

STORNOWAY DIAMOND CORPORATION

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2009 AND 2008

Canadian Funds

July 16, 2009

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/ "Matthew Manson"

Matthew Manson
Chief Executive Officer and Director

/s/ "Zara Boldt"

Zara Boldt
Vice-President, Finance

AUDITORS' REPORT

To the Shareholders of Stornoway Diamond Corporation

We have audited the consolidated balance sheets of Stornoway Diamond Corporation as at April 30, 2009 and 2008 and the consolidated statements of loss and deficit, comprehensive loss and cash flows for each of the years in the two year period ended April 30, 2009. These consolidated 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, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the two year period ended April 30, 2009 in accordance with Canadian generally accepted accounting principles.

(Signed) *PricewaterhouseCoopers LLP*

Chartered Accountants
Vancouver, BC
July 16, 2009

Stornoway Diamond Corporation

(An Exploration Stage Company)

Consolidated Balance Sheets

As at April 30

(expressed in thousands of Canadian dollars)

ASSETS	2009	2008
Current		
Cash and cash equivalents	\$ 1,550	\$ 9,524
Short-term deposits (Note 3b)	1,344	259
Other receivables	1,984	3,542
Investments (Note 7)	555	1,357
Prepaid expenses	383	418
	<u>5,816</u>	<u>15,100</u>
Prepaid Fuel	172	285
Property, Plant and Equipment (Note 8)	3,300	4,577
Resource Property Costs (Note 9)	171,193	173,716
	<u>\$ 180,481</u>	<u>\$ 193,678</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities		
- Trade	\$ 1,938	\$ 2,937
- Due to related parties (Note 11)	5	77
Convertible Debentures (Note 13)	-	18,575
	<u>1,943</u>	<u>21,589</u>
Future Income Tax Liabilities (Note 12)	20,782	19,703
Asset Retirement Obligations (Note 14)	634	637
	<u>23,359</u>	<u>41,929</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 10)	212,739	202,002
Contributed Surplus (Note 10)	10,865	10,228
Equity Component of Convertible Debenture (Note 13)	-	2,916
Accumulated Other Comprehensive Income	329	-
Deficit	<u>(66,811)</u>	<u>(63,397)</u>
	<u>157,122</u>	<u>151,749</u>
	<u>\$ 180,481</u>	<u>\$ 193,678</u>

Going Concern (Note 1)

Nature of Operations and Basis of Consolidation (Note 2)

Commitments (Note 16)

Subsequent Event (Note 17)

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, 2009	April 30, 2008
Administrative Expenses		
Administration fees and rent	\$ 361	\$ 192
Professional fees	249	393
Office and sundry	347	678
Regulatory and shareholder communication expense	362	708
Salaries and benefits	1,146	1,114
Stock-based compensation (Note 10i)	364	1,143
	<hr/>	<hr/>
Loss Before the Following	(2,829)	(4,228)
Other Income (Expenses)		
Gain on early extinguishment of the debt component of convertible debt (Note 13)	13,265	-
Write-off of resource property costs (Note 9i)	(14,452)	(26,334)
Write-down of investments (Note 7)	(1,146)	(513)
Interest expense	(104)	(70)
Interest income	196	739
Loss on sale of property interest (Note 9f)	-	(5,465)
	<hr/>	<hr/>
	(2,241)	(31,643)
Loss Before Income Taxes	(5,070)	(35,871)
Future income tax recovery (Note 12)	391	8,342
	<hr/>	<hr/>
Loss for the Year	(4,679)	(27,529)
Deficit - Beginning of year	(63,397)	(35,868)
Gain on early extinguishment of the equity component of convertible debt (Note 13)	1,265	-
	<hr/>	<hr/>
Deficit - End of Year	\$ (66,811)	\$ (63,397)
Loss per Share - Basic and Diluted	\$ (0.02)	\$ (0.14)
Weighted Average Number of Shares Outstanding	233,005,815	198,496,752

Stornoway Diamond Corporation

(An Exploration Stage Company)

Consolidated Statements of Comprehensive Loss

(expressed in thousands of dollars)

	April 30, 2009	April 30, 2008
Loss for the Year	\$ (4,679)	\$ (27,529)
Unrealized gain on available for sale investment (Note 7)	329	-
Comprehensive Loss	\$ (4,350)	\$ (27,529)

- 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, 2009		April 30, 2008	
Operating Activities				
Loss for the year	\$	(4,679)	\$	(27,529)
Items not affecting cash				
Gain on early extinguishment of the debt component of convertible debt		(13,265)		-
Write-off of resource property costs		14,452		26,334
Write-down of investments		1,146		513
Loss on sale of property interest		-		5,465
Stock-based compensation		364		1,143
Amortization		60		114
Future income tax recovery		(391)		(8,342)
Changes in non-cash working capital				
Increase/(decrease) in accounts receivable		345		(97)
Increase/(decrease) in prepaid expenses		35		(191)
(Increase)/decrease in accounts payable and accrued liabilities		44		(35)
		<u>(1,889)</u>		<u>(2,625)</u>
Investing Activities				
Prepaid fuel		113		(225)
Increase in short-term deposits		(1,085)		(201)
Proceeds from the sale of a property interest		-		15,000
Resource property costs		(8,641)		(23,458)
Acquisition of property, plant and equipment		(44)		(373)
		<u>(9,657)</u>		<u>(9,257)</u>
Financing Activities				
Share capital issued for cash		3,928		-
Share issue costs		(356)		(67)
		<u>3,572</u>		<u>(67)</u>
Net Decrease in Cash and Cash Equivalents				
		(7,974)		(11,949)
Cash and Cash Equivalents – Beginning of year		9,524		21,473
Cash and Cash Equivalents – End of Year	\$	1,550	\$	9,524
Cash and Cash Equivalents consist of:				
Cash	\$	346	\$	84
Cash Equivalents		1,204		9,440
Total	\$	1,550	\$	9,524

