

STORNOWAY DIAMOND CORPORATION

(An Exploration Stage Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 2011

Canadian Funds

(Unaudited – Prepared by Management)

Reader's Note: These interim, consolidated financial statements for Stornoway Diamond Corporation ("Stornoway"), for the nine months ended January 31, 2011 have been prepared by management and have not been subject to review by Stornoway's auditor.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Interim Consolidated Balance Sheet

Unaudited – Prepared by Management

(expressed in thousands of Canadian dollars)

ASSETS	January 31,		April 30, 2010
	2011		
Current			
Cash and cash equivalents	\$	27,502	\$ 9,212
Short-term deposits		11,738	1,641
Other receivables		2,127	1,582
Investments (Note 4)		263	147
Deferred transaction costs (Note 13)		991	-
Prepaid expenses		252	136
		42,873	12,718
Prepaid Fuel		168	170
Rough Diamond Inventory (Note 6a)		330	330
Property, Plant and Equipment (Note 5)		1,946	2,366
Resource Property Costs (Note 6h)		94,023	93,854
	\$	139,340	\$ 109,438
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LIABILITIES			
Current			
Accounts payable and accrued liabilities			
- Trade and due to related parties (Note 8)	\$	2,618	\$ 3,184
Future Income Tax Liabilities (Note 9)		6,697	7,806
Asset Retirement Obligations (Note 10)		774	710
		10,089	11,700
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SHAREHOLDERS' EQUITY			
Share Capital (Note 7)		261,828	224,883
Contributed Surplus (Note 7)		13,610	11,807
Accumulated Other Comprehensive Loss		(9)	(72)
Deficit		(146,178)	(138,880)
		129,251	97,738
	\$	139,340	\$ 109,438

Going Concern (Note 1)

Commitments (Note 12)

Subsequent Events (Note 13)

ON BEHALF OF THE BOARD:

“Eira Thomas”, Director

“Catherine McLeod-Seltzer”, 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 Canadian dollars except for loss per share and weighted average number of shares outstanding)

	For the Three Months Ended		For the Nine Months Ended	
	January 31, 2011	January 31, 2010 (Restated-Note 3)	January 31, 2011	January 31, 2010 (Restated-Note 3)
Expenses				
Accretion	\$ 21	\$ 19	\$ 64	\$ 57
Amortization	167	233	505	700
Exploration costs (Note 6i)	2,039	628	4,693	3,226
Office and sundry	160	84	405	223
Professional fees	21	41	371	135
Regulatory and shareholder communications expense	84	71	289	228
Rent and facility fees	135	115	361	329
Salaries, benefits and director's fees	323	163	661	423
Stock-based compensation (Note 7h)	134	49	1,657	542
Loss Before the Following	(3,084)	(1,403)	(9,006)	(5,863)
Other Income (Expenses)				
Bad debt recovery	-	-	101	-
Cost recovery	141	-	415	-
Write-off of resource property costs (Note 6g)	(15)	(122)	(15)	(5,465)
Interest income (expense)	60	(11)	98	(28)
	186	(133)	599	(5,493)
Loss Before Income Taxes	(2,898)	(1,536)	(8,407)	(11,356)
Future income tax recovery (Note 9)	552	216	1,109	2,449
Loss for the Period	(2,346)	(1,320)	(7,298)	(8,907)
Deficit - Beginning of period	(143,832)	(122,904)	(138,880)	(115,317)
Deficit - End of Period	\$ (146,178)	\$ (124,224)	\$ (146,178)	\$ (124,224)
Loss per Share - Basic and Diluted	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)
Weighted Average Number of Shares Outstanding	313,143,658	262,991,715	300,794,807	261,910,488

Interim Consolidated Statements of Comprehensive Loss

Unaudited – Prepared by Management

(expressed in thousands of Canadian dollars)

	For the Three Months Ended		For the Nine Months Ended	
	January 31, 2011	January 31, 2010 (Restated- Note 3)	January 31, 2011	January 31, 2010 (Restated- Note 3)
Loss for the Period	\$ (2,346)	\$ (1,320)	\$ (7,298)	\$ (8,907)
Unrealized gain (loss) on available for sale investment, net of taxes (Note 4)	27	(57)	53	(304)
Comprehensive Loss	\$ (2,319)	\$ (1,377)	\$ (7,245)	\$ (9,211)

