

---

---

**ROYALTY AGREEMENT**

by and among

**FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)**

and

**FONDS RÉGIONAL DE SOLIDARITÉ F.T.Q. NORD-DU-QUÉBEC, S.E.C.**

and

**DIAQUEM INC.**

and

**STORNOWAY DIAMONDS (CANADA) INC.**

Dated as of May 3, 2012

---

**THIS ROYALTY AGREEMENT** is made as May 3, 2012.

BETWEEN:

**FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)**, duly constituted under the *Act to Establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, having its head office at 545 Crémazie Boulevard East, Suite 200, Montréal, Québec, H2M 2W4;

(the “**Fonds**”)

AND:

**FONDS RÉGIONAL DE SOLIDARITÉ F.T.Q. NORD-DU-QUÉBEC, SOCIÉTÉ EN COMMANDITE**, acting through its general partner, **FONDS RÉGIONAUX DE SOLIDARITÉ FTQ**, a legal person existing under the *Business Corporations Act* (Québec) having its head office at 545 Crémazie Blvd. East, Suite 620, Montréal, Québec, H2M 2W4

(“**Fonds Régional**”)

AND:

**DIAQUEM INC.**, a legal person existing under the *Business Corporations Act* (Québec) having its head office at 1500-600 De La Gauchetière Ouest, Montréal, Québec, H3B 4L8

(“**Diaquem**”)

(Fonds, Fonds Regional and Diaquem hereinafter collectively called the “**Beneficiaries**” and each individually a “**Beneficiary**”)

AND:

**STORNOWAY DIAMONDS (CANADA) INC.**, a corporation governed by the *Canada Business Corporations Act*, with its registered office located at 1 Place Ville-Marie, Suite 2500, Montréal, Québec, H3B1R1

(“**SDCI**”)

## RECITALS

- A. Pursuant to a loan agreement dated May 3, 2012 between the Fonds, the Fonds Régional and Diaquem, as lenders (collectively the “**Beneficiaries**” and each individually a “**Beneficiary**”), and Stornoway Diamond Corporation, as borrower (“**Stornoway**”) (as amended, restated, supplemented or otherwise modified from time to time, the “**Loan**”

**Agreement**”), the Fonds, the Fonds Regional and Diaquem granted an unsecured loan in the aggregate amount of \$20,000,000 to Stornoway (the “**Loan**”);

- B. Under the terms of the Loan, Stornoway is required to apply the proceeds of the Loan to on-lend to SDCI under the terms of an intercompany loan agreement (the “**SDCI Loan Agreement**”) in order to fund the Mine Development, as defined in the Loan Agreement;
- C. SDCI has agreed to enter into this royalty agreement to grant to the Beneficiaries a royalty on all Minerals (as defined herein) that are produced from the Property in proportion to their commitments under the Loan Agreement, namely 73.5% to the Fonds, 1.5% to the Fonds Régional and 25% to Diaquem, subject to the terms and conditions hereof;

**THIS AGREEMENT WITNESSES THAT**, in consideration of the foregoing, the representations, warranties, covenants and agreements set forth in this Agreement, and other good and valuable consideration, the adequacy and receipt of which are hereby acknowledged, the parties hereby agree as follows:

## **ARTICLE 1 DEFINITIONS AND INTERPRETATION**

- 1.1 “**Affiliate**” means any Person which directly or indirectly Controls, is Controlled by, or is under common Control with, a party, and the derivatives of such term, including “**Affiliated**”, have meanings correlative to the foregoing;
- 1.2 “**Arms Length Sale**” means a sale that is not a sale to a Related Party;
- 1.3 “**Business Day**” means any day other than a Saturday, Sunday or statutory or civic holiday in the Province of Québec;
- 1.4 “**Change of Control**” means an event where (i) a Person or a group of Persons acting jointly or in concert, directly or indirectly acquire (including by way of take-over bid or issuer bid as such terms are defined in the *Securities Act* (Québec), through the purchase of Securities, or a merger, amalgamation or plan of arrangement) the Control of a Person, or (ii) a Person or group of Persons acting jointly or in concert, directly or indirectly, cease (including as a result of a take-over bid or an issuer bid as such terms are defined in the *Securities Act* (Québec), or a transfer, assignment or sale of Securities, a merger, an amalgamation or a plan of arrangement) to have the Control of a Person;
- 1.5 “**Control**” means:
  - (a) in relation to a company, a corporation or other Person (other than an individual) the direct or indirect ownership of Securities in its capital or other ownership interest that carry the majority of the rights to vote attached to all such Securities or other ownership interest then outstanding; or

