

**STORNOWAY DIAMOND CORPORATION**

**(An Exploration Stage Company)**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**JANUARY 31, 2008**

**Canadian Funds**

**(Unaudited – Prepared by Management)**

# Stornoway Diamond Corporation

(An Exploration Stage Company)

## Interim Consolidated Balance Sheet

Unaudited – Prepared by Management (expressed in thousands of dollars)

	As at January 31, 2008	As at April 30, 2007 (Audited)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 12,854	\$ 21,473
Short-term deposits	58	58
Investments (Note 5)	1,779	-
Accounts receivable	2,634	3,722
Prepaid expenses	244	227
	<u>17,569</u>	<u>25,480</u>
Deferred Financing Fees (Notes 3 and 12)	-	74
Prepaid Fuel	280	471
Property, Plant and Equipment (Note 7)	4,961	6,140
Resource Property Costs (Note 8)	178,705	193,982
	<u>\$ 201,515</u>	<u>\$ 226,147</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities		
- Trade	\$ 2,730	\$ 7,219
- Due to related parties (Note 10)	13	262
	<u>2,743</u>	<u>7,481</u>
Future Income Tax Liabilities (Note 11)	21,172	23,871
Convertible Debentures (Note 12)	18,261	17,223
Asset Retirement Obligations (Note 13)	634	600
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 9)	204,103	201,387
Contributed Surplus (Note 9)	9,879	8,537
Equity Component of Convertible Debenture (Note 12)	2,916	2,916
Accumulated Other Comprehensive Income (Note 3)	(91)	-
Deficit	<u>(58,102)</u>	<u>(35,868)</u>
	<u>158,705</u>	<u>176,972</u>
	<u>\$ 201,515</u>	<u>\$ 226,147</u>

Nature of Operations and Basis of Consolidation (Note 1)

Going Concern (Note 2)

Commitments (Note 15)

ON BEHALF OF THE BOARD:

“Catherine McLeod-Seltzer”

\_\_\_\_\_, Director

“Eira M. Thomas”

\_\_\_\_\_, Director

- See Accompanying Notes -

## Stornoway Diamond Corporation

(An Exploration Stage Company)

### Interim Consolidated Statements of Loss and Deficit

Unaudited – Prepared by Management (expressed in thousands of dollars except shares and per share amounts)

	For the Three Months Ended		For the Nine Months Ended	
	January 31, 2008	January 31, 2007	January 31, 2008	January 31, 2007
<b>Administrative Expenses</b>				
Administration fees and rent	\$ 52	\$ 31	\$ 155	\$ 94
Professional fees	110	1,264	318	1,422
Office and sundry	156	-	521	211
Property management fees	-	-	-	(57)
Regulatory and shareholder communications expense	280	322	540	520
Salaries and benefits	294	662	809	1,014
Stock-based compensation (Note 9g)	289	478	944	1,095
<b>Loss Before the Following</b>	<b>1,181</b>	<b>2,757</b>	<b>3,287</b>	<b>4,299</b>
<b>Other (Income) Expenses</b>				
Write-off resource property costs	17,780	2,993	18,052	10,119
Recovery of a bad debt previously written-off	-	-	-	(62)
(Gain)/loss on sale of investments	-	(108)	-	16
Loss on sale of property, plant and equipment	-	2	-	2
Loss on sale of mineral property	-	-	5,465	-
Interest income	(178)	(188)	(616)	(759)
	<b>17,602</b>	<b>2,699</b>	<b>22,901</b>	<b>9,316</b>
<b>Loss Before Income Taxes</b>	<b>18,783</b>	<b>5,456</b>	<b>26,188</b>	<b>13,615</b>
Future income tax recovery (Note 11)	(2,203)	(1,440)	(3,954)	(1,440)
<b>Loss After Income Taxes</b>	<b>16,580</b>	<b>4,016</b>	<b>22,234</b>	<b>12,175</b>
Non-Controlling Minority Interest	-	(63)	-	(428)
<b>Net Loss for the Period</b>	<b>16,580</b>	<b>3,953</b>	<b>22,234</b>	<b>11,747</b>
Deficit - Beginning of period	41,522	24,525	35,868	16,731
<b>Deficit - End of Period</b>	<b>\$ 58,102</b>	<b>\$ 28,478</b>	<b>\$ 58,102</b>	<b>\$ 28,478</b>
<b>Loss per Share - Basic and Diluted</b>	<b>\$ 0.08</b>	<b>\$ 0.03</b>	<b>\$ 0.11</b>	<b>\$ 0.10</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>198,901,190</b>	<b>156,852,508</b>	<b>196,280,883</b>	<b>116,158,328</b>