– See Accompanying Notes –

Stornoway Diamond Corporation

(An Exploration Stage Company)

Interim Consolidated Statements of Cash Flows

Unaudited – Prepared by Management

(expressed in thousands of Canadian dollars)

Cash Resources Provided By (Used In)	For the Three Months Ended		For the Nine Months Ended	
	January 31, 2011	January 31, 2010 (Restated-Note 3)	January 31, 2011	January 31, 2010 (Restated-Note 3)
Operating Activities				
Loss for the period	\$ (2,346)	\$ (1,320)	\$ (7,298)	\$ (8,907)
Items not affecting cash				
Amortization	167	233	505	700
Accretion	21	19	64	57
Write-off of resource property costs	15	122	15	5,465
Exploration recoveries	(53)	-	(53)	-
Stock-based compensation	134	49	1,657	542
Future income recovery	(552)	(216)	(1,109)	(2,449)
Gain on the sale of property, plant and equipment	-	(4)	-	(4)
Changes in non-cash working capital				
Decrease (increase) in accounts receivable	360	558	(546)	926
Decrease (increase) in prepaid expenses	(152)	13	(115)	302
Increase (decrease) in accounts payable and accrued liabilities	(1,854)	(10)	(567)	568
	<u>(4,260)</u>	<u>(556)</u>	<u>(7,447)</u>	<u>(2,800)</u>
Investing Activities				
Prepaid fuel	-	-	2	1
Decrease (increase) in short-term deposits	(10,000)	317	(10,097)	717
Resource property costs	(36)	(12)	(184)	(22)
Acquisition of property, plant and equipment	(11)	-	(85)	(2)
Proceeds on disposal of property, plant and equipment	-	9	-	9
	<u>(10,047)</u>	<u>314</u>	<u>(10,364)</u>	<u>703</u>
Financing Activities				
Share capital issued for cash	35,014	-	40,016	1,432
Share issue costs	(2,567)	(239)	(2,953)	(407)
Deferred transaction costs	(991)	-	(991)	-
Warrants and options exercised	14	11	29	49
	<u>31,470</u>	<u>(228)</u>	<u>36,101</u>	<u>1,074</u>
Net (Decrease) Increase in Cash and Cash Equivalents	17,163	(470)	18,290	(1,023)
Cash and Cash Equivalents – Beginning of period	10,339	997	9,212	1,550
Cash and Cash Equivalents – End of Period	\$ 27,502	\$ 527	\$ 27,502	\$ 527

Cash and Cash Equivalents consist of:

	January 31, 2011	January 31, 2010
Cash	\$ 1,376	\$ 325
Cash Equivalents	26,126	202
Total	\$ 27,502	\$ 527

Supplemental Schedule of Non-Cash Investing and Financing Transactions (Note 11)

- See Accompanying Notes -

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Unaudited – Prepared by Management

January 31, 2011

1. Going Concern

Stornoway Diamond Corporation (the “Company”) is an exploration stage company that engages principally in the acquisition, exploration and development of resource properties. As an exploration stage company, it is currently unable to self-finance its operations. The recovery of the Company’s investment in its resource properties and attainment of profitable operations, and its ability to continue as a going concern is dependent upon the discovery, development and sale of mineral resources, the ability to joint venture or sell its resource properties and the ability to raise sufficient capital to finance its operations. Management plans to seek additional financing, through equity financings, the sale of non-core assets or through other means to further the exploration and development of the Company’s resource properties and to provide sufficient working capital. There is no assurance the Company’s management will be successful in these endeavours.

While these consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business, there are conditions and events that cast significant doubt on the validity of this assumption.

During the period ended January 31, 2011, the Company incurred a loss of \$7.3 million and has an accumulated deficit of \$146.2 million. Cash and cash equivalents and short-term deposits at January 31, 2011 totalled \$39.2 million and the Company’s working capital was \$40.3 million. Based on anticipated expenditures to advance the Renard Project (*Note 6a*) through feasibility and for other corporate and administrative expenses, the Company expects it will require additional financings should the Company choose to make a production decision for the Renard Project and commence construction. Future financings may be obtained through equity or debt issuances, convertible debentures, option and warrant exercises or through other means. However, there is no assurance that these initiatives will be successful.

