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

Containing Information up to and including September 14, 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 September 14, 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 4.2 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 2.2 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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[1] **Note to Reader**

The following management discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the audited consolidated financial statements for the years ended April 30, 2009 and 2008 together with the notes thereto and the unaudited, interim consolidated financial statements for the three months ended July 31, 2009 and 2008. 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 three months ended July 31, 2009 and the period ended September 14, 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 three months ended July 31, 2009 and the period ended September 14, 2009 include:

Exploration Highlights

- 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.

- In June 2009, the next phase of an ongoing resource expansion and optimization program at the Renard Diamond Project commenced. The objective of the program is to convert 10.5 to 12.3 million tonnes of potential mineral deposit material identified at Renard 2 into a formal resource classification. The summer program is focused on detailed delineation drilling and sampling of material within Renard 2 that was discovered as part of the 2009 winter drill program.

- In July 2009, a new kimberlite was discovered by prospecting on a mineral claim within the Hammer Property area of interest and at the head of a previously unexplained kimberlitic indicator mineral anomaly with diamond inclusion chemistry.

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.

RESULTS OF OPERATIONS

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 quarter to the next and typically cannot be predicted in advance.

The Company's loss from operations for the three months ended July 31, 2009 (the "**Current Period**") was $682,000 (a loss of $Nil per share) as compared to a net income of $11.7 million (earnings of $0.06 per share) for the three months ended July 31, 2008 (the "**Comparative Period**"). The Company's loss for the Current Period is mainly due to a write-off of capitalized resource property costs (Current Period - $155,000; Comparative Period $227,000) and administrative expenses of $473,000 (Comparative Period - $1.2 million). In the Comparative Period, the Company recorded a $13.3 million gain on the early extinguishment of the debt component of a $20.0 million convertible debenture.

Administrative expenses (Current Period - $0.5 million; Comparative Period - $1.2 million) decreased as the Company reduced its in-house laboratory employees in June 2008, reduced its office space in early 2009 and in general, sought ways to reduce administrative and overhead expenditures. With the exception of administrative fees and rent (Current Period - $89,000; Comparative Period - $58,000), all other administrative expenses decreased during the Current Period as compared to the three months ended July 31, 2008. The decrease in professional fees (Current Period - $55,000; Comparative Period - $120,000) reflects a lower activity level for the Company in the Current Period as compared to the three months ended July 31, 2008. This decrease in activity levels is also reflected in lower costs for office and sundry (Current Period - $91,000; Comparative Period - $119,000) and regulatory and shareholder communications expense (Current Period - $80,000; Comparative Period - $113,000). Salaries and benefits (Current Period - $137,000; Comparative Period - $597,000) increased slightly from the Comparative Period, after adjusting for a $495,000 payment for severance in the Comparative Period. Stock-based compensation (Current Period - $21,000; Comparative Period - $148,000) a non-cash item, also decreased in the Current Period. The Company's interest income declined in the Current Period to $17,000 from $103,000 in the Comparative Period, due to smaller cash balances available for investment and historically low interest rates paid on funds invested. Interest expense in the Current Period of $44,000 (Comparative Period - $5,000) includes an accrual for Part 12.6 tax related to the 2008 flow-through financing.

Assets increased from $180.5 million at the April 30, 2009 year-end to $181.5 million at July 31, 2009 with capitalized resource property costs increasing from $171.2 million to $172.6 million as at July 31, 2009. The Company's cash, cash equivalents and short-term deposit amounts increased during the Current Period, from $2.9 million as of April 30, 2009 to $3.5 million as of July 31, 2009 as a result of a flow-through private placement which closed on May 29, 2009. The Company's primary focus during the Current Period continued to be the advancement of its resource expansion and optimization program at the Renard Diamond Project, with the Company's share of expenditures on the project totalling $1.3 million in the Current Period (Comparative Period - $1.5 million).

The Company's Current Period's loss of $682,000 was greater than its net income of $11.7 million in the Comparative Period due mostly to a $13.3 million gain (net) on the early extinguishment of the Company's convertible debentures during the Comparative Period. 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 Comparative 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 Comparative Period.

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.

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 Les Diamants Stornoway (Canada) inc. ("Les Diamants Stornoway"), and SOQUEM Inc.'s ("SOQUEM") wholly owned subsidiary, Diaquem. Les Diamants Stornoway is the project operator. Since 1996, Les Diamants Stornoway 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.