## Stornoway Diamond Corporation

(An Exploration Stage Company)

### Interim Consolidated Statements of Comprehensive Loss

Unaudited – Prepared by Management (expressed in thousands of dollars)

	For the Three Months Ended		For the Nine Months Ended	
	January 31, 2008	January 31, 2007	January 31, 2008	January 31, 2007
<b>Net Loss for the Period</b>	<b>\$ 16,580</b>	<b>\$ 3,953</b>	<b>\$ 22,234</b>	<b>\$ 11,747</b>
Unrealized loss on available for sale investment	31	-	91	-
<b>Comprehensive Loss</b>	<b>\$ 16,611</b>	<b>\$ 3,953</b>	<b>\$ 22,325</b>	<b>\$ 11,747</b>

- See Accompanying Notes -

# Stornoway Diamond Corporation

(An Exploration Stage Company)

## Interim Consolidated Statements of Cash Flows

Unaudited – Prepared by Management (expressed in thousands of dollars)

	For the Three Months Ended		For the Nine Months Ended	
	January 31, 2008	January 31, 2007	January 31, 2008	January 31, 2007
<b>Cash Resources Provided By (Used In)</b>				
<b>Operating Activities</b>				
Loss for the period	\$ (16,580)	\$ (3,953)	\$ (22,234)	\$ (11,747)
Items not affecting cash				
Minority interest	-	(63)	-	(428)
Write-off of resource property costs	17,780	2,993	18,052	10,119
Loss on sale of property interest	-	-	5,465	-
Loss on sale of property, plant and equipment	-	2	-	2
(Gain)/loss on sale of investments	-	(108)	-	16
Stock-based compensation	289	480	944	1,095
Future income tax recovery	(2,203)	(1,440)	(3,954)	(1,440)
Amortization	27	33	84	70
Changes in non-cash working capital	(301)	764	(598)	(4,169)
	<b>(988)</b>	<b>(1,292)</b>	<b>(2,241)</b>	<b>(6,482)</b>
<b>Investing Activities</b>				
Cash acquired on acquisition of Ashton (Note 6)	-	-	-	19,264
Cash acquired on acquisition of Contact (Note 6)	-	-	-	2,205
Cash paid to acquire Ashton shares (Note 6)	-	(14,480)	-	(58,621)
Cash paid to acquire Contact shares (Note 6)	-	399	-	(1,839)
Deferred acquisition costs (Note 6)	-	801	-	(1,180)
(Increase)/decrease in short-term deposits	-	(77)	-	9,886
Restricted cash	-	(1,229)	-	(5,641)
Prepaid fuel	-	111	(144)	462
Proceeds from sale of a property interest (Note 8e)	-	-	15,000	-
Proceeds from sale of investments	-	-	-	1,763
Resource property costs	(3,556)	(5,169)	(20,909)	(11,595)
Acquisition of property, plant and equipment	(52)	(849)	(258)	(1,310)
	<b>(3,608)</b>	<b>(20,493)</b>	<b>(6,311)</b>	<b>(46,606)</b>
<b>Financing Activities</b>				
Share capital issued for cash, net of issue costs	-	3,907	(67)	26,260
Increase in short-term bank loan	-	8,913	-	23,854
	-	12,820	(67)	50,114
<b>Net Increase (Decrease) in Cash</b>	<b>(4,596)</b>	<b>(8,965)</b>	<b>(8,619)</b>	<b>(2,974)</b>
Cash and cash equivalents position – Beginning of period	17,450	19,067	21,473	13,076
<b>Cash and Cash Equivalents Position – End of Period</b>	<b>\$ 12,854</b>	<b>\$ 10,102</b>	<b>\$ 12,854</b>	<b>\$ 10,102</b>

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

- See Accompanying Notes -

# Stornoway Diamond Corporation

(An Exploration Stage Company)

## Notes to Interim Consolidated Financial Statements

Unaudited – Prepared by Management

January 31, 2008

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### 1. Nature of Operations and Basis of Consolidation

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

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

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

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

### 2. Going Concern

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

During the period ended January 31, 2008, the Company incurred an operating loss before taxes of \$26.2 million and has an accumulated deficit of \$58.1 million. Cash on hand at January 31, 2008 totalled \$12.9 million. In addition, the Company has \$20.0 million in convertible debentures outstanding that are due and payable on March 16, 2009 (*Note 12*).