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

2. Significant Accounting Policies

These interim consolidated financial statements have been prepared in accordance with Canadian GAAP. Certain information and note disclosure normally included in the annual consolidated financial statements, which are prepared in accordance with Canadian GAAP, have been omitted. These interim consolidated financial statements should be read together with the Company’s audited consolidated financial statements for the year ended April 30, 2010. In the opinion of management, all adjustments considered necessary for the fair presentation have been included in these interim consolidated financial statements. The accounting policies followed by the Company in preparing these interim consolidated financial statements are consistent with the accounting policies used by the Company, as set out in the consolidated audited financial statements for the year ended April 30, 2010.

3. Changes in Accounting Policy and Estimates, and Adoption of Recent Accounting Pronouncements

Exploration Expenditures and Financing and Interest Costs

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

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Notes to Consolidated Financial Statements

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

Exploration Expenditures and Financing and Interest Costs – Continued

Exploration expenditures are now charged to operations as they are incurred until the mineral property reaches the development stage. Financing and interest costs are now charged to operations as well. Significant costs related to property acquisitions, including allocations for undeveloped mineral interests, are capitalized until the viability of the mineral interest is determined. When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized. The impact of this change on the previously reported January 31, 2010 consolidated financial statements is as follows (expressed in thousands of Canadian dollars):

	January 31, 2010 As previously reported \$	Restatement \$	January 31, 2010 As restated \$
Resource property costs	168,524	(59,164)	109,360
Rough diamond inventory	-	330	330
Future income tax liabilities	19,141	(8,362)	10,779
<i>For the nine months ended:</i>			
Office and sundry	382	(159)	223
Accretion	-	57	57
Amortization	-	700	700
Exploration costs	-	3,226	3,226
Stock-based compensation	339	203	542
Write-off (recovery) of resource property costs	6,785	(1,320)	5,465
Future income tax recovery	(1,707)	(742)	(2,449)
Loss for the period	(6,941)	(1,966)	(8,907)
Loss per share	(0.03)	(0.00)	(0.03)
Deficit at January 31, 2010	(73,752)	(50,472)	(124,224)

Property, Plant and Equipment

During the period ended January 31, 2011, the Company prospectively changed its accounting estimate for the useful lives of several items of property, plant and equipment. Prior to the period ended January 31, 2011, the Company provided for amortization for all property, plant and equipment classes using the declining balance method at rates between 20% and 100% and applied one-half of the applicable rate in the year of acquisition. Amortization for all property, plant and equipment classes is now estimated using declining balance method rates between 12% and 100% and applying one-half of the applicable rate in the year of acquisition.

Future Accounting Pronouncements

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

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

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Notes to Consolidated Financial Statements

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4. Investments

The Company's investments consist of common shares in two public companies. The Company acquired these common shares in July 2007 pursuant to the sale of a property interest and in October 2008 pursuant to a property option agreement. These investments represent less than a 5% interest in these companies. As at January 31, 2011, the fair value of these investments was \$263,000 (April 30, 2010 - \$147,000). During the period ended January 31, 2011, the Company recognized an unrealized gain of \$53,000, net of taxes (January 31, 2010 – unrealized loss \$304,000) in accumulated other comprehensive income/loss.

5. Property, Plant and Equipment

(Expressed in thousands of Canadian dollars)

Details are as follows:

	As at January 31, 2011			As at April 30, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 821	\$ (695)	\$ 126	\$ 743	\$ (667)	\$ 76
Buildings	91	(25)	66	91	(22)	69
Leasehold improvements	800	(521)	279	800	(451)	349
Exploration equipment	826	(713)	113	826	(681)	145
Vehicles	610	(516)	94	610	(497)	113
Laboratory equipment	6,105	(4,837)	1,268	6,154	(4,540)	1,614
	<u>\$ 9,253</u>	<u>\$ (7,307)</u>	<u>\$ 1,946</u>	<u>\$ 9,224</u>	<u>\$ (6,858)</u>	<u>\$ 2,366</u>

6. Resource Property Costs

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

The Company has a 50% interest in the Eastern Ungava property interest located in north-central Quebec, including the Foxtrot Property. The Foxtrot property is governed by an agreement between the Company and SOQUEM Inc.'s wholly-owned subsidiary Diaquem. The Company is the operator. Rough diamonds weighing approximately 7,500 carats have been derived from exploration activities at Renard. Under terms of the agreement with SOQUEM, the Company owns 50% of these rough diamonds. The Company has estimated their value based on market prices for rough diamonds and taking into account anticipated costs of disposal. It is not the Company's intention to dispose of these rough diamonds in the near term.

