STORNOWAY DIAMOND CORPORATION

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2010 AND 2009

Canadian Funds

July 15, 2010

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 and Chief Financial Officer

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AUDITORS' REPORT

To the Shareholders of Stornoway Diamond Corporation:

We have audited the consolidated balance sheets of Stornoway Diamond Corporation ("the Company") as at April 30, 2010 and April 30, 2009 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, 2010 and April 30, 2009 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian accounting standards.

signed PricewaterhouseCoopers LLP

Chartered Accountants
July 15, 2010

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Consolidated Balance Sheets

As at April 30

(expressed in thousands of Canadian dollars)

ASSETS		2010		2009 (Restated – Note 2)
Current				
Cash and cash equivalents	**$**	**9,212**	$	1,550
Short-term deposits		**1,641**		1,344
Other receivables		**1,582**		1,984
Investments *(Note 6)*		**147**		555
Prepaid expenses		**136**		383
		12,718		5,816
Prepaid Fuel		**170**		172
Rough diamond inventory *(Note 8a)*		**330**		330
Property, Plant and Equipment *(Note 7)*		**2,366**		3,300
Resource Property Costs *(Note 8)*		**93,854**		114,737
	$	**109,438**	$	124,355
LIABILITIES				
Current				
Accounts payable and accrued liabilities - Trade and due to related parties *(Note 10)*	**$**	**3,184**	$	1,943
Future Income Tax Liabilities *(Note 11)*		**7,806**		13,162
Asset Retirement Obligations *(Note 13)*		**710**		634
		11,700		15,739
SHAREHOLDERS' EQUITY				
Share Capital *(Note 9)*		**224,883**		212,739
Contributed Surplus (*Note 9*)		**11,807**		10,865
Accumulated Other Comprehensive Income (Loss)		**(72)**		329
Deficit		**(138,880)**		(115,317)
		97,738		108,616
	$	**109,438**	$	124,355

Going Concern *(Note 1)*
Commitments (*Note 15*)
Subsequent Events *(Note 16)*

ON BEHALF OF THE BOARD:

"Eira Thomas", Director

"Catherine McLeod-Seltzer", 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, 2010		April 30, 2009 (Restated– Note 2)
Expenses				
Accretion	**$**	**76**	$	76
Administration fees and rent		**455**		361
Amortization		**933**		1,316
Exploration costs *(Note 8j)*		**4,217**		8,556
Office and sundry		**374**		288
Professional fees		**184**		249
Regulatory and shareholder communication expense		**398**		362
Salaries and benefits		**1,008**		1,146
Stock-based compensation *(Note 9h)*		**573**		637
Loss Before the Following		**(8,218)**		(12,991)
Other Income (Expenses)				
Bad debt expense		**(132)**		-
Financing and interest costs		**-**		(1,323)
Gain on early extinguishment of the debt component of convertible debt (*Note 12*)		**-**		13,265
Gain on the sale of investments		**15**		-
Interest expense		**(68)**		(104)
Interest income		**47**		196
Write-off of resource property costs *(Note 8h)*		**(20,992)**		(438)
Write-down of investments *(Note 6)*		**-**		(1,146)
		(21,130)		10,450
Loss Before Income Taxes		**(29,348)**		(2,541)
Current income tax expense *(Note 11)*		**(22)**		-
Future income tax recovery *(Note 11)*		**5,807**		1,471
Loss for the Year		**(23,563)**		(1,070)
Deficit - Beginning of year		**(115,317)**		(115,512)
Gain on early extinguishment of the equity component of convertible debt (*Note 12*)		**-**		1,265
Deficit - End of Year	**$**	**(138,880)**	$	(115,317)
Loss per Share - Basic and Diluted	**$**	**(0.09)**	$	(0.00)
Weighted Average Number of Shares Outstanding		**266,737,374**		233,005,815

Consolidated Statements of Comprehensive Loss

(expressed in thousands of dollars)

		April 30, 2010		April 30, 2009 (Restated– Note 2)
Loss for the Year	**$**	**(23,563)**	$	(1,070)
Unrealized gain (loss) on available for sale investments, net of taxes *(Note 6)*		**(341)**		329
Comprehensive Loss		**(23,904)**		(741)