The Company is an exploration stage company that engages principally in the acquisition, exploration and development of mineral properties. As a development stage company, it is currently unable to self-finance its operations. As discussed in the following notes to the financial statements, the recovery of the Company’s investment in its resource properties and attainment of profitable operations is dependent upon the discovery, development and sale of diamond reserves, the ability to joint venture or sell its resource properties and the ability to raise sufficient capital to finance this operation. The ultimate outcome of these operations cannot presently be determined because they are contingent on future matters.

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

### 3. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Certain information and note disclosure normally included in the annual consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles have been omitted. These interim financial statements should be read together with the Company’s audited consolidated financial statements for the year ended April 30, 2007. In the opinion of management, all adjustments considered necessary for the fair presentation have been included in these consolidated financial statements.

# Stornoway Diamond Corporation

(An Exploration Stage Company)

## Notes to Interim Consolidated Financial Statements

Unaudited – Prepared by Management

January 31, 2008

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### 3. Significant Accounting Policies - *Continued*

The accounting policies followed in preparing these financial statements are those used by the Company as set out in the audited financial statements for the year ended April 30, 2007, except as follows:

#### *Financial Instruments*

Effective May 1, 2007, the Company adopted CICA Handbook Section 1530, “Comprehensive Income”, CICA Handbook Section 3855, “Financial Instruments – Recognition and Measurement”, CICA Handbook Section 3861, “Financial Instruments – Disclosure and Presentation” and CICA Handbook Section 3865, “Hedges”.

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles. The Company has adopted this section on a prospective basis.

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

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

The Company’s investment in equity securities, acquired in July 2007, was recorded at fair value at the time of acquisition. These equity securities have been designated as available-for-sale. During the nine months ended January 31, 2008, the Company recognized an unrealized loss of \$91,000, which has been included in accumulated other comprehensive income.

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

The adoption of Section 3865 had no impact on the Company’s consolidated financial statements.

### 4. Fair Value of Financial Instruments

The Company’s financial instruments consist of cash and cash equivalents, short-term deposits, accounts receivable, investments, trade payables, amounts due to related parties and debentures. Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

# Stornoway Diamond Corporation

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## Notes to Interim Consolidated Financial Statements

Unaudited – Prepared by Management

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### 5. Investments

The Company's investment consists of common shares in a public company. This investment represents less than a 5% interest in that company. As at January 31, 2008, the fair value of this investment was \$1,779,000. Fair value at the date of acquisition was \$1,870,000.

### 6. Business Acquisitions

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

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

### 7. Property, Plant and Equipment

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

	As at January 31, 2008			As at April 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 744	\$ (565)	\$ 179	\$ 727	\$ (538)	\$ 189
Buildings	91	(13)	78	91	(11)	80
Leasehold improvements	751	(251)	500	690	(193)	497
Exploration equipment	817	(489)	328	790	(388)	402
Vehicles	573	(373)	200	573	(308)	265
Laboratory equipment	6,544	(2,868)	3,676	6,456	(1,749)	4,707
	<u>\$ 9,520</u>	<u>\$ (4,559)</u>	<u>\$ 4,961</u>	<u>\$ 9,327</u>	<u>\$ (3,187)</u>	<u>\$ 6,140</u>

### 8. Resource Property Costs

#### *Eastern Arctic Properties, Canada*

#### a) Aviat One and Two Properties

Pursuant to an agreement dated June 25, 2002, and as amended by a Joint Venture Agreement dated April 1, 2006, the Company has a 70% interest in certain mineral claims and leases, known as the Aviat One ("Aviat 1") and Aviat Two ("Aviat 2") properties. BHP Billiton ("BHPB") held a 20% interest in the properties and the Hunter Exploration Group ("Hunter") held a 10% interest, carried up to the development of a mine on the properties. John Robins, a director of the Company, owns 33.3% of Hunter.

# Stornoway Diamond Corporation

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## Notes to Interim Consolidated Financial Statements

Unaudited – Prepared by Management

January 31, 2008

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### 8. Resource Property Costs - *Continued*

#### a) **Aviat One and Two Properties - *Continued***

In June 2006, BHPB elected to dilute its interest in the properties by not funding its share of the 2006 exploration program. BHPB did not contribute to the 2007 exploration program either. As a result, at January 31, 2008, BHPB's interest had decreased to 14.8% and the Company's interest had increased to 75.2%; Hunter's interest at 10% remained unchanged.

