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

Containing Information up to and including July 16, 2008

OVERALL PERFORMANCE

Stornoway has a highly diversified and prospective diamond property portfolio, largely focused in Canada, that includes Renard, a development track diamond project with the potential to become Quebec's first diamond mine, three advanced projects in eastern Nunavut at the minibulk sampling stage and several early stage grass roots projects throughout Canada in geologically prospective, underexplored regions. Stornoway's strategy is to capitalize on near-term, small to medium sized diamond mining opportunities to build a growth oriented company that succeeds in the practical business of mining and selling rough diamonds, while at the same time, remains exposed to significant upside through exploration. The rough diamond market continues to strengthen in the face of tightening supply and Stornoway is well positioned to add diamond resources from existing projects and further acquisitions as new opportunities are identified. Subsequent to the successful conclusion of concurrent takeover bids for Ashton Mining of Canada Inc. ("Ashton") and Contact Diamond Corporation ("Contact") in January 2007, Stornoway has added depth and expertise to its management and technical teams as a result of the amalgamation. The Company now benefits from experience at each stage of the diamond pipeline from exploration through development and marketing.

As of July 16, 2008, the Company holds interests, directly or through joint ventures, in approximately 30 separate project areas in Nunavut, Alberta, Saskatchewan, Ontario, Québec and the Northwest Territories covering more than 7.7 million acres. This property portfolio can be roughly subdivided into 0.3 million acres of 'development' stage projects (the Foxtrot Property), 2.5 million acres of 'advanced' exploration properties (Aviat, Churchill, Qilalugaq and Timiskaming) and 4.9 million acres of 'early stage' projects (Blackstone, Itza and others) that collectively contain some 150 kimberlite bodies.

Forward-Looking Information

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of management as well as assumptions made based on information currently available to management. When used in this MD&A, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties. Such statements reflect the current views of management with respect to future events and are subject to certain risks, uncertainties, and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

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[1] **Note to Reader**

The following management discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the audited consolidated financial statements for the years ended April 30, 2008 and 2007 together with the notes thereto. These financial statements have been prepared in Canadian funds in accordance with Canadian generally accepted accounting principles.

Stornoway operates exploration programs on its development stage projects, three of the four advanced projects and the majority of the early stage projects. Highlights of the year ended April 30, 2008 and the period shortly thereafter include:

- Completion of field work associated with an aggressive $23 million exploration program on 20 of Stornoway's diamond projects. Key components of this exploration program included the completion of a 10,000 tonne bulk sampling program at Renard, early stage regional exploration at Foxtrot, a 356-tonne mini-bulk sample program at Churchill, drilling and mini-bulk sampling at Aviat, mini-bulk sampling at Qilalugaq and early stage exploration on other prospective properties throughout Canada;
- The recovery of 6,497 carats from the diamond recovery phase of the Renard bulk sample program which subsequently underwent an independent, open market valuation in Antwerp, Belgium in September 2007 that was later updated to reflect prevailing market conditions in March 2008;
- Commencement of pre-feasibility study work, designed to evaluate potential mining scenarios at the Renard project in north-central Quebec, with the engagement of AMEC Americas Ltd. ("AMEC") and Agnico-Eagle Mines Ltd. ("Agnico-Eagle") and the decision, made jointly with Soquem, to proceed to Phase 2 of the pre-feasibility study upon receipt of the 2007 bulk sampling results;
- Newly determined "base case" diamond price model for the Lynx kimberlite dyke of US$66 per carat
- Monetization of a non-core exploration asset with the sale of Stornoway's 45% interest in the Buffalo Head Hills project in north-central Alberta for cash consideration of $15 million and common shares with a fair value of $1.9 million at closing;
- The appointment of Mr. Yves Harvey to the Company's board of directors.
- A diamond content of 162 carats per hundred tonnes (cpht) from DMS processing of 20.6 dry tonnes from the AV267 kimberlite, including the recovery of a 3.64 carat gem quality white dodecahedron, the largest stone from the Aviat Project, Nunavut to date;
- Acquisition of BHP Billiton Diamonds Inc.'s 14.4% interest in the Aviat Project, bringing Stornoway's project interest to 90% (Hunter holds a 10% interest, carried to production), and its diamond marketing rights to 100%;
- Mobilization of crews for the 2008 exploration program at Aviat (work to include ground geophysics and drilling at the recently discovered AV9 kimberlite pipe, drilling on the AV267 sheet in support of a conceptual resource study and collection of a 150-200 tonne bulk sample from the AV267 body);
- In July 2008, a private placement agreement with the holders of the $20.0 million principal convertible debentures for the issuance of 24,444,444 common shares at $0.90 per share for gross proceeds of $22.0 million. The gross proceeds from this private placement will be used to repay the $20.0 principal of the convertible debentures and to pay a $2.0 million early redemption payment to the two holders of the convertible debentures. This private placement is subject to regulatory approval. Upon completion of this financing, the Company will be debt-free.

The Company's net loss for the year ended April 30, 2008 (the "**Current Year**") of $27.5 million (a loss of $0.14 per share) was significantly more than the loss of $19.1 million ($0.15 loss per share) for the year ended April 30, 2007 (the "**Comparative Year**") due a $26.3 million resource property write-off during the Current Year (Comparative Year - $16.5 million) and a loss of $5.5 million (Comparative Year - $nil) on the sale of a mineral property interest. Included in the Current Year's loss is a $513,000 write-down on an investment where the decline in its fair value is deemed to be permanent (Comparative Year - $nil). In the Comparative Year, the results of operations for both Ashton and Contact have been included in the Company's results from operations from September 20, 2006, the date of control. These acquisitions were accounted for as a purchase of assets.

Assets decreased from $226.1 million at the end of the Comparative Year to $193.7 million at April 30, 2008 with capitalized resource property costs decreasing from $194.0 million to $173.7 million at April 30, 2008. The Company's cash and cash equivalents decreased during the Current Year, from $21.5 million to $9.5 million as at April 30, 2008. The Company's primary focus during the Current Year continued to be the advancement of its exploration projects, with expenditures totaling $23.5 million in the Current Year, as compared to expenditures of

$27.5 million in the Comparative Year. During the Comparative Year, the Company borrowed, and subsequently repaid $23.85 million from a bridge facility, which was used to finance the Ashton acquisition. Proceeds from the sale of $20.0 million in convertible debentures were used to pay off the bridge facility in March 2007. The convertible debentures bear interest at 12% per annum and mature March 16, 2009. The Company has no right of pre-payment. From the date of issuance in March 2007, the Company has made cash payments totaling $1,200,000 and issued 3,430,234 common shares with a fair value of $1,800,000 in settlement of the quarterly interest payments.

The Company's administrative expenses were significantly higher in the Comparative Year due to the take-over bids for Ashton and Contact that commenced in August 2006 and completed in January 2007. The results of operations for each of Ashton and Contact have been included from September 20, 2006. In comparison, administrative expenses decreased in the Current Year, with the most significant decline being professional fees, from $2.0 million in the Comparative Year to $393,000 in the Current Year. Salary expense also decreased from the Comparative Year ($1.4 million) to the Current Year ($1.1 million). The Company's net loss for the Current Year was also influenced by a $5.5 million loss from the sale of a mineral property interest (Comparative Year - $nil) and by a future income tax recovery of $8.3 million (Comparative Year - $2.1 million).

SELECTED ANNUAL INFORMATION

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

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

	12 months ended April 30, 2008	**12 months ended April 30, 2007**	**12 months ended April 30, 2006**
Total revenue [1]	$ 739	$ 940	$ 797
General and administrative expenses	4,228	5,918	1,783
Write off of exploration costs on outside properties and properties abandoned	26,334	16,500	3,919
Future income tax recovery	8,342	2,145	2,865
Income (loss) from continuing operations	(27,529)	(19,137)	(1,771)
Basic and diluted loss per Share	(0.14)	(0.15)	(0.02)
Net income (loss)	(27,529)	(19,137)	(1,771)
Basic and diluted loss per Share	(0.14)	(0.15)	(0.02)
Total Assets	193,678	226,147	64,775
Total long-term financial liabilities	20,340	41,694	Nil

[1] Total revenue consists of interest income and property management fees. The Company is an exploration stage company and has no income from operations.

RESULTS OF OPERATIONS

The Company's loss from operations for the Current Year was $27.5 million (a loss of $0.14 per share) as compared to a loss of $19.1 million (a loss of $0.15 per share) for the Comparative Year. The Company's loss for the Current Year is mainly due to a large write-off of capitalized resource property costs (Current Year - $26.3 million; Comparative Year - $16.5 million) and a loss of $5.5 million (before taxes) from the sale of a mineral property interest (Comparative Year -$nil). Administrative expenses (Current Year - $4.2 million; Comparative Year - $5.9 million) decreased during the first complete year of operations following the acquisition of control of Ashton and Contact in September 2006.

The Company capitalizes all acquisition and exploration costs until the property to which those costs related is placed into production, sold or abandoned. The decision to abandon a property is largely determined from exploration results and the amount and timing of the Company's write-offs of capitalized resource property costs will vary in a fiscal period from one year to the next and typically cannot be predicted in advance.

Resource property write-offs had the largest impact on the Company's Current Year loss of $27.5 million (Comparative Year - $19.1 million), increasing to $26.3 million in the Current Year from $16.5 million during the Comparative Year. Resource property write-offs accounted for about 73% (Comparative Year – 76%) of the Company's loss before income taxes (Current Year - $35.9 million; Comparative Year - $21.7 million). Also contributing to the Current Year loss was a $3.8 million loss (after taxes) on the sale of a property interest (Comparative Year - $nil). During the Current Year, the Company received $15 million cash and common shares with a fair value of $1,870,000 for the sale of its interest in the Buffalo Hills property, Alberta. A future income tax recovery of $8.3 million (Comparative Year - $2.1 million) reduced the Company's net loss for the year.

During the Current Year, the Company wrote-off capitalized resource property costs of $26.3 million as it reduced its land packages or identified properties where exploration results indicated no further work should be pursued. The most significant write-offs during the Current Year were associated with properties in the Northwest Territories ($5.3 million), the Company's generative exploration programs ($4.5 million), and exploration activities in Botswana ($1.7 million). In addition, the Company wrote-off $12.7 million of resource property costs capitalized as part of the Ashton acquisition; $1.4 million on its properties in the Western Arctic; $99,000 in Eastern Canada and $562,000 in other areas of Canada. The $16.5 million write-off in the Comparative Year included write-offs of $5.1 million for the Eastern Arctic properties; $5.8 million for the Western Arctic properties; $2.0 million on the Company's other Canadian exploration properties; $2.0 million for generative exploration and $891,000 related to the Company's exploration activities in Botswana.

Administrative expenses for the Current Year totaled $4.2 million, a significant decrease from the Comparative Year ($5.9 million) due to a reduction in public company expenses post-merger. A significant decrease in professional fees (Current Year - $393,000; Comparative Year - $2.0 million) had the most direct impact on the Company's administrative expense during the Current Year. Salaries and benefits (Current Year - $1.1 million; Comparative Year - $1.4 million) also decreased however, the Company's office and sundry expense increased in the Current Year to $678,000 from $201,000 due mostly to costs associated with the additional premises acquired through the Company's acquisition of Ashton in the Comparative Year. Administrative fees increased from $126,000 in the Comparative Period to $192,000 in the Current Period. Stock-based compensation expense, a non-cash item, (Current Year - $1.1 million; Comparative Year - $1.4 million) accounted for approximately 27% (Comparative Year – 25%) of the Company's total administrative expenses.

EXPLORATION UPDATE

Stornoway's material mineral properties are (i) the Foxtrot Property in the Otish Mountains located in Québec, Canada; (ii) the Aviat One Property on the Melville Peninsula located in Nunavut, Canada; and (iii) the Churchill Property located in Nunavut, Canada. The following discussion is an update to disclosure in documentation filed with regulatory agencies and available for viewing under Stornoway's profile on the SEDAR website at www.sedar.com.

Foxtrot Property – Renard Kimberlitic Bodies, Quebec

The Foxtrot Property, containing the Renard cluster of kimberlite bodies, is a 50/50 joint venture between Stornoway's wholly-owned subsidiary Ashton, and SOQUEM Inc.'s ("SOQUEM") wholly-owned subsidiary, Diaquem. Ashton is the project operator. Since 1996, Ashton and SOQUEM have evaluated an area of more than 400,000 square kilometres of the eastern Archean Superior craton. Exploration conducted by the joint venture has resulted in the discovery of a new field of kimberlitic intrusions on the Foxtrot property, notably the Renard cluster of kimberlitic bodies, and a nearby system of kimberlitic dykes, the Lynx-Hibou dykes. In August 2007, Ashton and SOQUEM completed an advanced stage bulk sample program at the Foxtrot property and recovered 6,497 carats of diamonds from three kimberlite pipes.

Diamond recovery results from the Renard bulk sampling program as well as an analysis of an Antwerp diamond valuation exercise conducted in September 2007, were provided in the Company's interim MD&A dated December 13, 2007. This information can be obtained under Stornoway's profile on Sedar (www.sedar.com) or from Stornoway's website. In addition, subsequent diamond recovery results from an additional 400 tonne sample from the Renard 4 northern complex zone, a 185 tonne sample from Renard 3, a 500 tonne sample from the Lynx kimberlite dyke, a 31 tonne sample from the Hibou dyke, a 266 tonne sample from the Renard 65 kimberlite pipe and a 28 tonne sample from the North Anomaly dyke can also be found in the Company's interim MD&As dated December 13, 2007 and March 13, 2008.

The results of the Renard bulk sampling program, including diamond valuation work and additional mini-bulk sampling of associated kimberlite bodies, will be utilized in a National Instrument ("NI") 43-101 compliant mineral resource calculation, currently ongoing. This resource calculation forms a component part of a larger pre-feasibility study into potential diamond mining scenarios at Renard, which is expected to be completed shortly. Pending the results of this program of work, the Foxtrot property has the potential to host Quebec's first diamond mine.

Revised Renard Diamond Valuation Results

During the current quarter ended April 30, 2008, Stornoway received new diamond valuation results from the Renard 2, 3 and 4 kimberlite pipes, and the Lynx and Hibou kimberlite dykes. The new valuations were commissioned to provide updated diamond price data in support of the Renard Pre-Feasibility study. Three new diamond valuation parcels from Renard 4, Lynx and Hibou were presented for valuation in Antwerp, Belgium under the supervision of WWW International Diamond Consultants Ltd. ("WWW"), an internationally recognized diamond valuation and consulting company. In addition, WWW performed an update of the previously obtained valuation on bulk sample diamond parcels from Renard 2, 3 and 4.

Renard 2 and 3

WWW recommended a revised modeled "Base Case" diamond price estimate for both the Renard 2 and Renard 3 kimberlite pipes of US$121 per carat, with a "High" modeled price estimate of US$136 per carat and a "Low" modeled price estimate of US$108 per carat. This was an 11% increase compared to the previous diamond price model of $109 per carat obtained in September 2007. The revised model was generated by WWW restating their own September 2007 valuation result on each diamond parcel on the basis of their March 2008 price book, and applying an adjustment factor to the diamond price model accordingly.

The revised Renard 2 and 3 diamond price models are summarized as follows:

<table>
<tr><th colspan="5">Renard 2 & 3 Revised Valuation Model</th></tr>
<tr><th>Kimberlite Sampled</th><th>Weight of Valuation Sample (Carats)*</th><th>September 2007 "Base Case" Diamond Price Model (US$/carat)</th><th>March 2008 "Base Case" Diamond Price Model (US$/carat)</th><th>Percentage Increase in Model Price</th></tr>
<tr><td>Renard 2</td><td>1,589.57</td><td rowspan="2">$109
(with sensitivities of $105 to $122)</td><td rowspan="2">$121
(with sensitivities of $108 to $136)</td><td rowspan="2">11%</td></tr>
<tr><td>Renard 3</td><td>2,651.17</td></tr>
<tr><td colspan="5">* Sample weights represent the total carat weight of diamonds presented for valuation following the combination of individual sub-samples and after acid cleaning.</td></tr>
</table>

Renard 4

WWW recommended a revised modeled "Base Case" diamond price estimate for the Renard 4 kimberlite pipe of US$79 per carat, with a "High" modeled price estimate of US$87 per carat and a "Low" modeled price estimate of

US$71 per carat. This is a 14% increase compared to the September 2007 diamond price model of US$69 per carat. The revised model was generated in a similar fashion to that of Renard 2 and 3 above, but also incorporated the results of a valuation by WWW of 504 carats from the additional Renard 4 sample “4003”. Sample 4003 was collected in 2006 as part of the Renard 4 bulk sample program, which comprised surface trenching within the Renard 4 “Northern Complex Zone” (NCZ). 4003 was processed subsequent to the September 2007 valuation exercise so as to increase the size of the Renard 4 valuation parcel and to assist in determining the exact nature of the NCZ diamond size distribution.

The revised Renard 4 diamond price model is summarized as follows:

Renard 4 Revised Valuation Model				
Kimberlite Sampled	Weight of Valuation Sample (Carats)*	September 2007 "Base Case" Diamond Price Model (US$/carat)**	March 2008 "Base Case" Diamond Price Model (US$/carat)	Percentage Increase in Model Price
Renard 4 - N. Complex Zone	2,695.63	$69 (with sensitivities of $63 to $73)	**$79** (with sensitivities of $71 to $87)	**14%**
* Sample weights represent the total carat weight of diamonds presented for valuation following the combination of individual sub-samples and after acid cleaning, and including 504 carats of diamonds from sample 4003 not available at the time of the September 2007 valuation. ** Model based on an original valuation sample of 2,192 carats.				

Lynx and Hibou

WWW further recommended a modeled "Base Case" diamond price estimate for the Lynx kimberlite dyke of US$66 per carat, with a "High" modeled price estimate of US$97 per carat and a "Low" modeled price estimate of US$56 per carat. In addition to performing their own valuation on the 520 carat Lynx diamond parcel, WWW showed the parcel to two other Antwerp based experienced rough diamond valuators in order to obtain additional market based valuations. The average “observed” (un-modeled) price of the three valuations was US$53 per carat. The Lynx diamond valuation parcel was recently recovered from 494 tonnes of kimberlite extracted from two trench locations along the surface trace of the dyke during 2007. The parcel included a 21 carat stone which was broken during sample processing and recovered in principally three fragments, the largest of which weighed 11.73 carats.