The receipt in late 2008 of a positive economic study for the Renard Diamond Project represented a significant milestone for the Company. An independent Technical Report summarizing the results of the Preliminary Assessment was filed on December 12, 2008. The National Instrument 43-101 Report (NI 43-101") included a mineral resource comprising 7.0 million carats of Indicated Mineral Resources (11.6 million tonnes at an average grade of 60 carats per hundred tonnes, or "cpht") and 4.5 million carats of Inferred Mineral Resources (7.2 million tonnes at an average grade of 63 cpht). At the time of filing, extensive exploration upside was 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 cpht).

Within the conceptual mine plan contained within the Preliminary Assessment, the most important kimberlite in terms of mineable carats, mine life and revenue was Renard 2, which was estimated to contain 3.36 million tonnes of Indicated Mineral Resource (at an average grade of 81 cpht) and 1.80 million tonnes of Inferred Mineral Resource (at an average grade of 86 cpht), as calculated to a depth of 570m. The diamond valuation for Renard 2, dated March 2008, was estimated at US$123/ct (with sensitivities of US$110 to US$139/ct). At that time, potential mineral deposit at Renard 2 was an additional 2.5 to 7.1 million tonnes with grades estimated between 73 and 164 cpht, calculated to a depth of 700m.

A winter drill program in early 2009 at the Renard Diamond Project exceeded expectations in the amount of new kimberlite discovered (see Stornoway Press Release dated March 31, 2009). It now appears 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. In the existing Renard Preliminary Assessment, Renard 2 contributed the bulk of the high grade resource contained within the conceptual mine plan. The partners believe 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, should have a very positive impact on project economics, with the potential to add approximately 8 to 10 years of mine life to the 7 year mine plan already established.

The winter drilling in 2009 at Renard 2 (see Stornoway Press Releases March 09 and March 31) supports 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 712 meters below surface, a substantial increase over the previous estimate. In this new model, Renard 2 has a dimension of 195 meters by 45-60 meters at a depth of 570 meters below surface as opposed to 48 meters by 10 meters previously, and remains open below 712 meters. Geological logging of the kimberlite intersected in the winter suggests that the kimberlitic breccia lithologies present in the deeper portions of Renard 2 are the same as those seen in the upper portions of the pipe. In these upper portions, extensive reverse circulation drilling and underground bulk sampling has established mineral resource level grades and a diamond valuation. To establish resource grades throughout the pipe, detailed micro-diamond and petrographic analysis will be used to correlate the newly drilled material with the portions of the pipe for which detailed geological and diamond data already exists. This comparative technique of grade extrapolation is an accepted and well established methodology for diamond resource estimation.

In June 2009, the next phase of an ongoing resource expansion and optimization program at the Renard Diamond Project commenced. The focus of this exploration program is core drilling on the Renard 2 kimberlite pipe. The drilling started in mid-June and is expected to continue until late September 2009. The objective of the program is to convert 10.5 to 12.3 million tonnes of potential mineral deposit material identified at Renard 2 into a formal resource classification. The summer program will focus on detailed delineation drilling and sampling of material within Renard 2 that was discovered as part of the 2009 winter drill program. In August 2009, the partners agreed to expand the drilling program at Renard 2 from 9,500 metres to 11,500 metres. The Company expects that the new results will allow a restatement of the NI 43-101 mineral resource by the end of 2009, to be followed by a revision of the project's economic assessment.

Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. In addition, 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.

Aviat Property, Nunavut

The Company's interest in the 447,800 acre Aviat Property is governed by a joint venture agreement with Hunter Exploration Group (“Hunter”). This agreement was modified in May 2008 when the Company acquired BHP Billiton’s (“BHPB”) interest in the Aviat Project and BHPB’s diamond marketing rights for the Aviat Project, in consideration for the Company assuming all of BHPB's obligations under the joint venture agreement, including BHPB’s bulk sampling obligations and all future funding obligations. This acquisition increased the Company’s interest in the Aviat Project to 90% (Hunter continues to hold a 10% interest, carried to production) and provided the Company with 100% of the diamond marketing rights for the Aviat Project.

Exploration work in 2008 focused on the completion of a conceptual resource study by SRK Consulting (Canada) Inc. ("SRK") an independent, international consulting practice and the collection and processing of a 200-tonne sample from the ESC1 kimberlite. In May 2009, the Company reported an overall diamond recovery of 159 carats per hundred tonnes (cpht) for stones retained on a +1 DTC screen. A total of 302.7 carats of diamonds were recovered from 190.9 dry tonnes of kimberlite, including a 3.99 carat stone, the largest diamond recovered to date from the Aviat project.