In February 2011, the shareholders of the Company approved the acquisition of the remaining 50% interest in the Renard Diamond Project (Note 13).

b) Aviat One Property, Melville Peninsula, Nunavut (Eastern Arctic)

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

The Aviat One property 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 One property.

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

The Company has a 38% interest (approximately) in the Churchill property. The remaining 62% interest is held by Shear Minerals Ltd. ("Shear"). Shear is the operator of the Churchill Project. The Churchill property is subject to a 2% GOR/NSR. As at January 31, 2011, the carrying value of the Churchill property was \$2.1 million. A portion of the Churchill property (the "Chesterfield Inlet" project) is subject to an option agreement between the Company, Shear and Kennecott Canada Exploration as of August 2009.

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Notes to Consolidated Financial Statements

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6. Resource Property Costs – Continued

d) Qilalugaq Property (“Area 8”), Melville Pensiula, Nunavut (Eastern Arctic)

The Company has a 100% interest in the Qilalugaq property, subject to a 3% NSR and 3% GOR.

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% to 3% and NSRs ranging from 0% to 3%.

No cash payments or shares were issued pursuant to the Company’s generative agreements during the period ended January 31, 2011 or the year ended April 30, 2010.

f) Other Property Interests

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

The Company made a \$17,500 cash payment pursuant to a property option agreement in June 2010. During the period ended January 31, 2011, the Company received consideration in the form of common shares with a fair value of \$53,000 pursuant to a purchase and sale property agreement entered into during the period. The Company also accrued a receivable of \$80,000 related to this agreement.

g) Write-offs

During the period ended January 31, 2011, the Company wrote-off \$15,000 of capitalized property interests for other, non-material property interests in Canada where no future exploration programs are planned for the foreseeable future (January 31, 2010 –\$5.5 million).

h) Resource Property Costs Capitalized

	April 30, 2010	Acquisition Expenditures	Write-down	Reclassification	January 31, 2011
	\$	\$	\$	\$	\$
<i>Eastern Arctic Properties</i>	4,054	95	-	97	4,246
<i>Eastern Canada Properties</i>	89,689	88	-	(20)	89,757
<i>Western Arctic Properties</i>	88	-	(15)	(73)	-
<i>Other Canadian Properties</i>	23	1	-	(4)	20
	93,854	184	(15)	-	94,023

	April 30, 2009 (Restated – Note 3)	Acquisition Expenditures	Write-down	April 30, 2010
	\$	\$	\$	\$
<i>Eastern Arctic Properties</i>	11,311	84	(7,341)	4,054
<i>Eastern Canada Properties</i>	103,313	38	(13,662)	89,689
<i>Western Arctic Properties</i>	88	-	-	88
<i>Other Canadian Properties</i>	25	1	(3)	23
	114,737	123	(21,006)	93,854

Stornoway Diamond Corporation
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
Unaudited – Prepared by Management
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6. Resource Property Costs – Continued

i) **Exploration Expenses**

	<u>For the Nine Months Ended</u>	
	January 31,	January 31, 2010
	2011	(Restated–Note 3)
<i>Eastern Arctic Properties</i>		
Assays and laboratory	\$ 77	\$ 40
Camp and general	154	92
Sampling and ground surveys	16	8
Management Fees	1	1
	<u>248</u>	<u>141</u>
<i>Eastern Canada Properties</i>		
Assays and laboratory	208	254
Camp and general	544	686
Drilling	389	18
Pre-feasibility and feasibility studies	3,536	1,970
Sampling and ground surveys	203	-
Mineral exploration tax credits received	(1,095)	-
Exploration recoveries	(80)	(40)
	<u>3,705</u>	<u>2,888</u>
<i>Western Arctic Properties</i>		
Assays and laboratory	64	5
Camp and general	29	18
Drilling	-	1
	<u>93</u>	<u>24</u>
<i>Other Canadian Properties</i>		
Assays and laboratory	74	-
Camp and general	22	1
Sampling and ground surveys	250	4
	<u>346</u>	<u>5</u>
<i>Generative Exploration</i>		
Assays and laboratory	290	41
Camp and general	85	123
Sampling and ground surveys	-	4
Exploration recoveries	(74)	-
	<u>301</u>	<u>168</u>
Total exploration expenditures during the period	<u>\$ 4,693</u>	<u>\$ 3,226</u>