- (b) in relation to a general, undeclared or limited partnership, the direct or indirect ownership of more than 50 % of the units of such partnership or, in the case of a general or undeclared partnership, the direct or indirect right to direct and manage the affairs of such partnership, or in the case of a limited partnership, the direct or indirect right to appoint and/or replace its general partner; or
- (c) without affecting the scope of the foregoing provisions, in relation to any Person (other than an individual), the possession, direct or indirect, of (i) the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of Securities, by contract or otherwise, or (ii) the right to elect or appoint the majority of the directors, trustees, managers or other representatives on the board of directors or other governing body of such Person;

and the derivatives of such term, including “**to Control**”, “**Controlled**” or “**Controlling**”, have meanings correlative to the foregoing;

- 1.6 “**Diamond Royalty**” has the meaning set forth in Section 2.1;
- 1.7 “**Diamond Selling Costs**” means all costs and expenses incurred by SDCI related to the cleaning, sorting, grading, transportation, insurance, marketing and sale of Diamonds;
- 1.8 “**Diamonds**” means all diamonds and other gemstones associated with kimberlite which are extracted from the Property, but expressly excludes other Minerals;
- 1.9 “**Dispute**” has the meaning set forth in Section 9.4(a);
- 1.10 “**Governmental Agency**” means, with respect to any nation, federation, province, state, municipality or other political subdivision of any of the foregoing, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any Person or other entity owned or controlled (through stock or capital ownership or otherwise) by any of the foregoing;
- 1.11 “**Indebtedness**” means the Principal, the Interest and any and all other amounts or fees now or in the future due and payable by Stornoway to the Beneficiaries under the Loan Agreement;
- 1.12 “**Indemnified Party**” or “**Indemnified Parties**” has the meaning set forth in Section 7.3;
- 1.13 “**Initial Notice**” has the meaning set forth in Section 9.4(b);
- 1.14 “**Interest**” means all interest on the Principal calculated pursuant to the terms of the Loan Agreement;
- 1.15 “**Loan Payments**” means the aggregate amount of all payments made by Stornoway to the Beneficiaries under the Loan Agreement in repayment of the Indebtedness;
- 1.16 “**Minerals**” means any:

DOCSMTL: 4726094\1

- (a) Diamonds, and
- (b) any other mineral substance in whatever form, quantity or quality, including metallic and non-metallic, precious and base metals, rare earth metals, bauxite, uranium, iron ore, coal or industrial minerals that may be lawfully explored for, mined and sold (and all ores, concentrates and other products derived therefrom) but expressly excludes petroleum, natural gas and brine;

which are mined or otherwise extracted, derived or removed from the Property;

- 1.17 “**Mining Act**” means the *Mining Act*, R.S.Q., chap. M-13.1, in effect from time to time, including (i) any modification or amendment thereto; (ii) any regulation, decree, order or ordinance enacted under the Mining Act; and (iii) any law that may be passed which has the effect of supplementing, re-enacting or superseding the Mining Act;
- 1.18 “**NAL Sales**” means any sale to a Related Party;
- 1.19 “**NSR Royalty**” has the meaning set forth in Section 3.1;
- 1.20 “**Net Smelter Returns**” has the meaning set forth in Section 3.2;
- 1.21 “**Permitted Assignee**” means (i) with respect to Fonds or Fonds Régional, any Person Controlled, directly or indirectly, by Fonds or Fonds Régional and any regional solidarity fund, specialized fund or any other Person which the Fonds represents to be a member of its network, and (ii) with respect to Diaquem, Investissement Québec or any other Person Controlled, directly or indirectly, by the Government of the Province of Québec;
- 1.22 “**Permitted NAL Sales**” means all sales of Diamonds effected by SDCI to a Related Party in respect of which:
  - (i) SDCI has provided to the Beneficiaries reasonable evidence, verifiable by audit as provided in this Agreement, of the actual gross selling price received by the Related Party on the final Arms Length Sale of the Diamonds for the purpose of calculating the Diamond Royalty, and
  - (ii) SDCI and the Beneficiaries shall have agreed on a specific protocol for determining the fair market value of the Diamonds in connection with such NAL Sale;

it being the intention of the parties that for purposes of calculating the Royalty, proceeds from Permitted NAL Sales shall be determined by a method that is expected to reflect the amount that could reasonably be realized if such sale was an Arm’s Length Sale made on the open market.