The Company 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.

Churchill Property, Nunavut

The Company initially acquired a partial interest in the diamond rights at the Churchill Property in June 2002. Currently, the Company’s interest in the Churchill Diamond Project is approximately 38%, with the remaining 62% interest held by Shear Minerals Ltd. (“Shear”). Shear is the operator of the Project and is currently sole-funding exploration. Stornoway elected not to participate for its share of the 2008 exploration budget and to-date, Shear has not proposed a program for 2009. The Churchill Diamond Project currently encompasses approximately 760,000 acres situated on the mainland tundra (barren lands), near the community of Rankin Inlet in the Kivalliq Region of Nunavut, Canada.

In August 2009, Shear and the Company signed an indicative proposal with Kennecott Canada Exploration Inc. ("Kennecott") to jointly explore the northern portions of the Churchill Diamond Project. This area, to be referred to as the Chesterfield Inlet Diamond Project (the "Chesterfield Project"), comprises approximately 70,000 acres located within and near the indicator mineral dispersion North Corridor of the larger Churchill Diamond Project. The Chesterfield Project area is located approximately 15 km north of the Josephine River Corridor and portions can be accessed by gravel road from the community of Chesterfield Inlet. The focus of the new partnership will be the exploration of the northern regions of the property, starting with a comprehensive geophysical and geochemical review to be followed up by a modest field program during 2009.

Under the terms of the agreement, Shear and the Company have jointly granted Kennecott the right and option to acquire, subject to existing underlying royalties, up to a 70% interest in the diamond rights to the Chesterfield Project. Under the terms of the agreement, Kennecott may acquire a 51% interest in the Chesterfield Project (the “First Option”) by incurring $100,000 in exploration expenditures before Dec 31, 2010 and by incurring an additional $1,900,000 in exploration expenditures before December 31, 2012. If the First Option is satisfied, Kennecott may earn an additional 19% interest (the “Second Option”) in the Chesterfield Project by incurring an additional $4,500,000 in exploration expenditures before December 31, 2016. Shear will be the Operator during the First Option.

Hammer Property

In 2008, Stornoway and North Arrow Minerals Inc. (“North Arrow”) revised the Bear Property joint venture agreement 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 a potential source area, adjoining one of the claims remaining from the original Bear Property. Subsequently, a joint venture covering the AOI (the two claim 2,533 acre Hammer Property) was signed between Stornoway (75%) and North Arrow (25%), with Stornoway acting as the operator.

In July 2009, a new kimberlite was discovered by prospecting on a mineral claim within the Hammer AOI and at the head of a previously unexplained kimberlitic indicator mineral anomaly with diamond inclusion chemistry. The Hammer kimberlite appears associated with a prominent topographic feature that is 225m long, between 15 and 100m wide, and has a surface expression of approximately 1 hectare, although the true nature and size of the body is not known at this time. Weathered kimberlite breccia in bedrock was identified within hand dug pits, in addition to numerous scattered kimberlite occurrences of surface float and frost heaved kimberlite fragments. Previous analyses of till samples collected down-ice of the Hammer kimberlite have returned the full suite of traditional kimberlite indictor minerals, including both pyrope and eclogite garnets, and the mineral chemistry of these indicators is indicative of a potentially diamond bearing kimberlitic intrusive.

Samples of surface float and in-situ kimberlite were collected from the Hammer kimberlite, although permafrost conditions and equipment constraints prevented the collection of a large sample of fresh kimberlite for representative microdiamond analysis at this time. Stornoway and North Arrow are currently reviewing potential future work required to properly assess the Hammer discovery, which may include additional prospecting, kimberlite sampling for micro diamond recovery, ground geophysical surveys or drilling.

Other Properties (Various Interests)

Stornoway and its wholly owned subsidiaries hold varying interests in a number of other diamond properties and prospects, as well as significant regional geological, geochemical and geophysical databases. The Company’s technical team reviews these properties and databases as time allows, in addition to other properties or information that may become available, so that the Company can continue 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.

Results from the Company’s previous 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. The Company 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.

In September 2009, the Company and Bayswater Uranium Corporation ("Bayswater") agreed to modify the Itza Lake property agreement, whereby the Company may earn up to an 80% interest in the diamond rights to the Itza Property in Nunavut. The Company may earn a 60% interest in the property by issuing 76,601 common shares (with a fair value of $49,025 at the time of issuance) and by incurring $4,000,000 in exploration expenditures over a five year period, with a minimum first year expenditure of $500,000. In September 2009, the agreement was amended to extend the deadline to incur the minimum first year expenditure of $500,000 from September 1, 2009 to September 1, 2011. As of July 31, 2009, the Company had spent $236,000 to explore the Itza property.