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Notes to Consolidated Financial Statements

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7. Share Capital

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

	Number*	Amount	Contributed Surplus
Authorized:			
Unlimited common shares without par value			
Issued and fully paid:			
Balance – April 30, 2010	288,668,456	\$224,883	\$11,807
Issued for cash – short-form offering	57,400,000	35,014	-
Issued for cash – private placement	8,775,000	5,002	-
Exercise of options	190,000	25	(7)
Exercise of warrants	33,246	14	(4)
Stock-based compensation	-	-	1,657
Share issuance costs	-	(3,110)	157
Balance – January 31, 2011	355,066,702	\$261,828	\$13,610

* On February 22, 2011, the Company's common shares were consolidated on a 1-new-for-4-old basis. Had the share consolidation been effected on January 31, 2011, there would have been 88,766,675 common shares issued and outstanding on a post-consolidation basis (Note 13b).

b) Equity Financings

On June 29, 2010, the Company completed a private placement, with Desjardins Securities Inc. as lead agent, which consisted of 8,775,000 flow-through common shares of the Company for gross proceeds of \$5,001,750. The flow-through common shares were issued at a price of \$0.57 per share. The Company paid a 6.5% cash commission on certain subscriptions received and issued 526,500 Compensation Options. The Compensation Options are exercisable at \$0.57 to acquire one non-flow-through common share and expire on December 29, 2011. The fair value of the Compensation Options was estimated to be \$157,300 using the Black-Scholes option-pricing model (1.38% risk-free interest rate; expected life of eighteen months, 105% volatility) with this amount being recorded in contributed surplus. Expenditures from the flow-through shares will constitute Canadian exploration expenses ("CEE") (as defined in the Income Tax Act) for the 2010 tax year.

On January 6, 2011, the Company completed a prospectus offering and issued 57,400,000 common shares at \$0.61 for gross proceeds of \$35.0 million. The transaction was completed by a syndicate of underwriters led by RBC Capital Markets and including Desjardins Securities, BMO Capital Markets and Canaccord Genuity (the "Underwriters"). The Underwriters received a cash fee equal to 6% of the gross proceeds from the sale of the common shares.

c) Flow-through Funds

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

Flow-through commitment at June 29, 2010	\$	5,002
Qualifying expenditures to January 31, 2011		(1,967)
Flow-through funds on hand at January 31, 2011	\$	3,035

Flow-through common shares provide for the Company's CEE to be transferred to the shareholders and, as a result, the tax base for these expenditures is not available to the Company.

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7. Share Capital – Continued

d) Stock Option Plan

The maximum number of common shares currently available for issuance under the Company's existing Stock Option Plan (the "Plan") was approved by shareholders at the 2008 Annual General Meeting ("AGM") and is fixed at 22,722,634, representing 10% of the Company's issued and outstanding common shares as at August 15, 2008. There were no amendments to the Plan during 2010. The Plan provides the directors with discretion to set vesting terms for each stock option grant. Historically, the Company's options have vested in thirds over a one year period from the grant date, with the first third vesting immediately, the second third vesting six months from the grant date and the final third vesting one year from the grant date. Effective for the fiscal year beginning May 1, 2009, a Stock Option Grant Policy (the "Policy") was adopted. This Policy sets annual stock option grants and five-year option level targets for optionees, by level of responsibility. Options vest immediately on the grant date.

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

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

	Number of Options		Weighted Average Exercise Price
Balance April 30, 2010	14,531,805	\$	0.79
Granted	4,580,000		0.58
Exercised	(190,000)		0.10
Expired	(613,420)		1.30
Balance January 31, 2011*	18,308,385	\$	0.73
Number of options currently exercisable	17,848,385	\$	0.73

*On February 22, 2011, the Company's common shares were consolidated on a 1-new-for-4-old basis. Had the share consolidation been effected on January 31, 2011, there would have been 4,577,096 outstanding options with a weighted average exercise price of \$2.91 on a post-consolidation basis (Note 13b).

f) As at January 31, 2011, the Company had the following stock options outstanding:

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Exercise Price	Year of Expiry	Weighted Average Remaining Contractual Life
\$ 1.02 ~ \$ 1.25	1,392,700	\$ 1.17	2011	0.30 years
\$ 0.63 ~ \$ 6.94	5,118,980	\$ 1.16	2012	1.47 years
\$ 0.10 ~ \$ 7.42	4,127,205	\$ 0.49	2013	2.81 years
\$ 0.10 ~ \$ 4.86	2,889,100	\$ 0.29	2014	3.70 years
\$ 0.56 ~ \$ 1.34	4,780,400	\$ 0.60	2015	4.53 years
	18,308,385			

On May 3, 2010, the Company granted 1,220,000 stock options with an exercise price of \$0.62. The options expire on May 3, 2015 and vest in thirds over a one-year period from the date of grant.

