

**Form 51-102F1**  
**Annual Management Discussion and Analysis<sup>1</sup>**  
**For**  
**Stornoway Diamond Corporation**  
**(“Stornoway” or the “Company”)**

**Containing Information up to and including July 20, 2009**

**OVERALL PERFORMANCE**

Stornoway has a well diversified and highly prospective diamond property portfolio, focused in Canada, that includes Renard, a development track diamond project with the potential to become Quebec’s first diamond mine, three advanced projects in eastern Nunavut at the minibulk sampling stage and several early stage grass roots projects throughout Canada in geologically prospective, underexplored regions. Stornoway’s strategy is to capitalize on near-term, small to medium sized diamond mining opportunities to build a growth oriented company that succeeds in the practical business of mining and selling rough diamonds, while at the same time, remains exposed to significant upside through exploration. Although the rough diamond market has been affected by the deepening global economic crisis, in taking a longer-term view, the rough diamond market is expected to strengthen in the face of tightening supply and Stornoway is well positioned to add diamond resources from existing projects and further acquisitions as new opportunities are identified. In addition, the Company has a management team with experience at each stage of the diamond pipeline, from exploration through development and marketing.

As of July 20, 2009, the Company holds interests, directly or through joint ventures, in approximately 20 separate project areas in Alberta, Ontario, Québec, Nunavut and the Northwest Territories covering more than 5 million acres. This property portfolio can be roughly subdivided into 168,000 acres of ‘development’ stage projects (the Foxtrot Property), 1.8 million acres of ‘advanced’ exploration properties (Aviat, Churchill, Qilalugaq and Timiskaming) and 3.0 million acres of ‘early stage’ projects (Blackstone, Itza and others) that collectively contain some 170 kimberlite bodies.

**Forward-Looking Statements**

This document may contain "forward-looking statements" within the meaning of Canadian securities legislation and the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements are made as of the date of this document and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by law.

Forward-looking statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage.

These forward-looking statements include, among others, statements with respect to Stornoway's objectives for the ensuing year, our medium and long-term goals, and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," and words and expressions of similar import are intended to identify forward-looking statements. In particular, statements regarding Stornoway's future operations, future exploration and development activities or other development plans contain forward-looking statements.

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<sup>1</sup> Note to Reader

The following management discussion and analysis of the Company’s financial condition and results of operations should be read in conjunction with the audited consolidated financial statements for the years ended April 30, 2009 and 2008 together with the notes thereto. These financial statements have been prepared in Canadian funds in accordance with Canadian generally accepted accounting principles.

All forward-looking statements and information are based on Stornoway's current beliefs as well as assumptions made by and information currently available to Stornoway concerning anticipated financial performance, business prospects, strategies, regulatory developments, development plans, exploration, development and mining activities and commitments. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements.

These factors include, but are not limited to, developments in world diamond markets, changes in diamond valuations, risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar, changes in exploration, development or mining plans due to exploration results and changing budget priorities of Stornoway or its joint venture partners, changes in project parameters as plans continue to be refined; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, the effects of competition in the markets in which Stornoway operates, the impact of changes in the laws and regulations regulating mining exploration and development, judicial or regulatory judgments and legal proceedings, operational and infrastructure risks and the additional risks described in Stornoway's most recently filed Annual Information Form, and Stornoway's anticipation of and success in managing the foregoing risks. Stornoway cautions that the foregoing list of factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to Stornoway, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Stornoway does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by Stornoway or on our behalf, except as required by law.

### **Highlights for the Year Ended April 30, 2009 and to July 20, 2009**

Stornoway operates exploration programs on its development stage projects, three of the four advanced projects and the majority of the early stage projects. Highlights of the year ended April 30, 2009 and the period ended July 20, 2009 include:

#### *Exploration Highlights*

- The receipt of a positive economic study for the Renard Diamond Project, located at the Foxtrot Property in North Central Québec. An independent Technical Report summarizing the results of the Preliminary Assessment was filed on December 12, 2008.
- In March 2009, the completion of three deep delineation drill holes on the Renard 2 kimberlite pipe successfully extended the dimensions of the Renard 2 kimberlite pipe at depth, in comparison to the geological model used in the recent NI 43-101 compliant mineral resource statement (Stornoway Press Release dated December 12, 2008). One hole in particular, R2-55, has returned an intersection of kimberlite 176 meters longer than expected from previous geological modeling. The implied true horizontal width of this newly discovered zone of kimberlite almost triples the north-south dimension of the Renard 2 pipe to 150 meters at a depth of 500 meters below surface.
- Diamond recovery results from a 544 tonne trench sample extracted from the Hibou Dyke, located at the Foxtrot Property. In total, 781.41 carats of diamonds were recovered from 543.86 tonnes (dry weight) of kimberlite, representing an overall diamond recovery of 144 carats per hundred tonnes (cpht) for stones retained on a +1 DTC screen. This represents the highest diamond content yet observed at Hibou.
- Completion of a conceptual study by SRK Consulting ("SRK") for the Eastern Sheet Complex ("ESC") of the Aviat Project, Nunavut.
- Initial results, in January 2009, from processing of the first 43 tonnes of an approximately 200t bulk sample of kimberlite collected in 2008 from the Aviat Project. These first results include the recovery of 89.55

carats of diamonds from 42.67 tonnes (dry weight) kimberlite, representing an overall diamond recovery of 210 carats per hundred tonnes (cpht) for stones retained on a +1 DTC screen.

- Results from the second tranche of material collected at the "AV2" outcrop at the Aviat Project, announced in May 2009, returned 213.2 carats of diamonds from 148.3 tonnes (dry weight) of kimberlite, representing a diamond recovery of 144 carats per hundred tonnes (cpht) for stones retained on a +1 DTC screen. The three largest diamonds recovered from this sample are 3.99, 1.72 and 1.22 carats, described as an off white clivage, grey clivage and a white octahedron, respectively. The 3.99 carat stone represents the largest diamond recovered to date from the Aviat project.
- Exploration activities at the Aviat Project during 2008 targeted drilling and the collection of a 200t bulk sample from the AV267 sheet in support of the conceptual resource study, drilling at the AV9 kimberlite pipe (discovered at the end of the 2007 program) and drilling within the adjacent horizontally stacked kimberlite sheets (Eastern Sheet Complex). At the Qilalugaq Property, the discovery of a new kimberlite, named Naujaat 7, and the collection of additional till samples from the property.
- Discovery of nine new kimberlites from prospecting and drilling at the Churchill Diamond Project, Nunavut by the Company's joint venture partner Shear Minerals Ltd., and the receipt of caustic fusion results from the Killiq and Kahuna Breccia kimberlites.

#### *Corporate Highlights*

- 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 appointments of Dr. Serge Vezina and Dr. Matthew Manson, the Company's President and CEO, to the Board of Directors effective March 2009.
- Completion of a brokered and a non-brokered private placement of 26,188,334 "flow-through" common shares for gross proceeds of \$3,928,250 in November 2008. The gross proceeds from these private placements are expected to be used to further exploration on the Renard Diamond Project in Quebec and certain other Canadian mineral properties.
- Completion of a \$22.0 million private placement of 24,444,444 common shares at \$0.90 per share with Agnico-Eagle Mines Limited ("Agnico-Eagle") and Lorito Holdings Limited ("Lorito") in July 2008, the proceeds of which were used to redeem the \$10.0 million principal convertible debentures held by each of Agnico-Eagle and Lorito and to make a \$1.0 million payment to each company in respect of their agreement to redeem the convertible debentures prior to the March 16, 2009 maturity date. For accounting purposes, this transaction was viewed as an extinguishment for shares and was measured at the fair value of the shares at the date of issuance.

The Company's net loss for the year ended April 30, 2009 (the "**Current Year**") of \$4.7 million (a loss of \$0.02 per share) was significantly less than the loss of \$27.5 million (\$0.14 loss per share) for the year ended April 30, 2008 (the "**Comparative Year**"). A \$14.5 million resource property write-off during the Current Year (Comparative Year - \$26.3 million) and a gain of \$13.3 million (Comparative Year - \$Nil) on the early extinguishment of the convertible debentures had the most significant impact on the Company's net losses. Also included in the Current Year's loss is a \$1.1 million write-down on an investment where the decline in its fair value was deemed to be permanent (Comparative Year - \$0.5 million impairment loss). In the Comparative Year, the Company's net loss was also affected by a \$5.5 million loss on the sale of a property interest. This loss did not re-occur in the Current Year.

Assets decreased from \$193.7 million at the end of the Comparative Year to \$180.5 million at April 30, 2009 with capitalized resource property costs decreasing from \$173.7 million to \$171.2 million at April 30, 2009. The Company's cash and cash equivalents decreased during the Current Year, from \$9.5 million to \$1.6 million as at April 30, 2009. The Company had a further \$1.3 million classified as short-term deposits as of April 30, 2009. The Company's primary focus during the Current Year continued to be the advancement of its exploration projects, and

in particular the Renard Diamond Project in Quebec, with expenditures totaling \$8.6 million in the Current Year, as compared to expenditures of \$23.5 million in the Comparative Year.

The Company's administrative expenses decreased significantly in the Current Year, from \$4.2 million in the Comparative Year to \$2.8 million in the Current Year. All administrative expense categories, with the exception of administration fees and rent, declined for the Current Year. Salary expense also further declined, as compared to the Comparative Year, if severance costs of \$495,000 related to a reduction in the Company's North Vancouver laboratory operations are excluded.

## SELECTED ANNUAL INFORMATION

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

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

|   | 12 months ended<br>April 30, 2009 | 12 months ended<br>April 30, 2008 | 12 months ended<br>April 30, 2007 |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Total revenue <sup>(1)</sup>  | \$ 196                            | \$ 739                            | \$ 940                            |
| General and administrative expenses   | 2,829                             | 4,228                             | 5,918                             |
| Write off of exploration costs on outside properties and properties abandoned | 14,452                            | 26,334                            | 16,500                            |
| Future income tax recovery  | 391                               | 8,342                             | 2,145                             |
| Loss from continuing operations   | (4,679)                           | (27,529)                          | (19,137)                          |
| Basic loss per Share  | (0.02)                            | (0.14)                            | (0.15)                            |
| Net loss  | (4,679)                           | (27,529)                          | (19,137)                          |
| Basic and diluted loss per Share  | (0.02)                            | (0.14)                            | (0.15)                            |
| Total Assets  | 180,481                           | 193,678                           | 226,147                           |
| Total long-term financial liabilities <sup>(2)</sup>                          | 22,725                            | 41,292                            | 41,694                            |

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

(2) Total long-term financial liabilities includes future income tax liabilities of \$20,782 as at April 30, 2009; \$19,703 as at April 30, 2008; and \$23,871 as at April 30, 2007.

## RESULTS OF OPERATIONS

The Company's loss from operations for the Current Year was \$4.7 million (a loss of \$0.02 per share) as compared to a loss of \$27.5 million (a loss of \$0.14 per share) for the Comparative Year. The Company's loss for the Current Year is mainly due to a large write-off of capitalized resource property costs (Current Year - \$14.5 million; Comparative Year - \$26.3 million) and a gain of \$13.3 million (Comparative Year - \$Nil) on the early extinguishment of convertible debt. In the Comparative Year, the Company recorded a loss of \$5.5 million (before taxes) from the sale of a mineral property interest (Current Year - \$nil). Administrative expenses (Current Year - \$2.8 million; Comparative Year - \$4.2 million) decreased significantly as the Company reduced its in-house laboratory employees, reduced its office space and in general, sought ways to reduce administrative and overhead expenditures. The Company's interest income declined significantly in the Current Year to \$196,000 from \$739,000

in the Comparative Year, due to smaller cash balances available for investment and historically low interest rates paid on funds invested.