WWW also performed a valuation on a 40 carat parcel of diamonds recovered from recent trenching on the Hibou kimberlite dyke (Stornoway press release dated January 28, 2008). This small parcel of diamonds was valued by WWW alone, who determined an “observed” (un-modeled) price of US$43 per carat. Owing to the size of the parcel, no diamond price modeling exercise was possible. However, WWW recommended that, for planning purposes, a diamond price of US$66 per carat be adopted for the Hibou kimberlite dyke, conditional upon the collection of a bulk sample that demonstrates an incidence of large diamonds similar to that seen at Lynx.

The complete Lynx and Hibou diamond price models are summarized as follows:

Lynx and Hibou Valuations				
Kimberlite Sampled	Weight of Valuation Sample (Carats)*	Largest Diamonds (Carats)	Observed (Un-Modeled) Average Diamond Price (US$/carat)	"Base Case" Diamond Price Model (US$/carat)

Lynx	519.62	11.73, 5.87	$53	**$66** (with sensitivities of $56 to $97)
Hibou	38.98	1.01, 0.67	$42	none determined**

* Sample weights represent the total carat weight of diamonds presented for valuation following the combination of individual sub-samples and after acid cleaning.
** WWW have recommended that, for planning purposes, a diamond price of US$66/carat be adopted for the Hibou kimberlite dyke, conditional upon the collection of a bulk sample that demonstrates an incidence of large diamonds similar to that seen at Lynx.

Scientific and technical data

The diamond valuation results discussed above were obtained during a valuation exercise undertaken in Antwerp, Belgium, between the 26th and 28th of March 2008, and by applying updated diamond price information to a valuation exercise undertaken in Antwerp between the 24th and 28th of September 2007. During the September 2007 valuation exercise, WWW and an additional three independent diamond valuators were employed, under the supervision of WWW, to determine diamond price estimates on the Renard 2, 3 and 4 diamond parcels. During the March 2008 valuation exercise, WWW and an additional two independent diamond valuators were employed to determine a diamond price estimate for the Lynx dyke diamond parcel, and WWW alone was employed to determine a diamond price estimate for the Renard 4 sample "4003" and the Hibou diamond parcel. Adjustment factors to diamond price models for Renard 2, 3 and 4 are based on an estimate of diamond price change between September 2007 and March 2008 by WWW, and assumes a similar price escalation would have been applied by the other three independent diamond valuators over the same period. All diamond valuations were based on a +1 DTC sieve size cut-off.

The diamond parcels valued were recovered after the processing of kimberlite bulk samples with a 10 tph dense media separation plant owned by Stornoway (through its wholly owned subsidiary Ashton) and SOQUEM in joint venture, and operated by Stornoway. Diamonds were recovered from concentrate at Stornoway's wholly owned and operated mineralogical laboratory in North Vancouver, British Columbia. Quality assurance protocols and actual operating procedures for the processing, transport and recovery of diamonds under the Renard bulk sample program, including arms-length security provisions, conform to industry standard Chain of Custody provisions and were subject to the review of AMEC, who were contracted to provide third party accreditation for program data. The Renard program is managed by Dave Skelton, P.Geol., Senior Project Manager. Stornoway's diamond exploration programs are conducted under the direction of Robin Hopkins P.Geol, Vice President, Exploration, a Qualified Person under NI 43-101.

Renard Pre-Feasibility Study Update

During the current quarter ended April 30, 2008, Stornoway also gave guidance on the progress of the ongoing Pre-Feasibility Study at Renard. Preliminary mine design, diamond plant design and capital and operating cost estimation have been completed in draft form and are awaiting the finalization of a National Instrument ("NI") 43-101 compatible resource estimation by AMEC Americas Ltd. ("AMEC"). Completion of the resource estimate is required before a fully optimized, conceptual mine plan can be determined, operating and capital parameters fixed, and a financial model established. Delays in the completion of this work are attributable to congestion within the broader diamond mining sector, with multiple, concurrent development projects competing for a limited number of specialized resource estimation professionals. Stornoway expects to receive a finalized resource model shortly, allowing disclosure of the results of the Pre-Feasibility work to commence on a timely basis.

AMEC is an international project management and services company with broad experience in the Canadian diamond mining sector. The principal author of the Renard Pre-Feasibility Study is Agnico-Eagle Mines Limited (TSX: AEM), a leading mine developer in the Province of Québec and Stornoway's largest shareholder.

Aviat Property, Nunavut

The Company's interest in the 486,000 acre Aviat Property was previously governed by a joint venture agreement with BHP Billiton Diamonds Inc. ("BHPB") and Hunter. Initially, the Company held a 70% interest in the property, BHPB held a 20% interest and Hunter held a 10% carried interest. Stornoway is the Operator. BHPB chose not to participate for its share of the 2006 or 2007 Aviat Property exploration programs, and as a consequence of this election, their interest on the Aviat Property was reduced to approximately 14.4%. Under an assignment agreement between Stornoway and BHPB entered into in May 2008, BHPB assigned to Stornoway all of its interest in the Aviat Project and its rights to market all diamonds of Hunter Exploration Group produced from the Project in consideration for the assumption by Stornoway of BHPB's obligations under the joint venture agreement, including their bulk sampling obligations and all future funding obligations. Acquisition of BHPB's interest in the project brings Stornoway's project interest to 90% (Hunter continues to hold a 10% interest, carried to production) and Stornoway's diamond marketing rights for the Project to 100%.

Exploration Program Update and Status

Stornoway's 2007 field program on the Aviat Project commenced in early May under a budget of $2.75 million. Exploration activities have focused on discovering the source of the 'northern' mineral anomaly as well as testing the continuity/surface projection of the other Aviat bodies outlined by work in 2006. Drilling began in mid-May and finished in mid-August. Sampling (both till and rock) and prospecting was initiated when the snow cover had melted sufficiently and ran for the duration of the program, finishing in late August.

Highlights of the 2007 exploration program at Aviat include the following:

- discovered a new diamondiferous kimberlite pipe, AV9
- collected over 70 tonnes of kimberlite from three Aviat kimberlites (AV1, AV2 and AV8) for macrodiamond recovery through a DMS plant
- completed 45 diamond drill holes for a total of 4,828 m of core
- intersected kimberlite in 36 of the 45 holes tested
- obtained consistent kimberlite intersections within a 1.5 km^2 area of the Eastern Sheet Complex
- submitted 419 kg of drill core from the Eastern Sheet Complex for caustic fusion
- collected 1,177 till samples for indicator mineral processing
- acquired more than 600 other surface samples for future work

A new kimberlite pipe, known as AV9, was discovered from drilling in mid-August and represents the third pipe-like body identified within Aviat's Tremblay Corridor where a total of eleven significantly diamondiferous kimberlites have now been identified since 2002 (AV1, AV1 West, AV2 Upper, AV267, AV3, AV4, AV5, AV8 Upper, AV8 Middle, and AV8 Lower and AV9). The bodies range from small pipe-like intrusions at AV1, AV4 and AV9 to layered sheet or dyke like intrusions which characterize bodies AV1 West, and AV267 through AV8. Most of the bodies are associated with surficial kimberlite boulders and/or subcrop and/or outcrop. Caustic fusion analysis of small samples collected from each of these kimberlites have proven significantly diamondiferous.
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AV9 lies four kilometers east-southeast of the diamondiferous AV1 kimberlite pipe, and is situated along the same regional structural feature that hosts AV1, and which is believed to have influenced emplacement of the other Aviat kimberlite pipes and sheets. As a result of the AV9 discovery, additional targets along this regional feature have been identified and prioritized for drill testing in 2008.

AV9 is described as a transitional kimberlite pipe, containing both macrocrystic hypabyssal and transitional hypabyssal breccia phases. Kimberlite was intersected within a horizontal area measuring approximately 60 x 60 meters, and to a vertical depth greater than 100 meters, but neither the lateral nor vertical extent of AV9 are known at the present time. A total of 307.26kg (dry) of kimberlite core from AV9 was submitted for caustic fusion and returned 236 diamonds (stones retained on a 0.106mm square mesh sieve). The three largest stones had dimensions measuring 2.324x2.307x1.804mm, 1.871x1.529x1.531mm and 1.665x1.403x0.892mm. Further details are shown below:

TOTAL SAMPLE WEIGHT	NUMBER OF DIAMONDS PER SIEVE SIZE (MM SQUARE MESH SIEVE)									TOTAL
	+0.106 mm	+0.150 mm	+0.212 mm	+0.300 mm	+0.425 mm	+0.600 mm	+0.850 mm	+1.180 mm	+1.7 mm	
307.26	97	47	42	26	14	6	2	1	1	236

In January 2008, Dense Media Separation (DMS) processing of 20.6 tonnes (dry) of kimberlite collected in three subsamples from surface expressions of the AV267 kimberlite returned a total of 33.36 carats of diamonds, indicating a diamond content of 162 cpht for stones retained on a 0.85mm square mesh screen. During processing, a 3.64 carat diamond (see January 21, 2008 press release) was recovered. This gem quality, white, dodecahedron is the largest stone from the Aviat Project to date and, in management's opinion, establishes Aviat's potential to yield large, high quality gemstones, an important value driver in any economic diamond deposit.

Sample	Dry Weight (tonnes)	No. Stones >0.85mm	Carats [1]	Diamond Content[2] (cpht)[3]	Largest Diamonds (carats)
2007 AV267	20.6	978	33.359	162	3.64, 0.551, 0.525

[1] Represents stones retained on a +0.85mm square mesh screen
[2] The estimated diamond content, expressed as carats per hundred tonnes, may not be representative of the overall diamond content of the body due to a number of factors, including location and size of the samples
[3] Carats per hundred tonnes

As currently identified, the AV267 sheet outcrops at surface in at least three locations, which in the past were referred to as the AV2 Lower, AV6 and AV7 exposures. The 20.6 tonne sample of AV267 reported above was collected in close proximity to the original AV2 Lower site. Historical DMS processing of small tonnage samples collected from each of those three separate outcrop sites returned a composite 5.44 carats of diamonds from 6.66 dry tonnes, for an average diamond content of 82 cpht, as shown individually by disclosure date below:

Disclosure Date	Sample Type	Dry Weight (tonnes)	Carats [1]	Diamond Content[2] (cpht)[3]	Largest Diamonds (carats)
11-Jan-07	AV2 Lower	2.19	1.58	72	0.19
11-Jul-06	AV7	2.32	1.78	77	0.19
21-Jun-06	AV6	2.15	2.08	97	0.1

[1] Represents stones retained on a +0.85mm square mesh screen
[2] The estimated diamond content, expressed as carats per hundred tonnes, may not be representative of the overall diamond content of the body due to a number of factors, including location and size of the samples
[3] Carats per hundred tonnes

AV267 is one of seven separate kimberlite sheets intersected over an area measuring about 1.5 by 3.5 km within the Eastern Sheet Complex, part of the Tremblay Corridor. These shallowly dipping (8 to 20 degrees), macrocrystic, hypabyssal kimberlite sheets with associated zones of kimberlite breccia are thought to be part of a sequence of layered, horizontally stacked sheets separated by vertical distances of 10 to 30m. The Company is investigating the hypothesis that the eastern kimberlites represent occurrences of a single system of stacked kimberlite sheets underlying the entire 1.5 by 3.5 kilometer area. One such sheet alone would represent a substantial potential tonnage of diamondiferous material. Additional drilling is required to properly test this conceptual model.

Drilling to date has intersected AV267 over approximately 2km of strike length and up to 500m down dip. True thickness averages about 3m, with most intersections ranging from 2.5 to 4.0m. At the present time the sheet is thought to thicken from northeast to southwest, achieving widths of up to 7m. Three roughly rectangular and contiguous 'blocks' of kimberlite within the AV267 sheet have been tested with an irregular drill pattern. The first block (9 holes in kimberlite) tested a strike length of about 900m and a down dip extension of about 350m, and represents a body striking at 100 degrees and dipping about 8 degrees to the southwest. The second block (12 holes in kimberlite) has a strike of 800m and a down dip extension of about 500m. This block strikes at 065 degrees and dips 8-10 degrees to the southeast. Both of these 'blocks' are open down dip. To the east, a third block of kimberlite (contiguous with the other two, and with a 065 degree strike and 8-10 degree southeast dip) has been intersected over a strike length 800m and a down dip extension of 400m. Drilling in this area suggests the sheet pinches out both along strike and down dip.

Individual core intersections from the 2007 drill program on the AV267 kimberlite totaling 358.7 kg were submitted for caustic dissolution and returned coarse diamond counts that match well with the 20.6 tonne sample reported above. Caustic dissolution results are reported below:

Dry Wt (kg)	NUMBER OF DIAMONDS PER SIEVE SIZE (MM SQUARE MESH SIEVE)									Total Stones
	0.106 to 0.150	0.150 to 0.212	0.212 to 0.300	0.300 to 0.425	0.425 to 0.600	0.600 to 0.850	0.850 to 1.18	1.18 to 1.70	1.70 to 2.36	
358.7	143	127	98	70	42	18	8	10	0	**518**

During the year, Stornoway also reported additional DMS results from three other kimberlite bodies on the Aviat Project.

A total of 48.9 dry tonnes of material from the AV1 kimberlite was collected in 2007 and processed by Dense Media Separation (DMS), recovering 43.41 carats of diamonds for an indicated diamond content of 89 carats per hundred tones (cpht) for stones retained on a 0.85mm square mesh screen. The three largest diamonds recovered from this work were a 0.53 carat colourless macle, a 0.50 carat grey clivage and a 0.49 carat colourless macle.

Previously reported results (Stornoway press release of October 21, 2004) from AV1 comprised 8.54 carats of diamonds recovered from 10.28 dry tonnes of processed material, for an indicated diamond content of 83 cpht (stones retained on a 0.85mm square mesh screen). The largest diamond recovered from this previously reported work was 0.40 carats. Combining this historical result with the new DMS data reported above provides a 'global' summary for the AV1 body of 88 cpht (51.95 carats from 59.19 dry tonnes).

Also during 2007, a total of 6.24 dry tonnes of the AV2 Upper kimberlite was collected and processed by DMS to yield 4.99 carats of diamonds for an indicated diamond content of 80 cpht for stones retained on a 0.85mm square mesh screen. The three largest diamonds recovered from this work were a 0.30 carat colourless broken octahedron, a 0.23 carat colourless octahedron and a 0.13 carat grey tetrahexahedroid.

Details of the new AV1 and AV2 Upper results are provided below:

Kimberlite	Dry wt. (tonnes)	+0.850mm	+1.18mm	+1.70mm	+2.36mm	+3.35mm	No. Stones >0.85mm	No. Stones >1.18mm	Carats Recovered[1]	Diamond Content[2] (cpht)[3]
AV1	**48.91**	1035	485	137	36	5	1698	663	43.41	**89**
AV2 Upper	**6.24**	139	73	12	2	0	226	87	4.99	**80**

[1] Represents stones retained on a +0.85mm square mesh screen
[2] The estimated diamond content, expressed as carats per hundred tonnes, may not be representative of the overall diamond content of the body due to a number of factors, including location and size of the samples
[3] Carats per hundred tonnes

A third DMS sample, collected from a freshly excavated surface expression of the AV8 Upper kimberlite in 2007, returned a total of 1.6065 carats of diamonds from the processing of 1.956 tonnes (dry) of kimberlite, indicating a diamond content of 82 cpht for stones retained on a 0.85mm square mesh screen. The largest stone recovered from this small sample was a 0.38 ct light grey tetrahexahedroid. The AV8 diamonds are described as a mix of white, grey and brown stones representing mostly tetrahexahedroid and combination forms.

Sample	Dry Weight	No. Stones	Carats [1]	Diamond Content[2]	Largest Diamonds

	(tonnes)	>0.85mm		(cpht)[3]	(carats)
2007 AV8 Upper	1.956	54	1.6065	82.1	0.38, 0.18, 0.10

[1] Represents stones retained on a +0.85mm square mesh screen
[2] The estimated diamond content, expressed as carats per hundred tonnes, may not be representative of the overall diamond content of the body due to a number of factors, including location and size of the samples
[3] Carats per hundred tonnes

AV8, originally discovered as outcrop in 2005 and situated some 3km east-southeast of AV267, was drill tested in 2005 and 2006. Drilling intersected three distinct sheets of kimberlite (Upper, Middle and Lower), striking roughly north-south, dipping at about 10 - 20 degrees to the west, separated by a vertical distance of 20-30m and extending over a drilled surface area of about 650m by 375m. The AV8 Upper sheet averages 2.9m true thickness in the vicinity of the original AV8 outcrop (see press release dated October 11, 2006). The heavily weathered discovery outcrop of AV8 Upper was the site of an earlier 2.5t surface DMS sample, historical results of which are restated below. The improved diamond content for AV8 Upper derived from the new 2007 work reported herein is ascribed to the collection of a fresher, less weathered sample, and is more consistent with the other Aviat bodies.

Disclosure Date	Sample Type	Dry Weight (tonnes)	Carats [1]	Diamond Content[2] (cpht)[3]	Largest Diamonds (carats)
11-Jan-07	AV8 Upper	2.53	0.6545	26	0.129

[1] Represents stones retained on a +0.85mm square mesh screen
[2] The estimated diamond content, expressed as carats per hundred tonnes, may not be representative of the overall diamond content of the body due to a number of factors, including location and size of the samples
[3] Carats per hundred tonnes

Diamond results reported above are based on work completed by Microlithics Laboratories, Thunder Bay, Ontario, an independent mineral process laboratory currently providing services exclusively to Stornoway and its affiliates. The 6.2 and 48.9 tonne samples were processed through a 1.5 tonne per hour (tph) DMS plant designed to recover stones retained on a 0.85mm square mesh sieve. Kimberlite was prepared through a primary jaw crusher, with -10 mm material fed directly into the DMS. All +10 mm material was subsequently reduced through secondary cone crushing. DMS concentrates were submitted for caustic fusion and the residues hand sorted to extract diamonds. As part of Stornoway's ongoing QA/QC programs, DMS tails, concentrate residues and other materials are subject to audit. Any significant changes to recovered diamond grades will be reported when available. Stornoway's diamond exploration programs are conducted under the direction of Robin Hopkins P.Geol. (NT/NU), Vice President, Exploration, a Qualified Person under NI 43-101.