Each of the Aviat One and Aviat Two properties is subject to a 2% net smelter return royalty ("NSR") on products other than diamonds and a 2% gross over-riding royalty ("GOR") on diamond production. In addition, advance royalty payments of \$50,000 annually commenced October 1, 2006 for the Aviat 1 property and will commence March 1, 2008 (paid subsequent to the period-end) for the Aviat 2 property.

#### b) **Churchill**

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

In April 2007, Shear and the Company entered into a purchase agreement with BHPB whereby Shear and the Company each acquired 50% of the diluted BHPB interest in the Churchill property. The purchase agreement closed July 17, 2007 and the Company acquired an additional 6.25% interest in the property by making a cash payment of \$1,250,000 and by issuing 2,200,000 common shares with a fair value of \$2,134,000 at the date of issuance. The Company's interest in the Churchill property increased from 35% to 41.86% and Shear's interest in the Churchill property increased from 51% to 58.14%. The Churchill property is subject to a 2% GOR/NSR.

#### c) **Qilalugaq Property ("Area 8"), Melville Peninsula, Nunavut**

The Company and BHPB entered into an agreement dated July 10, 2006 whereby the Company may earn a 50% interest in the Qilalugaq property by spending a total of \$9,000,000 prior to December 31, 2011. The Company must spend on exploration a total of \$500,000 on or before December 31, 2007 (\$1,790,000 in total spent as at January 31, 2008) and a further \$2,500,000 on or before December 31, 2009 to earn a 25% interest in the property (the "First Option"). Upon exercise of the First Option, the Company must incur a further \$6,000,000 in exploration prior to December 31, 2011, of which \$2,000,000 must be incurred prior to December 31, 2010 (the "Second Option") to earn a further 25% interest in the property, bringing its total interest in the property to 50%. Upon exercise of the Second Option, a joint venture will be formed and BHPB will have the opportunity to elect to increase its interest in the property by 15% to 65% by incurring a further \$15,000,000 in expenditures and may elect to become the Operator of the project. Should BHPB not make the election to increase its interest in the property, further exploration on the property will be shared equally.

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

#### d) **Foxtrot Property, Quebec**

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

# Stornoway Diamond Corporation

(An Exploration Stage Company)

## Notes to Interim Consolidated Financial Statements

Unaudited – Prepared by Management

January 31, 2008

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### 8. Resource Property Costs – Continued

#### e) Buffalo Hills Property, Alberta

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

#### f) Itza Property, Nunavut

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

#### g) Generative Projects

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

No cash payments or shares were issued pursuant to the Company’s generative agreements during the period ended January 31, 2008.

#### h) Other Property Interests

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

No cash payments or shares were issued pursuant to the Company’s other property interests during the period ended January 31, 2008.

#### i) Write-offs

During the period ended January 31, 2008, the Company wrote-off capitalized property interests of \$18,050,000. The majority of this write-off (\$16,800,000) relates to the Company’s property interests in the Northwest Territories, where no future exploration programs are planned for the foreseeable future and where no recent exploration programs have been carried out on the properties. In addition, the Company wrote-off \$732,000 with respect to its ongoing generative programs and the Company wrote-off a further \$518,000 with respect to various other, non-material property interests where no future exploration is warranted or where the Company no longer retains a property interest.

# Stornoway Diamond Corporation

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## Notes to Interim Consolidated Financial Statements