– 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, 2010**	April 30, 2009 (Restated– Note 2)
Operating Activities		
Loss for the year	**$ (23,563)**	$ (1,070)
Items not affecting cash		
Gain on early extinguishment of the debt component of convertible debt	**-**	(13,265)
Gain on the sale of property, plant and equipment	**(4)**	-
Gain on the sale of investments	**(15)**	-
Write-off of resource property costs	**20,992**	438
Write-down of investments	**-**	1,146
Amortization	**933**	1,316
Accretion	**76**	76
Bad debt expense	**132**	-
Financing and interest costs	**-**	1,620
Stock-based compensation	**573**	637
Future income tax recovery	**(5,807)**	(1,471)
Changes in non-cash working capital		
Decrease in accounts receivable	**264**	1,564
Decrease in prepaid expenses	**246**	35
Increase (decrease) in accounts payable and accrued liabilities	**1,242**	(1,607)
	(4,931)	(10,581)
Investing Activities		
Prepaid fuel	**2**	113
Increase in short-term deposits	**(297)**	(1,085)
Resource property costs	**(42)**	49
Acquisition of property, plant and equipment	**(9)**	(43)
Proceeds from the sale of investments	**22**	-
Proceeds on the disposal of property, plant and equipment	**19**	1
	(305)	(965)
Financing Activities		
Share capital issued for cash	**14,117**	3,928
Share issue costs	**(1,309)**	(356)
Warrants and options exercised	**90**	-
	12,898	3,572
Net Increase (Decrease) in Cash and Cash Equivalents	**7,662**	(7,974)
Cash and Cash Equivalents – Beginning of year	**1,550**	9,524
Cash and Cash Equivalents – End of Year	**$ 9,212**	$ 1,550

Cash and Cash Equivalents consist of:		
Cash	**$ 184**	$ 346
Cash Equivalents	**9,028**	1,204
Total	**$ 9,212**	$ 1,550

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

- See Accompanying Notes -

1. Going Concern

Stornoway Diamond Corporation (the "Company") is an exploration stage company that engages principally in the acquisition, exploration and development of resource 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 mineral resources, 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 resource 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, 2010, the Company incurred a loss of $23.6 million and has an accumulated deficit of $138.9 million (restated – see Note 2). Cash and cash equivalents and short-term deposits at April 30, 2010 totalled $10.9 million and the Company's working capital was $9.5 million. Based on anticipated expenditures to advance the Renard Project (Note 8a) through feasibility and for other corporate and administrative expenses, the Company expects it will require financing within twelve months; additional financings will also be required should the Company and its partner, "Soquem", choose to make a production "decision for the Renard Project and commence construction. Future financings may be obtained through equity or debt issuances, convertible debentures, option and warrant exercises or through other means. However, there is no assurance that these initiatives will be successful.

If the going concern assumption were not appropriate for these consolidated 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. Change in Accounting Policy and Adoption of Recent Accounting Pronouncements

Exploration Expenditures and Financing and Interest Costs

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

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

2. Change in Accounting Policy and Adoption of Recent Accounting Pronouncements – *Continued*

Exploration Expenditures – Continued

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

Goodwill and Intangible Assets

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

Amendment to Financial Instruments – Disclosures

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

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

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

Mining Exploration Costs

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

2. Change in Accounting Policy and Adoption of Recent Accounting Pronouncements – *Continued*

Future Accounting Pronouncements

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

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

3. Significant Accounting Policies

a) Basis of Consolidation

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

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

b) 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.

c) 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.

d) 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.

e) 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.

3. Significant Accounting Policies – *Continued*

f) **Resource Properties**

During the year ended April 30, 2010, the Company changed its accounting policy related to mineral property exploration expenditures and it now expenses exploration expenditures and financing and interest costs when incurred (Note 2). Acquisition costs are capitalized as incurred.

When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized and will be amortized against production following commencement of commercial production, or written off if the property is sold, allowed to lapse or abandoned. Mineral acquisition costs are capitalized on an individual project basis until such time as the economics of an ore body are defined.