Supplemental Schedule of Non-Cash Investing and Financing Transactions (Note 15)

- See Accompanying Notes -

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

1. Going Concern

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 and the ability to raise sufficient capital to finance its operations. 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. There is no assurance the Company's management will be successful in these endeavours.

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 significant doubt on the validity of this assumption.

During the year ended April 30, 2009, the Company incurred a loss of \$4.7 million and has an accumulated deficit of \$66.8 million. Cash and short-term deposits at April 30, 2009 totalled \$2.9 million and the Company's working capital was \$3.9 million as at April 30, 2009 of which \$1.4 million must be spent on expenditures which qualify as Canadian exploration expense. In May 2009, the Company raised \$1.43 million from a flow-through financing (*Note 17*). However, the Company will need to obtain some form of additional financing to continue operations into 2010 and the Company's management will continue to consider various alternatives, within the context of existing market conditions. There is no assurance the Company's management will be successful in these endeavours.

If the going concern assumption were not appropriate for these financial statements, 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.

2. 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").

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

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. Cash and cash equivalents are classified as held for trading.

b) Short-term Deposits

For purposes of reporting cash flows, the Company considers short-term deposits to include amounts held with remaining maturities at the point of purchase of more than 90 days and less than one year. Short-term deposits are classified as held for trading.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

3. Significant Accounting Policies - Continued

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 the realized loss 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 if a reasonable estimate of fair value can be made. 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 reviews the carrying value of the Company's mineral properties when there are events or circumstances that may indicate 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". Mineral property interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on alternative methods of determining fair value. Such alternative methods would consider, among other factors, the results of exploration work, management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded.

In making an assessment of the potential impairment of the Company's mineral property interests, management has used estimates of future mineral prices, mineral resource quantities, and operating, capital and reclamation costs, as well as making judgements on the potential of certain projects based on the available information at the balance sheet date. These estimates are subject to certain risks and uncertainties that may affect the determination of the recoverability of deferred mineral property interests. Although management has made its best estimates of potential impairment, the interpretation of these factors is subjective and will not necessarily result in precise determinations. Should an underlying assumption change, the resulting estimates could change by a material amount.

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.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

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) Jointly Controlled Properties

Certain of the Company's properties are the subject of agreements which specify proportionate interests. Accordingly, the Company's proportionate share of assets, liabilities, costs and expenditures relating to these agreements 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.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

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) Financial instruments – Recognition and Measurement

The Company classifies all financial instruments as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities. Financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instruments classification. Held-for trading instruments are measured at fair value with unrealized gains and losses recognized in results of loss and deficit. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost.

The Company has designated its cash, cash equivalents and short-term deposits as held for trading, which are measured at fair value. Other receivables 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. Investments in equity securities have been classified as available for-sale, which are measured at fair value. All financial instruments are measured at fair value at inception.

p) Accounting for Costs Associated with Exit and Disposal Activities

In June 2008, the Company significantly reduced the size of its North Vancouver observing laboratory. The Company retains its ability to process exploration samples through its Dense Media Separation (DMS) plants and through the X-Ray Sorter located in North Vancouver. This restructuring allows the Company to continue to focus its financial resources on the Company's exploration and development programs.

Severance payments and accrued vacation liabilities of approximately \$495,000 (which have been aggregated with salaries and benefits) were paid to employees in the year ended April 30, 2009. In the opinion of management, there are no further closure costs to be incurred.

q) Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

3. Significant Accounting Policies – Continued

r) Initial Application of Accounting Standards

General Standards on Financial Statement Presentation – Section 1400

Effective May 1, 2008, the Company adopted CICA Handbook Section 1400, “General Standards of Financial Statement Presentation”, which was amended to include a requirement for management to assess and disclose the Company’s ability to continue as a going concern. The adoption of this standard did not have an effect on the Company’s financial statement presentation.

Capital Disclosures – Section 1535

Effective May 1, 2008, the Company adopted CICA Handbook Section 1535, "Capital Disclosures," which requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. The adoption of this standard resulted in the additional disclosures as outlined in Note 6.

Inventories – Section 3031

Effective May 1, 2008, the Company adopted CICA Handbook Section 3031, “Inventories”. This Section 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. The adoption of this new accounting policy did not have any impact on the Company’s consolidated financial statements.

