

STORNOWAY DIAMOND CORPORATION

(A Development Stage Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2006

Canadian Funds

(Unaudited – Prepared by Management)

Stornoway Diamond Corporation

(A Development Stage Company)

Interim Consolidated Balance Sheets

Unaudited – Prepared by Management

(expressed in thousands of Canadian dollars)

Statement 1

ASSETS	As at July 31, 2006	As at April 30, 2006
Current		
Cash and cash equivalents (Note 7b)	\$ 16,218	\$ 13,076
Short-term deposits	78	9,963
Accounts receivable	709	687
Prepaid expenses	33	41
	<u>17,038</u>	<u>23,767</u>
Restricted Cash (Note 7c)	22,500	-
Investments (Note 4)	1,887	1,887
Prepaid Fuel	784	906
Property, Plant and Equipment (Note 5)	633	658
Deferred Acquisition Costs (Note 12)	3,669	-
Resource Property Costs - Schedule (Note 6)	39,257	37,557
	<u>\$ 85,768</u>	<u>\$ 64,775</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities		
- Trade	\$ 3,223	\$ 1,330
- Due to related parties (Note 8)	119	51
	<u>3,342</u>	<u>1,381</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 7)	77,795	77,225
Subscription Receipts (Note 7c)	22,500	-
Contributed Surplus (Note 7)	3,215	2,900
Deficit - Statement 2	(21,084)	(16,731)
	<u>82,426</u>	<u>63,394</u>
	<u>\$ 85,768</u>	<u>\$ 64,775</u>

Nature of Operations and Basis of Consolidation (Note 1)

ON BEHALF OF THE BOARD:

"Eira M. Thomas"

_____, Director

"D. Bruce McLeod"

_____, Director

- See Accompanying Notes -

Stornoway Diamond Corporation

(A Development Stage Company)

Statement 2

Interim Consolidated Statements of Loss and Deficit

Unaudited - Prepared by Management

(expressed in thousands of Canadian dollars (except per share amounts))

	For the Three Months Ended	
	July 31, 2006	July 31, 2005
Administrative Expenses		
Administration fees and rent	\$ 31	\$ 41
Investor relations	55	93
Legal and audit	26	60
Office and sundry	68	48
Regulatory compliance and transfer agent fees	18	10
Salaries and benefits	72	98
Stock-based compensation (Note 7h)	315	118
	585	468
Loss Before the Following		
Other Income (Expenses)		
Write-off of resource property costs	3,991	-
Interest income	(190)	(163)
Property management fees	(33)	(22)
Gain on sale of investments	-	(1)
	3,768	(186)
Net Loss for the Period	4,353	282
Deficit - Beginning of period	16,731	14,960
Deficit - End of Period	\$ 21,084	\$ 15,242
Loss per Share - Basic and Diluted	\$ (0.05)	\$ (0.00)
Weighted Average Number of Shares Outstanding	80,910,300	73,114,582

- See Accompanying Notes -

Stornoway Diamond Corporation

(A Development Stage Company)

Interim Consolidated Statements of Cash Flows

Unaudited – Prepared by Management

(expressed in thousands of Canadian dollars)