Although the Company has taken steps to verify title to long-lived assets 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.

g) **Impairment of Long-Lived Assets**

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

In making an assessment of the potential impairment of the Company's long-lived assets, management has used estimates of future mineral prices, mineral resource quantities, and operating, capital and reclamation costs, as well as making 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 the Company's long-lived assets. Although management has made its best estimates of potential impairment, the interpretation of these factors is subjective and will not necessarily result in precise determinations. Should an underlying assumption change, the resulting estimates could change by a material amount.

h) **Investment Tax Credits ("ITC")**

The Company is eligible to receive investment tax credits ("ITCs") related to certain of its resource property expenditures. The amount of the ITC reduces the Company's capitalized resource property costs through a credit to cash recoveries or is brought into income should the credit be recovered on exploration expenditures of the properties in question have been written off previously. Due to the uncertainty around the timing and amount of the ITC, it is recorded only when a notice of assessment is received.

i) **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.

3. Significant Accounting Policies – *Continued*

j) **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.

k) **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.

l) **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.

m) **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, 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.

n) **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.

o) **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 resource property interests, rough diamond inventory, 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.

3. Significant Accounting Policies – *Continued*

p) **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.

4. 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 and amounts due to related parties. The carrying value of cash and cash equivalents, short-term deposits, other receivables, accounts payable, accrued liabilities and amounts due to related parties approximate their fair values due to their immediate or short-term maturity. Investments are recorded at fair value based on the quoted market prices in active markets at the balance sheet date, which is consistent with level 1 of the fair value hierarchy. Cash and cash equivalents and short-term deposits are recorded consistent with Level 2 of the hierarchy.

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

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

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

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

4. Financial Instruments and Risk Management – *Continued*

Credit risk

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

Interest rate risk

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

Liquidity risk

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

The Company has no regular cash flow from its operating activities. The Company manages its liquidity risk by forecasting cash flow requirements for its planned exploration and corporate activities and anticipating investing and financing activities. Failure to realize additional funding, as required, could result in the delay or indefinite postponement of further exploration and development of the Company’s properties. As at April 30, 2010, the Company had cash and cash equivalents, and short-term deposits of $10.9 million (2009 - $2.9 million) as well as other receivables of $1.6 million (2009 - $2.0 million) to settle current liabilities of $3.2 million (2009 - $1.9 million). See Note 15 for details on other commitments. Additional information regarding liquidity risk is disclosed in Note 1.

5. 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 resource properties, and
c) Provide sufficient funds for the Company’s corporate activities.

The capital of the Company consists of the items included in shareholders’ equity. The Company’s resource 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.

6. 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, 2010, the fair value of these investments was $147,000 (2009 - $555,000). During the year ended April 30, 2010, the Company received gross proceeds of $22,000 from the sale of investments and recognized a $15,000 gain from the sale. During the year ended April 30,2010, the Company recognized an unrealized loss of $401,000 (2009 – unrealized gain $329,000) in accumulated other comprehensive income/loss. During the year ended April 30, 2009, the Company wrote-down its investment in one of the companies by $1,146,000 to its estimated net realizable value of $211,000. At the time of the impairment charge, the decline in fair value was deemed to be other than temporary.

7. Property, Plant and Equipment

(Expressed in thousands of Canadian dollars)

Details are as follows:

	As at April 30, 2010			As at April 30, 2009		
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Office equipment	**$ 743**	**$ (667)**	**$ 76**	$ 742	$ (640)	$ 102
Buildings	**91**	**(22)**	**69**	91	(19)	72
Leasehold improvements	**800**	**(451)**	**349**	800	(358)	442
Exploration equipment	**826**	**(681)**	**145**	825	(619)	206
Vehicles	**610**	**(497)**	**113**	610	(448)	162
Laboratory equipment	**6,154**	**(4,540)**	**1,614**	6,194	(3,878)	2,316
	$ 9,224	**$ (6,858)**	**$ 2,366**	$ 9,262	$ (5,962)	$ 3,300

8. Resource Property Costs

a) Renard Project, located on the Foxtrot Property, Quebec (Eastern Canada)

The Company has a 50% interest in the Eastern Ungava property interest located 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. Rough diamonds weighing approximately 7,500 carats have been derived from exploration activities at Renard. Under terms of the agreement with SOQUEM, the Company owns 50% of these rough diamonds. The Company has estimated their value based on market prices for rough diamonds and taking into account anticipated costs of disposal. It is not the Company's intention to dispose of these rough diamonds in the near term.