Financial Instruments – Disclosures – Section 3862 and Presentation – Section 3863

Effective May 1, 2008, the Company adopted CICA Handbook Section 3862, “Financial Instruments – Disclosures” and CICA Handbook Section 3863, “Financial Instruments – Presentation”. These Sections require entities to disclose 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. Disclosures required by these standards are included in Note 5.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

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

Mining Exploration Costs

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

This standard was effective for the Company beginning with the annual statements for the year-ended April 30, 2009. The Company has evaluated the new section and determined that adoption of these new requirements did not have any impact on the Company’s consolidated financial statements.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

4. Changes in Accounting Policies and New Accounting Developments

Goodwill and Intangible Assets

Effective January 1, 2009, CICA Handbook Section 3064 will replace CICA Handbook Section 3062, "Goodwill and Intangible Assets". This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and will be effective for the Company's fiscal year beginning May 1, 2009. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires these costs be expensed as incurred unless the costs meet the asset recognition criteria. Management is currently reviewing the potential impact of this section on the Company's disclosure.

Business Combinations

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

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

International financial reporting standards

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, 2011. While the Company has begun assessing the impact of adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

5. Financial Instruments and Risk Management

Fair value

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

The fair values of financial instruments at April 30, 2009 and April 30, 2008 are summarized as follows (expressed in thousands of dollars):

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

5. Financial Instruments and Risk Management – Continued

	April 30, 2009		April 30, 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial Assets				
<i>Held for trading</i>				
Cash and cash equivalents	1,550	1,550	9,524	9,524
Short-term deposits	1,344	1,344	259	259
<i>Loans and Receivables</i>				
Other receivables	1,984	1,984	3,542	3,542
<i>Available for sale</i>				
Investments	555	555	1,357	1,357
Financial Liabilities				
Accounts payable and accrued liabilities	1,938	1,938	2,937	2,937
Due to related parties	5	5	77	77
Convertible debentures	-	-	18,575	18,575

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

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

Credit risk

Credit risk is the risk of financial loss to the Company if a counter-party to a financial instrument fails to meet its contractual obligations. The Company manages credit risk by investing its excess cash in short-term investments with an investment grade rating of "AAA" (R-1 high for money market securities) or better, issued by a Canadian chartered bank. The Company is exposed to credit risk by virtue of its receivables from companies with which it has exploration agreements or options (approximately 57% of the receivables of \$2.0 million at April 30, 2009). The remainder of the Company's receivables at the balance sheet date consist of federal and provincial sales tax refunds where management believes the risk of loss to be remote. The maximum exposure to credit risk at the reporting date is the carrying value of the Company's receivables.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to interest rate risk with respect to its cash flow. The risk that the Company will realize a loss as a result of a decline in the fair value of any short-term investment included in cash and cash equivalents is limited because these investments, although readily convertible into cash, are generally held to maturity. As of April 30, 2009, management estimates that if interest rates had changed by 1% for those funds invested in guaranteed investment certificates ("GICs"), and 0.05% for the other cash equivalents assuming all other variables remained constant, the impact on the Company's loss for the year would have been approximately \$2,000.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

5. Financial Instruments and Risk Management – *Continued*

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise the funds required through future equity financings, asset sales or exploration option agreements, or a combination thereof. The Company has no regular cash flow from its operating activities. The Company manages its liquidity risk by forecasting cash flow requirements for its planned exploration and corporate activities and anticipating investing and financing activities. Failure to realize additional funding, as required, could result in the delay or indefinite postponement of further exploration and development of the Company's properties. As at April 30, 2009, the Company had cash and cash equivalents and short-term deposits of \$2.9 million (2008 - \$9.8 million) to settle current liabilities of \$1.9 million (2008 - \$21.6 million). See Note 16 for details on other commitments. Additional information regarding liquidity risk is disclosed in Note 1.

6. Capital Management

The Company's objectives when managing capital are to:

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

The capital of the Company consists of the items included in shareholder's equity. The Company's mineral properties are in the exploration stage. As an exploration stage company, the Company is currently unable to self-finance its operations. The Company has historically relied on equity financings and, more recently, the monetization of non-core assets and a convertible debenture to finance its operations. In order to carry out the Company's planned exploration programs and to pay for administrative costs, the Company will spend its existing working capital and raise additional funds as required. To effectively manage the Company's capital requirements, the Company's management has in place a planning and budgeting process. The Company is not subject to any externally imposed capital requirements. Additional information regarding capital management is disclosed in Note 1.

7. Investments

The Company's investments consist of common shares in two public companies. The Company acquired these common shares in July 2007 pursuant to the sale of a property interest and in October 2008 pursuant to a property option agreement. These investments represent less than a 5% interest in these companies. As at April 30, 2009, the fair value of these investments was \$555,000. During the year ended April 30, 2009, the Company wrote-down its investment in one of the companies by \$1,146,000 (2008 - \$513,000) to its estimated net realizable value of \$211,000 (2008 - \$1,357,000). At the time of the impairment charge, the decline in fair value was deemed to be other than temporary. During the year ended April 30, 2009, the Company also recognized an unrealized gain of \$329,000 (2008 - \$nil) in accumulated other comprehensive income.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

8. Property, Plant and Equipment

(Expressed in thousands of Canadian dollars)

Details are as follows:

	As at April 30, 2009			As at April 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 742	\$ (640)	\$ 102	\$ 744	\$ (592)	\$ 152
Buildings	91	(19)	72	91	(13)	78
Leasehold improvements	800	(358)	442	766	(272)	494
Exploration equipment	825	(619)	206	816	(532)	284
Vehicles	610	(448)	162	628	(396)	232
Laboratory equipment	6,194	(3,878)	2,316	6,516	(3,179)	3,337
	<u>\$ 9,262</u>	<u>\$ (5,962)</u>	<u>\$ 3,300</u>	<u>\$ 9,561</u>	<u>\$ (4,984)</u>	<u>\$ 4,577</u>

9. Resource Property Costs

a) Foxtrot Property, Quebec (Eastern Canada)

The Company has a 50% interest in the Eastern Ungava property interest through its wholly-owned subsidiary Les Diamants Stornoway (Canada) Inc. (formerly Ashton Diamonds (Canada) Inc.). The Company's 50% interest in this agreement covers exploration, property acquisition and the development of mineral interests in north-central Quebec including the Foxtrot Property. The Foxtrot property is governed by an agreement between the Company and SOQUEM Inc.'s wholly-owned subsidiary Diaquem. The Company is the operator. During the year ended April 30, 2009, management used the undiscounted cash flow method to test for impairment of this project. Management determined that no write-down for impairment is warranted, as the estimated undiscounted future cash flows approximate or exceed the project's carrying value. The Renard Project is sufficiently advanced such that an undiscounted cash flow model can be used to estimate fair value.

b) Aviat One and Two Properties, Melville Peninsula, Nunavut (Eastern Arctic)

Pursuant to an agreement dated June 25, 2002, and as amended by an 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 and Aviat Two properties. BHP Billiton Diamonds Inc. ("BHPB") initially held a 20% interest in the properties, which was subsequently diluted when BHPB elected not to fund its share of the 2006 and 2007 exploration programs. BHPB assigned its interest in the Aviat properties to the Company during the year ended April 30, 2008. BHPB also assigned 100% of the diamond marketing rights for the Aviat properties to the Company in consideration for the Company waiving BHPB's obligation to sole-fund a bulk sample from the Aviat properties and in consideration for the Company's agreement to assume all of BHPB's 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, formerly 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. In March 2009, the Company advised Hunter that it would not be making the \$50,000 advance royalty payment required to keep the Aviat Two property in good standing. During the year ended April 30, 2009, the Company wrote off capitalized property interests totalling \$5.1 million, representing capitalized acquisition and exploration costs on exploration permits no longer retained by the Company. Capitalized costs of \$20.7 million relate solely to the Aviat One property interest. During the year ended April 30, 2009, the Company wrote-off \$4.2 million for Aviat One and \$963,000 for Aviat Two.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

9. Resource Property Costs - *Continued*

c) **Churchill, Melville Peninsula, Nunavut (Eastern Arctic)**

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 Project. 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. 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's interest in the Churchill property decreased from 41.86% to approximately 38% after the 2008 exploration program was completed. During the year ended April 30, 2009, the Company wrote off \$6.8 million relating to the Churchill property, representing the difference between the estimated fair value of the property and the carrying value of the exploration and acquisition expenditures capitalized to-date. As at April 30, 2009 the carrying value of the Churchill property was \$7.9 million.

d) **Qilalugaq Property ("Area 8"), Melville Peninsula, Nunavut (Eastern Arctic)**

The Company and BHPB entered into an agreement dated July 10, 2006 and amended June 5, 2008 whereby the Company may earn a 50% interest in the Qilalugaq property by spending a total of \$9,000,000 prior to December 31, 2012. The Company must spend \$2,500,000 on or before December 31, 2010 (\$2.3 million of the \$2.5 million commitment has been spent as at April 30, 2009) 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 (Eastern Arctic)**

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 76,601 common shares (with a fair value of \$49,025 at the time of issuance) and by incurring \$4,000,000 in exploration expenditures over a five year period, with a minimum first year expenditure of \$500,000 prior to September 1, 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.

This agreement was amended on August 1, 2008 to extend the minimum first year expenditure of \$500,000 from September 1, 2008 to September 1, 2009. As of April 30, 2009, the Company had spent \$236,000 to explore the Itza property.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

9. Resource Property Costs – *Continued*

f) **Buffalo Hills Property, Alberta (Other Canadian Properties)**

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. 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 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 years ended April 30, 2009 and 2008.

h) **Other Property Interests**

The Company and its subsidiaries continue to hold a number of property interests in other parts of Canada, 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, 2009. The Company received shares with a fair value of \$15,000 during the year ended April 30, 2009, pursuant to a property option agreement entered into during the year.

The Company wrote-off its interest in the Botswana, Africa property during the year ended April 30, 2008.

i) **Write-offs**

During the year ended April 30, 2009, the Company wrote-off capitalized property interests of \$14,452,000 (2008 - \$26,334,000), of which \$6.8 million relates to an impairment loss on the Churchill property. In addition, the Company wrote-off \$5,100,000 for the Aviat One and Two properties, \$1,699,000 for generative exploration and \$853,000 with respect to other non-material property interests where no future exploration is warranted or where the Company no longer retains a property interest.