Planned Exploration Activities for 2008

Exploration activities consisting of ground geophysics and drilling commenced on the Aviat project in mid-May 2008. Initial work will be focused at AV9, with the goal of establishing its size and shape and collecting a larger sample for diamond analysis. Drilling will also be undertaken on the AV267 sheet to support a conceptual resource study. An additional 150-200 tonne sample of kimberlite will be collected from surface exposures of the AV267 sheet this season, once weather and logistical considerations allow. The sample will be shipped south by scheduled barge for DMS processing, with results expected late in 2008. The purpose of the 150-200 tonne sample will be to establish a preliminary value for the Aviat diamonds that can be used in conjunction with the conceptual resource study to examine the economic potential of the Aviat Project. Additional targets established from a Spring ground geophysical program targeting the primary host structure of the AV1, AV4 and AV9 kimberlite pipes will be slated for drill testing later in the summer.

The Company believes that the continuity of the eastern stacked kimberlite sheets, coupled with the discovery of the AV9 pipe and the presence of other unsourced indicator mineral anomalies within the Tremblay Corridor and along the main host structure, demonstrates the potential for both significant tonnage and continued exploration success at the Aviat Project.

Churchill Property, Nunavut

The Company acquired an initial 35% interest in the diamond rights to the Churchill Property pursuant to a letter agreement dated June 13, 2002. A joint venture agreement was executed as of August 1, 2004, among the Company, BHPB and Shear Minerals Ltd. ("Shear"). In July 2007, Stornoway increased its interest in the Churchill property to 41.86% by acquiring a portion of BHPB's interest in the Churchill Project in consideration of a cash payment of $1,250,000 and by issuing 2,200,000 common shares with a fair value at the time of issuance of $2,134,000. Shear acquired the remainder of BHPB's interest concurrently. As a result, Shear and Stornoway now own a 58.14% and 41.86% interest, respectively, in the project. The Churchill Property is subject to a 2% GOR/NSR in favour of Hunter.

The Churchill Property comprises approximately 1.1 million acres located near the community of Rankin Inlet in the Kivalliq Region of Nunavut, Canada. Mineral rights to any non-diamond commodities within the Churchill Property have been held by an unrelated company (Kaminak Gold Corp.) since November 2005.

A budget of $8.5 million was approved for the 2007 exploration season and included plans for the minibulk sampling of up to 500 tonnes of kimberlite from the Kahuna and Notch diamondiferous dikes. Other plans included snowmobile ground geophysics to collect detailed magnetic data at 40m line spacing within corridors of high interest G10 chemistry, ongoing exploration drilling to find the source of 17 pyrope dispersion trains, ongoing till sampling and prospecting throughout the summer season, structural study and interpretation and ongoing environmental baseline data collection.

<u>Kahuna minibulk sample results</u>

Processing of the minibulk sample from the Kahuna kimberlite at the Churchill Project was completed in November 2007. The joint venture recovered 11,088 diamonds greater than 0.85 mm from a total sample of 356 dry tonnes resulting in an overall diamond grade of 0.95 carats per tonne. A Kahuna tailings audit completed during the year and reported on June 26, 2008 confirmed the recovery of additional diamonds that potentially increases diamond grade to 1.04 carats per tonne (cpt). The objective of the Kahuna bulk sample program was to establish a preliminary grade and to provide an initial assessment of diamond value.

The minibulk sample, collected earlier in 2007, yielded 337 carats of diamonds with preliminary observation describing the majority as white and colourless. The five largest stones were 5.44, 2.05, 1.54, 1.44 and 1.32 carats. Several of the larger stones are interpreted to be broken fragments of a larger diamond estimated to have been up to 13.42 carats in weight.

The diamond results are from three spatially separate surface samples that were collected by trenching along the Kahuna kimberlite dyke in March and April of 2007. Sample grades are based on diamonds recovered on a 0.85mm sieve size or larger (using a square mesh). The Kahuna kimberlite is inferred to be a sub-vertical kimberlite dyke up to 4m wide that trends for more than 5.5km based on geophysical interpretation.

Sample Number	**Sample Weight Dry (tonnes)**	**Diamond Recovery Carats per tonne (+0.85mm)**	**Weight of Diamonds Recovered (carats) (+0.85mm)**	**Number of stones +0.85 mm**	**0.85 mm Sieve**	**1.18 mm Sieve**	**1.70 mm Sieve**	**2.36 mm Sieve**	**3.35 mm Sieve**	**4.75 mm Sieve**	**6.70 mm Sieve**
Kahuna – Sample 1[1]	98.13	1.03	100.80	3,582	1,737	1,528	263	48	6	0	0
Kahuna – Sample 3[2]	151.63	0.94	142.35	4,267	2,015	1,850	302	76	20	3	1
Kahuna – Sample 2[3]	106.57	0.88	93.54	3,239	1,609	1,374	203	40	13	0	0

Total Kahuna	356.33	0.95	336.69	11,088	5,499	4,772	773	165	39	3	1

[1] Largest diamond 0.98 carats
[2] Largest diamonds 5.44, 2.05, 1.54, 1.44, and 1.32 carats; as reported in November 14, 2007 news release
[3] Largest diamonds 1.39, 1.19 and 0.73 carats; as reported in September 8, 2007 news release

Sample results are based on the recovery of diamonds by dense media separation (DMS) at Kennecott Canada Exploration Inc.'s independent processing plant in Thunder Bay, ON, using a 1mm square mesh bottom cut off. Kahuna Samples 1 and 3 were crushed; Sample 2 required no crushing as the kimberlite was pervasively clay altered. A 135kg and 672.8kg heavy mineral concentrate was generated from Samples 1 and 3 respectively and then passed through an x-ray sorter and picked for diamonds. Diamonds were also recovered during an audit of the magnetic fractions and x-ray rejects resulting in the treatment of these fractions by caustic fusion analysis.

Kahuna Bulk Sample Tailings Audit

On June 26, 2008 Shear reported the recovery of additional macrodiamonds from an audit of the tailings material from the 2007 Kahuna bulk sample. The audit comprised reprocessing of between 15 and 22% of the tails from each sample, and an additional 351 diamonds representing 6.196 carats were recovered, including a 0.27 carat diamond from the Kahuna 3 sample. It was carried out at Microlithics Dense Media Separation (DMS) facility in Thunder Bay, Ontario. The tailings underwent an initial pass through the DMS circuit to produce a heavy mineral concentrate which was then subjected to caustic fusion to recover diamonds.

Based on the results of the audit, the calculated diamond grade for Kahuna (as reported on December 3, 2007) has the potential to increase from 0.96 carats per tonne (cpt) to 1.04 cpt.

Kahuna Bulk Sample Valuation

Given the completion of the tailings audit and breakage studies on the Kahuna bulk sample, Shear is currently in the process of finalizing arrangements for an independent market valuation exercise for the Kahuna diamonds. The valuation will be conducted in Antwerp, Belgium, and is designed to give a preliminary estimate of average diamond value for the parcel recovered to date.

Other exploration results at Churchill

Additional work at Churchill during the year ended April 30, 2008 resulted in the discovery of a total of 31 new kimberlite occurrences, including three kimberlite dykes that have been interpreted to be similar to the higher interest bodies found elsewhere on the property. Work on the property included:

- High resolution geophysical surveys over all high-interest G10 pyrope corridors to assist with target identification and drilling. This consisted of ground geophysics totaling 5,000 line-km at 40m line spacing and high resolution airborne magnetics surveying using the FUGRO MIDAS system totaling 12,000 line-km at 15m line spacing to provide seamless data for follow-up
- 488 till samples taken to infill known priority areas
- 51 auger drill holes completed in the Josephine River Corridor to trace the high-interest pyropes in the glaciofluvial sand deposits. 37 of these holes contained visible kimberlite fragments
- Sixty-four drill-holes totaling 4,666m were completed on the property to test new exploration targets and to define and better understand the Kahuna kimberlite.

At Kahuna, 30 drill-holes from 18 set-ups totaling 2,333m were drilled along a tested 4.5km strike length of the kimberlite dyke to provide a better understanding of its size and geometry. A total of 142m of kimberlite was intersected down hole, with single intercepts ranging from 0.5 to 4.6 metres and averaging 2.6m in true width. Drill core samples totaling 225kg were also collected for micro diamond analysis to assist in grade modeling. A further 26 exploration targets were tested with 32 drill holes totaling 2,354m which resulted in the discovery of 15 new kimberlites on the property. Three of these are interpreted to be high diamond potential kimberlite dykes, occurring at the heads of three different G10 pyrope mineral trains in the Sedna Corridor and are believed to be the source of the mineral chemistry. Sample material totaling 190.4kg was collected from all drill core and sent for diamond recovery. Kimberlite from the KD308 blow represents 160kg of this material (results reported below). Results from the remaining material will be released when available.

Prospecting on the property resulted in 16 new kimberlite discoveries occurring as outcrop and subcrop. A total of 291kg of kimberlite was collected in 15 to 25kg grab samples from each new outcrop and subcrop occurrence. In addition to the outcrops and subcrops, nine unsourced kimberlite float anomalies were found. All samples will be analyzed to determine diamond potential. Of particular interest is the Meeka kimberlite found from prospecting an east-west linear trend located southeast of the Jigsaw kimberlite. An area of green coloured till was sampled and nineteen diamonds were recovered from a 15kg till sample using caustic fusion. A larger trench sample of similar material yielded a total of 92 microdiamonds from a 102.8kg sample (see news release January 31, 2008). Based on interpretation from a ground geophysical grid, Meeka is an east-west trending dyke 500m in length and open in both directions. Trenching along the body was unable to establish true width due to the highly weathered nature of the kimberlite and surrounding country rock. Nonetheless, a 1.8-tonne mini bulk sample was collected of this material that once dried, resulted in a final sample weighing 860.5 kilograms. This sample was processed through the Microlithics DMS facility and only one >0.5mm diamond was recovered from a concentrate containing abundant chromite and kyanite. Due to the unconsolidated nature of the sample medium it is interpreted that the mini bulk sample was highly diluted by glacial material and weather country rock. Prospecting of the entire Meeka trend will occur in 2008 to attempt to locate fresh bedrock kimberlite for follow up sampling.

Results will be released when available.

<u>KD308 Diamond Results</u>

The KD308 kimberlite, which was drilled in 2006 and reported in a May 2, 2007, press release, was interpreted to represent a kimberlite blow on a parallel structure 2.5 km east of Kahuna. A sample of 160 kg of material was collected and analyzed for diamond content. The results are tabulated below:

Sample Number	**Sample Weight (kg)**	**0.106mm Sieve**	**0.15mm Sieve**	**0.212mm Sieve**	**0.3mm Sieve**	**0.425mm Sieve**	**0.6 mm Sieve**	**0.85mm Sieve**	**1.180 mm Sieve**	**Total**
KD-308	160	10	6	4	0	0	1	0	0	21
[1] The three largest diamonds measured 1.00mm x 0.68mm x 0.58mm; 0.5mm x 0.42mmx 0.26mm; 0.38mm x 0.32mm x 0.30mm										

All samples were submitted to the Saskatchewan Research Council Geoanalytical Laboratories (“SRC”) accredited to the ISO/IEC 17025 standard by the Standards Council of Canada as a testing laboratory for diamond analysis using caustic fusion.

During the current quarter ended January 31, 2008, the Company and Shear reported additional caustic fusion results received from four new kimberlite dykes discovered by drilling during the 2007 exploration program.

These kimberlites occur at the heads of three different G10 pyrope mineral trains in the Sedna Corridor and are believed to be the source of the mineral chemistry based on their close spatial association. The kimberlite dykes range in size from 10 to 50cm true width and are highly altered with visible pyrope garnets.

Samples were submitted to the Saskatchewan Research Council Geoanalytical Laboratories ("SRC") accredited to the ISO/IEC 17025 standard by the Standards Council of Canada as a testing laboratory for diamond analysis using caustic fusion. Diamonds from these four dykes will be described, categorized and assessed for any breakage. Complete diamond recoveries were as follows:

Kimberlite	**Sample Weight (kg)**	**0.106 mm Sieve**	**0.15mm Sieve**	**0.212mm Sieve**	**0.3mm Sieve**	**0.425mm Sieve**	**0.6 mm Sieve**	**0.85mm Sieve**	**1.180 mm Sieve**	**Total Diamond Count**

KD-13[1]	1.0	28	13	6	4	2	1	0	0	54
KD-14[2]	1.7	40	23	7	9	3	1	0	1	84
KD-16[3]	3.75	48	27	17	9	5	2	0	1	109
KD-24[4]	2.2	116	82	49	30	12	9	5	2	305

[1] The three largest diamonds measured 1.1mm x 0.9mm x 0.7mm; 0.78mm x 0.6mm x 0.5mm; 0.7mm x 0.5mm x 0.4mm
[2] The three largest diamonds measured 2.7mm x 1.9mm x 0.32mm; 0.92mm x 0.9mm x 0.24mm; 1.14mm x 0.74mm x 0.34mm
[3] The three largest diamonds measured 1.4mm x 1.36mm x 1.1mm; 0.76mm x 0.66mm x 0.6mm; 0.7mm x 0.64mm x 0.48mm
[4] The three largest diamonds measured 1.86mm x 1.58mm x 1.06mm;1.74mm x 1.52mm x 0.96mm; 1.62mm x 1.38mm x1.1mm

Additional diamond results are also reported from the Meeka kimberlite. Meeka is an east-west linear kimberlite dyke 500m in length and open in both directions (based on interpretation from ground geophysics). It is located southeast of the Jigsaw kimberlite and was discovered by prospecting in 2007 (see October 11, 2007 news release). A 15 kg sample of green coloured till adjacent to Meeka was sampled previously and returned nineteen diamonds using caustic fusion. During 2007 a 102.8 kg sample of weathered kimberlite was collected for testing with caustic dissolution in addition to a larger 1.8 tonne mini bulk sample for processing utilizing dense media separation (DMS). Complete diamond recovery results from caustic fusion of the 103kg sample at SRC are as follows:

Sample Number	Sample Weight (kg)	0.106 mm	0.15mm Sieve	0.212mm Sieve	0.3mm Sieve	0.425mm Sieve	0.6 mm Sieve	0.85mm Sieve	1.180 mm Sieve	Macros	Total
Meeka[1]	102.8	52	35	3	1	0	0	0	0	0	91

[1] The three largest diamonds measured 0.4mm x 0.3mm x 0.3mm; 0.28mm x 0.28mm x 0.22mm; 0.28mm x 0.2mm x 0.2mm

Prospecting on the property in 2007 also identified 16 new kimberlite discoveries occurring as outcrop and sub crop. A total of 291kg of kimberlite was collected in 15 to 25kg grab samples from each new outcrop and sub crop occurrence. In addition to the outcrops and sub crops, nine unsourced kimberlite float anomalies were found. Recently completed caustic fusion of these samples did not return any significant diamond results.

On February 20, 2008, Shear and Stornoway announced additional macro and micro diamond recoveries from 2007 drilling of the Kahuna kimberlite dyke. In 2007, 30 drill-holes from 18 set-ups totaling 2,333m were drilled along a 4.5km strike length of the Kahuna kimberlite dyke to provide a better understanding of its size and geometry. A total of 142m of kimberlite was intersected, with intercepts up to 11.8m down-hole (3.8m true width). Based on these intercepts, Shear has described the Kahuna kimberlite as a vertical dyke averaging 2.6m in true width. Drill core samples totaling 206.3 kg were processed and 1,071 diamonds, including 99 macro diamonds, were recovered. Results

Total Kahuna Drilling	Sample Weight (kg)	0.150 mm Sieve	0.212 mm Sieve	0.300 mm Sieve	0.425 mm Sieve	0.600 mm Sieve	0.850 mm Sieve	1.180 mm Sieve	1.700 mm Sieve	Total
Kahuna	206.3	444	291	205	80	34	13	3	1	1,071

In addition, samples were collected from each of the three mini bulk sample pits for microdiamond modeling. A total of 288.5 kg was processed with 1,619 diamonds, including 215 macro diamonds, being recovered. Results are listed below:

Sample Number	Sample Weight (kg)	0.150 mm Sieve	0.212 mm Sieve	0.300 mm Sieve	0.425 mm Sieve	0.600 mm Sieve	0.850 mm Sieve	1.180 mm Sieve	1.700 mm Sieve	Macros	Total

Kahuna 1	106.1	236	172	119	54	20	2	4	0	80	607
Kahuna 2	83.65	244	162	96	28	18	10	2	0	58	560
Kahuna 3	98.75	167	131	76	43	25	5	4	1	77	452
Total from Pits	288.5	647	465	291	125	63	17	10	1	215	1,619

All samples were submitted to the Saskatchewan Research Council Geoanalytical Laboratories ("SRC") accredited to the ISO/IEC 17025 standard by the Standards Council of Canada as a testing laboratory for diamond analysis using caustic fusion.

Qilalugaq Property, Nunavut

The Qilalugaq Property is 1.04 million acres and lies on the Melville Peninsula in Nunavut. The property hosts 17 kimberlites, including the 14 ha coalescing Q1-4 bodies, currently the largest known kimberlite in the eastern Arctic and the subject of a previous large scale sampling program by BHPB. Under the terms of an option agreement signed between BHPB and Stornoway on July 10, 2006 and revised June 5, 2008, Stornoway can earn 50% in the project from BHPB by spending $9 million before December 31, 2012.