Statement 3

Cash Resources Provided By (Used In)	For the Three Months Ended	
	July 31, 2006	July 31, 2005
Operating Activities		
Loss for the period	\$ (4,353)	\$ (282)
Items not affecting cash		
Write-off of resource property costs	3,991	-
Gain on sale of investments	-	(1)
Stock-based compensation	315	118
Amortization	29	3
Changes in non-cash working capital	(299)	(2,582)
	<u>(317)</u>	<u>(2,744)</u>
Investing Activities		
Prepaid fuel	122	(79)
Proceeds from the sale of investments	-	16
Deferred acquisition costs (Note 12)	(2,867)	-
Resource property costs	(3,677)	(3,005)
Acquisition of property, plant and equipment	(4)	(40)
	<u>(6,426)</u>	<u>(3,108)</u>
Financing Activities		
Share capital issued for cash, net	-	51
	<u>-</u>	<u>51</u>
Net Increase (Decrease) in Cash	(6,743)	(5,801)
Cash position – Beginning of period	<u>23,039</u>	<u>30,424</u>
Cash Position – End of Period	\$ 16,296	\$ 24,623
Cash Position Consists Of:		
Cash and cash equivalents	\$ 16,218	\$ 18,204
Short-term deposits	78	6,419
	<u>\$ 16,296</u>	<u>\$ 24,623</u>
Supplemental Schedule of Non-Cash Transactions:		
Issuance of shares for property	\$ 570	\$ 618
Stock-based compensation (Note 7h)	\$ 315	\$ 118
Amortization included in resource property costs	\$ -	\$ 5
Deferred exploration costs included in accounts payable	\$ 802	\$ -
Resource property costs included in accounts payable	\$ 2,380	\$ 1,595

- See Accompanying Notes -

Stornoway Diamond Corporation

(A Development Stage Company)

Schedule

Interim Consolidated Schedules of Resource Property Costs

Unaudited – Prepared by Management

(expressed in thousands of Canadian dollars)

	For the Three Months Ended July 31, 2006			For the Three Months Ended July 31, 2005		
	Acquisition Cost	Exploration Cost	Total	Acquisition Cost	Exploration Cost	Total
<i>Eastern Arctic Properties, Canada</i>						
<i>Aviat (Note 6a)</i>						
Balance - Beginning of the year	\$ 1,340	\$ 15,401	\$ 16,741	\$ 2,443	\$ 11,408	\$ 13,851
Airborne Geophysics	-	-	-	-	10	10
Assays and laboratory	-	688	688	-	330	330
Camp and general	-	563	563	-	619	619
Drilling	-	738	738	-	884	884
Sampling and ground surveys	-	296	296	-	345	345
Tenure (Permit recoveries)	228	-	228	10	-	10
Management Fees	-	5	5	-	5	5
Recoveries from exploration partner(s)	-	(500)	(500)	-	(490)	(490)
Write-offs	-	(2,024)	(2,024)	-	-	-
	1,568	15,167	16,735	2,453	13,111	15,564
<i>Churchill (Note 6b)</i>						
Balance - Beginning of the year	634	6,610	7,244	1,148	5,018	6,166
Advances to Operator	-	(27)	(27)	-	(382)	(382)
Airborne Geophysics	-	-	-	-	28	28
Assays and laboratory	-	39	39	-	3	3
Camp and general	-	191	191	-	162	162
Drilling	-	116	116	-	178	178
Sampling and ground surveys	-	52	52	-	153	153
Tenure (Permit recoveries)	22	-	22	21	-	21
Management fees	-	21	21	-	11	11
	656	7,002	7,658	1,169	5,171	6,340
<i>Wales Island</i>						
Balance - Beginning of the year	-	-	-	-	175	175
Assays and laboratory	-	-	-	-	1	1
Camp and general	-	-	-	-	17	17
Charters	-	-	-	-	99	99
Drilling	-	-	-	-	50	50
Sampling and ground surveys	-	-	-	-	5	5
Recoveries from exploration partner(s)	-	-	-	-	(92)	(92)
	-	-	-	-	255	255
Balance Carried Forward	\$ 2,224	\$ 22,169	\$ 24,393	\$ 3,622	\$ 18,537	\$ 22,159

- See Accompanying Notes -

Stornoway Diamond Corporation

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Schedule

Interim Consolidated Schedules of Resource Property Costs

Unaudited – Prepared by Management

(expressed in thousands of Canadian dollars)