The Company's Current Year's loss of \$4.7 million was less than the loss of \$27.5 million in the Comparative Year due mostly to a \$13.3 million gain (net) on the early extinguishment of the Company's convertible debentures during the Current Year. In accordance with EIC-96 "Accounting for the early extinguishment of convertible securities through early redemption or repurchase", the Company recognized a gain, for accounting purposes, of \$13.9 million with respect to the liability component of the convertible debentures, which was settled with common shares using a deemed price of \$0.90 per share. At the date of the redemption, the Company's common shares traded at approximately \$0.30, resulting in a gain of \$13.9 million in the Current Period. As part of this redemption, the Company issued 2,222,222 common shares at a deemed value of \$0.90 to the holders. These common shares had a fair market value of \$667,000 (\$0.30 per share), which reduced the \$13.9 million gain on the early extinguishment of convertible debt to \$13.3 million in the Current Year. Also during the Current Year, the Company paid \$495,000 for severance, which has been included in "Salaries and Benefits" in the Statement of Loss and Deficit, (Comparative Period - \$nil); recorded a \$1.1 million write-down of an investment (Comparative Year - \$513,000) where the decline in its fair value was deemed to be permanent; and wrote-off \$14.7 million (Comparative Period - \$26.3 million) of capitalized acquisition and exploration costs.

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

During the Current Year, the Company wrote-off capitalized resource property costs of \$14.5 million as it reduced its land packages or identified properties where exploration results indicated no further work should be pursued. The most significant write-offs during the Current Year were associated with the Churchill property (\$6.8 million), the Aviat One and Two properties in the Eastern Arctic (\$5.1 million), the Company's generative exploration programs (\$1.7 million), and other exploration activities in Canada (\$0.9 million). The \$26.3 million write-off in the Comparative Year included write-offs of \$5.3 million for properties in the Northwest Territories; \$4.3 million for the Company's generative exploration programs; \$1.7 million for exploration activities in Botswana, \$12.7 million of resource property costs capitalized as part of the Ashton acquisition; \$1.4 million on its properties in the Western Arctic; \$99,000 in Eastern Canada and \$562,000 in other areas of Canada. Please see "Critical Accounting Estimates – Impairment of Long-Lived Assets" below for an explanation of the impairment tests performed with respect to the Company's mineral properties.

## **EXPLORATION UPDATE**

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

### *Foxtrot Property – Renard Kimberlitic Bodies, Quebec*

The Foxtrot Property, containing the Renard cluster of kimberlite bodies, is a 50/50 joint venture between Stornoway's wholly-owned subsidiary Ashton, and SOQUEM Inc.'s ("SOQUEM") wholly-owned subsidiary, Diaquem. Ashton is the project operator. Since 1996, Ashton and SOQUEM have evaluated an area of more than 400,000 square kilometres of the eastern Archean Superior craton. Exploration conducted by the joint venture has resulted in the discovery of a new field of kimberlitic intrusions on the Foxtrot property, notably the Renard cluster of kimberlitic bodies, and a nearby system of kimberlitic dykes, the Lynx-Hibou dykes.

### Renard Diamond Project – Positive Economic Study Announced

On October 28, 2008, Stornoway announced the receipt of a positive economic study for the Renard Diamond Project, located at the Foxtrot Property in North Central Québec, followed by the filing on SEDAR on December 12, 2008 of a National Instrument ("NI") 43-101 technical report on the Renard Project located at the Foxtrot Property in North Central Québec.

The Foxtrot Property is a 50:50 joint venture with SOQUEM INC. ("SOQUEM"). The independent technical report has been prepared by Scott Wilson Roscoe Postle Associates Inc. (Scott Wilson RPA) and is the qualifying report relating to the Renard Preliminary Assessment. AMEC Americas Limited (AMEC) and SENES Consultants Limited (SENES) have prepared or contributed to sections of this technical report. The technical report includes improved estimates of project economics resulting from certain conceptual mine plan efficiencies identified since Stornoway disclosed the initial results of the preliminary assessment on [October 28th, 2008](#). The improved economics are highlighted as follows:

#### Highlights:

- Pre-tax IRR on a "Base Case" economic assessment utilizing a 5.9 million carat mineral resource from Renard kimberlites 2, 3 and 4 has increased marginally to 14.2% (12.1% after tax) from 13.9% (11.8% after tax). Pre-Tax NPV (calculated before tax at an 8% discount rate) increases to C\$56m from C\$52m.
- Pre-tax IRR on an "R4-R9 Price Sensitivity" economic assessment has increased to 17.5% (14.9% after tax) from 16.4% (13.9% after tax), with pre-tax NPV increasing to C\$93m from C\$78m. This upside economic assessment utilizes an expanded 6.2 million carat mineral resource from Renard kimberlites 2, 3, 4 and 9 and is predicated upon the application of an alternate diamond price to both of the Renard 4 and Renard 9 kimberlites.

The Renard Preliminary Assessment comprises a National Instrument ("NI") 43-101 compliant mineral resource estimate and a diamond processing plant design prepared by AMEC Americas Limited ("AMEC"). A conceptual mine plan, capital and operating cost estimate, and an economic assessment were prepared by Agnico-Eagle Mines Limited ("Agnico") and reviewed and accepted by Scott Wilson RPA. The economic assessment is based, in part, on Inferred Mineral Resources, and is preliminary in nature. Inferred Mineral Resources are considered too geologically speculative to have mining and economic considerations applied to them that would enable them to be categorized as Mineral Reserves. There is no certainty that the Preliminary Assessment will be realized.

Since the results of the Preliminary Assessment were initially reported on [October 28th, 2008](#), no changes have been made to the mineral resource statement or estimate of potential mineral deposits. However, additional inferred mineral resource from the Renard 2 kimberlite has been added to the conceptual mine plan resulting in a marginally increased IRR under the base case economic assessment. In addition, an additional 540,000 tonnes of inferred mineral resource in the Renard 9 kimberlite has been added to the conceptual mine plan in the economic assessment scenario that applies the Renard 2 and 3 diamond price to the Renard 4 and Renard 9 kimberlites. This additional Renard 9 mineral resource has had a more significant impact on the project economics under this upside scenario. Estimates of project capital cost, operating cost and mining method remain the same, as does the mineral resource statement and the assumptions used in the financial model.

#### **Overview of the Mineral Resource Statement, Estimate of Potential Mineral Deposit, and Conceptual Mine Plan**

The NI 43-101 compliant mineral resource at Renard comprises 7.0 million carats of Indicated Resources (11.6 million tonnes at an average grade of 60 carats per hundred tonnes, or "cpht") and 4.5 million carats of Inferred Resources (7.2 million tonnes at an average grade of 63 cpht). Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. Extensive upside has been identified in the form of an additional 9 to 21 million carats classified as potential mineral deposit (14 to 32 million tonnes ranging from 31 to 164 carats per hundred tonnes). The potential quantity and grade of any potential mineral deposit is conceptual in nature, and it is uncertain if further exploration will result in the target being delineated as a mineral resource. Consequently, the economic assessment, in both "Base Case" and "R4-R9 Price Sensitivity" scenarios, does not incorporate any of this non-resource, conceptual material. The evaluation of the large quantity of potential mineral deposit at Renard will be the prime focus of the joint venture in the coming year. If confirmed as additional mineral resource, it offers the potential to significantly extend the preliminary mine life and enhance the project's economics prior to a formal production decision.

The conceptual mine plan combines open pit mining and sublevel, open stope underground mining. The mining sequence and design were determined by optimizing the pit depth and underground stopes to achieve a production rate of 3,500 tonnes/day or 1.3 million tonnes per annum. The capital expense is estimated to be \$308 million, including \$73 million for a diamond processing plant and including a contingency of \$50 million. Operating costs (op-ex) are anticipated to average C\$50.35/tonne, including \$14.06/tonne for open pit mining, \$22.74/tonne for underground mining, C\$14.92/tonne for processing and C\$16.13/tonne for surface services and general administration. Capital and operating costs were estimated between April and July 2008 through contractor quotes or real-case unit costs derived from current Agnico operations. Site access is based on the assumed availability of an all-season road from the south.

Financial models have been prepared using a US dollar 3-year historical exchange rate of C\$1.146 and assuming a 3% diamond marketing cost. Diamond prices are as of an open market valuation exercise undertaken by WWW International Diamond Consultants Ltd. ("WWW") in March 2008 ([Stornoway press release dated April 28th 2008](#)) and an annual diamond price escalation factor of 2.5% has been applied. The diamond price escalation factor does not commence until 2011, and extends through the life of mine, consistent with a consensus of recent diamond industry price forecasts.

The two adjusted economic assessment scenarios are summarized as follows:

Table 1: Renard Preliminary Assessment<sup>1</sup>

|                                       | "Base Case"                              | "R4-R9 Price Sensitivity Case"            |
|---------------------------------------|--|---|
| Carats Recovered (m)                  | 5.89                                     | 6.19                                      |
| Tonnes Processed (m)                  | 7.50                                     | 8.04                                      |
| Grade (cpht)                          | 78                                       | 77  |
| Mine Life (years)                     | 7  | 7   |
| Total Cap-ex (C\$m)                   | \$307.70                                 | \$308.21                                  |
| Average Op-ex (C\$/tonne)             | \$50.35                                  | \$50.00                                   |
| Total Revenue (C\$m)                  | \$879                                    | \$974                                     |
| Undiscounted Pre-Tax Cash Flow (C\$m) | \$194                                    | \$264                                     |
| Pre-Tax IRR <sup>2</sup>              | 14.2%                                    | 17.5%                                     |
|                                       | (with sensitivities of 6.8% to 21.1%)    | (with sensitivities of 10.2% to 24.2%)    |
| After-Tax IRR <sup>2</sup>            | 12.1%                                    | 14.9%                                     |
|                                       | (with sensitivities of 6.1% to 18%)      | (with sensitivities of 8.8% to 20.7%)     |
| Pre-Tax NPV <sup>3</sup>              | C\$56m                                   | C\$93m                                    |
|                                       | (with sensitivities of C\$35m to C\$96m) | (with sensitivities of C\$66m to C\$143m) |

<sup>1</sup>The preliminary assessment includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the preliminary assessment will be realized. The cash flow considers the Project from the time of the construction decision and does not include costs for permitting, prefeasibility, and feasibility studies. The mine production, economic analysis and cash flows represent forward-looking information. Assumptions have been made for diamond prices, values and grades. Forecasts of diamond grades and valuation are based on limited sampling that may not be representative of actual diamond production.

<sup>2</sup>Based on a 2.5% annual diamond price escalation starting in 2011. Sensitivities are shown at 0% and 5% for the purposes of this release, and are not contained within the independent technical report.

<sup>3</sup>Based on an 8% discount rate with sensitivities of 10% and 5%.

## Qualified Persons for the NI 43-101 Report

The authors of the NI 43-101 technical report are Mr. Normand Lecuyer (ing.) and Dr. William E. Roscoe (P.Eng.) of Scott Wilson Roscoe Postle Associates Inc., Mr. Randall Cullen (P.Geo.) and Ms. Alexandra Kozak (P.Eng.) of AMEC Americas Ltd. and Mr. Gerd Wiatzka (P.Eng.) of SENES Consultants Limited. Mr. Cullen is the independent Qualified Person responsible for the preparation of the mineral resource estimate for the Renard Diamond Project. Mr. Normand Lecuyer (ing.) and Dr. William E. Roscoe (P.Eng.) of Scott Wilson Roscoe Postle Associates Inc. have reviewed and accepted the conceptual mine plan, capital and operating cost estimates, and the preliminary economic analyses developed by Agnico and are the independent Qualified Persons for these aspects of the study. Details regarding data verification, exploration information, and the mineral resource estimates for the Renard Project are included in the technical report, which is titled "Technical Report on the Preliminary Assessment of the Renard Project, Quebec, Canada" NI 43-101 Report dated December 12, 2008, as filed on SEDAR.