Dense Media Separation (DMS) processing of 20.28 tonnes (dry) of kimberlite collected during 2007 as a single surface sample from the outcropping Q1 (also known as A28) kimberlite returned a total of 6.081 carats of diamonds, indicating a diamond content of 30 cpht for stones retained on a 0.85mm square mesh screen. The largest intact diamond recovered from this sample was a 0.37 carat light brown irregular stone. Some 25 pieces of a larger but mechanically broken colourless stone were recovered, representing an original crystal weight of at least 0.7925 carats. Other unrecognized fragments of this diamond may be present in the stone counts below. The Q1 (A28) diamonds are described as a mix of mostly octahedral and tetrahexahedroid forms. Stone colours range from colourless to light brown, with a small component of yellows.

Sample	Dry Weight (tonnes)	No. Stones >0.85mm	Carats [1]	Diamond Content[2] (cpht)[3]	Largest Diamonds (carats)
2007 Q1 (A28)	20.28	193	6.081	30.0	0.79[4], 0.37, 0.36, 0.29

[1] Represents stones retained on a +0.85mm square mesh screen
[2] The estimated diamond content, expressed as carats per hundred tonnes, may not be representative of the overall diamond content of the body due to a number of factors, including location and size of the samples
[3] Carats per hundred tones
[4] Broken stone (minimum weight as measured from 25 recovered pieces)

Prospecting activities undertaken during the summer 2007 program extended the strike length of the Naujaat 1 and Naujaat 2 kimberlite dykes, originally discovered during 2006 (see press release dated August 23, 2006), and identified four new kimberlite dykes, Naujaat 3 through Naujaat 6, inclusive (see press release dated September 11, 2007). Collectively, the Naujaat 1 to Naujaat 6 bodies and the known diamondiferous kimberlite pipes suggest the presence of a 26 km long, structurally favourable, belt that has been exploited by kimberlite magmas rising from the mantle. No drilling or mechanized trenching has been undertaken on the Naujaat 1 to Naujaat 6 bodies.

Surface expressions of kimberlite subcrop from Naujaat 1 to 4 and Naujaat 6 were sampled to determine microdiamond content by caustic fusion analysis. As noted previously, (see press release dated September 11, 2007) the Naujaat 5 kimberlite occurs only as disaggregated frost heaved 'green tills' for which no fresh representative sample could be collected. All of the 2007 caustic fusion samples retuned diamonds, with results summarized in the table below. Recovery of +0.60 and +0.85mm stones from Naujaat 4 during caustic fusion is considered to be a positive development.

Body	Sample Weight (kg)	NUMBER OF DIAMONDS PER SIEVE SIZE (MM SQUARE MESH SIEVE)									Total
		+0.106 mm	+0.150 mm	+0.212 mm	+0.300 mm	+0.425 mm	+0.600 mm	+0.850 mm	+1.180 mm	+1.7 mm	
Naujaat 1	138.49	34	20	12	19	8	1	0	0	0	94
Naujaat 2	60.19	3	3	2	2	0	0	0	0	0	10
Naujaat 3	243.30	0	8	4	2	2	0	0	0	0	16
Naujaat 4	94.75	13	12	13	2	1	1	1	0	0	43
Naujaat 6	158.40	14	14	5	1	1	0	0	0	0	35

Small DMS samples were collected in 2007 from kimberlites Naujaat 1, 2, 3 and 6 to gain greater information on potential macrodiamond content. Although the sample sizes are too small to accurately reflect total diamond content (see discussion in Historical and Comparative section below), only the Naujaat 1 body recovered any diamonds on the 0.85mm or greater square mesh screen, as reported below.

Sample	Dry Weight (tonnes)	No. Stones >0.85mm	Carats [1]	Diamond Content[2] (cpht)[3]	Largest Diamond (carats)
Naujaat 1	0.588	4	0.0305	5.2	0.0080
Naujaat 2	0.913	0	n/a	n/a	n/a
Naujaat 3	1.703	0	n/a	n/a	n/a
Naujaat 6	0.998	0	n/a	n/a	n/a

[1] Represents stones retained on a +0.85mm square mesh screen
[2] The estimated diamond content, expressed as carats per hundred tonnes, may not be representative of the overall diamond content of the body due to a number of factors, including location and size of the samples
[3] Carats per hundred tones

The 2008 program is anticipated to commence in July, depending on weather and logistical considerations, and will focus on unsourced mineral indicator mineral trains with promising chemistry. Stornoway will also conduct additional prospecting along the Naujaat 4 and 5 bodies to determine if sufficient unweathered material exists at surface to facilitate the collection of larger samples.

The terms of the original option agreement signed between Stornoway and BHPB on July 10, 2006 (see press release dated July 12, 2006) have been revised, such that Stornoway may earn up to a 50% interest in the Qilalugaq Diamond Property by spending a total of $9 million before December 31, 2012 (changed from December 31, 2011). Thereafter, a joint venture will be formed whereby the partners agree to jointly fund the next $6 million in property expenditures over two years. After $6 million in expenditures have been incurred, BHPB shall have a one time election to earn a further 15% interest in the project (bringing its total interest to 65%) by incurring the next $15 million in expenditures.

Historical and Comparative Data

The Qilalugaq Property was acquired by BHPB in 2001 and has undergone several phases of exploration using airborne geophysics (magnetics, electromagnetics and gravity surveying) together with property wide till sampling, drilling and limited minibulk sampling. Eleven kimberlites were discovered by BHPB as a result of this work, ten of these were analysed and proven diamondiferous. The Qilalugaq bodies share geological similarities with the Aviat bodies and appear to be the same age. The largest kimberlite identified by BHPB is a complex made up of the Qilalugaq 1, 2, 3, and 4 pipes which coalesce to form a body with an approximate area of 14 ha. Other drill confirmed bodies range in size from 0.8 to 11.0 ha based on interpretation of geophysical data. A mini-bulk sample of 229.7 dry tonnes extracted from the Qilalugaq 1-4 (Q1-4) complex by RC and core drilling returned a total of 61.37 carats (for stones greater than 1.1 mm), indicating a calculated sample grade of 27 cpht. The Q1 body, approximately 5.4 ha in size, was not tested with RC drilling and is therefore under represented in this mini-bulk sample.

Stornoway collected a 4.2 tonne sample by hand pitting of the Q1 (A28) kimberlite body in 2006, A diamond content of 32.8 cpht, including a 0.587 carat stone, was reported following DMS processing (see press release dated May 14, 2007). BHP Billiton previously collected a 9.6 tonne sample from the same body by drilling and derived a diamond content of 26 cpht. During 2007, Stornoway excavated an additional 20.3 tonnes of kimberlite from the A28 kimberlite pipe by hand pitting of surface exposures as reported above. Historical results and a cumulative total are provided in the table below.

Disclosure Date	Sample Type	Dry Weight (tonnes)	Carats[1]	Diamond Content[2] (cpht)[3]	Largest Diamond (carats)
05-June-2008	Q1 (A28) Surface	20.28	6.081	30.0	0.79[4]
14-May-2007	A28 Surface	4.19	1.380	32.8	0.587
14-May-2007	Q1 Historical Drilling (BHPB)	9.60	2.496	26.0	n/a
	Cumulative Total	**34.07**	**9.957**	**29.2**	**0.79[4], 0.587**

[1] Represents stones retained on a +0.85mm square mesh screen
[2] The estimated diamond content, expressed as carats per hundred tonnes, may not be representative of the overall diamond content of the body due to a number of factors, including location and size of the samples
[3] Carats per hundred tones
[4] Broken stone (minimum weight as measured from 25 recovered pieces)

During 2006, Stornoway also discovered two kimberlite dykes by prospecting - the Naujaat 1 and Naujaat 2 bodies (see press release dated August 23, 2006). Caustic fusion results from Naujaat 1 collected at three locations along strike confirmed that the body was diamondiferous, and suggested a possible variation in diamond content may occur over the 3.1 km strike length. The small DMS sample collected in 2007, and reported above, indicates a potentially higher diamond content than the 2006 work, although the two samples were separated by a distance of 2.5 km. It is possible that what was thought to be a single body (Naujaat 1) is actually two separate features, but limitations to field exposures and unresolved geophysical variations preclude a definitive conclusion. The reader is also cautioned about drawing conclusions from the processing of small samples especially when dealing with lower grade kimberlite bodies. Apparent variations or discrepancies in diamond content may be attributable to natural factors, surficial weathering, collection issues, processing and recovery parameters, etc.

Disclosure Date	Sample Type	Dry Weight (tonnes)	Carats[1]	Diamond Content[2] (cpht)[3]	Largest Diamond (carats)
05-June-2008	Naujaat 1 2007	0.588	0.0305	5.2	0.0080
14-May-2007	Naujaat 1 2006	1.015	0.0045	0.5	0.0045

[1] Represents stones retained on a +0.85mm square mesh screen
[2] The estimated diamond content, expressed as carats per hundred tonnes, may not be representative of the overall diamond content of the body due to a number of factors, including location and size of the samples
[3] Carats per hundred tones

Scientific and Technical Data

Diamond results reported above are based on work completed by Microlithics Laboratories, Thunder Bay, Ontario, an independent mineral process laboratory currently providing services exclusively to Stornoway and its affiliates. The DMS samples were processed through a 1.5 tonne per hour (tph) DMS plant designed to recover stones retained on a 0.85mm square mesh sieve. Kimberlite was prepared through a primary jaw crusher, with -10 mm material fed directly into the DMS. All +10 mm material was subsequently reduced through secondary cone crushing. DMS concentrates were submitted for caustic fusion and the residues hand sorted to extract diamonds. Caustic fusion analysis of individual rock samples was also undertaken at Microlithics. As part of Stornoway's ongoing QA/QC programs, DMS tails, concentrate residues and other materials are subject to audit. Any significant changes to recovered diamond contents will be reported when available. Stornoway's diamond exploration programs are conducted under the direction of Robin Hopkins P.Geol. (NT/NU), Vice President, Exploration, a Qualified Person under NI 43-101.

Timiskaming Diamond Project, Ontario/Quebec

The Timiskaming Diamond Project is located in northeastern Ontario/northwestern Quebec. The Company currently maintains a 100% interest in over 280,000 acres of exploration licenses and has to date discovered nine kimberlite bodies in the region. The 95-2 pipe on the property yielded a population of highly commercial diamonds at marginally sub-economic grades in a mini-bulk sample program conducted between 2003 and 2004. Between 2005 and 2006, Contact identified several new kimberlitic indicator mineral trains in the area suggesting the existence of multiple, to date undiscovered kimberlites in the area. Exploration activities in 2007 include follow up till sampling, airborne geophysics, claim staking and drilling, where warranted, of potential kimberlite targets. Drill testing of one such target in November 2006 resulted in the discovery of the BA-19 kimberlite in Baby Township, Fugereville, Québec.

Other Properties

In addition to the material mineral properties described above, the Company holds interests in some 27 other active projects (ranging from early stage to advanced exploration) totalling about 4.9 million acres in Nunavut, Alberta, Saskatchewan, Ontario, Québec and the Northwest Territories, as well as a series of properties currently classified as inactive. Exploration activities have taken place, or are taking place, on both the active properties and on generative projects.

RISKS AND UNCERTAINTIES

No Operating Profit - Need For Additional Funds – Dilution

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

As at April 30, 2008, the Company had cash on hand of $9.5 million and outstanding convertible debentures in the amount of $20.0 million that mature on March 16, 2009. In July 2008, the Company entered into a private placement agreement with the two holders of the convertible debentures whereby the Company will issue 24,444,444 common shares at a price of $0.90 per share for gross proceeds of $22.0 million. The gross proceeds from this private placement will be used to repay the $20.0 million principal and to make a $2.0 million early inducement payment to the two holders of the convertible debentures. The private placement is subject to regulatory approval. The Company's issued and outstanding common shares will increase to 226,170,452 at closing.

The Company may, in the future, be unable to meet its share of costs incurred under agreements to which it is a party and it may have its interest in the properties subject to such agreements reduced as a result. Also, if other parties to such agreements do not meet their share of such costs, the Company may not be able to finance the expenditures required to complete recommended programs.

Exploration and Development

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

All of the claims and permits to which the Company has a right to acquire an interest are in the exploration stages only and are without a known body of commercial ore. The business of diamond exploration in northern Canada can be a lengthy, time consuming, expensive process and involves a high degree of risk. Upon discovery of a diamond bearing kimberlite, the primary host-rock for diamonds, several stages of assessment are required before its economic viability can be determined. Assessment includes a determination of deposit size (tonnage), grade (carats/stone), diamond value (US$/carat) and the associated costs of extracting and selling the diamonds. Development of the subject diamond properties would follow only if favorable results are obtained at each stage of assessment. Although the Company has reported recoveries of diamonds from material extracted from kimberlite occurrences on the Company's properties, the amount of material extracted is small and continuity of the diamond content of the kimberlitic body is not assured and cannot be assumed. The development of a diamond mine in northern Canada has typically taken between seven and ten years from its initial discovery. Few diamond deposits discovered are ultimately developed into producing mines.

There is no assurance that the Company's diamond exploration activities will result in any discoveries of commercial bodies of ore. The long-term profitability of the Company's operations will in part be directly related to the costs and success of its exploration programs, which may be affected by a number of factors.

Substantial expenditures are required to establish reserves through drilling, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major diamond deposit, no assurance can be given that diamonds will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis.

Nature of the Securities

The purchase of securities of the Company involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. The Company's securities should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in securities of the Company should not constitute a major portion of an investor's portfolio.

Price Volatility of Public Stock

The market price of securities of the Company have experienced wide fluctuations which may not necessarily be related to the operating performance, underlying asset values or prospects of such companies. It may be anticipated that any market for the Company's shares will be subject to market trends generally and the value of the Company's shares on the Toronto Stock Exchange may be affected by such volatility.

Supplies, Infrastructure, Weather and Inflation

The Company property interests are located in remote, undeveloped areas and the availability of infrastructure such as surface access, skilled labour, fuel and power at an economic cost, cannot be assured. These are integral requirements for exploration, development and production facilities on mineral properties. Power may need to be generated on site.

Due to the remoteness of its exploration projects, the Company is forced to rely heavily on air transport for the supply of goods and services. Air transport in northern Canada is very susceptible to disruptions due to adverse weather conditions, resulting in unavoidable delays in planned programs and/or cost overruns.

Recent, improved market conditions for resource commodities after several years of record low prices has resulted in a dramatic increase in mineral exploration investment and activity in Canada. While inflation has not been a significant factor affecting the cost of goods and services in Canada in recent years, this renewed exploration activity has resulted in a shortage of experienced technical staff, and heavy demand for drillers, geophysical surveying crews and other goods and services needed by the exploration community.

It is difficult at this stage to quantify the effect of increased demand for these goods and services used in the Company’s exploration programs, but there is anecdotal evidence that cost increases during the upcoming field season will be considerably higher than the rate of inflation prevailing in other sectors of the economy. Exploration companies can also expect to experience difficulty in scheduling drilling contracts, airborne geophysical surveys and other services that are key components of early stage exploration programs.

Market for Diamonds

The mining industry, in general, is intensely competitive and there is no assurance that, even if commercial quantities of diamonds are discovered, a profitable market will exist for the sale of the diamonds produced. Factors beyond the control of the Company may affect the marketability of any diamonds or other minerals discovered. Pricing is affected by numerous factors beyond the Company's control such as international economic and political trends, global or regional consumption and demand patterns, increased production and the influence of the world’s largest diamond producer, De Beers Consolidated Mines Ltd. There is no assurance that the price of diamonds recovered from any diamond deposit will be such that they can be mined at a profit.

Marketability of Diamonds

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

Title Risks

Although the Company has exercised the usual due diligence with respect to determining title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The

Company's mineral property interests may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. Surveys have not been carried out on the majority of the Company's mineral properties, therefore in accordance with the laws of the jurisdiction in which such properties are situated, their existence and area could be in doubt.

Environmental Regulations, Permits and Licenses

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

The current operations of the Company require permits from various domestic authorities and such operations are governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

The Company believes it is in substantial compliance with all material laws and regulations, which currently apply to its activities. There can be no assurance, however, that all permits which the Company may require for its operations and exploration activities will be obtainable on reasonable terms or on a timely basis or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake.

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

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

Operating Hazards and Risks

While the Company does not presently engage in mining operations, its goal is to discover and develop a diamond deposit and put it into production. Mining Operations involve many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes may occur. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of diamonds and other metals, any of which could result in damage to or destruction of mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damage. Although the Company maintains liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a materially adverse effect upon its financial condition.

Competition for Properties

The mining industry is intensely competitive in all its phases, and the Company competes with other companies that have greater financial resources and technical capacity. Competition could adversely affect the Company's ability to acquire suitable properties or prospects in the future.

Economic Conditions

Unfavorable economic conditions may negatively impact the Company's financial viability. Unfavorable economic conditions could also increase the Company's financing costs, decrease net income, limit access to capital markets and negatively impact any of the availability of credit facilities to the Company.

Dependence on Management

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

Conflicts of Interest

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

SUMMARY OF QUARTERLY RESULTS

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

Period	Revenues(1)	Loss or (Income) from Continued Operation and Net Loss (Income)	Basic Loss (Earnings) per share(2) from Continued Operation and Net Loss (Income)	Fully Diluted Loss (Income) per share(2) - from Continued Operation and Net Loss (Income)
Three months ended April 30, 2008	$ 121	$ 5,295	$ 0.03	$ 0.03
Three months ended January 31, 2008	178	16,580	0.08	0.08
Three months ended October 30, 2007	252	921	0.01	0.01
Three months ended July 31, 2007	188	4,733	0.02	0.02
Three months ended April 30, 2007	(99)	3,037	0.02	0.02
Three months ended January 31, 2007	188	3,953	0.03	0.03
Three months ended October 30, 2006	628	7,794	0.08	0.08
Three months ended July 31, 2006	223	4,353	0.05	0.05

(1) Revenues consist of interest income earned on short-term, liquid investments and property management fees earned from several joint venture properties. The Company has no operating revenues.

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

The Company's exploration activities in northern Canada are seasonal, with work typically conducted between March and October. During the winter months, the Company's technical team typically reviews the results from lab and analytical work to plan for the next field season. Land acquisitions in other parts of Canada, including the land-holdings of Ashton and Contact in Ontario and Quebec in particular, have allowed the Company to expand its current field season by several months in recent years. The Company's cash flow is affected by the seasonality of the exploration business, and fluctuations in general and administrative expenses are typically seasonal as well.