	For the Three Months Ended July 31, 2006			For the Three Months Ended July 31, 2005		
	Acquisition Cost	Exploration Cost	Total	Acquisition Cost	Exploration Cost	Total
Balance Carried Forward	\$ 2,224	\$ 22,169	\$ 24,393	\$ 3,622	\$ 18,537	\$ 22,159
Other Eastern Arctic Properties, Canada						
Balance - Beginning of the year	504	1,584	2,088	485	755	1,240
Airborne Geophysics	-	16	16	-	220	220
Assays and laboratory	-	12	12	-	2	2
Camp and general	-	161	161	-	4	4
Charters and fuel	-	301	301	-	-	-
Drilling	-	122	122	-	152	152
Sampling and ground surveys	-	8	8	-	171	171
Tenure (Permit recoveries)	(37)	-	(37)	-	-	-
Management Fees	-	4	4	-	-	-
Recoveries from exploration partner(s)	-	(166)	(166)	-	(1)	(1)
Write-offs	17	(409)	(392)	-	-	-
	484	1,633	2,117	485	1,303	1,788
Western Arctic Properties, Canada						
Balance - Beginning of the year	903	6,257	7,160	1,083	6,098	7,181
Advances to Operator	-	-	-	-	186	186
Airborne Geophysics	-	271	271	-	12	12
Assays and laboratory	-	11	11	-	28	28
Camp and general	-	26	26	-	55	55
Drilling	-	151	151	-	-	-
Sampling and ground surveys	-	79	79	-	1	1
Tenure (Permit recoveries)	(25)	-	(25)	(1)	-	(1)
Recoveries from exploration partner(s)	-	-	-	-	(30)	(30)
Write-offs	(88)	(590)	(678)	-	-	-
	790	6,205	6,995	1,082	6,350	7,432
Manitoba, Canada						
Balance - Beginning of the year	46	860	906	86	624	710
Airborne Geophysics	-	-	-	-	84	84
Assays and laboratory	-	1	1	-	-	-
Camp and general	-	37	37	-	10	10
Charters and fuel	-	97	97	-	-	-
Drilling	-	674	674	-	-	-
Sampling and ground surveys	-	5	5	-	72	72
Tenure (Permit recoveries)	-	-	-	3	-	3
	46	1,674	1,720	89	790	879
Balance Carried Forward	\$ 3,544	\$ 31,681	\$ 35,225	\$ 5,278	\$ 26,980	\$ 32,258

- See Accompanying Notes -

Stornoway Diamond Corporation

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Interim Consolidated Schedules of Resource Property Costs

Unaudited – Prepared by Management

(expressed in thousands of Canadian dollars)

Schedule

	For the Three Months Ended July 31, 2006			For the Three Months Ended July 31, 2005		
	Acquisition Cost	Exploration Cost	Total	Acquisition Cost	Exploration Cost	Total
Balance Carried Forward	\$ 3,544	\$ 31,681	\$ 35,225	\$ 5,278	\$ 26,980	\$ 32,258
Other Canadian Properties						
Balance - Beginning of the year	190	11	201	-	-	-
Airborne Geophysics	-	31	31	-	-	-
Camp and general	-	3	3	-	-	-
Sampling and ground surveys	-	22	22	-	-	-
	190	67	257	-	-	-
Canadian Generative Exploration						
Balance - Beginning of the year	23	1,606	1,629	30	301	331
Airborne Geophysics	-	294	294	-	299	299
Assays and laboratory	-	142	142	-	146	146
Camp and general	-	65	65	-	28	28
Charters and fuel	-	6	6	-	-	-
Sampling and ground surveys	-	333	333	-	747	747
Tenure (Permit recoveries)	(1)	-	(1)	-	-	-
Write-offs	-	(6)	(6)	-	-	-
	22	2,440	2,462	30	1,521	1,551
Botswana (Note 6f)						
Balance - Beginning of the year	633	955	1,588	-	-	-
Airborne Geophysics	-	-	-	-	6	6
Camp and general	-	3	3	-	4	4
Drilling	-	37	37	-	-	-
Sampling and ground surveys	-	4	4	-	-	-
Tenure (Permit recoveries)	572	-	572	630	-	630
Write-offs	(729)	(162)	(891)	-	-	-
	476	837	1,313	630	10	640
Ending Balance	\$ 4,232	\$ 35,025	\$ 39,257	\$ 5,938	\$ 28,511	\$ 34,449

- See Accompanying Notes -

Stornoway Diamond Corporation

(A Development Stage Company)

Notes to Interim Consolidated Financial Statements

July 31, 2006

Unaudited – Prepared by Management

1. Nature of Operations and Basis of Consolidation

Stornoway Diamond Corporation (the “Company”) is a development 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 subsidiary KRoc Diamond Drilling Corp. (“KRoc”) (formerly 614614 B.C. Ltd).