On September 14, 2010, the Company granted 80,000 stock options with an exercise price of \$0.65. The options expire on September 14, 2015 and vest in thirds over a one-year period from the date of grant.

On September 14, 2010, the Company granted 3,280,000 stock options with an exercise price of \$0.56. The options expire on September 14, 2015 and vest immediately.

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7. Share Capital - Continued

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

	Number of Warrants		Weighted Average Exercise Price
Balance April 30, 2010	1,639,331	\$	0.48
Granted – Compensation options	526,500		0.57
Exercised	(33,246)		0.29
Balance January 31, 2011*	2,132,585	\$	0.50

* On February 22, 2011, the Company's common shares were consolidated on a 1-new-for-4-old basis. Had the share consolidation been effected on January 31, 2011, there would have been 533,146 outstanding warrants with a weighted average exercise price of \$2.01 on a post-consolidation basis (Note 13b).

As at January 31, 2011, the Company had the following warrants outstanding:

Number of Warrants	Exercise Price	Expiry Date
101,696	\$ 0.17	May 29, 2011
526,500	\$ 0.57	December 29, 2011
1,504,389	\$ 0.50	February 23, 2012
2,132,585		

h) Stock-Based Compensation

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

	Period Ended January 31, 2011	Year Ended April 30, 2010
Risk-free interest rate	1.7% - 2.7%	2.5% - 2.7%
Expected dividend yield	NIL	NIL
Expected stock price volatility	87 - 99%	83% - 94%
Expected option life in years	3 - 5 years	3 - 5 years

During the period ended January 31, 2011, the Company granted options to purchase up to 4,580,000 (April 30, 2010 - 3,395,000) shares of the Company's stock to employees at an exercise price range of \$0.56 – \$0.65 (April 30, 2010 - \$0.25). These options expire five years from the grant date. The Company used the Black-Scholes Option Pricing Model to estimate a fair value of \$1,744,000 (April 30, 2010 - \$543,000) for these grants.

For the period ended January 31, 2011, the Company recorded stock-based compensation expense of \$1.7 million (January 31, 2010 - \$542,000).

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 January 31, 2011, the amounts due to related parties consisted of the following (expressed in thousands of Canadian dollars):

	January 31, 2011	April 30, 2010
Strongbow Exploration Inc. (“Strongbow”), a company with a director in common	3	4
Agnico-Eagle Mines Limited (“Agnico-Eagle”), a significant shareholder	-	1
	\$ 3	\$ 5

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

- b) During the period ended January 31, 2011, the Company paid or accrued \$39,000 (January 31, 2010 - \$36,000) for the reimbursement of administrative and technical time to Strongbow.
- c) In May 2007, the Company entered into a sub-lease agreement with Agnico-Eagle, for additional premises. The Company was committed to annual lease payments of approximately \$105,000 in respect of these premises through June 30, 2010. A portion of these payments were recovered through sub-leases.
- d) During the period ended January 31, 2011, the Company paid, or accrued as payable on behalf of the Eastern Ungava JV, \$Nil (January 31, 2010 - \$9,200) to Agnico-Eagle, of which the Company’s share is 50%, for work completed by Agnico-Eagle related to a preliminary assessment at the Renard Project.
- e) Included in receivables is \$2,400 (April 30, 2010 - \$1,100) receivable from a director.