- 1.23 “**Person**” or “**person**” includes an individual, a partnership, a limited partnership, a corporation, a trust, a Governmental Agency, an unincorporated organization and any other entity;

DOCSMTL: 4726094\1

- 1.24 “**Principal**” means the outstanding principal amount of the Loan, from time to time;
- 1.25 “**Proportional Share**” means, at the time of determination with respect to a Beneficiary, its applicable Lender’s Proportion (as such term is defined in subparagraph (b) of the definition of Lender’s Proportion in the Loan Agreement);
- 1.26 “**Property**” means the mineral titles listed in Exhibit I to this Agreement and any other mineral titles in any form whatsoever (including mining claims (whether staked or map-designated), mining exploration licenses, mining leases, exploration licenses, leases to mine, mining concessions or any other mining right, title or interest issued under the Mining Act) into which such Exhibit I mineral titles may be converted, and in either case any renewals or restaking thereof or substitutions therefor;
- 1.27 “**Related Party**” means (i) any person or Affiliated persons holding directly or indirectly 10% or more of the outstanding voting securities of SDCI, (ii) any person of which SDCI or its Affiliates directly or indirectly hold 10% or more of the outstanding voting securities or (iii) any person with whom SDCI maintains marketing, financing or other contractual arrangements as a result of which it could reasonably be expected that any transaction between them would not necessarily be at fair market value;
- 1.28 “**Renard Project**” has the meaning ascribed to such term in the Loan Agreement;
- 1.29 “**Royalty**” means, collectively, the Diamond Royalty and the Other Minerals Royalty;
- 1.30 “**Royalty Termination Event**” means the payment in full of all Indebtedness;
- 1.31 “**Royalty Triggering Event**” means the occurrence of any of the following events:
- (a) Stornoway becomes in default of its obligation to pay any portion of the Principal or of any Interest thereon in accordance with the terms and conditions of the Loan Agreement (which default has not been cured within the applicable cure period set forth in the Loan Agreement);
  - (b) subsequent to a transaction or a series of transaction which result in a Change of Control of Stornoway, Stornoway (or its successor) becomes in default to pay any portion of the Principal or of any Interest thereon in accordance with the terms and conditions of the Loan Agreement (which default has not been cured within the applicable cure period set forth in the Loan Agreement); or
  - (c) a transaction or a series of transaction which result in (i) the Change of Control of SDCI, or (ii) the sale by SDCI of all or substantially all of the assets or undertakings relating to the Renard Project, in each case to the extent that the Loan is not repaid concurrently with such transaction or series of transaction;
- 1.32 “**Securities**” means any shares, debentures, bonds, partnership units, subscription rights or warrants, securities and other rights of any nature whatsoever or howsoever arising to participate in the capital or equity of a Person (other than an individual) as well as any

DOCSMTL: 4726094\1

rights, convertible securities, plans, programs, promises or options capable of becoming any of the foregoing; and

1.33 “**Warrants**” has the meaning ascribed to such term in the Loan Agreement.

1.34 **Exhibits** – Exhibit I is attached to and forms part of this Agreement.

## **ARTICLE 2 DIAMOND ROYALTY**

2.1 SDCI hereby grants, sells, assigns, transfers and conveys and agrees to pay to the Beneficiaries a royalty on all Diamonds that are extracted from the Property from and including the date on which a Royalty Triggering Event occurs, such royalty shall be determined on the basis set out in Section 2.2 (the “**Diamond Royalty**”).

2.2 The Diamond Royalty shall be calculated and payable in respect of all Diamonds sold by or on behalf of SDCI or any Affiliate during each fiscal quarter of SDCI, based on the formula

R = 1.00% x (V-D) in the aggregate for all Beneficiaries, payable to each Beneficiary in accordance with their Proportional Share, where:

R = Diamond Royalty;

V = the aggregate of (i) with respect to Arms Length Sales, the actual gross selling price, expressed in Canadian dollars, (ii) with respect to Permitted NAL Sales, the actual gross selling price received by the Related Party on the final Arms Length Sale, and (iii) any proceeds of insurance received by or for the benefit of SDCI or any Affiliate during the quarter with respect to the loss or destruction of or damage to any Diamonds; and

D = Deductions, being the lesser of (i) the aggregate of the Diamond Selling Costs incurred by SDCI (provided that if any of the services related to Diamond Selling Costs are provided by a Related Party, the Diamond Selling Costs in respect of these services will not include any costs that are in excess of those which would be incurred on an Arm’s Length basis), and (ii) 3% of V.

2.3 SDCI will retain possession of Diamonds at a safe and insured location, prior to the sale thereof.

2.4 SDCI shall not engage in any forward sale of Diamonds unless it has received the prior approval in writing of the Beneficiaries or, alternatively, SDCI and the Beneficiaries shall have agreed on the applicable fair market value for purposes of calculating the Diamond Royalty in respect of Diamonds sold forward. The Parties agree that a “forward sale” shall mean an agreement to purchase or sell Diamonds at a fixed price on a future

date and shall not include any off-take agreement or analogous purchase agreement entered into by SDCI in the normal course for the sale of Diamonds.

- 2.5 SDCI shall not make any NAL Sales except for Permitted NAL Sales. All Diamonds are to be sold in separate packages or lots consisting only of Diamonds and are not to be commingled or pooled with diamonds from any other source prior to final Arms Length Sale.