Quarterly results will vary in accordance with the Company's exploration and financing activities. The acquisition of Ashton and Contact in the Comparative Year significantly increased the Company's land position, employees and market capitalization. To finance this growth, between November 2006 and April 2007, the Company raised approximately $52.7 million through the issuance of equity (including subscription receipts of $22.5 million from Agnico-Eagle) and $20.0 million through the issuance of convertible debentures. In addition, the Company sold its interest in the Buffalo Hills Property in Alberta for $15.0 million cash plus common shares with a fair value of $2.5 million at the July 2007 agreement date. The Company's growth was reflected in higher general and administrative expenses in the Comparative Year. The Company's activities in the Current Year have focused on continued exploration of its mineral properties and the completion of a pre-feasibility study on the Renard Project in Quebec. In a typical year, the Company's legal fees will increase in periods where property option and joint venture agreements are in development and negotiation, and investor relations activities increase in proportion to shareholder inquiries, communications and as a result of the Company's periodic "roadshows". Stock-based compensation expense varies, and is dependant upon the size, timing and estimated fair value of the stock option grants. Resource property write-offs also vary in accordance with exploration results and changes to the Company's land position and typically cannot be predicted in advance.

FOURTH QUARTER

Included in the Company's results for the fourth quarter are write-downs or write-offs of the Company's capitalized resource property costs, which typically have the largest impact on the Company's results from operations. Capitalized resource property costs are written-down or written-off when management has determined there to be an impairment of value, where exploration results indicate that no further work is warranted or when the Company has not conducted active exploration on a property for within a period of two to three years. Approximately $8.3 million (Comparative Quarter - $6.4 million) was written off in the fourth quarter representing 32% (Comparative Quarter - 39%) of the total resource property costs written off in the Current Year ($26.3 million). General and administrative expenses decreased from the third quarter (approximately $1.2 million) to the fourth quarter (approximately $940,000).

LIQUIDITY

The Company's cash and cash equivalents decreased from $21.5 million at April 30, 2007 to $9.5 million at April 30, 2008. Proceeds of $15 million from the sale of the Buffalo Head Hills property interest in July 2007 were used to finance the Company's exploration activities during the Current Year as were proceeds from a $10.05 million "flow-through' private placement and proceeds from a $15.0 million short-form prospectus offering, both of which closed in April 2007. The Company's working capital deficit as at April 30, 2008 was $6.5 million (April 30, 2007 - $18.0 million positive working capital), consisting mostly of cash and cash equivalents. During the Current Year, the Company's cash position decreased by $12.0 million to $9.5 million at April 30, 2008 as compared to the year ended April 30, 2007, where the Company's cash position increased by $8.4 million to $21.5 million in cash and cash equivalents. Loss on the sale of a property interest ($5.5 million before a future income tax recovery), stock-based compensation ($1.1 million), a future income tax recovery of $8.3 million and write-offs of resource property costs ($26.3 million) represent the largest reconciling items from the statement of loss to the statement of cash flows from operating activities for the year ended April 30, 2008. The Company's most significant operating expenses during the Current Year included $1.1 million for salaries (Comparative Year - $1.4 million), $708,000 for regulatory and shareholder communication expense (Comparative Year - $735,000) and $678,000 for office and sundry (Comparative Year - $201,000).

The Company's primary investment activity is the acquisition and exploration of resource property interests. During the Current Year, the Company spent $23.5 million to explore its resource properties (Comparative Year - $27.5 million) with the most significant expenditures on the Foxtrot (Renard) property in Quebec and the Aviat, Qilalugaq and Churchill properties in Nunavut. Included in the Current Year expenditures is a cash payment of $1.25 million, representing part of the consideration paid to increase the Company's interest in the Churchill property to 41.86% (Shear's interest in the property increased to 58.14%) and Quebec investment tax credits received of $1.6 million (Comparative Year - $1.0 million). In the Comparative Year, the Company's major investing activity was the acquisition of Ashton ($59.5 million) and Contact ($1.8 million) common shares. Expenditures on property, plant and equipment (Current Year - $373,000; Comparative Year - $954,000) were the next largest investing activity for the Company in the Current Year.

CAPITAL RESOURCES

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

Several factors will influence the Company's cash requirements in the near future. These factors include: a decision to proceed with further development of the Renard Project in Quebec, results from the Summer 2008 exploration programs and the Company's exploration and development plans for 2009. The Company's actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration activity.

The Company has historically financed its exploration programs through the issuance of equity capital, while at the same time trying to reduce shareholder dilution by securing joint venture partners where appropriate and more recently, by the monetization of non-core assets. Recent malaise in the Canadian equity capital markets could make securing additional financing difficult in the short-term. The Company's management intends to continue to seek out the best opportunities to maximize shareholder value by furthering exploration programs on its most promising projects and by generating new discoveries. However, failure to secure additional financing at reasonable terms may significantly impact the Company's ability to continue as a going concern.

Subsequent to the April 30, 2008 year-end, the Company reduced the size of its observing laboratory, incurring closure costs of approximately $500,000. The Company retains its ability to process exploration samples through its Dense Media Separation (DMS) plants and though the X-Ray Sorter located in North Vancouver. This change allows the Company to continue to focus its financial resources on the Company’s exploration and development programs.

The Company’s audited consolidated financial statements for the years ended April 30, 2008 and 2007 have been prepared in accordance with Canadian GAAP and on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. There are conditions and events at the present time that cast substantial doubt on the validity of this assumption, as discussed below.

In order to finance the Company’s exploration programs and to cover administrative and overhead expenses, the Company historically has raised money through equity sales and from the exercise of convertible securities. To finance the acquisition of the common shares of Ashton in 2006, the Company arranged for a $32.5 million bridge facility from a Canadian chartered bank that was repaid in full in March 2007 by using existing cash resources and proceeds from the $20.0 million in convertible debentures issued. Costs associated with the bridge facility and the convertible debentures are being amortized over the term of the loan and, once amortized, then capitalized to resource property costs, as per the Company’s accounting policy for resource properties.

The convertible debentures mature March 16, 2009 and interest is payable under the debentures quarterly at 12% per annum. The Company issued two series of debentures, $10,000,000 in Series A Debentures that provide the Company may repay principal on the maturity date in cash or common shares of Stornoway ("Shares") at the Company’s election and $10,000,000 in Series B Debentures that provide that the Company must repay principal on the maturity date in cash or Shares at the holder's election. Interest payments may be paid in cash or in Shares, at the Company’s election. If interest is paid in Shares, the Shares will be issued at a price of 95% of the five day volume weighted average price of the Shares ending three trading days before the payment date.

In July 2008, the Company announced a $22.0 million private placement with the holders of the convertible debentures, Agnico Eagle Mines Ltd. (“Agnico Eagle”) and Lorito Holdings Ltd. (“Lorito”). Agnico Eagle and Lorito presently hold, equally between them, convertible debentures in the aggregate principal amount of $20.0 million, which mature March 16, 2009. Under the terms of the proposed private placement, the Company will issue 24,444,444 common shares at a price of $0.90 per common share. Proceeds from the private placement will be used to repay the $20.0 million principal and to make a $2.0 million early redemption payment to the holders. The private placement is subject to the completion of subscription agreements and receipt of stock exchange and regulatory acceptances and approvals, including compliance with related party requirements as Agnico Eagle is a related party of the Company. Upon the completion of this financing, Stornoway will be debt free and its issued and outstanding share capital will be 226,170,452. Agnico Eagle currently holds approximately 13.6% of Stornoway’s issued and outstanding common shares. As a result of the private placement, Agnico Eagle's holdings will increase to approximately 17.6%.

At July 16, 2008 the Company had 12,088,784 stock options outstanding which, if exercised, would increase the Company’s available cash by approximately $16.8 million. In addition, the Company has 7,379,500 warrants outstanding, the majority of which are exercisable until April 2009 that, if exercised, would increase the Company’s available cash by approximately $11.0 million. The weighted average exercise price of the warrants outstanding is $1.49.

ADDITIONAL DISCLOSURE

Additional disclosure concerning Stornoway’s general and administrative expenses and resource property costs is provided in the Company’s Annual Information Form and the Consolidated Statement of Loss and Deficit and the Consolidated Schedule of Resource Property Costs contained in its Consolidated Financial Statements for April 30, 2008 and April 30, 2007 that is available on Stornoway’s website at www.stornowaydiamonds.com or on its SEDAR Page Site accessed through www.sedar.com

COMMITMENTS

The Company has minimum commitments under its operating leases for its premises averaging approximately $300,000 per year through 2013.

In May 2007, the Company entered into an operating lease for additional premises. The Company is committed to annual lease payments of approximately $105,000 in respect of these premises until June 30, 2010. A portion of these payments may be recovered through sub-leases.

In addition, the Company has Guaranteed Investment Certificates ("GICs") in the amount of $259,000 as collateral security for its corporate credit cards and a line of credit of up to $1.4 million to satisfy exploration bonding requirements. Short-term deposits equivalent to the utilization of the line of credit are provided as collateral security.

OUTSTANDING SHARE CAPITAL

Stornoway's authorized capital is unlimited common shares without par value. As at July 16, 2008, there were 201,726,008 common shares issued and outstanding.

As at July 16, 2008, the following options are outstanding:

Number of Shares		Average Exercise Price	Year of Expiry
811,800	$	1.24	2008
2,164,896	$	1.87	2009
808,820	$	1.38	2010
1,542,700	$	1.16	2011
5,787,988	$	1.12	2012
392,455	$	4.35	2013
263,475	$	1.08	2014
316,650	$	1.10	2015
12,088,784			

TRANSACTIONS WITH RELATED PARTIES

Related party during the years ended April 30, 2008 and 2007 are as follows:

a) As at April 30, 2008, the amounts due to related parties consisted of the following *(expressed in thousands of Canadian dollars)*:

		April 30, 2008		April 30, 2007
International Northair Mines Ltd., a company with certain directors in common	**$**	**6**	$	71
Strongbow Exploration Inc., a company with a director in common		**59**		191
	$	**65**	$	262

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

b) Pursuant to an amended agreement with International Northair Mines Ltd. ("Northair"), a company with directors and officers in common, the Company pays a monthly administrative fee for office space and reimburses Northair for administrative services and supplies as incurred. Either party can terminate the agreement by giving three months written notice prior to the anniversary date. During the Current Year, administrative fees and rent totalling $3,600 (Comparative Year - $46,200) was paid to Northair for its services.

c) During the year ended April 30, 2008, the Company paid $109,200 (Comparative Year - $161,050) for shared technical services and rent to Strongbow.

d) During the year ended April 30, 2008, the Company received $nil from directors and /or officers for stock option exercises (Comparative Year - $216,000).

e) In July 2007, the Company entered into a sub-lease agreement with Agnico-Eagle Mines Ltd. ("Agnico-Eagle"), a significant shareholder and a company with a director in common, for additional premises. The Company is committed to annual lease payments of approximately $105,000 in respect of these premises through June 30, 2010. A portion of these payments may be recovered through sub-leases.

f) During the year ended April 30, 2008, the Company paid $364,000 (Comparative Year - $nil) and accrued as payable $24,100 (Comparative Year - $nil) to Agnico-Eagle in respect of work related to a pre-feasibility study at the Renard Project (Foxtrot Property).

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as well as the reported expenses during the reporting period. Such estimates and assumptions affect the determination of the potential impairment of long-lived assets, estimated costs associated with reclamation of exploration properties, and the determination of stock-based compensation and future income taxes. Management re-evaluates its estimates and assumptions on an ongoing basis; however, due to the nature of estimates, actual amounts could differ from its estimates. The most critical accounting policies upon which the Company depends are those requiring estimates of impairment, assumption about fair value and future income taxes.

Impairment of long-lived assets

The Company capitalizes all costs related to investments in resource property interests on a property by-property basis. Such costs include resource property acquisition costs, and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and resource property interests are either developed or the Company's mineral rights are allowed to lapse.

All deferred resource property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, a provision is made for the impairment in value.

Asset retirement obligations

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

Stock-based compensation

Stock-based compensation is accounted for using the fair value based method. Under the fair value based method, compensation cost is measured at fair value of the options at the date of grant and is expensed over the vesting period of the award. The Company estimates the fair value using the Black- Scholes option pricing model. The key assumptions used in the Current Year were: a risk-free interest rate of 4.0% ~ 4.3%, a dividend yield of 0%, an expected volatility of 46% ~ 92% and expected term of stock options of 2 ~ 5 years. The weighted average fair value of options granted during in the Current Year was $0.36 per option.

The Company also uses the Black-Scholes option pricing model to value other share compensation. During the Comparative Year, the Company issued broker warrants pursuant to a November 2006 private placement and an April 2007 bought deal. The fair values of the warrants issued were estimated using a risk-free rate of 3.9% ~ 4.2%, a dividend yield of 0% an expected volatility of 26% ~ 46% and an estimated life of 1 ~ 2 years. No warrants were issued during the Current Year.

Future income tax assets and liabilities

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

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The following Canadian accounting policies were adopted in the Current Year:

Effective May 1, 2007, the Company adopted CICA Handbook Section 1530, "Comprehensive Income", CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", CICA Handbook Section 3861, "Financial Instruments – Disclosure and Presentation" and CICA Handbook Section 3865, "Hedges" on a prospective basis.

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles. The adoption of Section 1530 had no impact on the Company's consolidated financial statements.

Under Section 3855, financial instruments must be classified into one of the following categories: held to maturity, held for trading, loans and receivables, available for sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value, except for loans and receivables, held to maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value will depend on their initial classification; held for trading financial instruments are measured at fair value and changes in fair value are recognized in net income, while available for sale financial instruments are measured at fair value, with unrealized changes in fair value recorded in other comprehensive income.

Upon adoption of these new standards, the Company designated its cash, cash equivalents and short-term deposits as held for trading, which are measured at fair value. Accounts receivable have been classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and convertible debentures have been classified as other financial liabilities, which are measured at amortized cost. All financial instruments are measured at fair value at inception.

The Company's investment in equity securities, acquired in July 2007, was recorded at fair value at the time of acquisition. These equity securities have been designated as available-for-sale. During the year ended April 30, 2008, the Company recognized a loss of $513,000, which has been included in the consolidated statements of loss and deficit.

Changes in fair value of the Company's cash equivalents and short-term deposits, which are comprised of interest-bearing bank deposits, are included in interest income each period. Upon adoption of Section 3855, the Company was no longer permitted to account for debt issue costs as a deferred charge, which had been presented as a separate asset on the balance sheet. As a result, the Company has elected to net its deferred financing costs against the carrying value of its long-term debt and to amortize the discount over the term of the debt using a method that closely approximates the effective yield method.

The adoption of Section 3865, which specifies circumstances under which hedge accounting is permissible, and how hedge accounting may be performed, had no impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements

Capital Disclosures

The CICA Section 1535 – *Capital Disclosures* establishes standards for disclosing information about an entity's objectives, policies and processes for managing capital. This section is effective May 1, 2008. Management is currently reviewing the potential impact of this section on the Company's disclosure.

Inventories

In June 2007, the CICA issued Section 3031 – *Inventories*. This Section provides more guidance on the measurement and disclosure requirements for inventories. Specifically, the new pronouncement prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. This section is effective May 1, 2008 but the adoption of the standard is not expected to have an impact on the Company's disclosure.

Financial Instrument Disclosures and Presentation

In March 2007, the CICA issued Section 3862 – *Financial Instruments – Disclosures*, and Section 3863 - *Financial Instruments – Presentations*. The section relating to disclosures require that entities provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. The section relating to presentation supersedes the provisions of CICA 3861 in respect of enhancing users' understanding of the significance of financial instruments to the Company's financial position, performance and cash flows.

These sections are effective May 1, 2008. Management is currently reviewing the potential impact of these sections on the Company's disclosure.

Goodwill and Intangible Assets

Effective May 1, 2009, Section 3064 replaces handbook Section 3062 – *Goodwill and Intangible Assets* and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires these costs be expensed as incurred. Management is currently reviewing the potential impact of this section on the Company's disclosure.

Going Concern

Effective May 1, 2008, CICA 1400 – *General Standards of Financial Statement Presentation* has been amended to include requirements for management to assess and disclose the Company's ability to continue as a Going Concern. Management is currently reviewing the potential impact of this section on the Company's disclosure.

International financial reporting standards

In addition to the above accounting pronouncements, the Canadian Accounting Standards Board ("AcSB") in 2006 published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five-year transition period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's transition date of May 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended April 30, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

FINANCIAL AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, short-term deposits, accounts receivable, investments, trade payables, amounts due to related parties and convertible debentures. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation, with the exception of the investments and the convertible debentures, which are held at amortized cost using the effective interest rate method.

DISCLOSURE CONTROLS

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has reviewed its internal controls over financial reporting and believes that as at April 30, 2008 and as of the Report Date, its system of internal controls over financial reporting as defined under MI 52-109 is sufficiently designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP. Certain weaknesses exist in the Company's systems of internal control over financial reporting. These weaknesses arise primarily from the limited number of personnel employed in the accounting and financial reporting area, a situation that is common in many smaller companies. As a consequence of this situation: a) it is not feasible to achieve the complete segregation of duties; and b) the Company does not have full "in house" expertise in complex areas of financial accounting, such as taxation.

The Company's management, including the Certifying Officers, does not expect that its internal controls and procedures will prevent all error and all fraud. The Company believes that the weaknesses identified in its systems of internal control are mitigated by the thorough review of the Company's financial statements by senior management, the audit committee of the board of directors, and by consulting with external experts. In addition, senior management is active in the Company's day-to-day operations and in monitoring the Company's financial reporting. Regardless, these mitigating factors cannot completely eliminate the possibility that a material misstatement will occur as a result of the weaknesses identified in the Company's internal controls over financial reporting. A cost effective system of internal controls over financial reporting, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the internal controls over financial reporting are achieved.

APPROVAL

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

ADDITIONAL INFORMATION

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

STORNOWAY DIAMOND CORPORATION

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2008 AND 2007

Canadian Funds

July 15, 2008

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Company have been prepared by, and are the responsibility of the management of the Company. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, and reflect management's best estimates and judgment based on currently available information.