Unaudited – Prepared by Management

January 31, 2008

### 8. Resource Property Costs – Continued

	January 31, 2008			April 30, 2007		
	Acquisition Cost	Exploration Cost	Total	Acquisition Cost	Exploration Cost	Total
<i>Eastern Arctic Properties</i>						
Balance - Beginning of the year	\$ 21,388	\$ 26,774	\$ 48,162	\$ 2,478	\$ 23,595	\$ 26,073
Ashton – fair value allocation	-	-	-	12,745	-	12,745
Financing and interest costs	542	-	542	803	-	803
Ashton - additions to April 30, 2007	-	-	-	-	28	28
Contact – fair value allocation	-	-	-	5,334	-	5,334
Contact - additions to April 30, 2007	-	-	-	5	202	207
Advances to operator	-	(93)	(93)	-	928	928
Airborne Geophysics	-	269	269	-	43	43
Assays and laboratory	-	1,575	1,575	-	2,388	2,388
Camp and general	-	1,414	1,414	-	2,637	2,637
Drilling	-	2,063	2,063	-	1,760	1,760
Sampling and ground surveys	-	2,723	2,723	-	1,056	1,056
Tenure (Permit recoveries)	3,575	-	3,575	241	-	241
Management Fees	-	126	126	-	68	68
Recoveries from exploration partner(s)	-	(53)	(53)	-	(1,032)	(1,032)
Write-offs	(12,745)	(2,801)	(15,546)	(218)	(4,899)	(5,117)
	<b>12,760</b>	<b>31,997</b>	<b>44,757</b>	<b>21,388</b>	<b>26,774</b>	<b>48,162</b>
<i>Eastern Canada Properties</i>						
Balance - Beginning of the year	107,424	9,433	116,857	-	-	-
Ashton – fair value allocation	-	-	-	83,420	-	83,420
Financing and interest costs	3,291	-	3,291	5,059	-	5,059
Ashton - additions to April 30, 2007	-	-	-	-	9,060	9,060
Contact – fair value allocation	-	-	-	18,911	-	18,911
Contact - additions to April 30, 2007	-	-	-	34	373	407
Airborne Geophysics	-	55	55	-	-	-
Assays and laboratory	-	1,255	1,255	-	-	-
Bulk sampling	-	2,533	2,533	-	-	-
Camp and general	-	1,179	1,179	-	-	-
Drilling	-	187	187	-	-	-
Pre-feasibility studies	-	785	785	-	-	-
Sampling and ground surveys	-	365	365	-	-	-
Tenure (Permit recoveries)	44	-	44	-	-	-
Write-offs	-	(98)	(98)	-	-	-
	<b>110,759</b>	<b>15,694</b>	<b>126,453</b>	<b>107,424</b>	<b>9,433</b>	<b>116,857</b>
Balance Carried Forward	<b>123,519</b>	<b>47,691</b>	<b>171,210</b>	<b>128,812</b>	<b>36,207</b>	<b>165,019</b>

# Stornoway Diamond Corporation

(An Exploration Stage Company)

## Notes to Interim Consolidated Financial Statements

Unaudited – Prepared by Management

January 31, 2008

### 8. Resource Property Costs – Continued

	January 31, 2008			April 30, 2007		
	Acquisition Cost	Exploration Cost	Total	Acquisition Cost	Exploration Cost	Total
<i>Balance Carried Forward</i>	<b>123,519</b>	<b>47,691</b>	<b>171,210</b>	128,812	36,207	165,019
<i>Western Arctic Properties</i>						
Balance - Beginning of the year	79	1,922	2,001	903	6,257	7,160
Airborne Geophysics	-	-	-	-	271	271
Assays and laboratory	-	104	104	-	87	87
Camp and general	-	25	25	-	115	115
Drilling	-	91	91	-	151	151
Sampling and ground surveys	-	105	105	-	116	116
Tenure (Permit recoveries)	(3)	-	(3)	(113)	-	(113)
Management fees	-	2	2	-	3	3
Recoveries from exploration partner(s)	-	-	-	-	-	-
Write-offs	-	(1,410)	(1,410)	(711)	(5,078)	(5,789)
	<b>76</b>	<b>839</b>	<b>915</b>	79	1,922	2,001
<i>Other Canadian Properties</i>						
Balance - Beginning of the year	20,876	2,552	23,428	236	871	1,107
Ashton – fair value allocation	-	-	-	19,697	-	19,697
Financing and interest costs	333	-	333	1,175	-	1,175
Ashton - additions to April 30, 2007	-	-	-	-	2,068	2,068
Sale of Buffalo Head Hills, Alberta	(19,697)	(2,638)	(22,335)	-	-	-
Airborne Geophysics	-	-	-	-	328	328
Assays and laboratory	-	38	38	-	71	71
Camp and general	-	259	259	-	266	266
Drilling	-	7	7	-	624	624
Sampling and ground surveys	-	197	197	-	116	116
Tenure (Permit recoveries)	50	-	50	(10)	-	(10)
Management fees	-	3	3	-	1	1
Write-offs	-	(335)	(335)	(222)	(1,793)	(2,015)
	<b>1,562</b>	<b>83</b>	<b>1,645</b>	20,876	2,552	23,428
<i>Canadian Generative Exploration</i>						
Balance - Beginning of the year	56	2,114	2,170	23	1,606	1,629
Airborne Geophysics	-	92	92	-	315	315
Assays and laboratory	-	965	965	-	1,138	1,138
Camp and general	-	367	367	-	562	562
Sampling and ground surveys	-	318	318	-	562	562
Tenure (Permit recoveries)	-	-	-	33	-	33
Write-offs	-	(664)	(664)	-	(2,069)	(2,069)
	<b>56</b>	<b>3,192</b>	<b>3,248</b>	56	2,114	2,170
<i>Botswana, Africa</i>						
Balance - Beginning of the year	476	888	1,364	633	955	1,588
Camp and general	-	11	11	-	10	10
Drilling	-	294	294	-	37	37
Sampling and ground surveys	-	18	18	-	48	48
Tenure (Permit recoveries)	-	-	-	572	-	572
Write-offs	-	-	-	(729)	(162)	(891)
	<b>476</b>	<b>1,211</b>	<b>1,687</b>	476	888	1,364
<b>Ending Balance</b>	<b>\$ 125,689</b>	<b>\$ 53,016</b>	<b>\$ 178,705</b>	<b>\$ 150,299</b>	<b>\$ 43,683</b>	<b>\$ 193,982</b>