RISKS AND UNCERTAINTIES

The risks and uncertainties faced by the Company are substantially unchanged from those described in the Company's Annual MD&A dated July 20, 2009 and its Annual Information Form ("AIF") filed July 29, 2009. These documents can be viewed under the Company's profile at: www.sedar.com.

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(1)	Loss or (Income) from Continued Operation and Net Loss (Income)	Basic Loss (Earnings) per share(2) from Continued Operation and Net Loss (Income)	Fully Diluted Loss (Income) per share(2) - from Continued Operation and Net Loss (Income)
Three months ended July 31, 2009	$ 17	$ 682	$ 0.00	$ 0.00
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	(11,687)	(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

(1) The Company has no operating revenues.
(2) Based on the treasury share method for calculating diluted earnings.

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 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 Period have focused on an ongoing resource expansion and optimization program at the Renard Diamond Project in Quebec. 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 (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.

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 Current Period, the Company has continued with several measures initiated in 2008 to reduce administrative and overhead expenditures with a view towards cash preservation.

LIQUIDITY

The Company's cash and cash equivalents increased from $1.6 million at April 30, 2009 to $2.2 million at July 31, 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.

In May 2009, the Company completed a brokered private placement of "flow-through" common shares for gross proceeds of $1.4 million (see "Capital Resources" below for a description of the financing) and in June 2009, the Company received $0.6 million relating to Quebec tax credits (accrued as of April 30, 2009). 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's working capital as at July 31, 2009 was $3.1 million (April 30, 2009 - $3.9 million), consisting mostly of cash and cash equivalents, short-term deposits and other receivables. During the Current Period, the Company's cash position increased by $615,000 to $2.2 million at July 31, 2009 as compared to the three months ended July 31, 2008, where the Company's cash position decreased by $2.7 million to $6.9 million in cash and cash equivalents. Decreases in accounts receivable (Current Period - $766,000; Comparative Period - $1.0 million); prepaid expenses (Current Period - $235,000; Comparative Period - $105,000); and accounts payable (Current Period - $334,000; Comparative Period – increase of $146,000) as well as a write down of an investment in the Comparative Period ($392,000), and a gain on early extinguishment of convertible debenture ($13.3 million), also in the Comparative Period, represent the largest reconciling items from the consolidated statement of loss and deficit to the consolidated statement of cash flows - operating activities, for the three months ended July 31, 2009 and 2008. The Company's most significant operating expenses during the Current Period included $137,000 for salary expense (Comparative Period - $597,000), $80,000 for regulatory and shareholder communications expense (Comparative Period - $113,000), $91,000 for office and sundry expense (Comparative Period - $119,000) and administrative fees and rent of $89,000 (Comparative Period - $58,000).

The Company's primary investment activity is the acquisition and exploration of its resource property interests. During the Current Period, the Company spent $1.4 million to explore its resource properties (Comparative Period - $2.8 million) with the most significant expenditures on the Foxtrot (Renard) property in Quebec. In 2008, the Company elected not to fund its share of the 2008 exploration program at the Churchill Project and to-date, no program for 2009 has been proposed.

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 relate to its leases for office space and then the costs associated with maintaining a TSX listing. The Company's minimum commitment for its premises is 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 is conducting in-depth reviews, 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 and the Company's exploration and development plans for 2010. 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 is conducting 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. This work program is currently underway and the Company expects the work will result in an update of the National Instrument ("NI") 43-101 mineral resource statement previously announced in December 2008.

- 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, and particularly in the diamond sector, 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 and for the three months ended July 31, 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.

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 “warrants”). The 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 September 14, 2009 the Company had 11,920,485 stock options outstanding which, if exercised, would increase the Company’s available cash by approximately $11.7 million. However, the average exercise price of these options is $0.98, well in excess of the Company’s current market price of ~$0.13 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 and for the three months ended July 31, 2009 and 2008. These documents are available on Stornoway’s website at www.stornowaydiamonds.com or on its SEDAR Page Site accessed through www.sedar.com

COMMITMENTS

The Company has minimum commitments under its operating leases for its premises averaging approximately $405,000 per year until June 30, 2010; then decreasing to approximately $300,000 per year through 2013. 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 July 31, 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 September 14, 2009, there were 262,736,892 common shares issued and outstanding.