The Audit Committee of the Board of Directors, consisting of four independent directors, meets periodically with management and the Company's independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

The Company's independent auditors, PricewaterhouseCoopers LLP, who are appointed by the shareholders, conduct an audit in accordance with Canadian generally accepted auditing standards. Their report outlines the scope of their audit and gives their opinion on the consolidated financial statements.

Management has developed and maintains a system of internal control to provide reasonable assurance that the Company's transactions are authorized, assets safeguarded and proper records maintained.

/s/ "Eira Thomas"
Eira Thomas
Chief Executive Officer and Director

/s/ "Zara Boldt"
Zara Boldt
Vice-President, Finance

To the Shareholders of
Stornoway Diamond Corporation

We have audited the consolidated balance sheets of Stornoway Diamond Corporation as at April 30, 2008 and 2007 and the consolidated statements of loss and deficit, comprehensive loss and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2008 and 2007, and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Signed PricewaterhouseCoopers

Chartered Accountants

Vancouver, British Columbia
July 15, 2008

Stornoway Diamond Corporation

(An Exploration Stage Company)

Consolidated Balance Sheets

As at April 30

(expressed in thousands of Canadian dollars)

ASSETS		**2008**		2007
Current				
Cash and cash equivalents	**$**	**9,524**	$	21,473
Short-term deposits		**259**		58
Accounts receivable		**3,542**		3,722
Investments *(Note 5)*		**1,357**		-
Prepaid expenses		**418**		227
		15,100		227
Deferred Financing Fees *(Note 12)*		**-**		74
Prepaid Fuel		**285**		471
Property, Plant and Equipment *(Note 7)*		**4,577**		6,140
Resource Property Costs *(Note 8)*		**173,716**		193,982
	$	**193,678**	$	226,147

LIABILITIES				
Current				
Accounts payable and accrued liabilities				
- Trade	**$**	**2,949**	$	7,219
- Due to related parties *(Note 10)*		**65**		262
Convertible Debentures *(Note 12)*		**18,575**		-
		21,589		7,481
Future Income Tax Liabilities *(Note 11)*		**19,703**		23,871
Convertible Debentures *(Note 12)*		**-**		17,223
Asset Retirement Obligations *(Note 13)*		**637**		600
		41,929		49,175
SHAREHOLDERS' EQUITY				
Share Capital *(Note 9)*		**202,002**		201,387
Contributed Surplus (*Note 9*)		**10,228**		8,537
Equity Component of Convertible Debenture *(Note 12)*		**2,916**		2,916
Deficit		**(63,397)**		(35,868)
		151,749		176,972
	$	**193,678**	$	226,147

Nature of Operations and Basis of Consolidation (*Note 1*)
Going Concern *(Note 2)*
Commitments (*Note 15*)
Subsequent Event (*Note 16*)

ON BEHALF OF THE BOARD:

"Catherine McLeod-Seltzer", Director

"Eira Thomas", Director

- See Accompanying Notes -

Stornoway Diamond Corporation

(An Exploration Stage Company)

Consolidated Statements of Loss and Deficit

For the years ended

(expressed in thousands of Canadian dollars except for loss per share and weighted average number of shares outstanding)

		April 30, 2008		April 30, 2007
Administrative Expenses				
Administration fees and rent	**$**	**192**	$	126
Professional fees		**393**		1,975
Office and sundry		**678**		201
Property management fees		**-**		(57)
Regulatory and shareholder communication expense		**708**		735
Salaries and benefits		**1,114**		1,435
Stock-based compensation *(Note 9k)*		**1,143**		1,446
Loss Before the Following		**(4,228)**		(5,861)
Other Income (Expenses)				
Write-off of resource property costs		**(26,334)**		(16,500)
Write-down of investments		**(513)**		
Interest expense		**(70)**		(537)
Gain on settlement of debt		**-**		321
Interest income		**739**		883
Loss on sale of a mineral property interest		**(5,465)**		-
Loss on sale of investments		**-**		(16)
		(31,643)		(15,849)
Loss Before Income Taxes		**(35,871)**		(21,710)
Future income tax recovery *(Note 11)*		**8,342**		2,145
Total Loss After Income Taxes		**(27,529)**		(19,565)
Non-Controlling Minority Interest		**-**		428
Net Loss for the Year		**(27,529)**		(19,137)
Deficit - Beginning of year		**(35,868)**		(16,731)
Deficit - End of Year	**$**	**(63,397)**	$	(35,868)
Loss per Share - Basic and Diluted	**$**	**(0.14)**	$	(0.15)
Weighted Average Number of Shares Outstanding		**198,496,752**		131,409,520

Stornoway Diamond Corporation

(An Exploration Stage Company)

Consolidated Statements of Comprehensive Loss

(expressed in thousands of dollars)

		April 30, 2008		April 30, 2007
Net Loss for the Year	**$**	**27,529**	$	19,137
Unrealized loss on available for sale investment		**-**		-
Comprehensive Loss	**$**	**27,529**	$	19,137

- See Accompanying Notes -

Stornoway Diamond Corporation

(An Exploration Stage Company)

Consolidated Statements of Cash Flows
For the years ended

(expressed in thousands of Canadian dollars)

Cash Resources Provided By (Used In)		**April 30, 2008**		April 30, 2007
Operating Activities				
Loss for the year	**$**	**(27,529)**	$	(19,137)
Items not affecting cash				
Write-off of resource property costs		**26,334**		16,500
Write-down of investments		**513**		
Loss on sale of property interest		**5,465**		-
Loss on sale of investments		**-**		16
Gain on settlement of debt		**-**		(321)
Loss on sale of property, plant and equipment		**-**		5
Stock-based compensation		**1,143**		1,290
Amortization		**114**		39
Future income tax recovery		**(8,342)**		(2,145)
Changes in non-cash working capital				
Increase/(decrease) in accounts receivable		**(97)**		1,929
Increase/(decrease) in prepaid expenses		**(191)**		(186)
(Increase)/decrease in accounts payable and accrued liabilities		**(35)**		(389)
		(2,625)		(2,399)
Investing Activities				
Cash acquired on acquisition of Ashton *(Note 6)*		**-**		19,264
Cash acquired on acquisition of Contact *(Note 6)*		**-**		2,205
Cash paid to acquire Ashton shares *(Note 6)*		**-**		(59,546)
Cash paid to acquire Contact shares *(Note 6)*		**-**		(1,886)
Financing costs included in resource properties		**-**		(4,418)
Decrease/(increase) in short-term deposits		**(201)**		9,905
Prepaid fuel		**(225)**		462
Proceeds from the sale of investments		**-**		1,763
Proceeds from the sale of a property interest		**15,000**		-
Resource property costs		**(23,458)**		(27,515)
Acquisition of property, plant and equipment		**(373)**		(954)
		(9,257)		(60,720)
Financing Activities				
Proceeds from the issuance of convertible debentures		**-**		20,000
Issuance costs – convertible debentures		**-**		(78)
Share capital issued for cash, *net*		**(67)**		51,594
		(67)		71,516
Net Increase (Decrease) in Cash and Cash Equivalents		**(11,949)**		8,397
Cash and Cash Equivalents – Beginning of year		**21,473**		13,076
Cash and Cash Equivalents – End of Year	**$**	**9,524**	$	21,473

Cash and Cash Equivalents consist of:

Cash	**$**	**84**	$	15,975

Cash Equivalents	**9,440**	5,498
Total	**$ 9,524**	$ 21,473

Supplemental Schedule of Non-Cash Investing and Financing Transactions *(Note 14)*

- See Accompanying Notes -

1. Nature of Operations and Basis of Consolidation

Stornoway Diamond Corporation (the "Company") is an exploration stage company which is engaged principally in the acquisition, exploration and development of mineral properties. The recovery of the Company's investment in mineral properties and the attainment of profitable operations is dependent upon the discovery, development and sale of ore reserves, the ultimate outcome of which cannot presently be determined as they are contingent on future events.

These consolidated financial statements include the accounts of the Company and its wholly-owned Canadian subsidiaries Ashton Mining of Canada Inc. ("Ashton"), Contact Diamond Corporation ("Contact") and KRoc Diamond Drilling Corp. ("KRoc").

Ashton and Contact have been accounted for as a purchase of assets. The results of operations for each of Ashton and Contact are included from September 20, 2006, the date of control.

All inter-company balances and transactions have been eliminated upon consolidation.

2. Going Concern

While these consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business, there are conditions and events that cast substantial doubt on the validity of this assumption.

During the year ended April 30, 2008, the Company incurred an operating loss of $27.5 million and has an accumulated deficit of $63.4 million as at April 30, 2008. Cash on hand at April 30, 2008 totalled $9.5 million. The Company's current liabilities exceed current assets by $6.5 million as at April 30, 2008. In addition, the Company has $20.0 million in convertible debentures outstanding that mature on March 16, 2009 *(Note 12)*. In July 2008, the Company announced a $22.0 million private placement with the two debenture holders, subject to regulatory approval. Proceeds from this private placement will be used to redeem the $20.0 million principal amount of the convertible debentures. As an inducement for early redemption, the Company has also agreed to issue $2.0 million in common shares to the holders of the convertible debentures *(Note 16)*.

The Company is an exploration stage company that engages principally in the acquisition, exploration and development of mineral properties. As an exploration stage company, it is currently unable to self-finance its operations. The recovery of the Company's investment in its resource properties and attainment of profitable operations, and its ability to continue as a going concern is dependent upon the discovery, development and sale of diamond reserves, the ability to joint venture or sell its resource properties *(Note 8(f))* and the ability to raise sufficient capital to finance its operations and to meet its debt repayment obligations. Management plans to seek additional financing, through equity financings, the sale of non-core assets or through other means to further the exploration and development of the Company's mineral properties and to provide sufficient working capital.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenue and expenses and the balance sheet classifications used. The adjustments could be material.

3. Significant Accounting Policies

a) Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers cash and cash equivalents to include amounts held in banks and highly liquid debt investments with remaining maturities at point of purchase of 90 days or less. The Company places its cash and cash investments with institutions of high credit worthiness. At times, such investments may be in excess of federal insurance limits.

b) Short-term Deposits

For purposes of reporting cash flows, the Company considers short-term deposits to include amounts held in banks and highly liquid investments with remaining maturities at the point of purchase of more than 90 days.

c) Investments

Investments, in which the Company has less than a 20% interest and where the Company has no significant influence, have been classified as available for sale and are measured at fair value with changes in fair value reported in Other Comprehensive Income/(Loss). If a decline in value is deemed to be permanent, the investment is written-down to its estimated fair value and is recognized on the Statement of Loss and Deficit.

d) Asset Retirement Obligations

The Company's asset retirement obligation ("ARO") relates to expected reclamation and closure activities due to statutory, contractual or legal obligations. An ARO is recognized initially at fair value with a corresponding increase in related assets, in the period in which the related environmental disturbance occurs. The ARO is accreted to full value over time through periodic accretion charges recorded to operations using the Company's credit adjusted risk free rate. In subsequent periods, the Company adjusts the carrying amounts of the ARO and the related asset for changes in estimates of the amount or timing of underlying future cash flows.

e) Resource Properties

Mineral acquisition, exploration and development costs are capitalized on an individual project basis until such time as the economics of an ore body are defined. If production commences, these costs would be amortized on a units of production basis over the estimated mineral reserves. Unrecoverable costs for projects determined to be commercially not feasible are expensed in the year in which the determination is made or when the carrying value of the project is determined to be impaired.

The Company's management regularly reviews the carrying value of the Company's mineral properties. Where information is available and conditions suggest impairment, estimated future net cash flows from each property are calculated using estimated future prices, proven and probable reserves, and operating and capital costs on an undiscounted basis. An impairment charge is recorded if the undiscounted future net cash flows are less than the carrying amount. Reductions in the carrying value of each property, with a corresponding charge to operations, are recorded to the extent that the estimated future net cash flows on a discounted basis are less than the property carrying value in accordance with CICA Handbook Section 3063, "Impairment of Long-lived Assets".

Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered. If an impairment is identified, the carrying value of the property is written down to its estimated fair value.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior undetected agreements or transfers and title may be affected by such defects.

3. Significant Accounting Policies - *Continued*

f) **Mineral Exploration Tax Credits ("METC")**

The company recognizes METC amounts when the Company's METC application is approved by Canada Revenue Agency ("CRA") auditors or when the amount to be received can be reasonably estimated and collection is reasonably assured. The amount of the METC would reduce the Company's capitalized mineral property costs through a credit to cash recoveries or would be brought into income should the properties in question have been written off previously.

g) **Property Option Agreements**

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

h) **Joint Ventures**

Certain of the Company's properties are the subject of joint venture agreements. Accordingly, the Company's proportionate share of assets, liabilities, costs and expenditures relating to these joint venture properties have been recorded in the accounts.

i) **Property, Plant and Equipment**

Property, plant and equipment are valued at cost less accumulated amortization. The Company provides for amortization for all property, plant and equipment classes using the declining balance method at rates between 20% and 100% and applies one-half of the applicable rate in the year of acquisition. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

j) **Income Taxes**

The asset and liability method is used for determining future income taxes. Under the asset and liability method, the change in the net future tax asset or liability is included in income. The income tax effects of temporary differences in the time when income and expenses are recognized in accordance with Company accounting practices and the time they are recognized for income tax purposes are reflected as future income tax assets or liabilities. Future income tax assets and liabilities are measured using enacted, or substantially enacted statutory rates that are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the assets will be realized.

k) **Stock-Based Compensation**

All stock-based awards made to employees and non-employees are measured and recognized using the Black-Scholes fair valuation method. For employees, the fair value of the options at the date of the grant is accrued and charged to operations or capitalized to a resource property, with the offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date which the equity instrument is vested and non-forfeitable.

l) **Loss per Share**

Basic earnings (loss) per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings (loss) per share. Since the Company has losses, the exercise of outstanding stock options and warrants has not been included in this calculation as it would be anti-dilutive.

3. Significant Accounting Policies – *Continued*

m) **Use of Estimates**

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Significant areas requiring the use of management estimates relate to impairment of mineral property interests, determination of reclamation obligations, assumptions used determining the fair value of non-cash stock-based compensation and warrants and determination of valuation allowances for future income tax assets and liabilities. Actual results could differ from those estimates.

n) **Flow-Through Shares**

Under the terms of Canadian flow-through share legislation, the tax attributes of qualifying expenditures are renounced to subscribers. To recognize the foregone tax benefits, share capital is reduced and a future income tax liability is recognized as the related expenditures are renounced, when it is likely that the expenses will be incurred. This future income tax liability may then be reduced by the recognition of previously unrecorded future income tax assets on unused tax losses and deductions.

o) **Initial Application of Accounting Standards**

Effective May 1, 2007, the Company adopted CICA Handbook Section 1530, "Comprehensive Income", CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", CICA Handbook Section 3861, "Financial Instruments – Disclosure and Presentation" and CICA Handbook Section 3865, "Hedges" on a prospective basis.

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles. The adoption of Section 1530 had no impact on the Company's consolidated financial statements.

Under Section 3855, financial instruments must be classified into one of the following categories: held to maturity, held for trading, loans and receivables, available for sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value, except for loans and receivables, held to maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value will depend on their initial classification; held for trading financial instruments are measured at fair value and changes in fair value are recognized in net income, while available for sale financial instruments are measured at fair value, with unrealized changes in fair value recorded in other comprehensive income.

Upon adoption of these new standards, the Company designated its cash, cash equivalents and short-term deposits as held for trading, which are measured at fair value. Accounts receivable have been classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and convertible debentures have been classified as other financial liabilities, which are measured at amortized cost. All financial instruments are measured at fair value at inception.

The Company's investment in equity securities, acquired in July 2007, was recorded at fair value at the time of acquisition. These equity securities have been designated as available-for-sale. During the year ended April 30, 2008, the Company recognized a loss of $513,000, which has been included in the consolidated statements of loss and deficit.

3. Significant Accounting Policies – *Continued*

o) **Initial Application of Accounting Standards** (cont'd…)

Changes in fair value of the Company's cash equivalents and short-term deposits, which are comprised of interest-bearing bank deposits, are included in interest income each period. Upon adoption of Section 3855, the Company was no longer permitted to account for debt issue costs as a deferred charge, which had been presented as a separate asset on the balance sheet. As a result, the Company has elected to net its deferred financing costs against the carrying value of its long-term debt and to amortize the discount over the term of the debt using a method that closely approximates the effective yield method.

The adoption of Section 3865, which specifies circumstances under which hedge accounting is permissible, and how hedge accounting may be performed, had no impact on the Company's consolidated financial statements.

p) **Recent Accounting Pronouncements**

Capital Disclosures

The CICA Section 1535 – *Capital Disclosures* establishes standards for disclosing information about an entity's objectives, policies and processes for managing capital. This section is effective May 1, 2008. Management is currently reviewing the potential impact of this section on the Company's disclosure.

Inventories

In June 2007, the CICA issued Section 3031 – *Inventories*. This Section provides more guidance on the measurement and disclosure requirements for inventories. Specifically, the new pronouncement prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. This section is effective May 1, 2008 but the adoption of the standard is not expected to have an impact on the Company's disclosure.

Financial Instrument Disclosures and Presentation

In March 2007, the CICA issued Section 3862 – *Financial Instruments – Disclosures*, and Section 3863 - *Financial Instruments – Presentations*. The section relating to disclosures require that entities provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. The section relating to presentation supersedes the provisions of CICA 3861 in respect of enhancing users' understanding of the significance of financial instruments to the Company's financial position, performance and cash flows.

These sections are effective May 1, 2008. Management is currently reviewing the potential impact of these sections on the Company's disclosure.

Goodwill and Intangible Assets

Effective May 1, 2009, Section 3064 replaces handbook Section 3062 – *Goodwill and Intangible Assets* and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires these costs be expensed as incurred. Management is currently reviewing the potential impact of this section on the Company's disclosure.

3. Significant Accounting Policies – *Continued*

o) **Initial Application of Accounting Standards** (cont'd…)

Going Concern

Effective May 1, 2008, CICA 1400 – *General Standards of Financial Statement Presentation* has been amended to include requirements for management to assess and disclose the Company's ability to continue as a Going Concern. Management is currently reviewing the potential impact of this section on the Company's disclosure.