### Results from Winter Drill Program at Renard

In March 2009, a winter drill program on the Renard 2 and Renard 3 kimberlite pipes was completed. The drilling confirmed a significantly expanded zone of kimberlite on the northern and eastern sides of Renard 2 at depths greater than 250 meters below surface. Three separate deep drill holes have now delineated the zone in the north-south and east-west axes, prompting a re-evaluation of the geological model for the overall pipe. It now appears that Renard 2 is approximately twice as large as previously thought when modeled to a depth of 570 meters below surface, which represents the base of the geological model used in the recent National Instrument ("NI") 43-101 compliant mineral resource statement ([Stormoway Press Release dated December 15, 2008](#)). The pipe is approximately three times larger than previously thought when modeled to a depth of 700 meters below surface.

The drilling resulted in the discovery of a substantial amount of new kimberlite at Renard 2, which has a dramatic impact on estimates of the overall size of the pipe. In the recently released Renard Preliminary Assessment, Renard 2 contributed the bulk of the mineral resource contained within the conceptual mine plan. Management expects that the discovery of such a large amount of new kimberlite, much of it within the scope of the existing underground mine design, will have a very positive impact on the project economics. As a result, additional work programs are planned to convert the new material identified in the winter drill program into a mineral resource.

In total, five deep delineation drill holes were completed at Renard 2 as part of the winter drill program. Drill hole R2-55 gave an intersection of kimberlite on the northern side of the pipe 178 meters longer than expected from the existing geological model. Drill holes R2-57 and R2-58 were designed to provide the east-west dimension of this new extension, and returned kimberlite intersections of 339 meters and 250 meters respectively. Drill hole R2-57 ended in kimberlite at 729 meters due to drilling difficulties, and did not determine the actual eastern contact of the pipe at depth. Drill hole R2-58 includes a 56m intersection of dilute kimberlite (country rock plus kimberlite). These drill intersections, taken together with the existing drill database, are consistent with Renard 2 measuring approximately 180 meters by 50 meters (north-south and east-west dimensions) at a depth of 400 meters below surface, and 195 meters by 45-60 meters at a depth of 570 meters below surface. In the previous geological modeling, the pipe dimensions at these depths were thought to be only 70 meters by 38 meters and 48 meters by 10 meters respectively. The pipe remains open below 700 meters.

Preliminary field logging indicates that the new kimberlite intersections are comprised predominantly of lithologies seen elsewhere within Renard 2, including Brown Transitional Kimberlite Breccia ("Kimb2b"), Blue Tuffisitic Kimberlite Breccia ("Kimb2a"), Hypabyssal Kimberlite Breccia and Hypabyssal Kimberlite, along with rafts of Country Rock and Country Rock Breccia with Kimberlite.

In the recent NI 43-101 compliant mineral resource statement for the project, Renard 2 was estimated to contain 3.36 million tonnes of Indicated Mineral Resource (at an average grade of 81 carats per hundred tonnes, or "cpht") and 1.80 million tonnes of Inferred Mineral Resource (at an average grade of 86 cpht). At that time, upside identified at Renard 2 in the form of potential mineral deposit was an additional 2.5 to 7.1 million tonnes (calculated to a depth of 700 meters below surface) with grades estimated between 73 and 164 cpht. The potential mineral deposit was determined on the basis of known drill intersections of kimberlite for which insufficient diamond sampling existed to adequately estimate a diamond resource grade, or on the basis of the implied depth extent of the kimberlite pipes to 700 meters below surface, or on the basis of geological uncertainty in the definition of kimberlite

geological models. The new drilling results support a better constrained geological model that is consistent with a revised potential mineral deposit estimated at between 10.5 and 12.3 million tonnes to 700 meters below surface, a substantial increase over the previous estimate.

The reader is cautioned that the new kimberlite material reported from the winter drill program, as well as any "potential mineral deposit", does not constitute a mineral resource, and it is uncertain if further exploration will result in it being delineated as a mineral resource. In addition, mineral resources are not mineral reserves and do not have demonstrated economic viability. Future work required to update the Renard mineral resource statement includes additional delineation drilling and the integration of the observed geological units within the new kimberlite zone into the overall resource model using detailed petrographic and microdiamond analysis.

Two drill holes were also successful in extending the dimension of the Renard 3 kimberlite pipe at depth on a more modest basis, while a third drill hole deviated from its planned location and did not intersect the pipe. Full drill results, including expected and actual drill intersections, are provided in the table below.

| Hole ID            | Azimuth (degree) | Dip (degree) | Length (meters) | Kimberlite Contact (meters down hole) |  |                   |
|--------------------|------------------|--------------|-----------------|---------------------------------------|--|-------------------|
|                    |                  |              |                 |                                       |  | Lower             |
| <b>Renard 2</b>    |                  |              |                 |                                       |  |                   |
| R2-54 <sup>3</sup> | 175              | -70          | 453             | Expected                              | 164                                      | 425               |
|                    |                  |              |                 | Actual                                | 179                                      | 433               |
|                    |                  |              |                 | <i>Difference<sup>1</sup></i>         | <b>-15</b>                               | <b>+8</b>         |
| R2-55 <sup>3</sup> | 354              | -63          | 660             | Expected                              | 120                                      | 395               |
|                    |                  |              |                 | Actual                                | 122                                      | 573               |
|                    |                  |              |                 | <i>Difference<sup>1</sup></i>         | <b>-2</b>                                | <b>+178</b>       |
| R2-56 <sup>3</sup> | 156              | -67          | 411             | Expected                              | 152                                      | 312               |
|                    |                  |              |                 | Actual                                | 109                                      | 393               |
|                    |                  |              |                 | <i>Difference<sup>1</sup></i>         | <b>+43</b>                               | <b>+81</b>        |
| R2-57              | 094              | -70          | 729             | Expected                              | n/a                                      | n/a               |
|                    |                  |              |                 | Actual                                | 390                                      | >729 <sup>2</sup> |
|                    |                  |              |                 | <i>Difference<sup>1</sup></i>         | <i>Outside Extent of Previous Model</i>  |                   |
| R2-58              | 078              | -66          | 441             | Expected                              | n/a                                      | n/a               |
|                    |                  |              |                 | Actual                                | 165                                      | 415               |
|                    |                  |              |                 | <i>Difference<sup>1</sup></i>         | <i>Outside Extent of Previous Model</i>  |                   |
| <b>Renard 3</b>    |                  |              |                 |                                       |  |                   |
| R3-56              | 130              | -62          | 321             | Expected                              | 220                                      | 246               |
|                    |                  |              |                 | Actual                                | 199                                      | 279               |
|                    |                  |              |                 | <i>Difference<sup>1</sup></i>         | <b>+21</b>                               | <b>+33</b>        |
| R3-57              | 208              | -67          | 447             | Expected                              | 347                                      | 387               |
|                    |                  |              |                 | Actual                                | <i>Did Not Intersect Kimberlite Pipe</i> |                   |
|                    |                  |              |                 | <i>Difference<sup>1</sup></i>         |  |                   |
| R3-58              | 050              | -76          | 325             | Expected                              | 240                                      | 267               |
|                    |                  |              |                 | Actual                                | 232                                      | 291               |
|                    |                  |              |                 | <i>Difference<sup>1</sup></i>         | <b>+8</b>                                | <b>+24</b>        |

<sup>1</sup> A negative ("-") difference indicates a decrease in geological model size when compared to the model utilized in the Dec 15<sup>th</sup> NI 43-101 compliant mineral resource statement. A positive ("+") indicates an increase in model size. Differences between expected and actual contacts have a smaller influence on the shape of the geological model at the top of the pipe than at the bottom owing to the amount of geological control already existing.

<sup>2</sup> Hole ended in kimberlite. Terminated due to drilling difficulties.

<sup>3</sup> Minor revisions from March 09, 2009 release incorporating final geological logging and positional survey data.

### Next steps at Renard

In June 2009, the next phase of an ongoing resource expansion and optimization program commenced at Renard. This program includes core drilling of some 9,500m on the Renard 2 kimberlite pipe which is expected to continue until late August. The objective of this program is to convert the 10.5 to 12.3 million tonnes of potential mineral deposit material identified at Renard 2 to a formal resource classification. Results from the winter drill program at Renard suggest that the Renard 2 kimberlite is approximately twice as large as previously thought when modeled to a depth of 570 meters below surface, and approximately three times larger when modeled to a depth of 712 meters below surface. The summer program will focus on detailed delineation drilling and sampling of the newly discovered material within Renard 2, and is expected to allow a restatement of the NI 43-101 mineral resource by year end, followed by a revision of the project's economic assessment.

In the existing Renard Preliminary Assessment, Renard 2 contributed the bulk of the high grade resource contained within the conceptual mine plan. Management believes that the discovery of such a large amount of new kimberlite in Renard 2, much of it within the scope of the existing underground mine design, could have a very positive impact on project economics, and could potentially add approximately 8 to 10 years of mine life to the 7 year mine plan already established. The growing scale of the Renard Diamond Project, taken together with the Quebec government's recent announcement of major capital funding for the regional Route 167 Extension project, are recent, positive developments.

The 2009 summer work at Renard conforms with Stornoway's stated objective of conducting modest, value-driven, exploration programs focused on the Company's key, advanced projects during the currently challenging resource equity environment. It compliments ongoing desktop work at Stornoway's 90% owned Aviat Project designed to provide a qualified estimate of contained value and potential mining methods for Aviat's large Eastern Sheet Complex ("ESC"; [Stornoway Press Release dated May 05, 2009](#)), and continuing readiness to exploit, on an opportunistic and inexpensive basis, new discovery prospects identified within Stornoway's grassroots exploration portfolio.

During the year ended April 30, 2009, the Company used an undiscounted cash flow method to test for potential impairment on the Renard Diamond Project, which is carried at \$131.2 million. A description of this testing can be found in the section "Critical Accounting Estimates – Impairment of Long-lived Assets" below. Management determined that the carrying value of the project did not exceed its estimated recoverable value as at April 30, 2009 and accordingly, no write-down of the carrying value was required.

### *Aviat Property, Nunavut*

The Company's interest in the 442,641 acre Aviat Property was previously governed by a joint venture agreement with BHP Billiton Diamonds Inc. ("BHPB") and Hunter Exploration Group ("Hunter"). Initially, the Company held a 70% interest in the property, BHPB held a 20% interest and Hunter held a 10% carried interest. Stornoway is the Operator. BHPB chose not to participate for its share of the 2006 or 2007 Aviat Property exploration programs, and as a consequence of this election, its interest on the Aviat Property was reduced to approximately 14.4%. Under an assignment agreement between Stornoway and BHPB entered into in May 2008, BHPB assigned to Stornoway all of its interest in the Aviat Project and its rights to market all diamonds of Hunter produced from the Project in consideration for the assumption by Stornoway of BHPB's obligations under the joint venture agreement, including their bulk sampling obligations and all future funding obligations. Acquisition of BHPB's interest in the project brings Stornoway's project interest to 90% (Hunter continues to hold a 10% interest, carried to production) and Stornoway's diamond marketing rights for the Project to 100%.