In the previous year, the Company wrote off \$15,720,000 relating to property interests in the Northwest Territories, \$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. In addition, during the year ended April 30, 2008, the Company wrote-off \$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.

The recent economic downturn warranted an assessment of the estimated recoverable amount for the Company’s mineral properties. Based on management’s assessment, it was determined that certain properties should be written down on the basis that no further exploration activity is planned or because the carrying value of the property exceeded its estimated recoverable amount. It is management’s opinion that the carrying amount of the remaining properties is supported by positive results from recent exploration work and the Company’s near-term exploration plans.

Capitalized costs as reported on the balance sheet represent costs incurred to date and may not reflect actual present or future values. The recovery of carrying value is dependent upon future commercial success or proceeds from disposition of the resource interests. It is reasonably possible, based on existing knowledge, that changes in future conditions could require a material change in the recognized amounts (Note 1).

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

9. Resource Property Costs – Continued

	April 30, 2009			April 30, 2008		
	Acquisition Cost	Exploration Cost	Total	Acquisition Cost	Exploration Cost	Total
<i>Eastern Arctic Properties</i>						
Balance - Beginning of the year	\$ 12,690	\$ 30,633	43,323	\$ 21,388	\$ 26,774	\$ 48,162
Financing and interest costs	106	-	106	417	-	417
Advances to operator	-	-	-	-	(93)	(93)
Airborne Geophysics	-	(2)	(2)	-	269	269
Assays and laboratory	-	1,108	1,108	-	2,260	2,260
Camp and general	-	1,497	1,497	-	1,696	1,696
Drilling	-	1,196	1,196	-	2,177	2,177
Sampling and ground surveys	-	1,361	1,361	-	2,801	2,801
Tenure (Permit recoveries)	73	-	73	3,630	-	3,630
Management Fees	-	4	4	-	133	133
Recoveries from exploration partner(s)	-	(47)	(47)	-	(53)	(53)
Write-offs	(2,397)	(9,536)	(11,933)	(12,745)	(5,331)	(18,076)
	10,472	26,214	36,686	12,690	30,633	43,323
<i>Eastern Canada Properties</i>						
Balance - Beginning of the year	111,592	15,667	127,259	107,424	9,433	116,857
Financing and interest costs	1,045	-	1,045	4,116	-	4,116
Airborne Geophysics	-	142	142	-	55	55
Assays and laboratory	-	892	892	-	1,662	1,662
Bulk sampling	-	594	594	-	2,121	2,121
Camp and general	-	1,103	1,103	-	599	599
Drilling	-	148	148	-	254	254
Pre-feasibility studies	-	1,329	1,329	-	1,204	1,204
Sampling and ground surveys	-	115	115	-	438	438
Tenure (Permit recoveries)	91	-	91	52	-	52
Exploration recoveries	-	(1,058)	(1,058)	-	-	-
Write-offs	-	(68)	(68)	-	(99)	(99)
	112,728	18,864	131,592	111,592	15,667	127,259
<i>Western Arctic Properties</i>						
Balance - Beginning of the year	87	849	936	79	1,922	2,001
Assays and laboratory	-	20	20	-	120	120
Camp and general	-	75	75	-	35	35
Drilling	-	-	-	-	91	91
Sampling and ground surveys	-	25	25	-	105	105
Tenure (Permit recoveries)	6	-	6	8	-	8
Management fees	-	3	3	-	2	2
Write-offs	(5)	(270)	(275)	-	(1,426)	(1,426)
	88	702	790	87	849	936
Balance Carried Forward	123,288	45,780	169,068	124,369	47,149	171,518

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

9. Resource Property Costs – Continued

	April 30, 2009			April 30, 2008		
	Acquisition Cost	Exploration Cost	Total	Acquisition Cost	Exploration Cost	Total
<i>Balance Carried Forward</i>	123,288	45,780	169,068	124,369	47,149	171,518
<i>Other Canadian Properties</i>						
Balance - Beginning of the year	1,903	51	1,954	20,876	2,552	23,428
Financing and interest costs	172	-	172	677	-	677
Sale of Buffalo Head Hills, Alberta	-	-	-	(19,697)	(2,638)	(22,335)
Airborne Geophysics	-	69	69	-	-	-
Assays and laboratory	-	49	49	-	79	79
Camp and general	-	140	140	-	106	106
Sampling and ground surveys	-	139	139	-	509	509
Tenure (Permit recoveries)	(56)	-	(56)	47	-	47
Management fees	-	-	-	-	5	5
Exploration recoveries	-	(158)	(158)	-	-	-
Write-offs	30	(214)	(184)	-	(562)	(562)
	2,049	76	2,125	1,903	51	1,954
<i>Canadian Generative Exploration</i>						
Balance - Beginning of the year	106	138	244	56	2,114	2,170
Airborne Geophysics	-	70	70	-	92	92
Assays and laboratory	-	874	874	-	1,323	1,323
Camp and general	-	604	604	-	674	674
Sampling and ground surveys	-	323	323	-	358	358
Tenure (Permit recoveries)	(129)	-	(129)	106	-	106
Write-offs	23	(2,009)	(1,986)	(56)	(4,423)	(4,479)
	-	-	-	106	138	244
<i>Botswana, Africa</i>						
Balance - Beginning of the year	-	-	-	476	888	1,364
Assays and laboratory	-	1	1	-	-	-
Camp and general	-	1	1	-	12	12
Drilling	-	-	-	-	296	296
Sampling and ground surveys	-	-	-	-	19	19
Tenure (Permit recoveries)	4	-	4	-	-	-
Write-offs	(4)	(2)	(6)	(476)	(1,215)	(1,691)
	-	-	-	-	-	-
Ending Balance	\$ 125,337	\$ 45,856	\$ 171,193	\$ 126,378	\$ 47,338	\$ 173,716