### **ARTICLE 3 NSR ROYALTY**

- 3.1 SDCI hereby grants, sells, assigns, transfers and conveys and agrees to pay to the Beneficiaries in accordance with their Proportional Share an aggregate royalty of 1.00% on all Minerals (other than Diamonds) that are produced from the Property from and including the date on which a Royalty Triggering Event occurs, such royalty shall be determined as set out in Section 3.2 (the "**NSR Royalty**").
- 3.2 For the purposes of calculating the NSR Royalty, "**Net Smelter Returns**" means the gross revenue received by SDCI from the sale of, or any proceeds of insurance received by or for the benefit of SDCI with regard to the loss or destruction of or damage to, any Minerals (other than Diamonds) minus (to the extent not previously deducted in determining gross revenue) (i) all insurance, freight, transportation or handling charges ex head frame in the case of the sale of ores and ex mill or other treatment facility in the case of the sale of concentrates or other post ore stage products, (ii) any custom milling charges paid to a non-Related Party and (iii) any smelting and refining charges.
- 3.3 There shall be no restriction on SDCI forward selling or otherwise hedging with respect to the sale of any Minerals (other than Diamonds), provided however that for purposes of calculating the NSR Royalty payable with respect to any such forward sales or hedging, the gross revenue received by SDCI shall be deemed to be equal to the then applicable Arms Length Sale price, rather than the forward or hedge price.

### **ARTICLE 4 PAYMENT OF ROYALTY**

- 4.1 After a Royalty Triggering Event, and not later than 60 days after the end of each fiscal quarter of SDCI in respect of which any Royalty is payable hereunder, SDCI shall:
- (a) deliver to the Beneficiaries a statement, certified by a senior officer of SDCI, setting forth in reasonable detail the calculation of the Royalty, if any, to which the Beneficiaries are entitled for the relevant quarter including the quantity and quality of Minerals sold and the gross revenues and permitted deductions as contemplated in this Agreement; and

- (b) pay the Beneficiaries the amount of the Royalty for the relevant quarter, each in accordance with their Proportional Share, such payment to be in Canadian dollars.
- 4.2 Each Royalty payment hereunder will be made without demand, notice, set-off, or reduction, by wire transfer in immediately available funds, to such account as the Beneficiaries may designate pursuant to wire instructions provided to SDCI not less than three (3) Business Days prior to the date upon which such payment is to be made.
- 4.3 Any Royalty which is not paid to a Beneficiary when due in accordance with the provisions of this Agreement shall bear interest at a rate equal to the Canadian prime rate (as established from time to time by the Royal Bank of Canada as the reference rate of interest for the determination of interest rates that it charges customers of varying degrees of credit worthiness in Canada for Canadian dollar demand loans) (determined monthly), plus 500 basis points during the period from the due date until the Beneficiary receives the relevant Royalty payment in full.
- 4.4 After a Royalty Triggering Event, upon the request of a Beneficiary, SDCI shall provide a written opinion addressed to such Beneficiary from SDCI's auditor confirming that any statement delivered pursuant to Section 4.1(a) above for any quarter entirely within the 12-month period immediately preceding receipt of the request has been prepared in accordance with the provisions of this Agreement.
- 4.5 Where a Beneficiary requests the opinion pursuant to Section 4.4 above, such Beneficiary shall fully reimburse SDCI for the cost of such opinion, except where the opinion concludes that the statement has not been prepared in accordance with the provisions of this Agreement, in which case SDCI shall bear the entire cost of such opinion.
- 4.6 If the opinion under Section 4.4 or an audit under Section 6.2 determines that there has been a deficiency or an excess in the payment of the Royalty, such deficiency or excess will be settled by adjusting the next quarterly Royalty payment due hereunder.

## **ARTICLE 5 REGISTRATION AND SECURITY**

- 5.1 The Royalty shall constitute an interest in and run with the Property and the obligations of SDCI hereunder shall be secured by a hypothec registered on the Property in favour of the Beneficiaries. SDCI will cooperate with the Beneficiaries to update the hypothec as may be required as a result of any changes from time to time in the nature or form of title pursuant to which the Property or any portion thereof is held.