### Exploration Program Update and Status

Stornoway's 2008 field program on the Aviat Project commenced in early May of that year. Exploration activities during 2008, and subsequently, concentrated on delineating the size and grade potential of the known kimberlite sheets within the Eastern Sheet Complex ("ESC"), in support of the first conceptual resource study at the project. Delineation drilling was also undertaken on the AV9 kimberlite pipe, discovered late in the 2007 program. Highlights of the 2008 exploration program at Aviat include the following:

- significantly expanded the lateral extent of the highly diamondiferous AV267 body from approximately 125ha to more than 250 ha
- successfully collected 202 wet tonnes of kimberlite from AV267 at two surface exposures
- confirmed the pipe-like nature of AV9 and extended it to a minimum depth of 175m (longest continuous kimberlite intersection 195m)
- discovered a new kimberlite sheet within the ESC
- completed 23 diamond drill holes for a total of 3,225 m of drilling
- received results of an independent conceptual resource study at Aviat, highlights of which included:
  - 12.4 to 16.0 million tonnes total content of kimberlite material from a conceptual model of four kimberlite dykes of the ESC; one interpreted dyke, ES 1 (previously known as A267), spans an area of some 260 hectares and represents about 78% of the total kimberlite volume
  - 235 carats per hundred tonnes (cpht) +/- 30 cpht conceptual estimate of total diamond content, assuming 100% recovery of stones in all size fractions down to a +1.00 mm bottom cut-off and based on limited micro and macro diamond data collected during the 2003 to 2007 field campaigns
  - 24.1 to 40.3 million carats in the ground, using the conceptual range of total content of kimberlite material, conceptual estimate of total diamond content and an allowance for approximately 5% internal dilution within the conceptual model
- recovered 302.7 carats, including a 3.99 carat stone, from 190.9 dry tonnes collected at two localities within the ES1 kimberlite, representing an overall diamond recovery of 159 cpht (for diamonds retained on a +1 DTC screen)

SRK Consulting (Canada) Inc. ("SRK") an independent, international consulting practice, was engaged to (i) develop a conceptual geological model for kimberlite dykes of the ESC, (ii) provide a range of potential kimberlite volume and tonnage, and (iii) estimate conceptual total diamond content within the extent of the bodies as known from current drilling (see Press Release of September 8, 2008). The conceptual study does not include Aviat's pipe-like kimberlite bodies (AV1, AV4 and AV9), kimberlite sheets outside of the ESC (such as AV1W and AV5) or drill intersections of as yet un-named kimberlite sheets that have not yet been integrated into the overall geologic model.

Kimberlite dykes of the ESC comprise a series of stacked, subparallel, shallowly dipping (8-20 degrees) sheets that cover an area of approximately 260 hectares and are composed of macrocrystic, hypabyssal kimberlite and kimberlite breccia assumed to represent a single phase of kimberlite magma. In order to simplify the historical naming convention of the outcropping sheet-like kimberlites at Aviat (AV267, AV38, etc.), the bodies in this conceptual geological model have been re-classified by SRK into four main sheets referred to as ES 1, ES 2, ES 3 and ES 4.

The conceptual geological model developed by SRK (see Press Release of October 7, 2008) consists of four distinct dyke horizons, the largest of which, ES 1, is interpreted to extend continuously from the original AV6 surface discovery southeast to the original AV8 discovery, average 1.7m true thickness and underlie the entire 260 hectare area. One of the three other distinct dykes modelled by this study, ES 2 (1.3m average thickness), is a hanging wall dyke situated 10-20m above the northwest part of ES 1, and the two other bodies, ES 3 (1.3m thick) and ES 4 (0.9m thick), are stacked footwall dykes situated 10-20m, respectively, below the southeastern extent of ES 1.

A total of 96 vertical and inclined drill holes spaced at roughly 150 to 300m intervals, of which 81 encountered kimberlite intersections from a few centimetres to 16.0m in thickness, have been incorporated into the conceptual geological model by SRK. Kimberlite intersections were classified into one of the four main ES dykes based on

elevation. For horizons with multiple, close spaced kimberlite intersections separated by non-kimberlitic country rock, the kimberlite units were grouped into a single envelope so long as kimberlite units were greater than or equal to 0.25m in thickness and separated by less than 1.5m of country rock. This inclusion of internal waste provides approximately 5% internal dilution, therefore the overall proportion of kimberlite within the current geological interpretation is approximately 95%. At this stage it is impossible to estimate potential mining dilution. The volume of kimberlite dyke generated by the current conceptual model is estimated to be in the range of 4.7 to 6.1 million cubic meters, with the higher volume estimate including a down dip extension to the regional scale northwest-southeast trending Centennial fault zone (used as the southwestern limit for the purposes of this conceptual geological model). Some 72 to 78% of the total kimberlite volume is attributed to ES 1. The average specific gravity determined from 18 samples collected to date is 2.63 g/cc, providing the tonnage ranges of 12.4 to 16.0 million tonnes reported above.

Total diamond content estimation of the ES dykes (235 +/- 30 cpht undiluted) was determined by SRK using both micro and macro diamond data provided by Stornoway. A total of 529 microdiamonds from 409 kg of drill core, and 33.40 carats of diamonds totalling 979 macrodiamonds obtained from 20.56 tonnes of bulk sample material, were used to produce the total diamond content estimate. The estimate is considered conceptual in nature, uses a 1.0mm (+2 DTC Sieve) bottom cut-off and assumes 100% recovery of stones of all size fractions. No corrections were applied for breakage and/or loss of smaller diamonds that would typically occur during recovery of diamonds in a commercial dense media separation (DMS) plant. The increase of the estimated total diamond content from the previously reported raw bulk sample grade of 162 cpht (see Press Release of January 29, 2008) can be attributed to both this small diamond recovery factor, and also to undersampling of the larger size distribution (+11 to +23 DTC Sieve Classes) of the diamond population. The relatively small bulk samples collected to date do not appear to have representatively sampled the entire size distribution. Larger tonnage samples are required to verify the estimate of diamond content. Quantification of commercial diamond recoveries is extremely difficult at this stage of the project due to numerous factors that need to be studied in greater detail (for example: economical bottom cut-off; efficiencies of the process plant; diamond breakage and/or loss; etc.). However, SRK has stated that in a commercial DMS plant it is not unreasonable to expect a 15-20% reduction in recovered diamonds from the total diamond content estimation assuming a similar bottom cut-off of +1.00 mm.

The above estimates are conceptual in nature and do not constitute the estimation of a mineral resource. To date there has been insufficient exploration to define a mineral resource in terms of NI 43-101 for the ES dyke complex and it is uncertain at this stage if further exploration will be able to delineate a mineral resource. The conceptual geological model incorporates kimberlite dykes previously referred to AV267, AV3 Upper, and AV8 Upper (ES 1), AV2 Upper (ES 2), AV3 Lower, AV8 Middle and AV8 Lower (ES 3 and ES 4). Some significant kimberlite intersections could not be incorporated into the current model due to uncertainties in lateral continuity as a result of the relatively coarse drill pattern. ES 1 remains open down-dip to the southwest (across the Centennial Fault) as well as to the southeast along strike. Additional drilling could potentially expand the outlines of ES 1, ES 2 and ES 3, as well as allowing the correlation and delineation of unincorporated kimberlite intersections. Revisions to the model are anticipated on an ongoing basis as new information becomes available.

Subsequent to the SRK conceptual resource study, Stornoway reported final results from the processing of a total of 190.9 dry tonnes of kimberlite collected during 2008 from two exposures of the ES1 kimberlite (see press release of May 5, 2009). A combined total of 302.7 carats of diamonds have now been recovered, representing an overall diamond recovery of 159 cpht for stones retained on a +1 DTC screen. The three largest diamonds recovered from this sample are 3.99, 1.72 and 1.22 carats, described as an off white clivage, grey clivage and a white octahedron, respectively. The 3.99 carat stone represents the largest diamond recovered to date from the Aviat project.

The first tranche of sample, collected at the historical "AV6" outcrop (see press release of February 19, 2008) returned 89.6 carats of diamonds from 42.7 dry tonnes of kimberlite, representing a diamond recovery of 210 cpht for stones retained on a +1 DTC screen. The second tranche of sample, collected at the historical "AV2" outcrop, returned 213.2 carats of diamonds from 148.3 dry tonnes of kimberlite, representing a diamond recovery of 144 carats per hundred tonnes (cpht) for stones retained on a +1 DTC screen.

The two outcrop samples were processed separately, but represent exposures of the same "ES1" kimberlite sheet. Diamond recovery data for the individual samples, following Dense Media Separation ("DMS") processing and utilizing both x-ray sorter and grease table recovery circuits, are as follows:

| Sample                  | Dry Weight (tonnes) | Stones (retained on +1 DTC screen) | Carats (retained on +1 DTC screen) | Diamond Content <sup>1</sup> (cpht) <sup>2</sup> | Largest Diamonds (carats) |
|-------------------------|---------------------|------------------------------------|------------------------------------|--|---------------------------|
| ES1 Part 2 ("AV2"-2008) | 148.27              | 5,399 <sup>3</sup>                 | 213.15 <sup>3</sup>                | 144  | 3.99, 1.72, 1.22          |
| ES1 Part 1 ("AV2"-2008) | 42.67               | 2,447 <sup>3</sup>                 | 89.55 <sup>3</sup>                 | 210  | 0.81, 0.77, 0.67          |
| <b>Total ES1</b>        | <b>190.94</b>       | <b>7,846<sup>3</sup></b>           | <b>302.70</b>                      | <b>159</b>                                       |                           |

<sup>1</sup>The estimated diamond content, expressed as carats per hundred tonnes, may not be representative of the overall diamond content of the body due to a number of factors, including location/size of the samples and processing parameters.

<sup>2</sup>Carats per hundred tonnes

<sup>3</sup>Represents only stones retained on a +1 or greater DTC screen, as discussed below

All previously reported DMS results from kimberlite outcrops considered to be part of the ES1 kimberlite sheet are provided in the table below. The weighted average diamond content for the three larger samples (211.5 tonnes) is 159 cpht. Individual differences in diamond content are interpreted as natural variations due to the relatively small sample size. The improvement evident in the three most recent samples is ascribed to the increased sample size, and the collection of fresher, more representative kimberlite. The weighted average diamond content for all six samples (218.3 tonnes) is 156 cpht, and the three largest stones are 3.99, 3.64 and 1.72 carats.

| Disclosure Date   | Sample Type                     | Dry Weight (tonnes) | Carats | Diamond          | Largest Diamonds (carats) |
|-------------------|---------------------------------|---------------------|--------|------------------|---------------------------|
| May 5, 2009       | Outcrop ES1 Part 2 ("AV2"-2008) | 148.27              | 213.15 | 144 <sup>3</sup> | 3.99, 1.72, 1.22          |
| February 19, 2009 | Outcrop ES1 Part 1 ("AV6"-2008) | 42.67               | 89.55  | 210 <sup>3</sup> | 0.81, 0.77, 0.67          |
| January 21, 2008  | Outcrop "AV2" (2007)            | 20.60               | 33.36  | 162 <sup>4</sup> | 3.64, 0.55, 0.53          |
| January 11, 2007  | Outcrop "AV2" (2005)            | 2.19                | 1.58   | 72 <sup>4</sup>  | 0.19                      |
| July 11, 2006     | Outcrop "AV7" (2005)            | 2.32                | 1.78   | 77 <sup>4</sup>  | 0.19                      |
| June 21, 2006     | Outcrop "AV6" (2005)            | 2.15                | 2.08   | 97 <sup>4</sup>  | 0.10                      |

<sup>1</sup>The estimated diamond content, expressed as carats per hundred tonnes, may not be representative of the overall diamond content of the body due to a number of factors, including location and size of the samples or drill holes

<sup>2</sup>Carats per hundred tonnes

<sup>3</sup>Represents only stones retained on a +1 or greater DTC screen

In March of 2008 Stornoway also reported diamond recovery results from the Aviat Project's AV1 and AV2 Upper kimberlites, located on the Melville Peninsula in eastern Nunavut, Canada. A total of 48.9 dry tonnes of material from the AV1 kimberlite was collected in 2007 and processed by Dense Media Separation (DMS), recovering 43.41 carats of diamonds for an indicated diamond content of 89 carats per hundred tonnes (cpht) for stones retained on a 0.85mm square mesh screen. The three largest diamonds recovered from this work were a 0.53 carat colourless macle, a 0.50 carat grey clivage and a 0.49 carat colourless macle.