This has been accounted for using the purchase method.

2. Significant Accounting Policies

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of their application as the most recent annual financial statements. These interim financial statements should be read in conjunction with the audited financial statements of the Company as at April 30, 2006.

3. Fair Value of Financial Instruments

The Company’s financial instruments consist of cash and cash equivalents, short-term deposits, accounts receivable, investments, trade payables and amounts due to related parties. 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.

4. Investments

The Company’s investments consist of common shares in several public companies. These investments represent less than a 5% interest in any individual company.

5. Property, Plant and Equipment

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

	As at July 31, 2006			As at April 30, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 93	\$ (20)	\$ 73	\$ 89	\$ (16)	73
Furniture	3	(1)	2	3	(1)	2
Mining equipment	56	(26)	30	56	(24)	32
Camp equipment	113	(62)	51	113	(58)	55
Vehicle	29	(19)	10	29	(18)	11
DMS plant	485	(18)	467	485	-	485
	<u>\$ 779</u>	<u>\$ (146)</u>	<u>\$ 633</u>	<u>\$ 775</u>	<u>\$ (117)</u>	<u>658</u>

Stornoway Diamond Corporation

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Unaudited – Prepared by Management

6. Resource Property Costs

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

	As at July 31, 2006			As at April 30, 2006		
	Acquisition Cost	Exploration Cost	Total	Acquisition Cost	Exploration Cost	Total
<i>Eastern Arctic Properties, Canada</i>						
Aviat One and Two	\$ 1,568	\$ 15,167	\$ 16,735	\$ 1,340	\$ 15,401	\$ 16,741
Churchill	656	7,002	7,658	634	6,610	7,244
Other Properties	484	1,633	2,117	504	1,584	2,088
<i>Western Arctic Properties, Canada</i>	790	6,205	6,995	903	6,257	7,160
<i>Manitoba, Canada Properties</i>	46	1,674	1,720	46	860	906
<i>Other Canadian Properties</i>	190	67	257	190	11	201
<i>Canadian Generative Exploration</i>	22	2,440	2,462	23	1,606	1,629
<i>Botswana, Africa</i>	476	837	1,313	633	955	1,588
Ending Balance	\$ 4,232	\$ 35,025	\$ 39,257	\$ 4,273	\$ 33,284	\$ 37,557

Eastern Arctic Properties, Canada

a) **Aviat One and Two Properties**

Pursuant to an agreement dated June 25, 2002, the Company acquired an option to earn a 70% interest in certain mineral claims and leases, known as the Aviat One (“Aviat 1”) and Aviat Two (“Aviat 2”) properties, from Hunter Exploration Group (“Hunter”). In May 2003, BHP Billiton (“BHPB”) paid Hunter \$7.2 million to acquire a 20% interest in the properties, with Hunter’s 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. As consideration for the Company waiving its right of first refusal and as part of the May 28, 2003 agreement between Hunter and BHPB, Hunter and BHPB agreed to waive all outstanding requirements from the June 25, 2002 agreement between the Company and Hunter and to deem the options on both properties to be fully exercised. BHPB agreed to enter into standstill agreements under which BHPB agreed to not take certain specified actions to acquire or otherwise take control of the Company for a period of four years. This restriction terminates after certain specified events, including a third party making an offer for the Company. BHPB also agreed to pay 100% of the collection and processing costs of the first 200 tonnes of kimberlite bulk samples taken from the Aviat 1 and Aviat 2 properties.

