Opinion"). Following the review of the terms of the Transaction by Primary, Primary rendered its oral opinion to the Special Committee as to the fairness, from a financial point of view, of the Transaction to the shareholders of Stornoway on February 27, 2014 and later reaffirmed the opinion on March 31, 2014 and May 12, 2014. This Fairness Opinion confirms the oral opinion rendered by Primary to the Special Committee on the date hereof.

The terms of the Letter Agreement provide that Primary is to be paid a fee for its services in connection with this Fairness Opinion, whether or not the Transaction is completed. In addition, Stornoway has agreed to reimburse Primary for any reasonable out-of-pocket expenses and to indemnify Primary and its directors, officers, employees, direct and indirect shareholders and its affiliated entities in certain circumstances. Primary consents to the inclusion of the entire Fairness Opinion and a summary thereof in the Circular to be mailed to the shareholders of Stornoway and to the filing thereof, as necessary, by Stornoway with the securities commission or similar regulatory authorities in each province and territory in Canada.

Credentials of Primary

Primary is a privately-owned exempt market dealer based in Toronto, Canada. Primary's principal activities include providing strategic financial advice to exploration and development resource companies as well as financing resource companies requiring development capital for growth. The opinion expressed herein is the opinion of Primary and the form and content herein have been approved for release by a committee of its senior management and legal counsel, each of whom is experienced in merger, acquisition, divestiture and fairness opinion matters.

This Fairness Opinion has been prepared in accordance with the Disclosure Standards for Formal Valuations and Fairness Opinions of Investment Industry Regulatory Organizations of Canada ("IIROC") but IIROC has not been involved in the preparation or review of this Fairness Opinion.

Relationship with Interested Parties

Neither Primary nor any of its affiliates or associates, is an insider, associate or affiliate (as such terms are defined in the *Securities Act* (Ontario)) of Stornoway or of any of its associates or affiliates.

Primary has been retained by the Special Committee to provide the Fairness Opinion in respect of the Transaction.

Scope of Review

In connection with rendering this Fairness Opinion, Primary has reviewed and relied upon, or carried out, among other things, the following:

a) the commitment letters and term sheets in relation to the Transaction;

b) public filings of Stornoway and other companies available on the System for Electronic Document Analysis and Retrieval and deemed relevant to the Transaction;

c) other public information relating to the business, operations, and financial performance of Stornoway and other companies deemed relevant to the Transaction, including published research and industry reports;

d) certain internal information, including capital and operating budgets and projections, and other reports prepared or provided by management of Stornoway;

e) discussions with representatives of the Special Committee, the Board of Directors, senior management and consultants of Stornoway;

f) current and historic trading information relating to common shares of Stornoway and other companies;

g) information with respect to other transactions considered by Primary; and

h) a certificate of representation as to certain factual matters provided by senior management of Stornoway addressed to Primary.

Primary has not, to the best of its knowledge, been denied access by Stornoway to any information requested by Primary.

Assumptions and Limitations

This Fairness Opinion is subject to the assumptions, qualifications and limitations set forth below.

Primary has not been asked to prepare, and has not prepared, a formal valuation or appraisal of any of the assets or securities of Stornoway or any of its affiliates, and this Fairness Opinion should not be construed as such.

With permission from the Special Committee, Primary has relied upon, and has assumed the completeness, accuracy and fair presentation of all financial and other information, data, advice, opinions and representations obtained by Primary from public sources, or provided to Primary by Stornoway or its affiliates or advisors or otherwise obtained by Primary pursuant to Primary's engagement by Stornoway, and this Fairness Opinion is conditional upon such completeness, accuracy and fair presentation. Primary has not been requested to, or attempted to, independently verify the accuracy, completeness or fairness of presentation of any such information, data, advice, opinions or representations. Primary has not met separately with the independent auditors of Stornoway in connection with preparing this Fairness Opinion and, with permission from the Special Committee, Primary has assumed the accuracy and presentation of, and relied upon, Stornoway's audited financial statements and interim unaudited financial statements and the respective reports of the auditors.

With respect to the historical financial data, operating and financial forecasts and budgets provided to Primary concerning Stornoway and relied upon in Primary's financial analyses, Primary has assumed that they have been reasonably prepared on bases reflecting the most reasonable assumptions, estimates and judgement of management of Stornoway, giving regard to Stornoway's business plans, financial condition and prospects.

Stornoway has represented to Primary, in a certificate signed by two of its senior officers and dated the date hereof, among other things, that the information, data and other material (financial or otherwise) provided to Primary in writing by or on behalf of Stornoway, including the written information concerning Stornoway referred to above under the heading "Scope of Review" (collectively, the "Information"), is complete and correct in all material respects as at the date the Information was provided to Primary and that, since the date of the Information, there has been no material change, financial or otherwise, in the financial condition, assets, liabilities (contingent or otherwise), business, operations or prospects of Stornoway or any of its affiliates and there has been no change in material fact or no new material fact which is of a nature as to render the Information or any part thereof untrue or misleading in any material respect or which could reasonably be expected to have a material effect on this Fairness Opinion.

Primary is not a legal, tax or accounting expert and it expresses no opinion concerning any legal, tax or accounting matters concerning the Transaction or the sufficiency of this letter for the purpose it is intended by Stornoway. In preparing the Fairness Opinion, we have made several assumptions, including that all of the conditions required to complete the Transaction will be met and that the disclosure provided in the Circular with respect to Stornoway and its subsidiaries and affiliates and the Transaction will be accurate in all material respects.

This Fairness Opinion is rendered on the basis of: securities markets; economic, general business and financial conditions prevailing as at the date hereof; and the conditions and prospects, financial and otherwise, of Stornoway as they are reflected in the Information and as they were represented to Primary in Primary's discussions with management of Stornoway and its affiliates and advisors. In Primary's analyses and in connection with the preparation of this Fairness Opinion, Primary made numerous assumptions with respect to industry performance, general business, markets and economic conditions and other matters, many of which are beyond the control of any party involved in the Transaction.

This Fairness Opinion is being provided to the Special Committee for their exclusive use only in considering the Transaction and may not be published, disclosed to any other person, relied upon by any other person, or used for any other purpose, without the prior written consent of Primary. This Fairness Opinion is not intended to be and does not constitute a recommendation to any shareholder of Stornoway to approve the Transaction. Furthermore, this Fairness Opinion is not, and should not be construed as, advice as to the price at which the common shares of Stornoway (before or after the announcement of Transaction) may trade at any future date.

Primary believes that its financial analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying this Fairness Opinion. The preparation of a fairness opinion is complex and is not necessarily susceptible to partial analysis or summary description and any attempt to carry out such could lead to undue emphasis on any particular factor or analysis.

This Fairness Opinion is given as of the date hereof and, although Primary reserves the right to change or withdraw this Fairness Opinion, if Primary learns that any of the information that it relied upon in preparing this Fairness Opinion was inaccurate, incomplete or misleading in any material respect, Primary disclaims any obligation to change or withdraw this Fairness Opinion or to advise any person of any change that may come to Primary's attention.

Opinion

Based upon and subject to the foregoing and such other matters as Primary considers relevant, it is Primary's opinion that, as of the date hereof, the Transaction is fair, from a financial point of view, to the shareholders of Stornoway, other than the Financing Group.

Yours truly,

(*signed*) "*Primary Capital Inc."*

PRIMARY CAPITAL INC.