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

10. Share Capital

a) Details are as follows (expressed in thousands of Canadian dollars except share numbers):

	Number	Amount	Contributed Surplus
Authorized:			
Unlimited common shares without par value			
Issued and fully paid:			
Balance – April 30, 2007	196,062,937	\$ 201,387	\$ 8,537
Issued for properties (Note 9c and 9e)	2,276,601	2,183	-
Issued as interest payments (Note 13)	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 renoucement of flow-through expenditures (Note 10e)	-	(2,702)	-
Balance – April 30, 2008	200,000,446	\$ 202,002	\$ 10,228
Issued as an interest payment (Note 13)	2,781,520	890	-
Issued to redeem convertible debenture (Note 13)	24,444,444	7,333	-
Issued for cash – private placement	26,188,334	3,928	-
Issued as a finder's fee – private placement	819,319	-	-
Stock-based compensation	-	-	637
Share issuance costs	-	(356)	-
Recovery of future income tax on renoucement of flow-through expenditures (Note 10c)	-	(1,058)	-
Balance – April 30, 2009	254,234,063	\$ 212,739	\$ 10,865

b) Private Placement

On November 14, 2008 the Company completed two private placements for gross proceeds of \$3,928,250 from the issuance of 26,188,334 flow-through shares. In one offering, Canaccord Capital Corporation (“Canaccord” or the “Agent”) arranged for the purchase of 15,806,000 flow-through common shares of the Company on a private placement basis at a price of \$0.15 per flow-through common share for gross proceeds of \$2,370,900. The Company paid a 6% commission on certain subscriptions received, which consisted of cash and 521,077 agent's commission shares and 298,242 finder's commission shares.

In the second offering, the Company completed the sale of 10,382,334 flow-through common shares for gross proceeds of \$1,557,350 through a non-brokered private placement. Insiders of the Company subscribed for 435,000 flow-through common shares of the Company on the same terms as the arms' length subscribers.

The total gross proceeds of \$3,928,250 from both the brokered and non-brokered private placements will be used for exploration on the Renard Project in Quebec and certain other Canadian mineral properties.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

10. Share Capital - Continued

c) Flow-through Funds

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

Flow-through commitment at November 14, 2008	\$	3,928
Qualifying expenditures to April 30, 2009		(2,530)
Flow-through funds on hand at April 30, 2009	\$	<u>1,398</u>

To finance eligible CEE, the Company raised \$3,928,250 in November 2008 (Note 10b). The flow-through common shares provide for the Company's CEE to be transferred to the shareholders and, as a result, the tax base for these expenditures is not available to the Company. During the year ended April 30, 2009, the Company renounced \$3,928,250 (2008 - \$10,005,000) of income tax credits to the 2008 flow-through shareholders. The recovery of future income taxes of \$1,058,000 (2008 - \$2,702,000) represents the income tax effect of this renouncement.

d) Stock Option Plan

At the Company's Annual General Meeting of Shareholders held September 11, 2008, 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 22,722,634, representing 10% of the Company's issued and outstanding common shares as at August 15, 2008. The Plan provides the directors with discretion to set vesting terms for each stock option grant. Typically, the Company's options vest in thirds over a one year period from the grant date, with the first third vesting immediately, the second third vesting six months from the grant date and the final third vesting one year from the grant date.

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.

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

	Number of Options		Weighted Average Exercise Price
Balance April 30, 2007	11,830,516	\$	1.52
Granted	3,272,265		0.63
Forfeited	(1,434,402)		1.17
Expired	(1,436,589)		1.12
Balance April 30, 2008	<u>12,231,790</u>	\$	<u>1.38</u>
Granted	3,478,500		0.10
Forfeited	(2,033,190)		1.04
Expired	(1,023,255)		1.64
Balance April 30, 2009	<u>12,653,845</u>	\$	<u>1.06</u>
Number of options currently exercisable	<u>10,334,845</u>	\$	<u>1.28</u>

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

10. Share Capital - Continued

- f) As at April 30, 2009, 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
\$ 0.10 ~ \$ 1.34	10,760,425	\$ 0.69	3.49 years
\$ 1.53 ~ \$ 2.78	1,489,860	\$ 2.09	0.84 years
\$ 4.86 ~ \$ 7.42	403,560	\$ 7.13	3.40 years
	<u>12,653,845</u>		

- g) Options granted during the year ended April 30, 2009:

Date	Number	Exercise Price	Expiry Date
December 16, 2008	3,378,500	\$ 0.10	December 16, 2013
March 10, 2009	<u>100,000</u>	\$ 0.10	March 10, 2014
	<u>3,478,500</u>		

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

	Number of Warrants	Exercise Price	Expiry Date
Balance April 30, 2007	10,742,000	\$ 1.42	May 19, 2007 to April 11, 2008
Expired	(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
Expired	(7,379,500)	\$ 1.49	November 29, 2008 to April 11, 2009
Balance April 30, 2009	-	\$ -	

All warrants expired without exercise.

i) 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, 2009	Year Ended April 30, 2008
Risk-free interest rate	1.9%	4.0% - 4.3%
Expected dividend yield	NIL	NIL
Expected stock price volatility	86% - 92%	46% - 92%
Expected option life in years	3 - 5 years	2 - 5 years

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

10. Share Capital - Continued

i) Stock-Based Compensation - Continued

During the year ended April 30, 2009 the Company granted options to purchase up to 3,478,500 (2008 - 3,272,265) shares of the Company's stock to employees and non-employees at an exercise price of \$0.10 (2008 - \$0.63 and \$0.75). The Company used the Black-Scholes Option Pricing Model to estimate a fair value of \$138,000 (2008 - \$1,104,000) for these grants.

Because a portion of the options granted were subject to vesting provisions, during the year-ended April 30, 2009, the Company recorded stock-based compensation expense of \$637,000 (2008 - \$1,143,000), of which \$273,000 (2008 - \$548,000) has been capitalized to resource property costs.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

11. Related Party Transactions

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

- a) As at April 30, 2009, the amounts due to related parties consisted of the following (expressed in thousands of Canadian dollars):

	April 30, 2009	April 30, 2008
International Northair Mines Ltd., a company with certain directors in common	\$ -	\$ 6
Strongbow Exploration Inc., a company with a director in common	2	59
Agnico-Eagle Mines Limited, a significant shareholder and a company with a director in common	3	12
	<u>\$ 5</u>	<u>\$ 77</u>

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 an officer in common, the Company paid a monthly administrative fee for office space and will reimburse Northair for administrative services and expenses as incurred. During the current fiscal period, administrative fees totalling \$Nil (2008- \$3,600) were paid or accrued as payable to Northair for its services.
- c) During the year ended April 30, 2009, the Company paid or accrued as payable \$70,000 (2008 - \$109,200) for reimbursement of administrative and technical time and rent to Strongbow Exploration Inc.
- d) In May 2007, the Company entered into a sub-lease agreement with Agnico-Eagle Mines Limited ("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 (Note 16).
- e) During the year ended April 30, 2009, the Company paid, or accrued as payable on behalf of the Eastern Ungava JV, \$169,000 (2008 - \$388,100) to Agnico-Eagle, of which the Company's share is 50%, for work completed by Agnico-Eagle related to a preliminary assessment at the Renard Project (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.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

12. Income Taxes

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

	For the Year Ended April 30, 2009	For the Year Ended April 30, 2008
Earnings (loss) before income taxes	\$ (5,070)	\$ (35,871)
Canadian federal and provincial income tax rates	31.00%	33.00%
Income tax recovery based on the above rates	(1,572)	(11,837)
Increase (decrease) due to:		
Non-deductible expenses and other permanent differences	310	923
Losses and temporary differences for which no future income tax asset has been recognized	5,263	7,375
Reduction in long-term income tax rates	(531)	(2,515)
Income tax benefit recognition on the issuance of flow-through shares	(280)	(2,288)
Difference in calculation of gain on extinguishment of debt for tax purposes	(379)	-
Use of losses for which no tax benefit was previously recognized	(3,202)	-
Income tax recovery	\$ (391)	\$ (8,342)

- b) The Company has non-capital losses of approximately \$16,982 (2008 - \$27,274), which can be used to reduce taxable income. These loss carry forwards (expressed in thousands of Canadian dollars) expire as follows:

2010	\$	1,298
2011 to 2016		5,054
2017 to 2021		721
2022 to 2026		6,310
2027 to 2029		3,599
	\$	16,982

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):

	2009	2008
<i>Future income tax assets</i>		
Non-capital losses	\$ 4,869	\$ 7,631
Capital losses	255	218
Property, plant and equipment	680	379
Financing fees	951	1,458
Resource property costs	10,876	7,085
Other	354	328
Total future tax assets	17,985	17,099
Valuation allowance	(14,512)	(13,784)
Net future income tax assets	\$ 3,473	\$ 3,315
<i>Future income tax liabilities</i>		
Resource property costs	\$ 24,255	\$ 23,018
Future tax liabilities	24,255	23,018
Future tax liability, net	\$ 20,782	\$ 19,703

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.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

13. Convertible Debentures (Expressed in thousands of dollars)

	April 30, 2009	April 30, 2008
Principal amount	\$ -	\$ 20,000
Less equity component of convertible debentures	-	(2,916)
Accreted interest	-	1,525
Financing fees	-	(34)
Liability component	\$ -	\$ 18,575

At the date of early redemption, the Company estimated the fair value of the holder's conversion option by using the Black-Scholes option pricing model with the following assumptions: eight month estimated life, 44.3% volatility and a risk free rate of 2.9%.