**ARTICLE 6**  
**BOOKS AND RECORDS; INSPECTIONS**

- 6.1 SDCI shall keep specific, true and accurate books and records of production and sales of Minerals, prepared in accordance with International Financial Reporting Standards, consistently applied. After a Royalty Triggering Event, each Beneficiary may, from time to time subject to Section 6.2 below, perform audits or other examinations of all of the books and records of SDCI, at its own cost, to confirm Royalty calculations and compliance with the terms of this Agreement.
- 6.2 SDCI shall facilitate the access to its books and records during normal business hours. A date and time to perform such audits or other examinations shall be agreed upon after a 15 days notice has been issued to SDCI by any of the Beneficiaries. The audits or other examinations should not begin at a date later than 45 days after such a notice, unless SDCI and such Beneficiary agreed thereto.
- 6.3 After a Royalty Triggering Event, upon not less than five Business Days' prior written notice to SDCI, any of the Beneficiaries, or their respective authorized agents or representatives, may at their own cost, under the direction and control of SDCI, enter upon all surface and subsurface portions of the Property for the purpose of inspecting all production records and data pertaining to operations on or with respect to the Property, including without limitation, records and data that are electronically maintained.
- 6.4 The reasonable expenses of any audit or other examination permitted hereunder shall be paid by the applicable Beneficiary, unless the results of such audit or other examination permitted hereunder disclose a deficiency in respect of payments of the Royalty paid to the Beneficiaries hereunder greater than \$12,500, in which event the costs of such audit or other examination shall be paid by SDCI.

**ARTICLE 7**  
**CONDUCT OF OPERATIONS; MAINTENANCE**  
**AND ABANDONMENT; INDEMNITY**

- 7.1 All decisions concerning the extent, times, procedures and techniques of exploration, development, mining and processing of Minerals shall be made by SDCI, acting reasonably and in accordance with good mining and engineering practice in the circumstances.
- 7.2 SDCI shall do all things and make all payments necessary or appropriate to maintain its right, title and interest in the Property and to maintain the Property in good standing. SDCI may from time to time, on not less than 90 days prior notice to the Beneficiaries, abandon or surrender or allow to lapse or expire any part of the Property if SDCI in good faith determines that such part is not economically viable or otherwise has insufficient value to warrant continued maintenance. Notwithstanding the foregoing, SDCI shall not abandon or surrender, or allow to lapse or expire, any portion of the Property for the purpose of permitting any third party to restake or otherwise acquire same and thereby

DOCSMTL: 4726094\1

avoid the Royalty thereon; and if SDCI or any Related Party of SDCI, restakes or otherwise acquires any such portion of the Property, this Agreement shall include any such portion.

- 7.3 SDCI agrees that it will defend, indemnify, reimburse and hold harmless the Beneficiaries, their respective officers, directors, shareholders, employees and its successors and assigns (collectively, the “**Indemnified Parties**” or, alone, an “**Indemnified Party**”), and each of them, from and against any and all claims, demands, liabilities, actions and proceedings, which may be made or brought against any of them or which any of them may sustain, pay or incur that result from or relate to operations conducted on or in respect of the Properties, including for violation of laws relating to health, safety or the protection of the environment. The foregoing indemnity is limited to claims, demands, liabilities, actions and proceedings that may be made or taken against an Indemnified Party in its capacity as or related to the Beneficiaries, as the case may be, as a holder of the Royalty and will not include any indemnity in respect of any claims, demands, liabilities, actions and proceedings against an Indemnified Party in any other capacity.

## **ARTICLE 8 INSURANCE**

- 8.1 SDCI shall purchase at its own expense and shall keep in force at all times insurance in respect of any loss or destruction of or damage to Minerals, in such amounts and with such coverage as is customary in the industry (including fidelity insurance against theft).

## **ARTICLE 9 MISCELLANEOUS**

### **9.1 Assignment; Binding Effect**

SDCI may not assign this Agreement or any of its rights or obligations under this Agreement.

Each Beneficiary may assign its rights and obligations under this Agreement with the express written consent of SDCI, which consent may not be unreasonably withheld or delayed, provided that any such assignment is in connection with all (but not less than all) of the rights and obligations of such Beneficiary in this Agreement (and any security therefore), the Loan Agreement and any other agreement (excluding the Warrants) entered into with such Beneficiary in connection with the Loan Agreement. Notwithstanding the above, each Beneficiary may, without the express consent of SDCI, assign to a Permitted Assignee all (but not less than all) of its rights and obligations in this Agreement (and any security therefore) and the Loan Agreement and any other agreement (excluding the Warrants) entered into with such Beneficiary in connection with the Loan Agreement.

## 9.2 Sale of Property

SDCI shall not sell, assign, transfer or otherwise dispose of the Property or any part thereof unless the proposed purchaser, assignee or transferee thereof shall have first entered into an agreement in writing with the Beneficiaries, in form and substance satisfactory to the Beneficiaries acting reasonably, whereby such purchaser, assignee or transferee assumes all of the obligations of SDCI in respect of the Royalty and pursuant to the hypothec referred to in Section 5.1 or, if only part of the Property is sold, assigned transferred or otherwise disposed of, its proportionate share of such obligations of SDCI corresponding to that portion of the Property.