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

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

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

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

<sup>1</sup> Represents stones retained on a +0.85mm square mesh screen

<sup>2</sup> The estimated diamond content, expressed as carats per hundred tonnes, may not be representative of the overall diamond content of the body due to a number of factors, including location and size of the samples

<sup>3</sup> Carats per hundred tonnes

The AV9 pipe, discovered at the end of the 2007 field season, is described as a transitional kimberlite pipe, containing both macrocrystic hypabyssal and transitional hypabyssal breccia phases. The initial 2007 drilling intersected kimberlite within a horizontal area measuring approximately 60 x 60 meters, and to a vertical depth greater than 100 meters, but neither the lateral nor vertical extent of AV9 could be determined at that time. Caustic fusion of 307.26kg (dry) of kimberlite core from AV9 returned 236 diamonds (stones retained on a 0.106mm square mesh sieve), conclusively demonstrating that the body was diamondiferous and comparable to other kimberlite bodies at the Aviat Project (see press release of December 12, 2007). Drilling at AV9 in 2008 consisted of nine holes (two incomplete) totalling 1,144m. Of the holes that cut the AV9 body, kimberlite intersections ranged from 19.1m to 195.4m, suggesting a lenticular shaped body. The latter hole collared in kimberlite and remained in kimberlite until the end of the hole at 215m, suggesting a minimum vertical depth of 175m below current surface for the AV9 body. Kimberlite core has been submitted for caustic fusion analysis, and results will be reported when available.

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

#### Planned Exploration Activities for 2009

Stornoway expects to conduct a market valuation exercise on the full parcel of diamonds recovered from the ES1 kimberlite sheet, once the world rough diamond market, which is currently experiencing internal financial volatility, has stabilized such that pricing information suitable for long term, advanced level, exploration planning can be obtained. Although this valuation work, being based on a small parcel of diamonds, will provide only a preliminary sense of the average diamond price at Aviat, it will be sufficient, in conjunction with the October 2008 conceptual study, to provide a qualified estimate of value contained within the ESC. This estimate will in turn support subsequent desktop studies aimed at determining optimum mining scenarios for the ESC. The conclusions of these studies will dictate the nature and type of future sampling required to obtain a National Instrument ("NI") 43-101 compliant mineral resource statement at Aviat.

During the year ended April 30, 2009, the Company wrote-off capitalized acquisition and exploration costs totaling \$5.1 million, which can be attributed to parts of the land package no longer retained by the Company, including all of the Aviat Two property interest. The carrying value of Aviat One as at April 30, 2009 is \$20.7 million. Please see the section "Critical Accounting Estimates – Impairment of Long-lived Assets" below for a description of the impairment testing completed for the Aviat One Property during the year ended April 30, 2009.

### *Churchill Property, Nunavut*

The Company acquired an initial 35% interest in the diamond rights to the Churchill Property pursuant to a letter agreement dated June 13, 2002. A joint venture agreement was executed as of August 1, 2004, among the Company, BHPB and Shear Minerals Ltd. (“Shear”). In July 2007, Stornoway increased its interest in the Churchill property to 41.86% by acquiring a portion of BHPB’s interest in the Churchill Project in consideration of a cash payment of \$1,250,000 and by issuing 2,200,000 common shares with a fair value at the time of issuance of \$2,134,000. Shear acquired the remainder of BHPB’s interest concurrently. As a result, Shear and Stornoway now own a 58.14% and 41.86% interest, respectively, in the project. The Churchill Property is subject to a 2% GOR/NSR in favour of Hunter. Hunter retained the non-diamond mineral rights to the property and has since transferred those rights to a third party. Stornoway elected not to participate for its share of the 2008 exploration budget. As a consequence of this election, its ownership in the Churchill Project could potentially dilute from 41.86% to approximately 38%. As of the report date, the Company does not know the full cost of the 2008 exploration program, and has not been informed by Shear of any dilution calculations.

The Churchill Diamond Project currently encompasses approximately 742,000 acres situated on the mainland tundra (barren lands), near the community of Rankin Inlet in the Kivalliq Region of Nunavut, Canada. Shear is operator of the Churchill Diamond Project.

Exploration on the property commenced in 2002 with an airborne magnetic survey and progressed in subsequent years with sampling, prospecting, drilling and analysis. In 2007, a bulk sample was completed from three pits on the Kahuna kimberlite and a further 16 kimberlite occurrences were identified in outcrop and subcrop. In June 2008, the Company announced that additional macrodiamonds had been recovered from an audit of tails from each of the three 2007 Kahuna bulk samples. Based on the results of the audit, the calculated diamond grade for Kahuna has the potential to increase from 96 cpt to 104 cpt. Shear was reportedly in the process of finalizing arrangements for an independent market valuation exercise for the Kahuna diamonds, to be conducted in Antwerp, Belgium.

In July 2008, Stornoway and Shear announced that the joint venture approved up to a \$3.8 million exploration program for 2008 including: mini-bulk sampling of the Notch kimberlite, 400 infill till samples, testing of ground gravity and ground penetrating radar surveys over known diamondiferous kimberlite dyke structures, intensive prospecting and structural interpretation over high priority geochemical areas, testing of 25-50 targets with a lightweight drill, late summer core drilling to test up to 20 targets, selected ground magnetic surveys over new areas and ongoing environmental baseline data collection and reclamation. Stornoway elected not to participate for its share of the 2008 exploration budget.

In September 2008, Shear informed Stornoway that a total of nine new kimberlites had been discovered from prospecting and drilling in 2008, bringing the total to 88 known kimberlite occurrences on the property to date. Shear also collected 26.1 wet tonnes of kimberlite from surface exposures of the Notch kimberlite, tested 40 targets with a reverse circulation drill resulting in the discovery of two kimberlites, completed 14 core drillholes testing 10 targets resulting in the discovery of one new high-interest kimberlite system, discovered 24 new kimberlite float occurrences plus seven new outcrop/subcrop occurrences, collected 455 till samples to infill known priority areas and undertook limited ground geophysical surveys. Outstanding exploration results expected from the 2008 Churchill work program include macrodiamond results from DMS processing of the 26 tonne Notch kimberlite, additional microdiamond analyses from drilling and prospecting discoveries, and indicator mineral results from till samples. A total of 11 drillholes from seven setups have been drilled into the vertical, 1.5m wide, Notch kimberlite dyke, which trends for more than 3 km based on geophysical interpretation. As at the report date, Shear had not yet proposed a program for 2009.

During the year ended April 30, 2009, the Company wrote-off capitalized acquisition and exploration costs totaling \$6.8 million for the Churchill property interest, after determining that an impairment existed. The carrying value of Churchill, subsequent to this write-down, is \$7.9 million as at April 30, 2009. Please see the section “Critical Accounting Estimates – Impairment of Long-lived Assets” below for a description of the impairment testing completed for the Churchill Property during the year ended April 30, 2009.

*Qilalugaq Property, Nunavut*

The Qilalugaq Property is 1.04 million acres and lies on the Melville Peninsula in Nunavut. The Qilalugaq property was acquired by BHPB in 2001 and has undergone several phases of exploration using airborne geophysics (magnetics, electromagnetics and gravity surveying), together with property wide till sampling, drilling and limited mini-bulk sampling. Eleven kimberlites were discovered by BHPB as a result of this work, ten of these were analysed and proven diamondiferous. The Qilalugaq bodies share geological similarities with the Aviat bodies and appear to be the same age. The largest kimberlite identified by BHPB is a complex made up of the Qilalugaq 1, 2, 3, and 4 pipes which coalesce to form a body with an approximate area of 14 ha. Other drill confirmed bodies range in size from 0.8 to 11.0 ha based on interpretation of geophysical data. A mini-bulk sample of 229.7 dry tonnes extracted from the Qilalugaq 1-4 (Q1-4) complex by RC and core drilling returned a total of 61.37 carats (for stones greater than 1.1 mm), indicating a calculated diamond content of 27 cpht. The Q1 body, approximately 5.4 ha in size, was not tested with RC drilling and is therefore under represented in this mini-bulk sample. Stornoway has subsequently discovered seven additional dyke-like kimberlite bodies by prospecting, bringing the total of kimberlites known on the property to 18. Under the terms of an option agreement signed between BHPB and Stornoway on July 10, 2006 and as revised June 5, 2008, Stornoway can earn 50% in the project from BHPB by spending \$9 million before December 31, 2012.

During the 2007 diamond exploration program at the Qilalugaq project, Stornoway discovered four new kimberlite dykes by prospecting (Naujaat 3 through Naujaat 6, inclusive) and collected almost 27 wet tonnes of kimberlite from five bodies for macrodiamond recovery through a DMS plant, including an estimated 22.3 tonnes from the Q1 (aka A28) pipe, 0.7 tonnes from Naujaat 1, 1.0 tonne from Naujaat 2, 1.8 tonnes from Naujaat 3 and 1.1 tonnes from Naujaat 6.

In June 2008, Stornoway reported results from DMS processing of the single 20.28 dry tonne sample collected during 2007 from the outcropping Q1 (aka A28) kimberlite. This sample returned a total of 6.081 carats of diamonds, indicating a diamond content of 30 cpht for stones retained on a 0.85mm square mesh screen. The largest intact diamond recovered from this sample was a 0.37 carat light brown irregular stone. Some 25 pieces of a larger but mechanically broken colourless stone were recovered, representing an original crystal weight of at least 0.7925 carats. Other unrecognized fragments of this diamond may impact the stone counts. The Q1 (A28) diamonds are described as a mix of mostly octahedral and tetrahexahedroid forms. Stone colours range from colourless to light brown, with a small component of yellows.

| SAMPLE        | Dry Weight (tonnes) | No. Stones >0.85mm | Carats <sup>1</sup> | Diamond Content <sup>2</sup> (cpht) | Largest Diamonds (carats)            |
|---------------|---------------------|--------------------|---------------------|-------------------------------------|--------------------------------------|
| 2007 Q1 (A28) | 20.28               | 193                | 6.081               | 30.0                                | 0.79 <sup>3</sup> , 0.37, 0.36, 0.29 |

1 Represents stones retained on a +0.85mm square mesh screen

2 The estimated diamond content, expressed as carats per hundred tonnes, may not be representative of the overall diamond content of the body due to a number of factors, including location and size of the sample

3 Broken stone (minimum weight as measured from 25 recovered pieces)

Small 2007 DMS samples collected from Naujaat 1, 2, 3 and 6 were processed to gain greater information on potential macrodiamond content. The reader is cautioned about drawing conclusions from the processing of small samples especially when dealing with lower grade kimberlite bodies. Apparent variations or discrepancies in diamond content may be attributable to natural factors, surficial weathering, collection issues, processing and recovery parameters, etc. Although the sample sizes are too small to accurately reflect total diamond content, only the Naujaat 1 body returned any diamonds on the 0.85mm or greater square mesh screen, as reported below.

| SAMPLE    | Dry Weight (tonnes) | No. Stones >0.85mm | Carats <sup>1</sup> | Diamond Content <sup>2</sup> (cpht) | Largest Diamond (carats) |
|-----------|---------------------|--------------------|---------------------|-------------------------------------|--------------------------|
| NAUJAAT 1 | 0.588               | 4                  | 0.0305              | 5.2                                 | 0.0080                   |
| NAUJAAT 2 | 0.913               | 0                  | n/a                 | n/a                                 | n/a                      |
| NAUJAAT 3 | 1.703               | 0                  | n/a                 | n/a                                 | n/a                      |
| NAUJAAT 6 | 0.998               | 0                  | n/a                 | n/a                                 | n/a                      |

1 Represents stones retained on a +0.85mm square mesh screen

2 The estimated diamond content, expressed as carats per hundred tonnes, may not be representative of the overall diamond content of the body due to a number of factors, including location and size of the sample

The 2008 exploration program focused on un-sourced indicator mineral trains with promising chemistry, and on September 04, 2008, Stornoway announced discovery of a new kimberlite body, Naujaat 7, bringing the total to 18 kimberlites on the property. Naujaat 7 was identified from a linear series of discontinuous occurrences of frost heaved kimberlite fragments and boulders extending over a 700m strike length. The host structure is as narrow as 1-2m in places and, based on the presence of associated alteration, can be traced for a minimum additional strike length of 1.3km and possibly for as much as 6km total. Naujaat 7 has been confidently traced over only 700m of that 6km, and a small sample has been collected for diamond recovery by caustic fusion.