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

9. Income Taxes

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

	For the Nine Months Ended January 31, 2011	For the Nine Months Ended January 31, 2010 (restated)
Loss before income taxes	\$ (8,407)	\$ (11,356)
Canadian federal and provincial income tax rates	31.00%	30.67%
Income tax recovery based on the above rates	(2,606)	(3,483)
Increase (decrease) due to:		
Non-deductible expenses and other permanent differences	514	104
Losses and temporary differences for which no future income tax asset has been recognized	711	586
Difference in statutory income tax rates	272	344
Income tax recovery	\$ (1,109)	\$ (2,449)

- b) As at January 31, 2011, the Company has non-capital losses of approximately \$23.6 million (April 30, 2010 - \$22.2 million), which can be used to reduce taxable income. These loss carry forwards (expressed in thousands of Canadian dollars) expire as follows:

2013 to 2016	\$ 10,999
2017 to 2021	847
2022 to 2026	3,264
2027 to 2030	8,535
	\$ 23,645

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9. Income Taxes - Continued

A valuation allowance has been recorded against certain of the potential future income tax assets associated with these loss carry-forwards and other deductible temporary differences as their utilization is not considered more likely than not at this time.

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

	January 31, 2011	April 30, 2010
<i>Future income tax assets</i>		
Non-capital losses	\$ 6,710	\$ 6,318
Capital losses	235	312
Property, plant and equipment	1,536	1,400
Financing fees	1,081	784
Resource property costs	20,518	20,529
Other	468	374
Total future tax assets	30,548	29,717
Valuation allowance	(27,350)	(25,841)
Net future income tax assets	\$ 3,198	\$ 3,876
<i>Future income tax liabilities</i>		
Resource property costs and other	\$ 9,895	11,682
Future tax liabilities	9,895	11,682
Future tax liability, net	\$ 6,697	\$ 7,806

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.

10. Asset Retirement Obligations

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

	January 31, 2011	April 30, 2010
Balance – beginning of the period	\$ 710	\$ 634
Accretion	64	76
Balance – end of the period	\$ 774	\$ 710

The Company has recorded an asset retirement obligation, which reflects the present value of the estimated amount of undiscounted cash flow required to satisfy the asset retirement obligation in respect of the Renard Project in Quebec. The primary component of this obligation is the removal of equipment currently used at the site as well as costs associated with securing an underground shaft on the property. If the Company decides not to go into production on the property, it is assumed that the asset retirement obligation will be incurred in 2011. Should the Company decide to proceed with a production decision on the Renard Project, the obligation will be realized further into the future. The credit adjusted risk free rate at which the estimated cash flows have been discounted to arrive at the obligation is 12% and the undiscounted amount of inflation-adjusted estimated future cash flows is \$795,000.

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

(expressed in thousands of Canadian Dollars)

	For the Three Months Ended		For the Nine Months Ended	
	January 31, 2011	January 31, 2010	January 31, 2011	January 31, 2010
Issuance of compensation options (Note 7b)	\$ Nil	\$ Nil	\$ 157	\$ 41
Options and warrants exercised (Note 7)	\$ 6	\$ 4	\$ 11	\$ 20
Fair value of common shares received (Note 6f)	\$ 53	\$ Nil	\$ 53	\$ 41

12. Commitments

The Company is committed to minimum future operating lease payments for its office premises as follows:

Fiscal year ending April 30, 2012	\$ 460,000
Fiscal year ending April 30, 2013	454,000
Fiscal year ending April 30, 2014	380,000
Fiscal year ending April 30, 2015	117,000
Fiscal year ending April 30, 2016	19,000
	<u>\$ 1,430,000</u>

In addition, the Company has GICs in the amount of \$328,000 as collateral security for its corporate credit cards and a line of credit of \$8,000 to satisfy exploration bonding requirements. A GIC equivalent to the utilization of the line of credit is provided as collateral security.

13. Subsequent Events

- In February 2011, the Company's shareholders approved the acquisition from Diaquem of Diaquem's 50% interest in the Renard Diamond Project (Note 6a). Under the terms of the acquisition, Diaquem will become a significant shareholder of the Company, and will receive a direct royalty interest on future diamond production. In conjunction with the acquisition, Société générale de financement du Québec ("SGF", the parent company of Diaquem) has agreed to enter into a credit support agreement with the Company with respect to future project debt financing of a minimum of \$100 million. The acquisition is expected to close on April 1, 2011. As at January 31, 2011, the Company had incurred approximately \$991,000 for deferred transaction costs related to the acquisition.
- At a special meeting of shareholders held on February 10, 2011, the Company's shareholders approved a consolidation of the Company's common shares. On February 22, 2011, a 1-new-for-4-old share consolidation took effect. As a result of this share consolidation, the Company's issued and outstanding common shares decreased from 355,066,702 to 88,766,675. The number of options and warrants outstanding has been consolidated on a 1-new-for-4-old basis and the exercise prices adjusted accordingly.