## 9.3 Choice of Law

This Agreement shall be governed by and interpreted and enforced in accordance with the Laws of the Province of Quebec and the laws of Canada applicable therein without regard to the conflicts of laws rules thereof.

## 9.4 Dispute Resolution

- (a) Any controversy, dispute, claim, question or difference between the Parties arising out of, or relating to, this Agreement (a “**Dispute**”) shall be resolved in accordance with the procedures set out in this Section 9.4 which shall be the exclusive procedure for the resolution of any Dispute between the Parties.
- (b) The Parties shall attempt in good faith to resolve any Dispute promptly by negotiation. However, at any time a Party may give the other Party written notice (the “**Initial Notice**”) of any Dispute not so resolved. Within 15 days after delivery of an Initial Notice, the recipient Party shall deliver to the other a written response. Both the Initial Notice and the response must include a statement of that Party’s position, a summary of arguments supporting that position, and the name and contact particulars of the Person who will represent that Party and of any other Person who will accompany that representative. Within 30 days after delivery of the Initial Notice, the representatives of both Parties shall meet at mutually acceptable times and places, as often as they reasonably deem necessary, to attempt to resolve the Dispute.
- (c) All negotiations pursuant to this Section 9.4 are confidential and are to be treated as compromise and settlement negotiations for purposes of applicable rules of evidence.
- (d) If the Dispute is not resolved by negotiation as provided in this Section 9.4 within 60 days after delivery of the Initial Notice, or if the Parties fail to meet within 30 days after delivery of such notice, the Parties shall attempt to settle the Dispute by mediation under the National Mediation Rules of the ADR Institute of Canada, Inc. then currently in effect. Any mediation will be carried out by one mediator appointed by the Parties and the mediation will take place in Montréal and will be conducted in the English language.

- (e) If the Dispute is not resolved by mediation as provided in this Section 9.4, within 90 days of the initiation of such procedure, either Party may initiate litigation upon 10 days written notice to the other Party; provided, however, that if one Party has requested the other to participate in a mediation and the other Party has failed to participate, the requesting Party may initiate litigation before expiration of the above 90-day and 10-day periods. In that regard, the Parties hereby irrevocably attorn to the exclusive jurisdiction of the Courts of the Province of Quebec in respect of any litigation proceeding arising out of this Agreement.

## 9.5 Notices

All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given (a) when received if delivered personally, (b) when sent by facsimile (which is confirmed by the intended recipient), and (c) on the next Business Day following the day it is sent by overnight courier service to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

If to SDCI, to:

Stornoway Diamonds (Canada) Inc.  
116-980 West 1<sup>st</sup> Street  
North Vancouver, British Columbia V7P 3N4

Attn.: Chief Financial Officer  
Fax: (604) 983-3591

with copies, in the case of notice to SDCI, to:

Norton Rose Canada LLP  
Suite 2500  
1 Place Ville-Marie  
Montréal, Québec H3B 1R1

Attn.: Steve Malas  
Fax: (514) 286-5474

If to the Fonds, to:

Fonds de solidarité des travailleurs du Québec (F.T.Q.)  
545 Crémazie Boulevard East, Suite 200  
Montréal, Québec H2M 2W4

Attention: Legal Affairs  
Telecopier: 514-383-2500

AND TO:

DOCSMTL: 4726094\1

Attention: Investment Direction  
 Telecopier: 514-850-4815

If to the Fonds Regional, to:

FONDS RÉGIONAL DE SOLIDARITÉ F.T.Q. NORD-DU-QUÉBEC,  
 SOCIÉTÉ EN COMMANDITE  
 432 3<sup>e</sup> Rue, Bureau B  
 Chibougamau, Québec G8P 1N7

Attention: General Manager  
 Telecopier: 418-748-7121

If to Diaquem, to:

DIAQUEM INC.  
 Suite 1500  
 600 De La Gauchetière West  
 Montréal, Québec H3B 4L8

Attention: Secretary  
 Telecopier: 514-876-9306

with copies, in the case of notice a Beneficiary, to:

McCarthy Tétrault LLP  
 1150 de Claire-Fontaine Street, 7<sup>th</sup> Floor  
 Québec, Québec G1R 5G4

Attn.: Jean-Philippe Buteau  
 Fax: (418) 521-3099

## 9.6 **Headings**

The headings contained in this Agreement are inserted for convenience only and shall not be considered in interpreting or construing any of the provisions contained in this Agreement.

## 9.7 **Entire Agreement**

This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings between the parties with respect to such subject matter.