# Stornoway Diamond Corporation

(An Exploration Stage Company)

## Notes to Interim Consolidated Financial Statements

Unaudited – Prepared by Management

January 31, 2008

### 9. Share Capital

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

	Number	Amount	Contributed Surplus
Authorized:			
Unlimited common shares without par value			
Issued and fully paid:			
Balance – April 30, 2007	196,062,873	\$ 201,387	\$ 8,537
Issued for properties (Note 8b and 8f)	2,276,601	2,183	-
Issued as an interest payment (Note 12)	604,900	600	-
Return to treasury	(43,700)	-	-
Stock-based compensation	-	-	1,342
Share issuance costs	-	(67)	-
Balance – January 31, 2008	198,900,674	\$ 204,103	\$ 9,879

In March 2007, Ashton paid approximately \$945,000 in respect of dissenting shareholders. As part of this settlement, a total of 95,980 Stornoway common shares were returned to treasury between April and June 2007. A further 43,700 common shares were returned to treasury during the nine months ended January 31, 2008 with respect to a dissenting shareholder.

### b) Flow-through Funds

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

Flow-through funds on hand at April 30, 2007	\$ 10,663
Expenditures to January 31, 2008	(10,663)
Flow-through funds on hand at January 31, 2008	\$ -

To finance eligible CEE, the Company raised \$22,581,000 between October 2005 and April 2007. These funds are restricted for use in incurring CEE as defined in the Income Tax Act.

### c) Stock Option Plan

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

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

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### 9. Share Capital - Continued

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

	Number of Options		Weighted Average Exercise Price
Balance April 30, 2007	11,830,516	\$	1.52
Granted	-		-
Cancelled	(104,500)		1.38
Expired	(57,500)		1.54
Balance July 31, 2007	11,668,516	\$	1.52
Granted	375,000		0.75
Cancelled	(1,107,026)		1.18
Expired	(377,150)		1.28
Balance October 31, 2007	10,559,340	\$	1.55
Granted	2,897,265		0.63
Cancelled	(111,625)		0.96
Expired	-		-
Balance January 31, 2008	13,344,980	\$	1.35
Number of options currently exercisable	11,707,614	\$	1.43

e) As at January 31, 2008, the Company had the following stock options outstanding:

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
\$ 0.85 ~ \$ 1.43	10,091,971	\$ 0.97	2.06 years
\$ 1.53 ~ \$ 2.78	2,849,449	\$ 1.89	1.56 years
\$ 4.86 ~ \$ 7.42	403,560	\$ 7.13	4.64 years
	13,344,980		

On December 21, 2007, the Company granted 2,897,265 stock options with an exercise price of \$0.63. The options expire December 21, 2012.

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

	Number of Warrants		Weighted Average Exercise Price	Expiry Date
Balance April 30, 2007	10,742,000	\$	1.42	
Expired (Note 6)	(2,500,000)	\$	1.30	May 19, 2007*
Balance January 31, 2008	8,242,000	\$	1.46	April 11, 2008 to April 11, 2009

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

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(An Exploration Stage Company)

## Notes to Interim Consolidated Financial Statements

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### 9. Share Capital - Continued

#### g) Stock-Based Compensation

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

	Nine Months Ended January 31, 2008	Year Ended April 30, 2007
Risk-free interest rate	3.87% ~ 4.27%	3.9% - 4.1%
Expected dividend yield	Nil	NIL
Expected stock price volatility	46% ~ 92%	48% - 79%
Expected option life in years	2 - 5 years	3 - 5 years

During the year ended April 30, 2007, the Company granted options to purchase up to 2,617,000 shares of the Company's stock to employees and non-employees at exercise prices of \$1.02, \$1.13 and \$1.25. The Company used the Black-Scholes Option Pricing Model to estimate a fair value for these grants. For the nine months ended January 31, 2008, the Company recorded stock-based compensation expense of \$1,341,000 (January 31, 2007 - \$1,095,000), of which \$398,000 has been capitalized to resource property costs. The Company granted 3,272,265 stock options during the nine months ended January 31, 2008. The options have exercise prices of \$0.63 and \$0.75 and expire five years from the grant date.