No drilling or mechanized trenching has been undertaken on any of the Naujaat 1 to Naujaat 7 kimberlite dykes and they have been identified from surface expressions only. Surface expressions of kimberlite subcrop, float boulders and disaggregated frost heaved 'green tills' are exposed intermittently along the host structures and lateral continuity is not assured. Similarly, reported widths are based on widths of the host structure, where constrained by outcropping country rock, and may not reflect true width. Many of the structures are open along strike and have not been completely prospected (see summary table below). All of these bodies lie within a 26 km long, structurally favourable belt that appears to have been exploited by kimberlite magmas rising from the mantle, including the 11 kimberlite pipes discovered previously (0.8 to 11.0 ha based on drilling and interpretation of geophysical data). Prospecting in the vicinity of other unsourced mineral trains on the property did not discover any other kimberlite, and as a consequence these anomalous areas remain unexplained. Additional till samples were collected in 2008 to help identify the source bodies.

| Kimberlite | Discovery Date | Prospected Length (subcrop, float, etc.) | Width of Host Structure          | Orientation    |
|------------|----------------|--|----------------------------------|----------------|
| Naujaat 1  | 2006           | 3160 m                                   | 4.5 m west end<br>1.5 m east end | West-Northwest |
| Naujaat 2  | 2006           | 1400 m                                   | 2.3 m                            | West-Northwest |
| Naujaat 3  | 2007           | 3000 m                                   | 5 m                              | West-Northwest |
| Naujaat 4  | 2007           | 100 m                                    | Unknown                          | West-Northwest |
| Naujaat 5  | 2007           | 2000 m                                   | 4 m                              | East to West   |
| Naujaat 6  | 2007           | 500 m                                    | 3 m                              | East to West   |
| Naujaat 7  | 2008           | 700 m                                    | 1-2 m                            | East to West   |

Surface expressions of kimberlite subcrop from Naujaat 1 to 4, Naujaat 6 and Naujaat 7 were sampled to determine microdiamond content by caustic fusion analysis. The Naujaat 5 kimberlite occurs only as disaggregated frost heaved 'green tills' for which no fresh representative sample could be collected. Naujaat 7 has not yet been processed due to current financial constraints. Available caustic fusion results are summarized in the table below. Recovery of +0.60 and +0.85mm stones from Naujaat 1 and Naujaat 4 during caustic fusion is considered to be a positive development.

| Body      | Sample Weight (kg) | NUMBER OF DIAMONDS PER SIEVE SIZE (mm square mesh)               |           |           |           |           |           |           | Total Stone Count |
|-----------|--------------------|--|-----------|-----------|-----------|-----------|-----------|-----------|-------------------|
|           |                    | +0.106 mm  | +0.150 mm | +0.212 mm | +0.300 mm | +0.425 mm | +0.600 mm | +0.850 mm |                   |
| Naujaat 1 | 320.89             | 76   | 40        | 33        | 27        | 12        | 3         | 0         | 191               |
| Naujaat 2 | 71.80              | 9  | 4         | 4         | 2         | 0         | 0         | 0         | 19                |
| Naujaat 3 | 243.30             | 0  | 8         | 4         | 2         | 2         | 0         | 0         | 16                |
| Naujaat 4 | 94.75              | 13   | 12        | 13        | 2         | 1         | 1         | 1         | 43                |
| Naujaat 5 | 0.00               | insufficient fresh material for meaningful caustic fusion sample |           |           |           |           |           |           |                   |
| Naujaat 6 | 158.40             | 14   | 14        | 5         | 1         | 1         | 0         | 0         | 35                |
| Naujaat 7 | ~44.00             | results pending  |           |           |           |           |           |           |                   |

An expectedly long drill program associated with the ongoing development of a conceptual kimberlite resource at Stornoway's Aviat Project, coupled with other logistical considerations, prevented the drilling of promising geophysical targets on the Qilalugaq Property during the 2008 season. Additional work for 2009 may occur, pending financial and logistical concerns.

#### *Timiskaming Diamond Project, Ontario/Quebec*

The Timiskaming Diamond Project is located in northeastern Ontario/northwestern Quebec. The Company, through its wholly-owned subsidiary Contact Diamond Corporation ("Contact") currently maintains a 100% interest in over 280,000 acres of exploration licenses and has to date discovered nine kimberlite bodies in the region. The 95-2 pipe on the property yielded a population of highly commercial diamonds at marginally sub-economic grades in a mini-bulk sample program conducted between 2003 and 2004. Between 2005 and 2006, Contact identified several new kimberlitic indicator mineral trains in the area suggesting the existence of multiple, to date undiscovered kimberlites in the area. Stornoway commenced exploration on landholdings in the Timiskaming area in mid-May 2007, after acquiring Contact, and to date has completed a detailed airborne survey over the head of un-sourced mineral distribution trains on the Elk Lake Property; undertaken anomaly checking and ground geophysical surveys of potential targets; collected detailed till sampling over specific areas of interest; and continued regional exploration activities. No targets were drill tested during 2008, and plans for 2009 remain on hold due to current market conditions.

#### *Nunavut, NWT and Alberta Properties (Various Interests)*

The Company maintains interests in a number of properties in Nunavut and the Northwest Territories, including the Itza, IC/TIM, Mackenzie, Blackstone, RAM/SHU and Calling Lake properties. Please see the Company's AIF, available on SEDAR at [www.sedar.com](http://www.sedar.com), for information on these properties.

#### Hammer Property

Stornoway acquired large land packages in the Coronation Gulf (North Slave) Diamond District during 2001 and 2002. A joint venture was subsequently signed with Navigator Exploration Corporation (now Strongbow Exploration Inc.) governing exploration on a group of mineral claims known as the Bear Property. North Arrow Minerals Inc. acquired Strongbow Exploration Inc.'s interest in the Bear Project as part of a May 2007 plan of arrangement. Historical till sampling identified an indicator mineral train with chemistry indicative of a potentially diamond bearing kimberlitic intrusive, and suggested the source was outside the original Bear Property. The Bear Property joint venture was revised to include an area of interest (AOI) outside of the original Bear Property claims, known as the "Hammer AOI". A claim was staked in October of 2008 to cover the potential source area and adjoins one of the claims remaining from the original Bear Property. A joint venture covering the area of interest (the two claim 2,533 acre Hammer Property) was signed between Stornoway (75%) and North Arrow Minerals Inc. (25%). Stornoway is the operator. Till sampling was carried out on the Hammer Property in 2008 and results available to date suggest the source of anomalous indicator minerals lies within the current claims. Work plans for 2009 are still under consideration.

#### *Other Properties (Various Interests)*

Stornoway and its wholly owned subsidiaries hold varying interests in a number of other minor diamond properties and prospects, as well as significant regional geological, geochemical and geophysical databases. Stornoway reviews these properties and databases as time allows, in addition to other properties or information that may become available, in order to ensure that the Company continues to maintain a portfolio of promising diamond projects that fill the 'pipeline' from grassroots to development stage. Exploration activities, including drilling, will be undertaken where warranted and where permitted by logistical and budgetary considerations. Results will be reported as appropriate.

Stornoway undertook generative exploration programs throughout Canada during 2007 and 2008. This work investigated geologically prospective terrains, un-sourced indicator mineral anomalies derived from public, quasi-public and proprietary databases and unexplained geophysical targets from both ground and airborne surveys. Till

and heavy mineral sampling, airborne and ground geophysical surveys and prospecting programs were completed in 2008. Rock samples were collected for both caustic fusion and DMS processing. Partial results available to date from this 2008 generative exploration program have been, and will continue to be, used to identify and acquire targeted landholdings thought to have the potential to host diamondiferous kimberlites. Results for additional work are pending and Stornoway anticipates continued property acquisitions and exploration work, subject to funds being available for grass-roots exploration and the Company's ability to fund its other exploration priorities.

## **RISKS AND UNCERTAINTIES**

The Company's securities should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in the Company's Canadian regulatory filings prior to making an investment in the Company, including the risk factors discussed under the heading "Risk Factors" in the Company's Annual Information Form available on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company's financial condition and future prospects are significantly affected by overall economic conditions. The Company has no source of operating revenue and relies on equity financings and, in recent years, the sale of non-core assets to finance its operations and in particular, to further exploration on its properties. The steep decline in the Company's share price, while consistent with those in its peer group, makes additional financings more dilutive. Additional financing is also more challenging because there are fewer dollars available to be invested. The Company's investments (common shares in other publicly-traded exploration companies) have also declined significantly in value, and therefore it would be difficult for the Company to realize funds quickly from the sale of these investments without causing further downward pressure on the share price of the investment companies.

Falling interest rates and smaller cash balances available for investment mean a decrease in interest income, which in recent years has partially offset the Company's general and administrative expenses. The Company's overhead expenses cannot be financed with "flow-through" dollars (restricted for use on "grass-roots" exploration at the Company's Canadian mineral properties) so the Company's management is making decisions with a view to preserving its "hard dollars" for as long as possible, due to the difficulty in arranging additional financings at this time. The majority of the Company's expenses at the present time are denominated in Canadian Dollars so its exposure to foreign exchange risk is limited.

The Company has no exposure to asset-backed commercial paper through its short-term investments, which are invested in chartered bank-issued Bankers' Acceptance or Bankers' Deposit Notes or Guaranteed Investment Certificates ("GICs") to minimize, to the extent possible, the Company's credit risk. The majority of the Company's receivables consist of sales tax receivables due from the federal government and receivables from companies with which the Company has exploration agreements or options. The maximum amount of the Company's exposure to credit risk with respect to its receivables is the carrying value of those receivables as at the balance sheet date. The most significant receivable for the Company arises from its responsibilities as the operator of the Renard Diamond Project in Quebec, a joint venture with Diaquem Inc. Under the terms of the joint venture agreement, the Company invoices, and is reimbursed by Diaquem Inc., on a monthly basis. As the operator, the Company is responsible for creating an annual exploration budget, which is pre-approved by both partners annually.