## 9.8 Interpretation

- (a) When a reference is made in this Agreement to an Article or Section such reference shall be to an Article or Section of this Agreement unless otherwise indicated.
- (b) Whenever the words “include”, “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.”
- (c) When a reference in this Agreement is made to a “party” or “parties,” such reference shall be to a party or parties to this Agreement unless otherwise indicated.
- (d) Unless the context requires otherwise, the terms “hereof,” “herein,” “hereby,” “hereto” and derivative or similar words in this Agreement refer to this entire Agreement.
- (e) Unless the context requires otherwise, words in this Agreement using the singular or plural number also include the plural or singular number, respectively, and the use of any gender herein shall be deemed to include the other genders.
- (f) References in this Agreement to “dollars” or “\$” are to Canadian dollars unless otherwise indicated. Where items of revenue or expense applicable to the calculation of the Royalty are received or incurred by SDCI in any other currency, such other currency shall for purposes of such calculation be converted into Canadian dollars on the same basis used by SDCI for purposes of its financial reporting.
- (g) Except as otherwise specifically provided herein, where any action is required to be taken on a particular day and such day is not a Business Day and, as a result, such action cannot be taken on such day, then this Agreement shall be deemed to provide that such action shall be taken on the first Business Day after such day.
- (h) This Agreement was prepared jointly by the parties and no rule that it be construed against the drafter will have any application in its construction or interpretation.

## 9.9 Waiver and Amendment

This Agreement may be amended, modified or supplemented only by a written mutual agreement executed and delivered by the Beneficiaries and SDCI. Except as otherwise provided in this Agreement, any failure of any party to comply with any obligation, covenant, agreement or condition herein may be waived by the party entitled to the benefits thereof only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligations, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

[DOCSMTL: 4726094\1](#)

### 9.10 Counterparts; Facsimile Signatures

This Agreement may be executed in any number of counterparts, each of which when executed, shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument binding upon all of the parties notwithstanding the fact that all of the parties are not signatory to the original or the same counterpart. For purposes of this Agreement, facsimile signatures shall be deemed originals.

### 9.11 Third-Party Beneficiaries

This Agreement is for the sole benefit of the parties and their successors and permitted assigns and nothing herein express or implied shall give or be construed to give to any Person, other than the parties and such successors and permitted assigns, any legal or equitable rights hereunder.

### 9.12 Severability

If any provision of this Agreement or the application of any such provision to any Person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof. The parties shall engage in good faith negotiations to replace any provision which is declared invalid, illegal or unenforceable with a valid, legal and enforceable provision, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provision which it replaces.

### 9.13 Confidentiality

The parties agree that this Agreement and all information obtained pursuant to this Agreement, (all of which will hereinafter be referred to as “**confidential information**”) shall remain confidential, and that no disclosure of any such confidential information may be made to any third party except in the following circumstances:

- (a) disclosure by either party of confidential information to its auditors, legal counsel, institutional lenders, brokers, underwriters, investment bankers and potential purchasers of the Royalty or the Property or any interest therein, provided that such non-party users are advised of the confidential nature of the confidential information, undertake to maintain the confidentiality thereof and are strictly limited in their use of the confidential information to valid business purposes involving the disclosing party;
- (b) either party may disclose confidential information where that disclosure is necessary to comply with its disclosure obligations and requirements under any securities law, rules or regulations or stock exchange listing agreements, policies or requirements, provided that the proposed disclosure is limited to factual matters and that the disclosing party will have availed itself of the full benefits of any laws, rules, regulations or contractual rights as to disclosure on a confidential basis to which it may be entitled; or

- (c) with the approval of the other party, which approval will not be unreasonably withheld.

Any confidential information that becomes part of the public domain by no act or omission in breach of this section will cease to be confidential information for the purposes of this section.

#### 9.14 Time of Essence

Time is of the essence in the performance of each obligation under this Agreement.

#### 9.15 Further Assurances

Each party, promptly following a request by the other party, shall execute or cause to be executed and delivered all such documents, deeds, conveyances and other instruments and do all such further acts which may be reasonably necessary or advisable to carry out fully the intent of this Agreement in each case at the sole cost and expense of the party requesting same.

#### 9.16 Term

This Agreement shall commence on the date hereof and shall continue up and until the earlier of (i) the full and complete repayment by Stornoway of all Indebtedness, and (ii) the aggregate amount of all royalty payments made by SDCI (or any successor or assign) pursuant to this Agreement and the Loan Payments is equal to the aggregate amount of all Indebtedness. For greater certainty, it is agreed and acknowledged that any royalty payments made by SDCI (or any successor or assign) pursuant to this Agreement shall automatically reduce any Indebtedness owing under the Loan on a dollar-for-dollar basis such that the aggregate of all royalty payments made by SDCI (or any successor or assign) pursuant to this Agreement and the Loan Payments shall not exceed the Indebtedness. To the extent that any Beneficiary receives any amount under this Agreement which would cause the aggregate of (i) all amounts received by such Beneficiary under this Agreement, plus (ii) the Loan Payments received by such Beneficiary, to exceed the amount of the Indebtedness owing to such Beneficiary under the Loan Agreement, such Beneficiary shall promptly repay any such excess to SDCI. For greater certainty, any payments hereunder to a Beneficiary shall be treated as payments by SDCI of Indebtedness on behalf of Stornoway and as payments by SDCI under the SDCI Loan Agreement and shall therefore reduce SDCI's then outstanding indebtedness under the SDCI Loan Agreement.

