

STORNOWAY DIAMOND CORPORATION

(An Exploration Stage Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2009

Canadian Funds

(Unaudited – Prepared by Management)

Reader's Note: These interim, consolidated financial statements for Stornoway Diamond Corporation ("Stornoway"), for the six months ended October 31, 2009 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)

	October 31, 2009	April 30, 2009 (Audited)
ASSETS		
Current		
Cash and cash equivalents	\$ 997	\$ 1,550
Short-term deposits	944	1,344
Other receivables (Note 11)	1,615	1,984
Investments (Note 7)	265	555
Prepaid expenses	93	383
	<u>3,914</u>	<u>5,816</u>
Prepaid Fuel	171	172
Property, Plant and Equipment (Note 8)	2,836	3,300
Resource Property Costs (Note 9)	168,148	171,193
	<u>\$ 175,069</u>	<u>\$ 180,481</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities		
- Trade	\$ 2,515	\$ 1,938
- Due to related parties (Note 11)	5	5
	<u>2,520</u>	<u>1,943</u>
Future Income Tax Liabilities (Note 12)	19,203	20,782
Asset Retirement Obligations (Note 14)	672	634
	<u>22,395</u>	<u>23,359</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 10)	214,017	212,739
Contributed Surplus (Note 10)	11,383	10,865
Accumulated Other Comprehensive Income	39	329
Deficit	(72,765)	(66,811)
	<u>152,674</u>	<u>157,122</u>
	<u>\$ 175,069</u>	<u>\$ 180,481</u>

Going Concern (Note 1)

Nature of Operations and Basis of Consolidation (Note 2)

Commitments (Note 16)

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 Six Months Ended	
	October 31, 2009	October 31, 2008	October 31, 2009	October 31, 2008
Administrative Expenses				
Administration fees and rent	\$ 126	\$ 102	\$ 214	\$ 160
Professional fees	39	50	94	170
Office and sundry	154	73	245	195
Regulatory and shareholder communications expense	77	119	157	234
Salaries and benefits	123	108	260	705
Stock-based compensation (Note 10h)	279	118	300	267
Loss Before the Following	(798)	(570)	(1,270)	(1,731)
Other Income (Expenses)				
Gain on early extinguishment of the debt component of convertible debt (Note 13)	-	-	-	13,265
Write-off of resource property costs (Note 9g)	(6,153)	(94)	(6,309)	(321)
Write-down of investments	-	(573)	-	(965)
Interest expense	3	-	(40)	-
Interest income	8	35	24	139
	(6,142)	(632)	(6,325)	12,118
Income (loss) Before Income Taxes	(6,940)	(1,202)	(7,595)	10,387
Future income tax recovery (expense) (Note 12)	1,668	(5)	1,641	93
Net Income (loss) for the Period	(5,272)	(1,207)	(5,954)	10,480
Deficit - Beginning of period	(67,493)	(50,445)	(66,811)	(63,397)
Gain on early extinguishment of the equity component of convertible debt (Note 13)	-	-	-	1,265
Deficit - End of Period	\$ (72,765)	\$ (51,652)	\$ (72,765)	\$ (51,652)
Income (loss) per Share - Basic and Diluted	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ 0.05
Weighted Average Number of Shares Outstanding	262,675,119	227,226,346	261,369,875	214,035,392

Stornoway Diamond Corporation

(An Exploration Stage Company)

Interim Consolidated Statements of Comprehensive Income (Loss)

Unaudited – Prepared by Management

(expressed in thousands of dollars)

	For the Three Months Ended		For the Six Months Ended	
	October 31, 2009	October 31, 2008	October 31, 2009	October 31, 2008
Net Income (loss) for the Period	\$ (5,272)	\$ (1,207)	\$ (5,954)	\$ 10,480
Unrealized gain (loss) on available for sale investment (Note 7)	(25)	-	(290)	-
Comprehensive Income (loss)	\$ (5,297)	\$ (1,207)	\$ (6,244)	\$ 10,480

- 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)

	For the Three Months Ended		For the Six Months Ended	
	October 31, 2009	October 31, 2008	October 31, 2009	October 31, 2008
Cash Resources Provided By (Used In)				
Operating Activities				
Income (loss) for the period	\$ (5,272)	\$ (1,207)	\$ (5,954)	\$ 10,480
Items not affecting cash				
Gain on early extinguishment of the debt component of convertible debt	-	-	-	(13,265)
Write-off of resource property costs	6,153	94	6,309	321
Write down of investments	-	573	-	965
Stock-based compensation	279	118	300	267
Future income tax expense (recovery)	(1,668)	5	(1,641)	(93)
Amortization	74	15	106	32
Changes in non-cash working capital				
Decrease (increase) in accounts receivable	(230)	(341)	536	705
Decrease in prepaid expenses	54	93	290	198
Increase (decrease) in accounts payable and accrued liabilities	84	(255)	233	(302)
	(526)	(905)	179	(692)
Investing Activities				
Prepaid fuel	1	53	1	103
Decrease in short-term deposits	400	-	400	-
Resource property costs	(1,079)	(3,644)	(2,433)	(6,459)
Acquisition of property, plant and equipment	(3)	(3)	(3)	(3)
	(681)	(3,594)	(2,035)	(6,359)
Financing Activities				
Share capital issued for cash	-	(11)	1,432	(111)
Share issue costs	-	-	(168)	-
Warrants exercised	39	-	39	-
	39	(11)	1,303	(111)
Net Decrease in Cash and Cash Equivalents	(1,168)	(4,510)	(553)	(7,162)
Cash and Cash Equivalents – Beginning of period	2,165	6,872	1,550	9,524
Cash and Cash Equivalents – End of Period	\$ 997	\$ 2,362	\$ 997	\$ 2,362