As at September 14, 2009, the following options are outstanding:

Number of Shares		Average Exercise Price	Year of Expiry
568,280	$	1.41	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
11,920,485			

TRANSACTIONS WITH RELATED PARTIES

a) As at July 31, 2009, the amounts due to related parties consisted of the following *(expressed in thousands of Canadian dollars)*:

		July 31, 2009		April 30, 2009
Strongbow Exploration Inc., a company with a director in common		**4**		2
Agnico-Eagle Mines Limited, a significant shareholder and a company with a director in common		**-**		3
	$	**4**	$	5

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

b) During the period ended July 31, 2009, the Company paid or accrued as payable $12,000 (July 31, 2008 - $30,800) for the reimbursement of administrative and technical time 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 period ended July 31, 2009, the Company paid, or accrued as payable on behalf of the Eastern Ungava JV, $1,200 (July 31, 2008 - $53,000) to Agnico-Eagle, of which the Company's share is 50%, for work completed by Agnico-Eagle related to a preliminary assessment at the Renard Project (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 judgments 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 $129.8 million as at July 31, 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. Management determined that no further write-downs were required as of July 31, 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 July 31, 2009 and as of the report date are not impaired. Resource property write-offs in the Current Period of $155,000 relate to generative exploration and non-material property interests where no future exploration is warranted or where the Company no longer retains a property interest.

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 during the year ended April 30, 2009 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). During the year ended April 30, 2009, 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. No stock options were granted during the three months ended July 31, 2009.

The Company also uses the Black-Scholes option pricing model to value other share compensation. During the Current Period, the Company issued 568,695 warrants as part of a brokered private placement. These warrants were estimated to have a fair value of $41,400, using the Black-Scholes option pricing model with the following assumptions: 1.23% risk-free interest rate; two-year term, 97.6% volatility.

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

Goodwill and Intangible Assets

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

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

The Canadian Accounting Standards Board recently confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian standards and interpretations on January 1, 2011. The process of changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect reported financial position and results of operations, and also affect certain business functions.

The Company has not yet completed a full evaluation of the adoption of IFRS and its impact on its financial position and results of operations. The full evaluation and an implementation plan will be completed before April 30, 2010. The progress of the evaluation and implementation plan will be addressed in the Company's quarterly and annual MD&As for the year-ended April 30, 2010. The evaluation and implementation plan will address the impact of IFRS on:

- Accounting policies, including choices among policies permitted under IFRS and implementation decisions such as whether changes will be applied on a retrospective or a prospective basis;
- Information technology and data systems;
- Internal control over financial reporting;
- Disclosure controls and procedures, including investor relations and external communications plans;
- Financial reporting expertise, training requirements and the need for assistance from outside expertise;
- Post implementation monitoring to access any future developments of IFRS.

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 and amounts due to related parties.

The fair values of financial instruments at July 31, 2009 and April 30, 2009 are summarized as follows *(expressed in thousands of dollars):*

	July 31, 2009		April 30, 2009	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial Assets	**$**	**$**	**$**	**$**
Held for trading				
Cash and cash equivalents	**2,165**	**2,165**	1,550	1,550
Short-term deposits	**1,344**	**1,344**	1,344	1,344
Loans and Receivables				
Other receivables	**1,717**	**1,717**	1,984	1,984
Available for sale				
Investments	**290**	**290**	555	555
Financial Liabilities				
Accounts payable and accrued liabilities	**2,550**	**2,550**	1,938	1,938
Due to related parties	**4**	**4**	5	5

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 100% 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 81% of receivables totaling $1.7 million at July 31, 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 July 31, 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 three months ended July 31, 2009 would have been approximately $4,800.

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 July 31, 2009, the Company had cash, cash equivalents and short-term deposits of $3.5 million (April 30, 2009 - $2.9 million) to settle current liabilities of $2.6 million (April 30, 2009 - $1.9 million). See Note 16 of the interim, consolidated financial statements for the three months ended July 31, 2009 for details on other commitments. Additional information regarding liquidity risk is disclosed in Note 1 to the July 31, 2009 interim, consolidated financial statements.

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 interim, consolidated financial statements for the three months ended July 31, 2009.

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has reviewed its internal controls over financial reporting and believes that as at July 31, 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 July 31, 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 period ended July 31, 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 Interim MD&A. A copy of this Interim MD&A will be provided to anyone who requests it.

ADDITIONAL INFORMATION

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