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

The Company has a 90% interest in certain mineral claims and leases, known as the Aviat One properties and 100% of the diamond marketing rights for the Aviat properties. Hunter Exploration Group ("Hunter") holds a 10% interest in the properties, carried up to the development of a mine on the properties.

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 and, during the year ended April 30, 2009, the Company wrote off capitalized property interests totalling $482,000, representing capitalized acquisition costs on exploration permits no longer retained by the Company. As at April 30, 2010, capitalized costs of $1.9 million relate solely to the Aviat One property interest.

8. Resource Property Costs – *Continued*

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

The Company has a 38% interest (approximately) in the Churchill property. The remaining 62% interest is held by Shear Minerals Ltd. ("Shear"). Shear is the operator of the Churchill Project. The Churchill property is subject to a 2% GOR/NSR. As at April 30, 2010, the carrying value of the Churchill property was $2.1 million.

In August 2009, the Company and Shear entered into an agreement with Kennecott Canada Exploration Inc. ("Kennecott") to jointly explore an area within the Churchill Project (the "Chesterfield Inlet" project). Under the terms of the agreement, the Company and Shear have jointly granted Kennecott the right and option to acquire, subject to existing underlying royalties, up to a 70% interest in the diamond rights to the Chesterfield Inlet project. Kennecott has a First Option to acquire a 51% interest in the Chesterfield Inlet project by incurring $100,000 before December 31, 2010 and an additional $1,900,000 before December 31, 2012. If the First Option is satisfied, Kennecott has an option to complete a Second Option to earn an additional 19% interest in the Chesterfield Inlet project by incurring an additional $4,500,000 in exploration expenditures before December 31, 2016.

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

In March 2010, BHP Billiton Canada Inc. ("BHPB") assigned its 75% interest in the Qilalugaq property to the Company, in exchange for a 3% NSR and 3% GOR. The Company now holds a 100% interest in the property, which was formerly subject to an option agreement between BHPB and the Company.

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, 2009. In September 2009, this agreement was amended to extend the deadline to incur the minimum first year expenditure of $500,000 from September 1, 2009 to September 1, 2011. As of April 30, 2010, the Company had spent $237,000 to explore the Itza property.

f) **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% to 3% and NSRs ranging from 0% to 3%.

No cash payments or shares were issued pursuant to the Company's generative agreements during the years ended April 30, 2010 and 2009.

g) **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 acquisition cash payments or shares were issued pursuant to the Company's other property interests during the year ended April 30, 2010. During the year ended April 30, 2009 the Company received shares with a fair value of $15,000, pursuant to a property option agreement entered into during the year.

8. Resource Property Costs – *Continued*

h) **Write-offs**

During the year ended April 30, 2010, the Company wrote-off capitalized property interests of $21.0 million (2009 - $438,000). The majority of this write-off ($13.7 million) relates to properties in Ontario, Nunavut ($5.3 million) and for the Churchill Project ($2.0 million) where no future exploration programs are planned for the foreseeable future. Write-offs in the comparative year totalled $438,000 and related primarily to the Aviat 2 property, where no future exploration programs were planned for the foreseeable future and where no recent exploration programs had been carried out on the properties.

Based on management's assessment, it was determined that certain other 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.

i) **Resource Property Costs Capitalized**

	April 30, 2009 As previously reported $	Adjustments $	April 30, 2009 (Restated-Note 2) $	Acquisition Expenditures $	Write-down $	**April 30, 2010 $**
Eastern Arctic Properties	36,686	(25,375)	11,311	84	(7,341)	**4,054**
Eastern Canada Properties	131,592	(28,279)	103,313	38	(13,662)	**89,689**
Western Arctic Properties	790	(702)	88	-	-	**88**
Other Canadian Properties	2,125	(2,100)	25	1	(3)	**23**
Generative Exploration	-	-	-	(14)	14	**-**
	171,193	(56,456)	114,737	109	(20,992)	**93,854**