In June 2006, BHPB elected to dilute its interest in the properties by not funding its share of the 2006 exploration program. During the three months ended July 31, 2006, the Company wrote-off capitalized exploration costs of \$2,024,000 which relates to certain of the Aviat One and Two properties where no further exploration is planned.

Each of the Aviat 1 and Aviat 2 properties is subject to a 2% NSR on products other than diamonds and a 2% GOR on diamond production. In addition, advance royalty payments of \$50,000 annually commence October 1, 2006 and March 1, 2008 for the Aviat 1 and Aviat 2 properties, respectively.

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Notes to Interim Consolidated Financial Statements

July 31, 2006

Unaudited – Prepared by Management

6. Resource Property Costs - *Continued*

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”) holds a 51% interest and is the operator of the Churchill joint venture. The remaining 14% interest is held by BHPB. The Churchill Property is subject to a 2% GOR/NSR.

BHPB acquired Hunter’s diamond interest pursuant to a letter agreement dated April 30, 2003. The Company and Shear waived their respective rights of first refusal in exchange for, among other things:

- BHPB entering into standstill agreements under which BHPB agrees not to take certain specified actions to acquire or otherwise take control of Shear or the Company for a period of four years. This restriction terminates in certain specified events, including a third party making an offer for either of the companies; and
- BHPB paying 100% of the collection and processing costs of the first 200 tonnes of kimberlite bulk samples taken from the Churchill Property.

BHPB elected to dilute its interest in the Churchill property by not funding its share of the 2006 exploration program.

c) Fury, Sarcpa, Gem and Kingora Properties

These four exploration permit areas were acquired upon completion of a regional exploration program conducted pursuant to an agreement dated August 2, 2002 between the Company and Hunter. The Company had optioned the properties to Strongbow and New Dimension Resources Ltd. (“NDR”) formerly NDT Ventures Ltd., a company with a director in common, pursuant to a December 31, 2002 agreement. In June 2006, Strongbow and NDR terminated these option agreements.

Other Agreements

d) 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 property by spending a total of \$9 million prior to December 31, 2011. The Company must spend on exploration a total of \$500,000 on or before December 31, 2007 and a further \$2.5 million 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 million in exploration prior to December 31, 2011 of which \$2 million 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 million in expenditures and may elect to become the Operator of the project. Should BHPB not make the election to increase its interest in the property, further exploration on the property will be shared equally.

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

e) 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 three months ended July 31, 2006.

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Notes to Interim Consolidated Financial Statements

July 31, 2006

Unaudited – Prepared by Management

6. Resource Property Costs - *Continued*

f) Motapa Projects, Botswana, Africa

Pursuant to an agreement dated April 26, 2005 between the Company and Motapa Diamonds Inc. (“Motapa”), the Company may earn a 50% participating interest in Motapa’s Botswana diamond interests, consisting of a 100% beneficial interest in 28 precious stones prospecting licenses and a 60% beneficial interest in 7 precious stones prospecting licenses (subject to an underlying agreement between Motapa and AfriOre Botswana (Pty) Ltd.) by issuing common shares valued at US\$500,000 upon regulatory approval (completed - 374,855 common shares issued June 10, 2005), spending US\$500,000 to complete an airborne survey on or before December 31, 2005 (completed) and by issuing a second tranche of common shares, equivalent to US\$500,000 (completed - 494,121 common shares issued May 1, 2006). In addition, the Company must, at its option, spend a further US\$2.0 million within 30 months of receipt of results from the airborne survey to complete its earn-in. A joint venture will be formed upon completion of the earn-in. During the three months ended July 31, 2006, the Company wrote-off capitalized acquisition and exploration costs of \$891,000 relating to areas of the property that are not being retained by the Company.

g) Jackson Inlet, Nunavut

The Company and Twin Mining Corporation (“Twin”) entered into a letter agreement dated July 28, 2004 whereby the Company may, at its option, make an election to earn a 51% interest in the Jackson Inlet diamond project after acquiring, by way of a private placement, 2.25 million units of Twin at \$0.20 per unit (completed August 26, 2004) and within 30 days of Twin providing notice that it has completed a \$900,000 exploration program on the property. Pursuant to a letter agreement dated April 6, 2006, the Company and Twin have agreed to terminate the option agreement subject to certain conditions being met, including reimbursement to the Company of funds expended for an airborne survey.