On March 16, 2007, the Company concluded a non-brokered sale of \$20.0 million in unsecured convertible debentures to Agnico-Eagle (a related party) (\$10.0 million) and Lorito Holdings Limited ("Lorito") (\$10.0 million). The proceeds of the debenture financing were used to repay the bridge loan that was used to finance the acquisition of Ashton in September 2006. The debentures would have matured March 16, 2009 and interest was payable under the debentures quarterly at 12% per annum. The Company issued two series of debentures, \$10.0 million in Series A Debentures that provided for the Company to repay principal on the maturity date in cash or common shares of Stornoway ("Shares") at the Company's election and \$10.0 million in Series B Debentures that provided for the Company to repay the principal on the maturity date in cash or Shares at the holder's election. If the principal was repaid in Shares, the Shares would have been 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. At the date of issuance, the debentures were segregated into a liability component of \$17.08 million and an equity component of \$2.92 million based on the estimated fair value of the holder's conversion option. 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%.

Interest payments could be paid in cash or in Shares, at the Company's election. When the interest was paid in Shares, the Shares were 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 Company made the following interest payments with Shares:

Date of Share Issuance	Number of Shares Issued	Price per Share
June 2007	604,900	\$0.9919
March 2008	1,099,708	\$0.5456
June 2008	1,725,626	\$0.3477
July 2008	1,055,894	\$0.2740
	<u>4,486,128</u>	

In September 2007 and December 2007, the Company made cash payments totaling \$1,200,000 in settlement of the second and third quarterly interest payments.

In July 2008, the Company issued 22,222,222 common shares, split equally between Agnico-Eagle and Lorito, to redeem the \$10.0 million principal amount of the convertible debentures held by each company. The Company also issued 1,111,111 shares to each company as an inducement to proceed with the early redemption of the convertible debentures. The redemption consideration of 22,222,222 common shares was fair valued at \$6.7 million based on the market price of the Company's common shares on the transaction date of \$0.30 per share and was recorded in share capital. At the date of the early redemption, \$1.66 million of the redemption consideration was attributed to the equity component of the convertible debentures, based on the fair value of the holder's conversion option, while \$5.0 million of the redemption consideration was attributed to the fair value of the liability component of the convertible debentures. Since the carrying values of the liability and equity components were \$18.9 million and \$2.92 million respectively, the Company recognized a \$13.3 million net gain on the early extinguishment of the convertible debentures on the consolidated statement of operations, and a \$1.3 million increase in shareholder's equity/(deficit) in accordance with EIC-96 "Accounting for the early extinguishment of convertible securities through early redemption or repurchase". The Company reduced the \$13.9 million gain by \$667,000, being the fair value at \$0.30 per share of the 1,111,111 common shares issued to each of Agnico-Eagle and Lorito for permitting the early redemption of the convertible debentures. The fair value of this share issuance was also recorded in share capital.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

14. Asset Retirement Obligations

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

	April 30, 2009	April 30, 2008
Balance – beginning of the period	\$ 637	\$ 600
Accretion	76	37
Change in estimate	(79)	-
Balance – end of the period	\$ 634	\$ 637

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. If the Company decides not to go into production on the property, it is assumed that the asset retirement obligation will be incurred in 2011. Should the Company decide to proceed with a production decision 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 inflation-adjusted estimated future cash flows is \$795,000.

15. Supplemental Schedule of Non-Cash Investing and Financing Activities

(expressed in thousands of Canadian Dollars)

	April 30, 2009	April 30, 2008
Stock-based compensation included in resource properties	\$ 273	\$ 548
Issuance of shares for resource properties	-	2,183
Issuance of shares for early redemption of convertible debenture (Note 13)	7,333	-
Shares received for the disposal of a resource property interest	(15)	(1,870)
Deferred exploration costs included in accounts payable	1,105	2,221
Deferred exploration costs included in accounts receivable	1,132	2,346
Issuance of common shares in settlement of interest payments (Note 13)	890	1,200
Interest and financing fees included in resource property costs	1,324	2,816
Amortization included in resource property costs	1,256	1,822

16. Commitments

The Company has minimum commitments under its operating leases for its premises averaging approximately \$300,000 per year through 2013. A portion of these payments may be recovered through sub-leases.

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. As of April 30, 2009, approximately \$8,000 of this \$1.4 million line of credit has been drawn upon. Short-term deposits equivalent to the utilization of the line of credit are provided as collateral security.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

April 30, 2009 and 2008

17. Subsequent Event

In May 2009, the Company completed a brokered private placement, with Sandfire Securities Inc. as lead agent, which consisted of 8,421,276 flow-through common shares of the Company for gross proceeds of \$1,431,617. The flow-through common shares were issued at a price of \$0.17 per share and are subject to a four-month hold period expiring September 30, 2009. The Company paid a 7% cash commission on certain subscriptions received and issued 568,695 Compensation Warrants. The Compensation Warrants are exercisable at \$0.17 to acquire one non-flow-through common share and will expire May 29, 2011. Expenditures from the flow-through shares will constitute Canadian exploration expense ("CEE") (as defined in the Income Tax Act) for the 2009 tax year.