	April 30, 2008 As previously reported $	Adjustments $	April 30, 2008 (Restated-Note 2) $	Acquisition Expenditures $	Write-down $	April 30, 2009 (Restated-Note 2) $
Eastern Arctic Properties	43,323	(31,853)	11,470	323	(482)	11,311
Eastern Canada Properties	127,259	(24,242)	103,017	296	-	103,313
Western Arctic Properties	936	(849)	87	6	(5)	88
Other Canadian Properties	1,954	(1,903)	51	(56)	30	25
Generative Exploration	244	(138)	106	(129)	23	-
Botswana	-	-	-	4	(4)	-
	173,716	(58,985)	114,731	444	(438)	114,737

8. Resource Property Costs – *Continued*

j) Exploration Expenses

	April 30, 2010	April 30, 2009 (Restated-Note 2)
Eastern Arctic Properties		
Airborne Geophysics	**$ -**	$ (2)
Assays and laboratory	**47**	1,108
Camp and general	**131**	1,040
Drilling	**-**	1,196
Sampling and ground surveys	**8**	1,361
Management Fees	**1**	4
Recoveries from exploration partner(s)	**-**	(47)
	187	4,660
Eastern Canada Properties		
Airborne Geophysics	**-**	142
Assays and laboratory	**611**	892
Bulk sampling	**317**	594
Camp and general	**264**	(13)
Drilling	**248**	148
Pre-feasibility studies	**2,559**	1,329
Sampling and ground surveys	**1**	115
Exploration recoveries	**(229)**	(1,205)
	3,771	2,002
Western Arctic Properties		
Assays and laboratory	**9**	20
Camp and general	**32**	75
Sampling and ground surveys	**1**	25
Management fees	**-**	3
	42	123
Other Canadian Properties		
Airborne Geophysics	**-**	69
Assays and laboratory	**-**	49
Camp and general	**1**	139
Sampling and ground surveys	**4**	139
Exploration recoveries	**-**	(158)
	5	238
Generative Exploration		
Airborne Geophysics	**-**	70
Assays and laboratory	**179**	874
Camp and general	**29**	264
Sampling and ground surveys	**4**	323
	212	1,531
Botswana		
Assays and laboratory	**-**	1
Camp and general	**-**	1
	-	2
Total exploration expenditures during the year	**$ 4,217**	$ 8,556

9. 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, 2008	200,000,446	$	202,002	$	10,228
Issued as an interest payment *(Note 12)*	2,781,520		890		-
Issued to redeem convertible debenture *(Note 12)*	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 renouncement of flow-through expenditures *(Note 11c)*	-		(1,058)		-
Balance – April 30, 2009	254,234,063	$	212,739	$	10,865
Issued for cash – Short-form offering	25,370,000		12,685		-
Issued for cash – private placement	8,421,276		1,432		-
Reversal of shares cancelled in error	81,553		-		-
Exercise of warrants	451,564		112		(34)
Exercise of options	110,000		14		(3)
Stock-based compensation	-		-		573
Share issuance costs	-		(1,714)		406
Recovery of future income tax on renouncement of flow-through expenditures *(Note 11c)*	-		(385)		-
Balance – April 30, 2010	288,668,456		224,883		11,807

b) **Equity Financings**

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 (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.

On May 29, 2009, the Company completed a brokered private placement, with Sandfire Securities Inc. as lead agent, which consisted of 8,421,276 flow-through common shares of the Company for gross proceeds of $1,431,617. The flow-through common shares were issued at a price of $0.17 per share. The Company paid a 7% cash commission on certain subscriptions received and issued 568,695 Compensation Warrants (the "Warrants"). The Warrants are exercisable at $0.17 to acquire one non-flow-through common share and expire on May 29, 2011. The fair value of the warrants was estimated to be $41,400 using the Black-Scholes option-pricing model (1.23% risk-free interest rate; two-year term, 97.6% volatility) with this amount being recorded in contributed surplus. Expenditures from the flow-through shares will constitute Canadian exploration expenses ("CEE") (as defined in the Income Tax Act) for the 2009 tax year.

9. Share Capital – *Continued*

b) **Equity Financings** – *Continued*

On February 23, 2010, the Company sold 23,000,000 common shares at a price of $0.50 per share for gross proceeds of $11,500,000 by way of a short-form offering. The Company paid a cash fee equal to 6.5% of the gross proceeds from the sale of 16,000,000 of the common shares and 3% from the sale of 7,000,000 common shares and issued broker warrants entitling the syndicate of underwriters to subscribe for up to 1,380,000 common shares of the Company at $0.50 per share until February 23, 2012. The fair value of the warrants was estimated to be $332,100 using the Black-Scholes option pricing model (1.33% risk-free interest rate; two-year term, 100% volatility) with this amount being recorded in contributed surplus.