7. Share Capital

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

	Number	Amount	Contributed Surplus
Authorized:			
Unlimited common shares without par value			
Issued and fully paid:			
Balance – April 30, 2006	80,421,550	\$ 77,225	\$ 2,900
Issued for properties	494,121	570	-
Stock-based compensation	-	-	315
Balance – July 31, 2006	80,915,671	\$ 77,795	\$ 3,215

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7. Share Capital - Continued

b) Private Placement

In October 2005, the Company completed an \$8.4 million brokered private placement of 7,000,000 “flow-through” common shares at a price of \$1.20 per share. The syndicate of underwriters, led by Raymond James Ltd. and Canaccord Capital Corporation, and including Haywood Securities Inc. was paid a cash commission of 6%. All securities issued at closing were subject to a four month hold period that expired February 21, 2006.

The gross proceeds of this private placement are restricted for use in incurring qualified Canadian exploration expenditures (“CEE”) as defined in the Income Tax Act.

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

Flow-through commitment at October 20, 2005:	\$	8,400
Expenditures to April 30, 2006		(3,084)
Flow-through funds on hand at April 30, 2006	\$	5,316
Expenditures to July 31, 2006		(4,883)
Flow-through funds on hand at July 31, 2006	\$	433

c) Subscription Receipts

Pursuant to the Company’s proposed take-over bids for Ashton Mining of Canada Inc. (“Ashton”) and Contact Diamond Corporation (“Contact”) (*Note 12*) announced in July 2006, Agnico-Eagle Mines Ltd. (“Agnico-Eagle”) subscribed for 17,629,084 subscription receipts of the Company at a price of \$1.2763 per subscription receipt for gross proceeds of \$22.5 million, held in trust. \$20.0 million of the subscription receipts will be converted on a one-for-one basis into common shares of the Company if the take-over bid for Ashton is successful and a further \$2.5 million of the subscription receipts will be converted on a one-for-one basis for shares of the Company if the Company draws down on a \$32.5 million bridge facility. The subscription receipts will be refunded in the event that the Ashton transaction is not completed and no common shares will be issued. All proceeds from the subscription receipts are held in trust until the subscription receipts are converted into common shares of the Company.

d) Stock Option Plan

The Company’s Stock Option Plan (the “Plan”) is fixed at a maximum of 10% of the Company’s issued and outstanding common shares at the time of adoption. A total of 7,263,420 common shares have been reserved for issuance. In addition, the number of shares which may be reserved for issuance to any one individual may not exceed 5% of the issued shares on a yearly basis or 2% if the optionee is engaged in investor relations activities or is a consultant.

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

	Number of Options		Weighted Average Exercise Price
Balance April 30 and July 31, 2006	4,328,296	\$	1.32
Number of options currently exercisable	3,499,962	\$	1.37

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7. Share Capital - Continued

- f) As at July 31, 2006, the Company had the following stock options outstanding:

Number of Shares	Exercise Price	Expiry Date	Total Vested
300,000	\$ 0.65	April 4, 2007	300,000
230,000	\$ 0.85	February 7, 2008	230,000
485,040	\$ 0.97	February 11, 2008	485,040
150,000	\$ 1.25	April 8, 2008	150,000
903,256	\$ 1.70	January 8, 2009	903,256
345,000	\$ 2.05	August 19, 2009	345,000
145,000	\$ 1.80	September 28, 2009	145,000
335,000	\$ 1.70	May 18, 2010	335,000
385,000	\$ 1.05	December 30, 2010	256,666
1,050,000	\$ 1.15	April 24, 2011	350,000
<u>4,328,296</u>			<u>3,499,962</u>

Stock options typically vest in equal amounts: 1/3 vest on the grant date, 1/3 vest six months from the date of grant and 1/3 vest one-year from the date of grant.