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

### 10. Related Party Transactions

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

- a) As at January 31, 2008, the amounts due to related parties consisted of the following (expressed in thousands of dollars):

	January 31, 2008	April 30, 2007
International Northair Mines Ltd., a company with an officer in common	\$ (14)	\$ 71
Strongbow Exploration Inc., a company with a director in common	27	191
	<u>\$ 13</u>	<u>\$ 262</u>

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

- b) Pursuant to an amended agreement with International Northair Mines Ltd. ("Northair"), a company with an officer in common, the Company pays a monthly administrative fee for office space and reimburses Northair for administrative services and supplies as incurred. The agreement was terminated as of June 1, 2007. During the current fiscal period, administrative fees and rent totalling \$2,100 (January 31, 2007 - \$35,000) was paid to Northair for its services.
- c) During the period ended January 31, 2008, the Company paid \$88,000 (January 31, 2007 - \$133,700) for shared technical services and office rent to Strongbow Exploration Inc.

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## Notes to Interim Consolidated Financial Statements

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### 10. Related Party Transactions - Continued

- d) In July 2007, the Company entered into a sub-lease agreement with Agnico-Eagle Mines Ltd. (“Agnico-Eagle”), a significant shareholder and a company with a director in common, for additional premises. The Company is committed to annual lease payments of approximately \$105,000 in respect of these premises through June 30, 2010. A portion of these payments may be recovered through sub-leases.
- e) During the period ended January 31, 2008, the Company paid \$180,000 and accrued as payable \$33,000 to Agnico-Eagle in respect of work related to a pre-feasibility study at the Renard Project (Foxtrot Property).

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

### 11. Income Taxes

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

	<b>For the Nine Months Ended January 31, 2008</b>	For the Year Ended April 30, 2007
Loss before income taxes	\$ (26,188)	\$ (21,710)
Canadian federal and provincial income tax rates	<b>33.00%</b>	33.00%
Income tax recovery based on the above rates	<b>(8,642)</b>	(7,164)
Increase (decrease) due to:		
Non-deductible expenses and other permanent differences	<b>312</b>	569
Losses and temporary differences for which no future income tax asset has been recognized	<b>4,376</b>	5,744
Income tax benefit recognition on the issuance of flow- through shares	-	(1,294)
Income tax recovery	<b>\$ (3,954)</b>	\$ (2,145)

- b) As at April 30, 2007, the Company has non-capital losses of approximately \$22,617,000 (April 30, 2006 - \$4,264,000), which can be used to reduce taxable income. These loss carry forwards (expressed in thousands of dollars) expire as follows:

2008 to 2009	\$ 1,654
2010 to 2015	9,012
2016 to 2020	1,489
2021 to 2025	457
2026	7,053
2027	2,952
	<b>\$ 22,617</b>

# Stornoway Diamond Corporation

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## Notes to Interim Consolidated Financial Statements

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### 11. Income Taxes - Continued

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

	January 31, 2008	April 30, 2007
<i>Future income tax assets</i>		
Non-capital losses	\$ 9,127	\$ 7,182
Capital losses	461	461
Property, plant and equipment	273	-
Financing fees	1,838	2,409
Resource property costs	5,423	4,919
Other	274	264
Total future tax assets	17,396	15,235
Valuation allowance	(13,209)	(11,195)
Net future income tax assets	\$ 4,187	\$ 4,040
<i>Future income tax liabilities</i>		
Resource property costs	\$ 25,359	\$ 27,749
Property, plant and equipment	-	162
Future tax liabilities	25,359	27,911
Future tax liability, net	\$ 21,172	\$ 23,871