On March 4, 2010, the overallotment option was exercised and the Company issued a further 2,370,000 common shares at a price of $0.50 per share for gross proceeds of $1,185,000 and 142,200 broker warrants, with the same conditions as the warrants above. The fair value of the warrants was estimated to be $33,000 using the Black-Scholes option-pricing model (1.47% risk-free interest rate; two-year term, a 100% volatility) with this amount being recorded in contributed surplus.

c) **Flow-through Funds**

To finance certain of its exploration activities, the Company raised $3,928,250 in November 2008 and $1,431,617 in May 2009 by way of flow-through private placements *(Note 9b).* 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. The Company was required to spend $3,928,250 on or before December 31, 2009. The Company met this expenditure requirement and in February 2010, paid $39,600 in Part 12.6 tax and $8,000 in Quebec tax on amounts unspent between February and December 2009. The Company was required to spend $1,431,617 on eligible CEE on or before December 31, 2010 and has met this expenditure requirement as of April 30, 2010.

d) **Stock Option Plan**

The maximum number of common shares currently available for issuance under the Company's existing Stock Option Plan (the "Plan") was approved by shareholders at the 2008 Annual General Meeting ("AGM") and is fixed at 22,722,634, representing 10% of the Company's issued and outstanding common shares as at August 15, 2008. There were no amendments to the Plan during 2009. The Plan provides the directors with discretion to set vesting terms for each stock option grant. Historically, the Company's options have vested 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. Effective for the fiscal year beginning May 1, 2009 a Stock Option Grant Policy (the "Policy") was adopted. This Policy sets annual stock option grants and five-year option level targets for optionees, by level of responsibility. Options vest immediately on 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, 2008	12,231,790	$	1.38
Granted	3,478,500		0.10
Forfeited	(2,033,190)		1.04
Expired	(1,023,255)		1.64
Balance April 30, 2009	12,653,845	$	1.06
Granted	3,395,000		0.25
Expired	(1,407,040)		1.99
Exercised	(110,000)		0.10
Balance April 30, 2010	14,531,805	$	0.79
Number of options currently exercisable	14,276,805	$	0.80

9. Share Capital - *Continued*

f) As at April 30, 2010, the Company had the following stock options outstanding:

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Exercise Price	Year of Expiry	Weighted Average Remaining Contractual Life
$ 1.05 ~ $ 1.70	613,420	$ 1.30	2010	0.41 years
$ 1.02 ~ $ 1.25	1,392,700	$ 1.17	2011	1.05 years
$ 0.63 ~ $ 6.93	5,118,980	$ 1.16	2012	2.22 years
$ 0.10 ~ $ 7.42	4,317,205	$ 0.47	2013	3.57 years
$ 0.10 ~ $ 4.86	2,889,100	$ 0.29	2014	4.45 years
$ 1.08 ~ $ 1.34	200,400	$ 1.12	2015	5.49 years
	14,531,805			

On October 20, 2009, the Company granted 2,630,000 stock options with an exercise price of $0.25. The options expire on October 20, 2014 and vested immediately on the date of grant. Also, on October 20, 2009, the Company granted a further 765,000 stock options with an exercise price of $0.25. The options expire on October 20, 2013 and vest in thirds over a one-year period from the date of grant.