No options were granted during the three months ended July 31, 2006.

- g) During the three months ended July 31, 2006, 4,000,000 share purchase warrants outstanding exercisable at \$3.00 per share until May 12, 2006 expired without exercise.

h) Stock-Based Compensation

The Company uses fair value to account for all stock-based compensation.

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

	Year Ended April 30, 2006
Risk-free interest rate	3.5% - 4.3%
Expected dividend yield	NIL
Expected stock price volatility	97% - 98%
Expected option life in years	5 years

During the year ended April 30, 2006, the Company granted options to purchase up to 1,845,000 shares of the Company's stock to employees and non-employees at exercise prices of \$1.05, \$1.15 and \$1.70. The Company used the Black-Scholes Option Pricing Model to estimate a fair value for these grants. Because a portion of the options granted were subject to vesting provisions, \$315,438 of the total estimated value of \$1,519,873 has been recorded in contributed surplus as stock-based compensation expense for the period ended July 31, 2006.

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.

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8. Related Party Transactions

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

- a) As at July 31, 2006, the amounts due to related parties consisted of the following (expressed in thousands of Canadian dollars):

	July 31, 2006	April 30, 2006
International Northair Mines Ltd., a company with certain directors in common	\$ 11	\$ 17
Strongbow Exploration Inc., a company with a director in common	108	34
	<u>\$ 119</u>	<u>\$ 51</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 directors and officers in common, the Company pays a monthly administrative fee for office space and reimburses Northair for administrative services and supplies as incurred. Either party can terminate the agreement by giving three months written notice prior to the anniversary date. During the current fiscal period, administrative fees totalling \$11,550 (July 31, 2005 - \$21,751) were paid to Northair for its services.
- c) During the three months ended July 31, 2006, the Company paid \$50,978 (July 31, 2005 - \$91,886) for shared technical services and rent to Strongbow.
- d) During the three months ended July 31, 2006, the Company received \$Nil from directors and /or officers for stock option exercises (July 31, 2005 - \$51,520).

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.

9. Income Taxes

At April 30, 2006, the Company had non-capital losses of approximately \$4,264,000 (2005 - \$3,311,000), which can be used to reduce taxable income. These loss carry forwards expire between 2011 and 2016.

In addition, as at April 30, 2006, the Company has incurred certain resource related expenditures of approximately \$40,436,000 (2005 - \$35,425,000), which may be carried forward indefinitely and used to reduce prescribed taxable income in future years. The potential future tax benefits of these expenditures have not been recognized in the accounts of the Company.

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10. Segmented Information (in thousands of Canadian dollars)

	For the Three Months Ended	
	As at July 31, 2006	As at July 31, 2005
Loss for the period		
Canada	\$ 3,462	\$ -
Botswana	891	-
	<u>\$ 4,353</u>	<u>\$ -</u>
	As at July 31, 2006	As at April 30, 2006
Identifiable assets		
Canada	\$ 61,955	\$ 60,680
Botswana	1,313	640
	<u>\$ 63,268</u>	<u>\$ 61,320</u>

11. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current period's presentation.

12. Proposed Business Acquisitions

On July 24, 2006, the Company announced that it was making concurrent offers to acquire 100% of the issued and outstanding shares of Ashton Mining of Canada Inc. ("Ashton"), a public company listed on the Toronto Stock Exchange ("TSX") and Contact Diamond Corporation ("Contact"), a public company also listed on the TSX.

Under the terms of the Ashton offer, each Ashton shareholder will be entitled to receive (i) \$1.25 in cash for each Ashton share (the "Cash Alternative") or (ii) one Stornoway share plus \$0.01 in cash per Ashton share (the "Share Alternative"). The maximum cash consideration payable under the Cash Alternative is \$59,500,000 to be paid on a pro-rata basis to all shareholders and potential Ashton shareholders including option and warrant holders.