## ARTICLE 10 REPRESENTATIONS AND WARRANTIES

SDCI represents and warrants to the Beneficiaries, and acknowledges that the Beneficiaries are relying upon such representations and warranties in entering into this agreement:

- 10.1 SDCI (i) is the registered and beneficial owner of a 100% interest in the Property and owns and possesses and has a good marketable title to the Property and, except as disclosed in Schedule 10.1 hereto, free and clear of any security interest, mortgage, hypothec, charge, lien, pledge or other interest of any third party, (ii) has no knowledge

DOCSMTL: 4726094\1

- of any actual or threatened liabilities or claims or disputes in respect of the Property, and (iii) has not sold, leased, transferred or in any other way alienated all or any part of the Property to any person.
- 10.2 No person has any written or verbal agreement, option, understanding, arrangement or commitment with Stornoway or any Affiliate or, to the knowledge of SDCI and its Affiliates, any right or privilege (whether by law or otherwise, pre-emptive or contractual) which is capable of becoming an agreement, option or commitment to acquire all or any part of the Property.
  - 10.3 SDCI is duly incorporated and validly exists under the law of its jurisdiction of incorporation, amalgamation or continuance (as the case may be).
  - 10.4 SDCI has the corporate power and authority to own, lease and operate its properties and assets (including licenses and other similar rights) and to conduct the business now operated by it, and is qualified, licensed or registered to transact business in all jurisdictions in which its business is carried on or in which it owns or leases properties.
  - 10.5 The execution and delivery of this agreement has been properly authorised by all necessary corporate action of SDCI.
  - 10.6 SDCI has full corporate power and lawful authority to execute and deliver this agreement and perform or cause to be performed its obligations hereunder.
  - 10.7 This agreement constitutes a legal, valid and binding obligation of SDCI, enforceable in accordance with its terms by appropriate legal remedy subject to laws generally affecting creditors' rights and to principles of equity.
  - 10.8 The execution and delivery by SDCI of this agreement and the performance of its obligations hereunder does not or will not (with or without the lapse of time, giving of notice or both) contravene, conflict with or result in a breach of or default under:
    - (a) any provisions of the constating documents of SDCI or resolutions of the security holders and directors of SDCI;
    - (b) any material term or provision of any security arrangement, undertaking, agreement or deed; or
    - (c) any writ, order or injunction, judgment, law, rule or regulation to which it is a party or is subject or by which it is bound.
  - 10.9 There is no bankruptcy, liquidation, winding-up or other similar proceeding pending or in progress or, to the knowledge of SDCI, threatened against SDCI or any subsidiary thereof before any court or governmental authority.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in Toronto on the day and year first above written.

**FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)**

Per: (signed) Dany Pelletier

Name: Dany Pelletier

Title: Investment Director

Per: (signed) Dany Gagné

Name: Danny Gagné

Title: Portfolio Manager

**FONDS RÉGIONAL DE SOLIDARITÉ F.T.Q. NORD-DU-QUÉBEC, SOCIÉTÉ EN COMMANDITE**, acting through its general partner **FONDS RÉGIONAUX DE SOLIDARITÉ FTQ INC.**

Per: (signed) Carl Gilbert

Name: Carl Gilbert

Title: Portfolio Manager

**DIAQUEM INC.**

Per: (signed) Gary M. Litwack

Name: Gary M. Litwack

Title: Pursuant to Power of Attorney

**STORNOWAY DIAMONDS (CANADA) INC.**

Per: (signed) Matt Manson

Name: Matt Manson

Title: President, CEO & Director

Per: (signed) Zara Boldt

Name: Zara Boldt

Title: Vice-President, Finance

**EXHIBIT I**

**to**

**Fonds/Fonds Régional/Diaquem/SDCI Royalty Agreement**

**Property**

Attached is a list of the mineral titles.

### **Schedule 10.1**

#### **Description of outstanding hypothecs**

- Hypothec in favour of Diaquem Inc. filed at the Public Register of Real and Immovable Mining Rights under no. 53890; and
- Hypothec to be granted to the Cree Nation of Mistissini, the Grand Council of the Crees (Eeyou Istchee) and the Cree Regional Authority pursuant to the terms of the Pre-Development Agreement dated July 16, 2010 between such parties, SDCI and Diaquem Inc.