International financial reporting standards

In addition to the above accounting pronouncements, the Canadian Accounting Standards Board ("AcSB") in 2006 published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five-year transition period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's transition date of May 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended April 30, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term deposits, accounts receivable, investments, trade payables, amounts due to related parties and convertible debentures. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation, with the exception of the investments and the convertible debentures, which are held at amortized cost using the effective interest rate method.

5. Investments

The Company's investments consist of common shares in a public company. The Company acquired these common shares in July 2007 pursuant to the sale of a property interest (*Note 8f*). The investment represents less than a 5% interest in that company. During the year ended April 30, 2008, the Company wrote-down its investment by $513,000 to its estimated net realizable value of $1,357,000. Fair value at the date of acquisition was $1,870,000.

6. Business Acquisitions

During the year ended April 30, 2007, the Company completed the acquisition of 100% of the issued and outstanding shares of Ashton, a public company listed on the Toronto Stock Exchange ("TSX") and Contact, a public company also listed on the TSX. As consideration, the Company made total cash payments of $51,362,000 and issued 53,802,093 common shares with a fair value of $56,519,000 to the Ashton shareholders and the Company issued 15,794,414 common shares with a fair value of $15,769,000 to the Contact shareholders. As part of the transaction, the Company also issued 3,985,250 replacement stock options of the Company to the Ashton option holders and 1,368,720 replacement stock options of the Company to the Contact option holders. The estimated fair value of the replacement options was $2,695,000. A total of 2,500,000 replacement warrants issued to the Ashton warrant holders expired without exercise in June 2007.

The Company accounted for both acquisitions as a step-by-step purchase of assets. Results of operations have been included from September 20, 2006, the date of control.

7. Property, Plant and Equipment

Details are as follows:

	As at April 30, 2008			As at April 30, 2007		
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Office equipment	**$ 744**	**$ (592)**	**$ 152**	$ 727	$ (538)	$ 189
Buildings	**91**	**(13)**	**78**	91	(11)	80
Leasehold improvements	**766**	**(272)**	**494**	690	(193)	497
Exploration equipment	**816**	**(532)**	**284**	790	(388)	402
Vehicles	**628**	**(396)**	**232**	573	(308)	265
Laboratory equipment	**6,516**	**(3,179)**	**3,337**	6,456	(1,749)	4,707
	$ 9,561	**$ (4,984)**	**$ 4,577**	$ 9,327	$ (3,187)	$ 6,140

8. Resource Property Costs

a) Foxtrot Property, Quebec

Through its acquisition of 100% of Ashton's outstanding common shares during the year ended April 30, 2007 *(Note 6)*, the Company has a 50% interest in the Eastern Ungava joint venture agreement. The joint venture agreement, dated March 14, 1996 and amended June 21, 2001, governs the majority of the Company's activities in Quebec. The Company's 50% interest in this joint venture covers exploration, property acquisition and the development of mineral interests in north-central Quebec including the Foxtrot Property. The Foxtrot property is governed by a joint venture between the Company and SOQUEM Inc.'s wholly-owned subsidiary Diaquem. The Company is the operator.

b) Aviat One and Two Properties, Melville Peninsula, Nunavut

Pursuant to an agreement dated June 25, 2002, and as amended by a Joint Venture Agreement dated April 1, 2006, and as amended by an Assignment Agreement dated April 18, 2008, the Company has a 90% interest in certain mineral claims and leases, known as the Aviat One ("Aviat 1") and Aviat Two ("Aviat 2") properties. BHP Billiton ("BHPB") had a 20% interest in the properties but assigned this interest to the Company during the year ended April 30, 2008. BHPB assigned to the Company all of its interest in the Aviat properties and its rights to market all diamonds of Hunter Exploration Group produced from the Aviat properties in consideration for the Company's assumption of BHPB's obligations under the Joint Venture Agreement, including the bulk sampling obligation and all future funding obligations. Hunter Exploration Group ("Hunter") continues to hold a 10% interest in the properties, carried up to the development of a mine on the properties. John Robins, a director of the Company, owns 33.3% of Hunter.

Each of the Aviat One and Aviat Two properties is subject to a 2% net smelter return royalty ("NSR") on products other than diamonds and a 2% gross over-riding royalty ("GOR") on diamond production. In addition, advance royalty payments of $50,000 annually commenced October 1, 2006 for the Aviat 1 property and commenced March 1, 2008 for the Aviat 2 property. The Company has made all of the required advance royalty payments as of April 30, 2008.

8. Resource Property Costs - *Continued*

c) **Churchill, Melville Peninsula, Nunavut**

The Company acquired a 35% interest in the Churchill property pursuant to a letter agreement dated June 13, 2002 by incurring $750,000 in exploration expenditures and issuing 300,000 common shares of the Company to Hunter. Shear Minerals Ltd. (“Shear”) held a 51% interest and is the operator of the Churchill joint venture. The remaining 14% interest was held by BHPB. BHPB elected to dilute its interest in the Churchill property by not funding its share of the 2006 exploration program.

In April 2007, Shear and the Company entered into a purchase agreement with BHPB whereby Shear and the Company each acquired 50% of the diluted BHPB interest in the Churchill property. The purchase agreement closed July 17, 2007 at which time the Company acquired a portion of BHPB’s interest in the property by making a cash payment of $1,250,000 and by issuing 2,200,000 common shares with a fair value of $2,134,000 at the date of issuance to BHPB. The Company’s interest in the Churchill property increased from 35% to 41.86% and Shear’s interest in the Churchill property increased from 51% to 58.14%. The Churchill property is subject to a 2% GOR/NSR.

The Company elected to dilute its interest in the Churchill property by not funding its share of the 2008 exploration program. The Company expects that its interest in the Churchill property will decrease from 41.86% to about 38% after the 2008 exploration program is completed.

d) **Qilalugaq Property (“Area 8”), Melville Peninsula, Nunavut**

The Company and BHPB entered into an agreement dated July 10, 2006 whereby the Company may earn a 50% interest in the Qilalugaq property by spending a total of $9,000,000 prior to December 31, 2011. On June 5, 2008, the Company and BHPB revised the terms of the agreement and extended by one year each deadline to incur qualifying exploration expenditures. Under the original agreement, the Company had to spend a total of $500,000 on exploration on or before December 31, 2007 ($2,200,000 in total spent as at April 30, 2008) and, as amended by the June 5, 2008 agreement, a further $2,500,000 on or before December 31, 2010 to earn a 25% interest in the property (the “First Option”). Upon exercise of the First Option, the Company must incur a further $6,000,000 in exploration prior to December 31, 2012, of which $2,000,000 must be incurred prior to December 31, 2011 (the “Second Option”) to earn a further 25% interest in the property, bringing its total interest in the property to 50%. Upon exercise of the Second Option, a joint venture will be formed and BHPB will have the opportunity to elect to increase its interest in the property by 15% to 65% by incurring a further $15,000,000 in expenditures and may elect to become the Operator of the project. Should BHPB not make the election to increase its interest in the property, further exploration on the property will be shared equally.

The agreement is subject to a 2% NSR on all minerals other than diamonds or diamond products and a 2% GOR on diamond production.

e) **Itza Property, Nunavut**

On July 10, 2007, the Company and Bayswater Uranium Corporation (“Bayswater”) entered into an agreement whereby the Company may earn up to an 80% interest in the diamond rights to the Itza Property in Nunavut. The Company may earn a 60% interest in the property by issuing common shares at a value of $75,000 upon signing (76,601 common shares issued with a fair value of $49,025 at the time of issuance) and by incurring $4,000,000 in exploration expenditures over a five year period, with a minimum first year expenditure of $500,000 prior to September 1, 2008 ($207,000 incurred to April 30, 2008). The Company may increase its interest in the property to 80% by sole funding a bankable feasibility study on the property, in the event that Bayswater elects not to form a joint venture when the Company vests at 60%. In addition, the agreement provides for the Company to issue common shares or cash to Bayswater should certain kimberlites or kimberlite bodies be identified on the property.

8. Resource Property Costs - *Continued*

f) **Buffalo Hills Property, Alberta**

In April 2007, the Company entered into an agreement with Diamondex Resources Ltd. ("Diamondex") and Shore Gold Inc. ("Shore") to sell its 45% interest in the Buffalo Hills and Joint Venture Lands for total consideration of $17,500,000. Closing occurred July 24, 2007 and the Company received $15,000,000 in cash and 6,031,363 Diamondex common shares with a fair value of $1,870,000 at the date of receipt. The Company recorded a write-down of $512,666 on the basis that the decline in value is other than temporary, and net loss after taxes of $3,776,000 on the sale of this property interest.

g) **Generative Projects**

The Company has signed agreements with several individuals or companies as part of its generative exploration program. Under the terms of these non-material agreements, the Company may be required to make cash payments, issue shares or fund an exploration program to earn its interest under the terms of the specific agreement. Properties acquired as part of the Company's generative exploration program may be subject to GORs ranging from 0%~3% and NSRs ranging from 0%~3%.

No cash payments or shares were issued pursuant to the Company's generative agreements during the year ended April 30, 2008.

h) **Other Property Interests**

The Company and its subsidiaries continue to hold a number of property interests in other parts of Canada and in Botswana, either as 100% ownership or as part of a property option agreement.

No cash payments or shares were issued pursuant to the Company's other property interests during the year ended April 30, 2008.

i) **Write-offs**

During the year ended April 30, 2008, the Company wrote-off capitalized property interests of $26,334,000. The majority of this write-off ($15,720,000) relates to the Company's property interests in the Northwest Territories and Nunavut, where no future exploration programs are planned for the foreseeable future and where no recent exploration programs have been carried out on the properties. In addition, the Company wrote-off $2,265,000 for the Aviat properties, $1,691,000 for the Botswana property and $91,000 for the Churchill property representing exploration expenditures on non-core land holdings. The Company wrote-off a further $4,479,000 with respect to its ongoing generative programs and $2,088,000 with respect to various other, non-material property interests where no future exploration is warranted or where the Company no longer retains a property interest.

	April 30, 2008			April 30, 2007		
	Acquisition Cost	**Exploration Cost**	**Total**	Acquisition Cost	Exploration Cost	Total
Eastern Arctic Properties						
Balance - Beginning of the year	**$ 21,388**	**$ 26,774**	**$ 48,162**	$ 2,478	$ 23,595	$ 26,073
Ashton – fair value allocation	-	-	-	12,745	-	12,745
Financing and interest costs	**417**	-	**417**	803	-	803
Ashton - additions to April 30, 2007	-	-	-	-	28	28
Contact – fair value allocation	-	-	-	5,334	-	5,334
Contact - additions to April 30, 2007	-	-	-	5	202	207
Advances to operator	-	**(93)**	**(93)**	-	928	928
Airborne Geophysics	-	**269**	**269**	-	43	43
Assays and laboratory	-	**2,260**	**2,260**	-	2,388	2,388
Camp and general	-	**1,696**	**1,696**	-	2,637	2,637
Drilling	-	**2,177**	**2,177**	-	1,760	1,760
Sampling and ground surveys	-	**2,801**	**2,801**	-	1,056	1,056
Tenure (Permit recoveries)	**3,630**	-	**3,630**	241	-	241

8. Resource Property Costs – *Continued*

8. Resource Property Costs – *Continued*

	April 30, 2008			April 30, 2007		
	Acquisition Cost	**Exploration Cost**	**Total**	Acquisition Cost	Exploration Cost	Total
Balance Carried Forward	**124,282**	**46,300**	**170,582**	128,812	36,207	165,019
Western Arctic Properties						
Balance - Beginning of the year	**79**	**1,922**	**2,001**	903	6,257	7,160
Airborne Geophysics	**-**	**-**	**-**	-	271	271
Assays and laboratory	**-**	**120**	**120**	-	87	87
Camp and general	**-**	**35**	**35**	-	115	115
Drilling	**-**	**91**	**91**	-	151	151
Sampling and ground surveys	**-**	**105**	**105**	-	116	116
Tenure (Permit recoveries)	**8**	**-**	**8**	(113)	-	(113)
Management fees	**-**	**2**	**2**	-	3	3
Write-offs	**-**	**(1,426)**	**(1,426)**	(711)	(5,078)	(5,789)
	87	**849**	**936**	79	1,922	2,001
Other Canadian Properties						
Balance - Beginning of the year	**20,876**	**2,552**	**23,428**	236	871	1,107
Ashton – fair value allocation	**-**	**-**	**-**	19,697	-	19,697
Financing and interest costs	**677**	**-**	**677**	1,175	-	1,175
Ashton - additions to April 30, 2007	-	-	-	-	2,068	2,068
Sale of Buffalo Head Hills, Alberta	**(19,697)**	**(2,638)**	**(22,335)**	-	-	-
Airborne Geophysics	**-**	**-**	**-**	-	328	328
Assays and laboratory	**-**	**79**	**79**	-	71	71
Camp and general	**-**	**106**	**106**	-	266	266
Drilling	**-**	**-**	**-**	-	624	624
Sampling and ground surveys	**-**	**509**	**509**	-	116	116
Tenure (Permit recoveries)	**47**	**-**	**47**	(10)	-	(10)
Management fees	**-**	**5**	**5**	-	1	1
Write-offs	**-**	**(562)**	**(562)**	(222)	(1,793)	(2,015)
	1,903	**51**	**1,954**	20,876	2,552	23,428
Canadian Generative Exploration						
Balance - Beginning of the year	**56**	**2,114**	**2,170**	23	1,606	1,629
Airborne Geophysics	**-**	**92**	**92**	-	315	315
Assays and laboratory	**-**	**1,323**	**1,323**	-	1,138	1,138
Camp and general	**-**	**674**	**674**	-	562	562
Sampling and ground surveys	**-**	**358**	**358**	-	562	562
Tenure (Permit recoveries)	**106**	**-**	**106**	33	-	33
Write-offs	**(56)**	**(4,423)**	**(4,479)**	-	(2,069)	(2,069)
	106	**138**	**244**	56	2,114	2,170
Botswana, Africa						
Balance - Beginning of the year	**476**	**888**	**1,364**	633	955	1,588
Camp and general	**-**	**12**	**12**	-	10	10
Drilling	**-**	**296**	**296**	-	37	37
Sampling and ground surveys	**-**	**19**	**19**	-	48	48
Tenure (Permit recoveries)	**-**	**-**	**-**	572	-	572
Write-offs	**(476)**	**(1,215)**	**(1,691)**	(729)	(162)	(891)
	-	**-**	**-**	476	888	1,364
Ending Balance	**$ 126,378**	**$ 47,338**	**$ 173,716**	$ 150,299	$ 43,683	$ 193,982

9. Share Capital

a) Details are as follows (*expressed in thousands of Canadian dollars*):

	Number		Amount		Contributed Surplus
Authorized:					
Unlimited common shares without par value					
Issued and fully paid:					
Balance – April 30, 2006	80,421,550	$	77,225	$	2,900
Issued for cash – Subscription receipts	17,629,084		22,500		-
Issued for cash - Private placement	3,341,000		4,176		34
Issued for cash – Short-form prospectus	21,045,000		25,999		1,403
Issuance of shares for the acquisition of Ashton *(Note 6)*	53,802,093		56,519		2,163
Issuance of shares for the acquisition of Contact *(Note 6)*	15,794,414		15,769		594
Issued as settlement for a debt	3,207,861		3,689		-
Issued for properties	494,121		571		-
Issued on exercise of stock options	327,750		247		(22)
Stock-based compensation	-		-		1,465
Share issuance costs	-		(2,743)		-
Recovery of future income tax on renouncement of flow-through expenditures *(Note 9e)*	-		(2,565)		-
Balance – April 30, 2007	196,062,873	$	201,387	$	8,537
Issued for properties *(Note 8b and 8f)*	2,276,601		2,183		-
Issued as interest payments *(Note 12)*	1,704,608		1,200		-
Return to treasury	(43,700)		-		-
Share issuance costs	-		(66)		-
Stock-based compensation	-		-		1,691
Recovery of future income tax on renouncement of flow-through expenditures *(Note 9e)*	-		(2,702)		-
Balance – April 30, 2008	200,000,382	$	202,002	$	10,228

b) **Private Placement**

On November 29, 2006 the Company completed two offerings for gross proceeds of $4,176,250 from the issuance of 3,341,000 flow-through shares. In one offering, Canaccord Adams and BMO Capital Markets (the “Underwriters”) arranged for the purchase of 3,200,000 flow-through common shares of the Company on a private placement basis at a price of $1.25 per flow-through common share for gross proceeds of $4,000,000. The Underwriters were paid a cash fee in the amount of 6% of gross proceeds and were issued 192,000 broker warrants *(Note 9j)*, each broker warrant entitling the holder to acquire one common share of the Company (a "Warrant Share") at a price of $1.25 per share up to November 29, 2008.

In the second offering, five investors purchased, on a non-brokered private placement basis, 141,000 flow-through shares at a purchase price of $1.25 per share for gross proceeds of $176,250.

c) **Short-form Prospectus Offering**

On April 11, 2007, the Company completed a bought deal financing for gross proceeds of $25,005,000. The Company sold 6,670,000 flow-through common shares at a price of $1.50 per share for gross proceeds of $10,005,000 and 12,500,000 units (each unit consisting of one common share and one-half of one common share purchase warrant) at a price of $1.20 per unit for gross proceeds of $15,000,000. Each whole share purchase warrant entitles the holder to acquire one common share of the Company at a price of $1.50 per share until April 11, 2009.

9. Share Capital - *Continued*

c) **Short-form Prospectus Offering** - *Continued*

The offering was completed by a syndicate of underwriters co-led by BMO Nesbitt Burns Inc. and Canaccord Capital Corporation. The underwriters received a cash commission of $1,500,300 (equal to 6% of the gross proceeds of the offering) and common share purchase warrants entitling the underwriters to purchase up to 750,000 common shares of the Company at $1.20 per share until April 11, 2008. The warrants have an estimated fair value of $136,000 which has been recorded in share issue costs.