On July 21, 2006, the Company executed a lock-up agreement with Ashton Canada Pty. Limited ("ACPL"), an indirect, wholly-owned subsidiary of Rio Tinto Limited, and QIT-Fer et Titane Inc. ("QIT"), an indirect, wholly-owned subsidiary of Rio Tinto plc, under which ACPL and QIT have irrevocably agreed to tender 49,037,982, or approximately 51.7% of Ashton's issued and outstanding shares into the Company's offer for Ashton. The offer for Ashton is scheduled to expire on September 18, 2006. Under the terms of the lock-up agreement, ACPL and QIT are precluded from tendering or voting their Ashton shares in favour of any other acquisition proposal relating to Ashton and, in certain circumstances, ACPL and QIT are required to vote against other acquisition proposals or actions which might prevent, delay or interfere with the Company's take-over bid for Ashton. On September 1, 2006, the lock-up agreement was amended so that in the event the Ashton offer is not completed for reasons other than the termination of the lock-up agreement by the Company, a \$2,000,000 offer deposit will be payable on a pro-rata basis to all Ashton shareholders of record as at the date which is seven days after the date that the offer deposit becomes payable, if at all.

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12. Proposed Business Acquisitions - *Continued*

The Ashton offer is subject to a number of conditions, including the absence of adverse material change, and the receipt of all necessary regulatory approvals. The Ashton offer is not conditional on the Company's take over bid for Contact.

The Company intends to fund the cash portion of the Ashton offer using existing cash resources, a \$32,500,000 bridge facility underwritten by a Canadian Chartered Bank (the "Bank") and the proceeds from a \$22,500,000 private placement of subscription receipts to Agnico-Eagle.

The bridge facility will bear interest at either the Bank's Prime Rate + 4.5% per annum or Bankers Acceptances + 5.5% per annum, at the option of the Company. The loan will mature and be repayable on the earlier of (a) six months following the initial drawdown of the funds and (b) 10 months from the date of the mailing of the Ashton Take Over Circular (mailed August 10, 2006). Any equity financing done by the Company (except the Agnico- Eagle financing) will be applied against outstanding balances owed to the Bank. Associated with the bridge facility is a commitment fee of \$1,000,000 (paid), a closing fee of \$500,000 if there is no drawdown, or a fee of \$2,000,000 if there is a drawdown of the bridge facility. Should there be any amounts still owing on the bridge facility 3 months following the drawdown, a further \$1,500,000 will be payable.

In connection with the takeover bids, the Company entered into an agreement with the Bank for financial advisory services. Under the terms of this agreement, the Company will pay the Bank fees totaling \$1,300,000 (\$550,000 paid) in respect of the Ashton transaction. The Company is also responsible for reasonable out of pocket expenses.

In connection with the Ashton and Contact takeover bids, the Company entered into a Fiscal Advisory agreement with Canaccord Capital Corporation ("Canaccord"). Under the terms of this agreement, the Company will pay Canaccord fees totaling \$1,000,000 (\$250,000 paid). The Company is also responsible for reasonable out of pocket expenses. The Ashton offer expires Monday, September 18, 2006 at 8:00 pm (EST).

In addition to the Ashton offer, the Company has made an offer (mailed to Contact shareholders August 11, 2006) to acquire 100% of the issued and outstanding shares of Contact. Under the terms of the Contact offer, each Contact shareholder will be entitled to receive 0.36 of a Stornoway share per Contact share. The Contact offer is subject to a number of conditions, including the absence of adverse material change, and the receipt of all necessary regulatory approvals. In connection with the Contact offer, the Company entered into a support agreement with Contact under which Contact agreed to support the Contact offer. In addition, the Company entered into a lock-up agreement with Agnico Eagle under which it agreed to tender approximately 31% of the outstanding Contact shares into the Contact offer. The Contact offer is not conditional on the Company's take over bid for Ashton. The Contact offer is scheduled to expire Monday, September 18, 2006.