The Company's liquidity risk, the risk that the Company won't be able to meet its obligations as they come due, will increase the longer that overall market conditions remain volatile and credit conditions remain tight. The Company's management actively monitors its cash-flows and is making decisions and plans for 2009 accordingly. The Company expects to spend all of the flow-through funds raised in 2008 and in May 2009 on its Canadian exploration properties in 2009. The Company's material mineral properties are all in good standing and the Company has sufficient financial resources to keep those properties in good standing into 2010, even with reduced exploration budgets for 2009. The Company regularly reviews its landholdings with a view to reducing or consolidating those landholdings to focus on specific areas of interest and exploration potential.

The Company has no long-term debt as a result of the early redemption of the convertible debentures in July 2008 and, as of the report date, the Company has positive working capital which will be used to continue to advance its material exploration properties over the next year. The Company's management is considering various alternatives to reduce its overhead expenditures for the same period. The Company has minimum commitments under its operating leases of about \$405,000 per year until June 2010 when this amount decreases to about \$300,000 per year. A portion of these payments may be recovered through sub-leases. The Company will need to consider 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 can be no guarantee that the Company's management will be successful in these endeavours. Please see Note 1 of the audited consolidated financial statements for the year ended April 30, 2009 for more information.

## SUMMARY OF QUARTERLY RESULTS

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

| Period                              | Interest Income <sup>(1)</sup> | Loss or (Income) from Continued Operation and Net Loss (Income) | Basic Loss (Earnings) per share <sup>(2)</sup> from Continued Operation and Net Loss (Income) | Fully Diluted Loss (Income) per share <sup>(2)</sup> - from Continued Operation and Net Loss (Income) |
|-------------------------------------|--------------------------------|---|---|---|
| Three months ended April 30, 2009   | \$ 18                          | \$ 7,471  | \$ 0.03   | \$ 0.03   |
| Three months ended January 31, 2009 | 39                             | 7,690   | 0.03  | 0.03  |
| Three months ended October 31, 2008 | 35                             | 1,207   | 0.01  | 0.01  |
| Three months ended July 31, 2008    | 104                            | (11,689)  | (0.06)  | (0.06)  |
| Three months ended April 30, 2008   | 121                            | 5,295   | 0.03  | 0.03  |
| Three months ended January 31, 2008 | 178                            | 16,580  | 0.08  | 0.08  |
| Three months ended October 31, 2007 | 252                            | 921   | 0.01  | 0.01  |
| Three months ended July 31, 2007    | 188                            | 4,733   | 0.02  | 0.02  |

(1) The Company has no operating revenues.

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

During the year ended April 30, 2009, the Company recorded a \$13.3 million net gain on the early extinguishment of its \$20.0 million principal convertible debentures. This non-cash item accounts for the majority of the Company's income in the quarter ended July 31, 2008. See "Results of Operations" above for more details.

Quarterly results will vary in accordance with the Company's exploration and financing activities. Resource property write-offs typically have the most significant impact on the Company's quarterly results. These write-offs typically vary in accordance with exploration results and changes to the Company's land position and can rarely be predicted in advance.

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

The Company's activities in the Current Year have focused on continued exploration of its mineral properties and the completion of a Preliminary Assessment on the Renard Diamond Project in Quebec. In a typical quarter, the Company's legal fees will increase when property option and joint venture agreements are in development and negotiation, and investor relations activities increase in proportion to shareholder inquiries, communications and as a result of the Company's periodic "roadshows". Stock-based compensation expense varies, and is dependant upon the size, timing and estimated fair value of the stock option grants. During the year ended April 30, 2009, the Company implemented several measures to reduce administrative and overhead expenditures with a view towards cash preservation.

#### **FOURTH QUARTER**

Included in the Company's results for the fourth quarter are write-downs or write-offs of the Company's capitalized resource property costs, which typically have the largest impact on the Company's results from operations. Capitalized resource property costs are written-down or written-off when management has determined there to be an impairment of value, where exploration results indicate that no further work is warranted or when the Company has not conducted active exploration on a property for within a period of two to three years. Please see comments under "*Critical Accounting Estimates – Long-Lived Assets*" for details. Approximately \$7.2 million (Comparative Quarter - \$8.3 million) was written off in the fourth quarter representing 49.8% (Comparative Quarter – 31.5%) of the total resource property costs written off in the Current Year (\$14.5 million). General and administrative expenses decreased from \$659,000 in the third quarter to \$439,000 in the fourth quarter of the Current Year (Decreased from \$1.2 million to \$941,000 in the Comparative Quarters).

#### **LIQUIDITY**

The Company's cash and cash equivalents decreased from \$9.5 million at April 30, 2008 to \$1.6 million at April 30, 2009. In addition, the Company has a further \$1.3 million classified as short-term deposits, of which \$259,000 is held as collateral security for the Company's credit cards. The remainder is held in a GIC that is cashable anytime after 30 days from the investment date. To finance the 2007 and 2008 exploration programs, the Company used proceeds of \$15 million from the sale of the Buffalo Head Hills property interest in July 2007 as well as the proceeds from a \$10.05 million "flow-through" private placement and proceeds from a \$15.0 million short-form prospectus offering, both of which closed in April 2007. In November 2008, the Company completed a brokered and a non-brokered private placement of "flow-through" common shares for gross proceeds of \$3.9 million (see "Capital Resources" below for a description of the financings). In December 2008, the Company received \$1.35 million relating to Quebec tax credits (accrued as of October 31, 2008). As uncertainty exists surrounding the timing and amount of these potential tax credits, the Company does not record the tax credits as receivable until a Notice of Assessment is issued. Capitalized property costs are reduced by the amount of the tax refunds received. The Company has applied for additional tax credits with respect to its activities in Quebec, which should be received in 2009 and 2010 if the applications are accepted as filed.

The Company's working capital as at April 30, 2009 was \$3.9 million (April 30, 2008 - \$6.5 million working capital deficit), consisting mostly of cash and cash equivalents, short-term deposits and other receivables. During the Current Year, the Company's cash position decreased by \$8.0 million to \$1.6 million at April 30, 2009 as compared to the year ended April 30, 2008, where the Company's cash position decreased by \$12.0 million to \$9.5 million in cash and cash equivalents. An increase in short-term deposits (\$1.1 million), a write down of an investment (\$1.1 million), a write-off of resource property costs (\$14.5 million) and a gain on early extinguishment of convertible debenture (\$13.3 million) represent the largest reconciling items from the consolidated statement of loss and deficit to the consolidated statement of cash flows - operating activities, for the year ended April 30, 2009. The Company's most significant operating expenses during the Current Year included \$1.1 million for salary expense (Comparative Year - \$1.1 million), \$362,000 for regulatory and shareholder communications expense (Comparative Year - \$708,000), \$347,000 for office and sundry expense (Comparative Year - \$678,000), professional fees of \$249,000 (Comparative Year - \$393,000) and administrative fees and rent of \$361,000 (Comparative Year - \$192,000).

The Company's primary investment activity is the acquisition and exploration of its resource property interests. During the Current Year, the Company spent \$8.6 million to explore its resource properties (Comparative Year - \$23.5 million) with the most significant expenditures on the Foxtrot (Renard) property in Quebec and the Aviat and Qilalugaq properties in Nunavut. The Company elected not to fund its share of the 2008 exploration program at the

Churchill Project. In the Comparative Year, the Company received a cash payment of \$15.0 million from the sale of its 45% interest in the Buffalo Head Hills property, Alberta, which did not re-occur in the Current Year.

The Company's ability to generate cash is very much affected by the current market conditions, its share price and third party interest in its assets. In previous years, the Company was able to sell non-core assets as one means to finance its operations and to further exploration on its material mineral property interests. The Company's ability to sell non-core assets in the future is dependent on the number of dollars available in the current market. The decrease in available dollars in the current market also affects the Company's ability to finance its activities through the capital markets because the dilution from an equity financing increases as the share price decreases. Again, the Company is competing with other exploration companies for increasingly limited investment dollars. However, the Company is eligible for investment tax credits with respect to its exploration activities in certain provinces, which will help the Company to continue to finance its operations to some extent; however, the timing and amounts of those tax credits cannot be reliably estimated. The Company has no credit facilities that could be used for ongoing operations because it has no operating cash flow. The funds that the Company does have are invested in tranches for up to 90 days in Bankers' Acceptance ("BA") or Bankers' Deposit Notes ("BDN") issued by various chartered banks to reduce the Company's exposure to credit risk or in Guaranteed Investment Certificates ("GICs"), cashable after 30 days, which typically pay a higher interest rate than BAs or BDNs. The Company has no exposure to asset-backed commercial paper. With the early redemption of the Company's \$20.0 million convertible debenture in July 2008, the Company has no long-term debt.

The Company's most significant fixed costs relates to its leases for office space and then the costs associated with maintaining a TSX listing. The Company's minimum commitments for its premises consist of approximately \$405,000 per year until June 2010, decreasing to approximately \$300,000 per year between 2010 and 2013. The Company is able to reduce some of this liability through the sub-lease of excess space. The Company has sufficient financial resources to keep its material landholdings and the majority of its non-material landholdings in good standing into 2010. The Company has also incurred sufficient exploration expenditures on these properties to keep them in good standing with the respective provincial and territorial governments into 2010 as well. The Company's management actively manages its landholdings in an effort to keep those landholdings with the greatest exploration potential in good standing for as long as possible. The Company's management regularly reviews its cash position against future plans and makes decisions regarding these plans accordingly. Exploration plans in 2009 will continue to focus on the Company's 50% interest in the Renard Diamond Project, with a focus on a resource expansion and optimization program, with additional drilling and diamond sampling. Funds from the "flow-through" private placements, which closed in November 2008 and May 2009 are expected to be used for the Company's share of this work. In addition, the Company intends to conduct an in-depth review, compilation and analysis of its exploration data acquired over several years of fieldwork to refine specific targets of interest on its current mineral properties and to identify new areas with exploration potential. The Company's management is seeking ways to reduce its overhead expenditures through shared administrative functions, subleases and other means.

The Company expects that it will require additional financing into 2010 to continue to develop the Renard Diamond Project, to further exploration efforts at its other Canadian mineral properties and to continue to meet its corporate and administrative expenses. In the interim, the Company is seeking to maximize the results received from its exploration efforts and to minimize variable expenses to the extent possible.

## **CAPITAL RESOURCES**

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

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

For the Company's exploration and development plans for 2009, the Company intends to conduct modest programs of value-driven exploration focused on its key, advanced projects. It is anticipated that the majority of the planned exploration expenditures will be financed from current cash resources (primarily from the proceeds of flow-through financing completed in November 2008 and May 2009), and work will be tailored so as to provide the most efficient use of funds. Expenditures are planned for the following areas:

- Mineral resource expansion and optimization at the Renard Diamond Project. Pending joint venture approval, this work program will include drilling and sampling on the Renard 2 and Renard 3 kimberlites leading to an update of the National Instrument ("NI") 43-101 mineral resource statement.
- Advanced assessment of the Aviat Project. This work program included the processing of a 200 tonne sample collected from the Eastern Sheet Complex in 2008. Results from this sample processing are discussed above.
- Ongoing assessment of Stornoway's extensive grass roots exploration portfolio, including opportunistic drill testing as appropriate.