On April 30, 2007 the underwriters exercised the over-allotment option and the Company issued 1,875,000 units at $1.20 per unit for gross proceeds of $2,250,000. The Company paid a cash commission of $135,000 (equal to 6% of the gross proceeds of the over-allotment) and issued 112,500 common share purchase warrants on the same terms and conditions as those issued April 11, 2007. The warrants have an estimated fair value of $11,000 which has been recorded in share issue costs.

d) **Other Share Issuances**

In July 2006, Agnico-Eagle subscribed for 17,629,084 subscription receipts of the Company at a price of $1.2763 per subscription receipt for gross proceeds of $22.5 million, to be held in trust until the expiry of the first offer to Ashton shareholders (expired on September 20, 2006). As all conditions to the subscription agreement were met as at September 20, 2006, $20.0 million of the subscription receipts were converted into 15,670,297 common shares of the Company and a further $2.5 million of the subscription receipts were converted into 1,958,787 shares of the Company when the Company drew down on the $32.5 million bridge facility used to finance the acquisition of Ashton.

In February 2007, the Company issued 3,207,861 common shares to Agnico-Eagle pursuant to an assignment agreement whereby the Company agreed to issue Stornoway shares in exchange for the assignment of a promissory note evidencing funds owed to Agnico-Eagle by Contact, now a wholly-owned subsidiary of the Company. As at the effective date of the agreement, principal and interest owing totaled $4,010,000.

In March 2007, Ashton paid approximately $945,000 in respect of dissenting shareholders. As part of this settlement, a total of 95,980 Stornoway common shares were returned to treasury between April and June 2007. A further 43,700 common shares were returned to treasury during the year ended April 30, 2008 with respect to a dissenting shareholder.

e) **Flow-through Funds**

The Company is required to spend the following on Canadian Exploration Expenditures (“CEE”) (*expressed in thousands of dollars*):

Flow-through funds on hand at April 30, 2007	$	10,663
Expenditures to April 30, 2008		(10,663)
Flow-through funds on hand at April 30, 2008	$	-

To finance eligible CEE, the Company raised $22,581,000 between October 2005 and April 2007. The flow-through common shares provide for the Company’s CEE to be transferred to the shareholders and, as a result, these costs are not available to the Company. During the year ended April 30, 2008, the Company renounced $10,005,000 (2007 - $4,176,000) of income tax credits to the 2007 flow-through shareholders. The recovery of future income taxes of $2,288,000 (2007 - $1,100,000) represents the income tax effect of this renouncement.

9. Share Capital - *Continued*

f) **Stock Option Plan**

At the Company's Annual General Meeting of Shareholders held September 11, 2007, disinterested shareholders approved an amendment to the Company's existing Stock Option Plan (the "Plan") to fix the maximum number of common shares available for issuance under the Plan at 19,884,107. This represents 10% of the Company's issued and outstanding common shares as at August 14, 2007. Formerly, a total of 7,263,420 common shares had been reserved for issuance, excluding the Ashton and Contact stock options that were converted to stock options of the Company as part of the acquisitions completed *(Note 6)* during the year ended April 30, 2007. The Ashton and Contact options were converted into options of the Company pursuant to the take-over bids completed during the year ended April 30, 2007 and were not considered to be "new" option grants under the terms of the Company's stock option plan. The converted options fall within the amended plan maximum.

In addition, the number of shares which may be reserved for issuance to any one individual may not exceed 5% of the issued shares on a yearly basis or 2% if the optionee is engaged in investor relations activities or is a consultant.

g) A summary of the Company's outstanding options is as follows:

	Number of Options		Weighted Average Exercise Price
Balance April 30, 2006	4,328,296	$	1.32
Granted	2,617,000	$	1.20
Converted – Ashton*	3,985,250		1.21
Converted – Contact*	1,368,720		3.49
Exercised	(327,750)		0.68
Cancelled	(141,000)		1.46
Balance April 30, 2007	11,830,516	$	1.52
Granted	3,272,265	$	0.63
Exercised	-		
Cancelled	(1,434,402)		1.17
Expired	(1,436,589)		1.12
Balance April 30, 2008	12,231,790	$	1.38
Number of options currently exercisable	10,230,226	$	1.53

*These options were converted into options of the Company pursuant to two take-over bids that completed during the year ended April 30, 2007 *(Note 6)* and are not considered "new" option grants under the terms of the Company's stock option plan.

h) As at April 30, 2008, the Company had the following stock options outstanding:

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$ 0.63 ~ $ 1.34	9,071,365	$ 0.97	3.84 years
$ 1.53 ~ $ 2.78	2,756,865	$ 1.90	1.48 years

$ 4.86 ~ $ 7.42	403,560	$ 7.13	4.40 years
	12,231,790		

9. Share Capital - *Continued*

i) Options granted during the year ended April 30, 2008:

Date	Number		Exercise Price	Expiry Date
September 21, 2007	375,000	$	0.75	September 21, 2012
December 21, 2007	2,897,265	$	0.63	December 21, 2012
	3,272,265			

Stock options vest in equal amounts: 1/3 vest on the grant date, 1/3 vest six months from the date of grant and 1/3 vest one-year from the date of grant.

j) A summary of the Company's outstanding warrants is as follows:

	Number of Warrants		Exercise Price	Expiry Date
Balance April 30, 2005 and 2006	4,000,000	$	3.00	May 12, 2006
Cancelled/Expired	(4,000,000)	$	3.00	May 12, 2006
Converted – Ashton	2,500,000	$	1.30	May 19, 2007*
Granted –bought deal underwriters	862,500	$	1.20	April 11, 2008
Granted – private placement	192,000	$	1.25	November 29, 2008
Granted – bought deal subscribers	7,187,500	$	1.50	April 11, 2009
Balance April 30, 2007	10,742,000	$	1.42	
Expired *(Note 6)*	(3,362,500)	$	1.27	May 19, 2007 to April 11, 2008
Balance April 30, 2008	7,379,500	$	1.49	November 29, 2008 to April 11, 2009

*On May 18, 2007, the expiry date for these warrants was extended by one month to June 19, 2007. On June 19, 2007, the warrants expired without exercise.

The estimated fair value of the Ashton warrants converted is $63,000 and has been accounted for as a cost of the acquisition. The estimated fair value of the warrants issued pursuant to the November 2006 private placement and the April 2007 bought deal have been accounted for as share issue costs. The fair values of the warrants granted were estimated using a risk-free rate 3.9% ~ 4.2%, NIL dividends, a volatility of 25.8% ~ 46% and an estimated life of 1~2 years.

k) **Stock-Based Compensation**

The fair value of each option grant that has vested during the current year is estimated on the date of grant using the Black-Scholes Option Pricing Model, with the following weighted average assumptions:

	Year Ended April 30, 2008	Year Ended April 30, 2007
Risk-free interest rate	4.0% - 4.3%	3.9% - 4.1%
Expected dividend yield	NIL	NIL
Expected stock price volatility	46% - 92%	48% - 79%
Expected option life in years	2 – 5 years	3 - 5 years

9. Share Capital - *Continued*

k) Stock-Based Compensation - *Continued*

During the current fiscal year, the Company granted options to purchase up to 3,272,265 shares (2007 – 2,617,000) of the Company's stock to employees and non-employees at exercise prices of $0.63 and $0.75 (2007 - $1.02, $1.13 and $1.25). The Company used the Black-Scholes Option Pricing Model to estimate a fair value of $1,104,000 (2007 - $1,639,000) for these grants. Because a portion of the options granted were subject to vesting provisions, during the year ended April 30, 2008, $1,143,000 has been recorded as stock-based compensation expense (2007 - $1,446,000) and $548,000 (2007 - $175,000) has been capitalized to resource property costs.

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10. Related Party Transactions

Related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

a) As at April 30, 2008, the amounts due to related parties consisted of the following *(expressed in thousands of Canadian dollars)*:

		April 30, 2008		April 30, 2007
International Northair Mines Ltd., a company with certain directors in common	**$**	**6**	$	71
Strongbow Exploration Inc., a company with a director in common		**59**		191
	$	**65**	$	262

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

b) Pursuant to an amended agreement with International Northair Mines Ltd. ("Northair"), a company with directors and officers in common, the Company pays a monthly administrative fee for office space and reimburses Northair for administrative services and supplies as incurred. Either party can terminate the agreement by giving three months written notice prior to the anniversary date. During the current fiscal year, administrative fees and rent totalling $3,600 (2007 - $46,200) was paid to Northair for its services.

c) During the year ended April 30, 2008, the Company paid $109,200 (2007 - $161,050) for shared technical services and rent to Strongbow.

g) During the year ended April 30, 2008, the Company received $nil from directors and /or officers for stock option exercises (2007 - $216,000).

h) In July 2007, the Company entered into a sub-lease agreement with Agnico-Eagle Mines Ltd. ("Agnico-Eagle"), a significant shareholder and a company with a director in common, for additional premises. The Company is committed to annual lease payments of approximately $105,000 in respect of these premises through June 30, 2010. A portion of these payments may be recovered through sub-leases.

i) During the year ended April 30, 2008, the Company paid $364,000 (2007 - $nil) and accrued as payable $24,100 (2007 - $nil) to Agnico-Eagle in respect of work related to a pre-feasibility study at the Renard Project (Foxtrot Property).

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

11. Income Taxes

a) Reconciliation of accounting and taxable income *(expressed in thousands of Canadian dollars)*:

		For the Year Ended April 30, 2008		For the Year Ended April 30, 2007
Earnings (loss) before income taxes	**$**	**(35,871)**	$	(21,710)
Canadian federal and provincial income tax rates		**33.00%**		33.00%
Income tax recovery based on the above rates		**(11,837)**		(7,164)
Increase (decrease) due to:				
Non-deductible expenses and other permanent differences		**923**		569
Losses and temporary differences for which no future income tax asset has been recognized		**7,375**		5,744
Reduction in long-term income tax rates		**(2,515)**		-
Income tax benefit recognition on the issuance of flow-through shares		**(2,288)**		(1,294)
Income tax recovery	**$**	**(8,342)**	$	(2,145)

b) The Company has non-capital losses of approximately $27,274 (2007 - $22,617), which can be used to reduce taxable income. These loss carry forwards *(expressed in thousands of Canadian dollars)* expire as follows:

2008 to 2009	$	1,423
2010 to 2015		9,678
2016 to 2020		1,358
2021 to 2025		416
2026 to 2028		14,399
	$	27,274

A valuation allowance has been recorded against certain of the potential future income tax assets associated with these loss carry-forwards and other deductible temporary differences as their utilization is not considered more likely than not at this time.

c) Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates are as follows (in thousands of Canadian dollars):

		2008		2007
Future income tax assets				
Non-capital losses	**$**	**7,631**	$	7,182
Capital losses		**218**		461
Property, plant and equipment		**379**		-
Financing fees		**1,458**		2,409
Resource property costs		**7,085**		4,919
Other		**328**		264
Total future tax assets		**17,099**		15,235
Valuation allowance		**(13,784)**		(11,195)
Net future income tax assets	**$**	**3,315**	$	4,040
Future income tax liabilities				
Resource property costs	**$**	**23,018**	$	27,749
Property, plant and equipment		**-**		162
Future tax liabilities		**23,018**		27,911
Future tax liability, net	**$**	**19,703**	$	23,871

Future income tax assets and liabilities are measured using statutory rates that are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

Future income tax assets are recorded when it is more likely than not that they will be recovered in future periods.

12. Convertible Debentures

On March 16, 2007, the Company concluded a non-brokered sale of $20,000,000 in unsecured convertible debentures to Agnico-Eagle ($10,000,000) and Lorito Holdings Limited ($10,000,000), a Lundin Family Trust. The debentures mature March 16, 2009 and interest is payable under the debentures quarterly at 12% per annum. The Company issued two series of debentures, $10,000,000 in Series A Debentures that provide the Company may repay principal on the maturity date in cash or common shares of Stornoway ("Shares") at the Company's election and $10,000,000 in Series B Debentures that provide that the Company must repay principal on the maturity date in cash or Shares at the holder's election. However, the maximum number of common shares that can be issued to Agnico-Eagle for satisfaction of the interest and principal payments is 12,142,036. The remainder must be paid in cash. The maximum number of common shares that can be issued in payment of the loan is 43,690,850. If principal is paid in Shares, the Shares will be issued at a price of the lower of $1.25 and the five day volume weighted average price of the Shares ending three trading days before the payment date. The Company will have no right of prepayment. Interest payments may be paid in cash or in Shares, at the Company's election. If interest is paid in Shares, the Shares will be issued at a price of 95% of the five day volume weighted average price of the Shares ending three trading days before the payment date. The proceeds of the debenture financing were used to repay the bridge loan that was used to finance the acquisition of Ashton *(Note 6)*. In June 2007, the Company issued 604,900 common shares with a value of $0.9919 per share in settlement of the first quarterly interest payment. In September 2007 and December 2007, the Company made cash payments totalling $1,200,000 in settlement of the second and third quarterly interest payments. In March 2008, the Company made the $600,000 quarterly interest payment by issuing a total of 1,099,708 common shares with a value of $0.5456 per share to the holders of the debentures. As at April 30, 2008, the Company had accrued $296,000 as interest payable. On June 16, 2008, the Company issued a total of 1,725,626 common shares with a value of $0.3477 per share to the holders of the debentures as payment for the quarterly interest due June 16, 2008.

In July 2008, the Company and the holders of the convertible debentures entered into an agreement to extinguish the convertible debentures early (Note 16).

The debentures have been segregated into the respective fair values of its debt and equity components on the date of issuance. The debt component, representing the value allocated to the liability at inception, is recorded as a current liability as at April 30, 2008. The remaining component, representing the value ascribed to the holder's option to convert the principal balance into common shares, is classified in shareholder's equity as the "equity component of convertible debenture". Over the term of the debenture, the debt component will be accreted to the face value of the debentures by the recording of additional interest expense. The Company incurred financing fees of $78,000 in respect of the debt issuance, of which $43,000 has been amortized to the cost of the acquisition at April 30, 2008 (April 30, 2007 - $4,000).

At issuance, the Company estimated the fair value of the conversion option by using the Black-Scholes option pricing model with the following assumptions: two-year estimated life, 42.2% volatility and a risk-free rate of 4.1%. *(Expressed in thousands of dollars):*

	April 30, 2008	April 30, 2007
Principal amount	**$ 20,000**	$ 20,000
Less equity component of convertible debentures	**(2,916)**	(2,916)
Accreted interest	**1,525**	139
Financing fees *(Note 3)*	**(34)**	
Liability component	**$ 18,575**	$ 17,223

13. Asset Retirement Obligations

Details are as follows:

		April 30, 2008		April 30, 2007
Balance – beginning of the year	$	**600**	$	600
Accretion		**37**		-
Balance – end of the year	$	**637**	$	600

13. Asset Retirement Obligations - *Continued*

The Company has recorded an asset retirement obligation which reflects the present value of the estimated amount of undiscounted cash flow required to satisfy the asset retirement obligation in respect of the Foxtrot property in Quebec. The primary component of this obligation is the removal of equipment currently used at the site as well as costs associated with securing an underground shaft on the property. The expected timing of the asset retirement obligation expenditures range from 2008 to 2010 based upon the Company not going into production on the Foxtrot property. Should the Company go into production on the Foxtrot property, the obligation will be realized further into the future. The credit adjusted risk free rate at which the estimated cash flows have been discounted to arrive at the obligation is 12% and the undiscounted amount of estimated future cash flows is $722,000.

14. Supplemental Schedule of Non-Cash Investing and Financing Activities
(expressed in thousands of Canadian Dollars)

		April 30, 2008		April 30, 2007
Stock-based compensation included in resource prop	$	**548**	$	175
Issuance of shares for resource properties	$	**2,183**	$	570
Shares received for the disposal of a resource property interest	$	**(1,870)**	$	-
Deferred exploration costs included in accounts payable	$	**2,221**	$	4,939
Deferred exploration costs included in accounts receivable	$	**2,346**	$	2,623
Deal transaction costs included in accounts payable	$	**-**	$	886
Issuance of common shares for Ashton *(Note 6)*	$	**-**	$	62,355
Issuance of common shares for Contact *(Note 6)*	$	**-**	$	19,269
Issuance of common shares in settlement of a debt *(Note 9d)*	$	**-**	$	3,689
Issuance of common shares in settlement of interest payments *(Note 12)*	$	**1,200**	$	-
Fair value of broker warrants issued as a financing fee *(Note 9b)*	$	**-**	$	34
Fair value of broker warrants issued as part of a financing *(Note 9c)*	$	**-**	$	147
Fair value of unit warrants issued *(Note 9c)*	$	**-**	$	1,256
Interest and financing fees included in resource property costs	$	**2,816**	$	139
Amortization included in resource property costs	$	**1,822**	$	498

15. Commitments

The Company has minimum commitments under its operating leases for its premises averaging approximately $300,000 per year through 2013.

In May 2007, the Company entered into an operating lease for additional premises. The Company is committed to annual lease payments of approximately $105,000 in respect of these premises until June 30, 2010. A portion of these payments may be recovered through sub-leases.

In addition, the Company has Guaranteed Investment Certificates ("GICs") in the amount of $259,000 as collateral security for its corporate credit cards and a line of credit of up to $1.4 million to satisfy exploration bonding requirements. Short-term deposits equivalent to the utilization of the line of credit are provided as collateral security.

16. Subsequent Event

In July 2008, the Company announced that it had arranged for a $22.0 million private placement comprising 24,444,444 common shares at a price of $0.90 per common share to Agnico Eagle and Lorito Holdings Ltd. ("Lorito"). Agnico Eagle and Lorito presently hold, equally between them, convertible debentures in the aggregate principal amount of $20.0 million, which are due in March 2009. Agnico Eagle and Lorito have agreed to permit the Company to redeem the debentures prior to the maturity date in consideration for an additional $2.0 million payment. The proceeds of the private placement will be used to redeem the principal amount of the debentures and the $2.0 million early redemption payment. The private placement is subject to the completion of subscription agreements and receipt of stock exchange and regulatory acceptances and approvals, including compliance with related party requirements as Agnico Eagle is a related party of the Corporation.