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

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

### 12. Convertible Debentures

On March 16, 2007, the Company concluded a non-brokered sale of \$20,000,000 in unsecured convertible debentures to Agnico-Eagle (\$10,000,000) and Lorito Holdings Limited (\$10,000,000), a Lundin Family Trust. The debentures mature March 16, 2009 and interest is payable under the debentures quarterly at 12% per annum. The Company issued two series of debentures, \$10,000,000 in Series A Debentures that provide the Company may repay principal on the maturity date in cash or common shares of Stornoway ("Shares") at the Company's election and \$10,000,000 in Series B Debentures that provide that the Company must repay principal on the maturity date in cash or Shares at the holder's election. However, the maximum number of common shares that can be issued to Agnico-Eagle for satisfaction of the interest and principal payments is 12,142,036. The remainder must be paid in cash. The maximum number of common shares that can be issued in payment of the loan is 43,690,850. If principal is paid in Shares, the Shares will be issued at a price of the lower of \$1.25 and the five day volume weighted average price of the Shares ending three trading days before the payment date. The Company will have no right of prepayment. Interest payments may be paid in cash or in Shares, at the Company's election. If interest is paid in Shares, the Shares will be issued at a price of 95% of the five day volume weighted average price of the Shares ending three trading days before the payment date. The proceeds of the debenture financing were used to repay the bridge loan that was used to finance the acquisition of Ashton (Note 6). In June 2007, the Company issued 604,900 common shares with a value of \$0.9919 per share in settlement of the first quarterly interest payment. In September 2007 and December 2007, the Company made cash payments totalling \$1,200,000 in settlement of the second and third quarterly interest payments. At January 31, 2008, \$302,500 has been accrued for the next interest payment due in March 2008. In March 2008, the Company made the \$600,000 quarterly interest payment by issuing a total of 1,099,708 common shares with a value of \$0.5456 per share to the holders of the debentures.

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## Notes to Interim Consolidated Financial Statements

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### 12. Convertible Debentures - Continued

The debentures have been segregated into the respective fair values of its debt and equity components on the date of issuance. The debt component, representing the value allocated to the liability at inception, is recorded as a long-term liability. The remaining component, representing the value ascribed to the holder's option to convert the principal balance into common shares, is classified in shareholder's equity as the "equity component of convertible debenture". Over the term of the debenture, the debt component will be accreted to the face value of the debentures by the recording of additional interest expense. The Company incurred financing fees of \$78,000 in respect of the debt issuance, of which \$44,000 has been amortized to the cost of the acquisition at January 31, 2008 (April 30, 2007 - \$4,000).

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

	January 31, 2008	April 30, 2007
Principal amount	\$ 20,000	\$ 20,000
Less equity component of convertible debentures	(2,916)	(2,916)
Accreted interest	1,221	139
Financing fees (Note 3)	(44)	-
Liability component	\$ 18,261	\$ 17,223

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### 13. Asset Retirement Obligations

Details are as follows:

	January 31, 2008	April 30, 2007
Balance – beginning of the period	\$ 600	\$ 600
Accretion	34	-
Balance – end of the period	\$ 634	\$ 600

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

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# Stornoway Diamond Corporation

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## Notes to Interim Consolidated Financial Statements

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

(expressed in thousands of Dollars)

	<u>For the Three Months Ended</u>		<u>For the Nine Months</u>	
	<u>January</u> <u>31,</u> <u>2008</u>	<u>January</u> <u>31,</u> <u>2007</u>	<u>January</u> <u>31,</u> <u>2008</u>	<u>January</u> <u>31,</u> <u>2007</u>
Issuance of shares for resource properties	\$ -	\$ -	\$ 2,183	\$ 570
Stock-based compensation included in resource properties	\$ 198	\$ -	\$ 398	\$ -
Shares received for the disposal of a resource property interest	\$ -	\$ -	\$ (1,870)	\$ -
Deferred exploration costs included in accounts payable	\$ 2,160	\$ 4,706	\$ 2,160	\$ 4,706
Deal transaction costs included in accounts payable	\$ -	\$ 4,427	\$ -	\$ 4,427
Issuance of common shares in settlement of an interest payment (Note 12)	\$ -	\$ -	\$ 600	\$ -
Issuance of common shares for Ashton (Note 6)	\$ -	\$ 15,732	\$ -	\$ 62,452
Issuance of common shares for Contact (Note 6)	\$ -	\$ 1,323	\$ -	\$ 19,269
Amortization included in resource property costs	\$ 448	\$ 206	\$ 1,354	\$ 206

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### 15. Commitments

The Company has minimum commitments under its operating leases for its premises averaging approximately \$405,000 per year until June 30, 2010 and averaging approximately \$300,000 per year between 2010 and 2013.

In addition, the Company has GICs in the amount of \$57,500 as collateral security for its corporate credit cards and a subsidiary of the Company has a line of credit of up to \$1.4 million to satisfy exploration bonding requirements and for the use of corporate credit cards. Short-term deposits equivalent to the utilization of the line of credit are provided as collateral security.

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