The Company has historically financed its exploration programs through the issuance of equity capital, and through the use of a convertible debenture (issued in March 2007 and extinguished in July 2008) while at the same time trying to reduce shareholder dilution by securing joint venture partners where appropriate and more recently, by the monetization of non-core assets. Recent malaise in the Canadian equity capital markets could make securing additional financing difficult in the short-term. The Company's management intends to continue to seek out the best opportunities to maximize shareholder value by furthering exploration programs on its most promising projects and by generating new discoveries. However, failure to secure additional financing at reasonable terms may significantly impact the Company's ability to continue as a going concern.

The Company's consolidated financial statements for the year ended April 30, 2009 have been prepared in accordance with Canadian GAAP and on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. There are conditions and events at the present time that cast significant doubt on the validity of this assumption, as discussed below.

In order to finance the Company's exploration programs and to cover administrative and overhead expenses, the Company historically has raised money through equity sales and from the exercise of convertible securities.

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%.

In July 2008, the Company issued 22,222,222 common shares, split equally between Agnico-Eagle and Lorito, as redemption of the \$10.0 million principal amount of debentures held by each of the companies. See "Results of Operations" above for details on the allocation of the fair value associated with the early redemption of the convertible debentures. Accrued interest to the July 31<sup>st</sup> redemption date of \$289,315 was paid on July 31, 2008 by the issuance of 1,055,894 common shares issued at \$0.2740 per share. As a result of this transaction, the Company has no debt repayment obligations.

In November 2008, the Company completed a brokered private placement with Canaccord Capital Corporation ("Canaccord" or the "Agent"), which consisted of 15,806,000 "flow-through" common shares of the Company for gross proceeds of \$2,370,900. Concurrently, the Company completed the sale of 10,382,334 "flow-through" common shares for gross proceeds of \$1,557,350 under the 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 Company issued a total of 26,188,334 "flow-through" common shares and 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. Management intends to use the total gross proceeds of \$3,928,250 from both the brokered and non-brokered private placements to further exploration on the Renard Project in Quebec and certain of the Company's other Canadian mineral properties.

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 are expected to constitute Canadian exploration expense ("CEE") (as defined in the Income Tax Act) for the 2009 tax year and must be renounced to the subscribers under the terms of the subscription agreement.

At July 20, 2009 the Company had 12,265,485 stock options outstanding which, if exercised, would increase the Company's available cash by approximately \$12.4 million. However, the average exercise price of these options is \$1.01, well in excess of the Company's current market price of ~\$0.14 per share.

#### **ADDITIONAL DISCLOSURE**

Additional disclosure concerning Stornoway's general and administrative expenses and resource property costs is provided in the Company's Annual Information Form and the Consolidated Statement of Loss and Deficit and the Consolidated Schedule of Resource Property Costs contained in its Consolidated Financial Statements for April 30, 2009 and April 30, 2008 that is available on Stornoway's website at [www.stornowaydiamonds.com](http://www.stornowaydiamonds.com) or on its SEDAR Page Site accessed through [www.sedar.com](http://www.sedar.com)

#### **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.

#### **OUTSTANDING SHARE CAPITAL**

Stornoway's authorized capital is unlimited common shares without par value. As at July 20, 2009, there were 254,234,063 common shares issued and outstanding.

As at July 20, 2009, the following options are outstanding:

| Number of Shares | Average<br>Exercise<br>Price | Year of Expiry |
|------------------|------------------------------|----------------|
| 913,280          | \$ 1.65                      | 2009           |
| 718,820          | \$ 1.42                      | 2010           |
| 1,392,700        | \$ 1.17                      | 2011           |
| 5,118,980        | \$ 1.16                      | 2012           |
| 3,662,205        | \$ 0.51                      | 2013           |
| 259,100          | \$ 0.75                      | 2014           |
| 200,400          | \$ 1.12                      | 2015           |
| 12,265,485       |                              |                |

### TRANSACTIONS WITH RELATED PARTIES

Related party during the years ended April 30, 2009 and 2008 are as follows:

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             |
|   | \$ 5           | \$ 77          |

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

- a) 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.
- b) 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.
- c) 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.
- d) 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.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as well as the reported expenses during the reporting period. Such estimates and assumptions affect the determination of the potential impairment of long-lived assets, estimated costs associated with reclamation of exploration properties, and the determination of stock-based compensation and future income taxes. Estimates and assumptions may be revised as new information is obtained, and are subject to change. Management believes that the Company's accounting policies and the estimates used in the preparation of the consolidated financial statements are appropriate in the circumstances, but are subject to judgments and uncertainties that are inherent in the financial reporting process. Actual results could differ from estimates and the differences could be material. The most critical accounting policies upon which the Company depends are those requiring estimates of impairment, assumption about fair value and future income taxes. Please refer to Note 3 of the audited, consolidated financial statements of the Company for the years ended April 30, 2009 and 2008 for a description of all significant accounting policies.

### *Impairment of long-lived assets*

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

The Company's management reviews the carrying value of the Company's mineral properties when there are events or circumstances that may indicate impairment. 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 these factors is subjective and do not necessarily result in precise determinations. Should an underlying assumption change, the resulting estimates could change by a material amount.

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

The Company's most significant long-lived asset consists of capitalized acquisition and exploration costs for its resource properties. The Company's resource properties are at three different stages:

- a) development (Renard);
- b) advanced exploration (Aviat, Churchill and Qilalugaq); and
- c) grass-roots exploration.

To test for impairment on its resource properties, management uses an undiscounted future cash flow method for the development stage project; an estimate of "in-situ" value for the advanced projects and the criteria set out in Paragraphs 16 and 18 of Accounting Guideline 11 – Enterprises in the Development Stage for the grass-roots exploration projects.

The National Instrument 43-101 report ("NI 43-101") filed by the Company in December 2008 contains a detailed cash flow model, with a "base-case" and an "upside" scenario. Management has evaluated the cash flow model under both scenarios against the carrying value of the Renard Diamond Project and is of the opinion that the estimated future cash flows (undiscounted) from the project exceed its carrying value of \$131.2 million as at April 30, 2009 and that no write-down for impairment is warranted on this basis. Management strongly believes in the potential upside value of the Renard Project through the expansion of the resource estimate and through long-term

diamond price growth. Neither of these factors is currently incorporated into the preliminary assessment from which the undiscounted future cash flow analysis is derived.

Without an estimate of future undiscounted cash flows, other methods must be used to estimate fair value. Management believes that using an estimate of “in-situ” value for its advanced projects is a reasonable way to estimate fair value. The in situ method is a broad metric of project value, which uses an estimate of carats contained in the project and an estimate of carat value, factored to account for extracted value. A factor is applied to provide a risk adjusted expectation of value and also adjusts for value recovered and capital expenditures, operating costs and income tax expenses. The three advanced projects are all located within the Rae Craton in Nunavut and have approximately equivalent emplacement ages. Management has enough information to make a reasonable estimate of the contained carats for each project based on information available to date. Using a low-average-high range estimate of per carat values and a simple range of probabilities, combined with a low factor, a low and high estimate of fair value for each project was calculated. While these estimated fair values exceeded the current carrying values of the Aviat and Qilalugaq properties, the estimated fair values calculated for the Churchill Project were lower than its current carrying value. Accordingly, the Company wrote-down the carrying value of the Churchill Project by \$6.8 million during the year ended April 30, 2009.

The Company uses the guidance set out in AcG-11 as the basis for determining whether its grass-roots properties should be written off. Paragraph 16 AcG-11 sets out factors that may indicate the need for a write-down:

- a) unfavourable changes in the property or project economics;
- b) an inability to access the site;
- c) environmental restrictions on development;
- d) an inability to create an efficient distribution mechanism; and
- e) political instability of the region in which the property is located.

Paragraph 18 AcG-11 states: “In addition to the above general presumption, there should be a presumption of impairment in the carrying amount of property, plant and equipment and intangible assets of enterprises in the development stage engaged in extractive operations when any of the following conditions exist:

- a) the enterprise’s work program on a property has significantly changed so that previously identified resource targets or work programs are no longer being pursued;
- b) exploration results are not promising and no more work is being planned for the foreseeable future; or
- c) remaining lease terms are insufficient to conduct necessary studies or exploration work.

Using these conditions as a guideline for estimating whether an impairment exists on its grass-roots properties, and based on the Company’s plan to further evaluate and advance these properties by analyzing results received to-date, management has determined that the carrying values of its grass-roots resource properties as of April 30, 2009 and as of the report date are not impaired.

#### *Asset retirement obligations*

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

#### *Stock-based compensation*

The Company’s current market price and the volatility of the Company’s market price will affect the estimates made for stock-based compensation. The volatility of the Company’s stock price and the stock price at the grant date have

the most significant impact on the estimate of fair value of stock-based compensation. The Company expenses stock-based compensation for its corporate and administrative employees and capitalizes stock-based compensation expense for its exploration and technical staff.

Stock-based compensation is accounted for using the fair value based method. Under the fair value based method, compensation cost is measured at fair value of the options at the date of grant and is expensed over the vesting period of the award. The Company estimates the fair value using the Black-Scholes option pricing model. The key assumptions used in the Current Year were: a risk-free interest rate of 1.9% (Comparative Year: 4.0% ~ 4.3%), a dividend yield of 0% (Comparative Year – 0%), an expected volatility of 86% ~ 92% (Comparative Year: 46% ~ 92%) and expected term of stock options of 3 ~ 5 years (Comparative Year: 2 ~ 5 years). In the Current Year, the Company granted 3,478,500 stock options with a weighted average exercise price of \$0.10 and an estimated fair value of \$138,000. In the Comparative Year, the Company granted 3,272,265 stock options with a weighted average exercise price of \$0.63 and an estimated fair value of \$1,104,000.

The Company also uses the Black-Scholes option pricing model to value other share compensation. No warrants were issued during the Current or Comparative Years.

#### *Future income tax assets and liabilities*

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

## **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

### **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 of the audited consolidated financial statements for the years ended April 30, 2009 and 2008.

#### *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 of the audited consolidated financial statements for the years ended April 30, 2009 and 2008.

#### *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.

### **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.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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*):

|  | April 30, 2009  |            | April 30, 2008  |            |
|--|-----------------|------------|-----------------|------------|
|  | Carrying amount | Fair value | Carrying amount | Fair value |
|  | \$              | \$         | \$              | \$         |
| <b>Financial Assets</b>                  |                 |            |                 |            |
| <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      |
| <b>Financial Liabilities</b>             |                 |            |                 |            |
| 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.

### *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 \$2.90 million (Comparative Year - \$9.78 million) to settle current liabilities of \$1.94 million (Comparative Year - \$21.9 million). In May 2009, the Company raised \$1.43 million through a flow-through private placement. However, the Company will need to consider 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. Please see Note 16 of the consolidated financial statements for the years ended April 30, 2009 and 2008 for details on other commitments.

## **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 of the consolidated financial statements for the years ended April 30, 2009 and 2008.

## **DISCLOSURE CONTROLS**

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

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

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Company has reviewed its internal controls over financial reporting and believes that as at April 30, 2009 and as of the Report Date, its system of internal controls over financial reporting as defined under National Instrument 52-109 is sufficiently designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP. Certain weaknesses exist in the Company's systems of internal control over financial reporting. These weaknesses arise primarily from the limited number of personnel employed in the accounting and financial reporting area, a situation that is common in many smaller companies. As a consequence of this situation: a) it is not feasible to achieve the complete segregation of duties; and b) the Company does not have full "in house" expertise in complex areas of financial accounting, such as taxation.

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

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting as of April 30, 2009 and have concluded that the Company's internal controls over financial reporting are effective. There have been no changes in internal control over financial reporting during the year ended April 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## **APPROVAL**

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

## **ADDITIONAL INFORMATION**

Additional information relating to Stornoway is on SEDAR at [www.sedar.com](http://www.sedar.com).