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

	Number of Warrants		Weighted Average Exercise Price
Balance April 30, 2008	7,379,500	$	1.49
Expired	(7,379,500)	$	1.49
Balance April 30, 2009	-	$	-
Granted – private placement	568,695	$	0.17
Granted – Short-form offering	1,522,200	$	0.50
Exercised	(451,564)	$	0.17
Balance April 30, 2010	1,639,331	$	0.48

As at April 30, 2010, the Company had the following warrants outstanding:

Number of Warrants	Exercise Price	Expiry Date
123,131	$ 0.17	May 29, 2011
1,516,200	$ 0.50	February 23, 2012
1,639,331		

h) **Stock-Based Compensation**

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

	Year Ended April 30, 2010	Year Ended April 30, 2009
Risk-free interest rate	**2.5% - 2.7%**	1.9%
Expected dividend yield	**NIL**	NIL
Expected stock price volatility	**83% - 94%**	86% - 92%
Expected option life in years	**3 – 5 years**	3 – 5 years

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

9. Share Capital - *Continued*

h) Stock-Based Compensation - *Continued*

For the year ended April 30, 2010, the Company recorded stock-based compensation expense of $573,000 (2009 - $637,000). During the year-ended April 30, 2010, the Company retrospectively changed its accounting policy for exploration expenditures from capitalization to expensing (Note 2). As a result, the Company has capitalized $Nil to resource property costs for the years ended April 30, 2010 and April 30, 2009.

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.

10. Related Party Transactions

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

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

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

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

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

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

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

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

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

11. Income Taxes

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

		For the Year Ended April 30, 2010		For the Year Ended April 30, 2009 (Restated – Note 2)
Loss before income taxes	**$**	**(29,348)**	$	(2,541)
Canadian federal and provincial income tax rates		**31.00%**		31.00%
Income tax recovery based on the above rates		**(9,098)**		(788)
Increase (decrease) due to:				
Non-deductible expenses and other permanent differences		**310**		310
Losses and temporary differences for which no future income tax asset has been recognized		**2,434**		3,497
Difference in statutory income tax rates		**989**		(629)
Income tax benefit recognition on the issuance of flow-through shares		**(37)**		(280)
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)
Adjustment to future income tax liability due to tax planning		**(383)**		-
Income tax expense (recovery)	**$**	**(5,785)**	$	(1,471)
Consists of:				
Current income tax expense		**22**		-
Future income tax recovery		**(5,807)**		(1,471)
	$	**(5,785)**	$	(1,471)

b) As at April 30, 2010, the Company has non-capital losses of approximately $22.2 million (2009 - $17.0 million), which can be used to reduce taxable income. These loss carry forwards *(expressed in thousands of Canadian dollars)* expire as follows:

2013 to 2016	$	10,999
2017 to 2021		847
2022 to 2026		3,264
2027 to 2030		7,089
	$	22,199

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.

11. Income Taxes - *Continued*

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):

		April 30, 2010		April 30, 2009 (Restated – Note 2)
Future income tax assets				
Non-capital losses	**$**	**6,318**	$	4,869
Capital losses		**312**		255
Property, plant and equipment		**1,400**		680
Financing fees		**784**		951
Resource property costs		**20,529**		18,459
Other		**374**		354
Total future tax assets		**29,717**		25,568
Valuation allowance		**(25,841)**		(22,095)
Net future income tax assets	**$**	**3,876**	$	3,473
Future income tax liabilities				
Resource property costs and other	**$**	**11,682**	$	16,635
Future tax liabilities		**11,682**		16,635
Future tax liability, net	**$**	**7,806**	$	13,162

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 $20.0 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. 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%.

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 in respect of 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 the $5.0 million residual of the redemption consideration was attributed to 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. At the date of early redemption, the Company estimated the fair value of the holder's conversion option again 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%.

13. Asset Retirement Obligations

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

		April 30, 2010		April 30, 2009
Balance – beginning of the year	**$**	**634**	$	637
Accretion		**76**		76
Change in estimate		**-**		(79)
Balance – end of the year	**$**	**710**	$	634

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 Renard Project 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 Renard Project, 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.

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

(expressed in thousands of Canadian Dollars)

		April 30, 2010		April 30, 2009 (Restated – Note 2)
Issuance of shares for early redemption of convertible debenture *(Note 12)*	**$**	**Nil**	**$**	7,333
Shares received for the disposal of a resource property interest	**$**	**Nil**	**$**	15
Issuance of common shares in settlement of interest payments *(Note 12)*	**$**	**Nil**	**$**	890
Interest and financing fees included in exploration expenses	**$**	**Nil**	**$**	1,324

15. Commitments

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

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

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

16. Subsequent Events

a) On May 3, 2010, the Company granted 1,220,000 stock options to several employees. The options can be exercised at $0.62 per share and expire on May 3, 2015.

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