Cash and Cash Equivalents consist of:

	October 31, 2009	October 31, 2008
Cash	\$ 195	\$ 223
Cash Equivalents	802	2,139
Total	\$ 997	\$ 2,362

Supplemental Schedule of Non-Cash Investing and Financing Transactions (Note 15)

- See Accompanying Notes -

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Interim Consolidated Financial Statements

Unaudited – Prepared by Management

October 31, 2009

1. Going Concern

The Company is an exploration stage company that engages principally in the acquisition, exploration and development of mineral 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 diamond reserves, 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 mineral 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 October 31, 2009, the Company incurred a loss of \$6.0 million and has an accumulated deficit of \$72.8 million. Cash and cash equivalents and short-term deposits at October 31, 2009 totalled \$1.9 million and the Company's working capital was \$1.4 million. As at October 31, 2009 a total of \$302,000 must be spent on exploration that qualifies as Canadian exploration expense ("CEE"). The Company will need to obtain some form of additional financing to continue operations into 2010 and the Company's management will continue to consider various alternatives, within the context of existing market conditions. There is no assurance the Company's management will be successful in these endeavours.

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. 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") and Contact Diamond Corporation ("Contact").

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

3. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with GAAP. Certain information and note disclosure normally included in the annual consolidated financial statements, which are prepared in accordance with GAAP, 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, 2009. In the opinion of management, all adjustments considered necessary for the fair presentation have been included in these consolidated financial statements. The accounting policies followed by the Company in preparing these 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, 2009.

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Notes to Interim Consolidated Financial Statements

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4. Changes in Accounting Policies and New Accounting Developments

Goodwill and Intangible Assets

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

Business Combinations

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

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

International financial reporting standards

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

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

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

5. Financial Instruments and Risk Management

Fair value

The Company's financial instruments consist of cash and cash equivalents, short-term deposits, other receivables, investments, accounts payable, accrued liabilities and amounts due to related parties.

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

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Notes to Interim Consolidated Financial Statements

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October 31, 2009

5. Financial Instruments and Risk Management – Continued

	October 31, 2009		April 30, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets	\$	\$	\$	\$
<i>Held for trading</i>				
Cash and cash equivalents	997	997	1,550	1,550
Short-term deposits	944	944	1,344	1,344
<i>Loans and Receivables</i>				
Other receivables	1,615	1,615	1,984	1,984
<i>Available for sale</i>				
Investments	265	265	555	555
Financial Liabilities				
Accounts payable and accrued liabilities	2,515	2,515	1,938	1,938
Due to related parties	5	5	5	5

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, foreign currency or credit risks arising from these financial instruments.

The Company is exposed to a variety of financial risks by virtue of its activities, including credit risk, interest rate risk and liquidity risk. The Company has limited exposure to foreign currency risk as greater than 99% of its assets and 100% of its liabilities are denominated in Canadian dollars. The Company's objective with respect to risk management is to minimize potential adverse effects on the Company's financial performance. The Company's Board of Directors provides direction and guidance to management with respect to risk management. Management is responsible for establishing controls and procedures to ensure that financial risks are mitigated to acceptable levels.

Credit risk

Credit risk is the risk of financial loss to the Company if a counter-party to a financial instrument fails to meet its contractual obligations. The Company manages credit risk by investing its excess cash in short-term investments with an investment grade rating of "AAA" (R-1 high for money market securities) or better, issued by a Canadian chartered bank. The Company is exposed to credit risk by virtue of its receivables from companies with which it has exploration agreements or options (approximately 80% of receivables totalling \$1.3 million at October 31, 2009). The remainder of the Company's receivables at the balance sheet date consist of federal and provincial sales tax refunds where management believes the risk of loss to be remote. The maximum exposure to credit risk at the reporting date is the carrying value of the Company's receivables.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to interest rate risk with respect to its cash flow. The risk that the Company will realize a loss as a result of a decline in the fair value of any short-term investment included in cash and cash equivalents is limited because these investments, although readily convertible into cash, are generally held to maturity. As of October 31, 2009, management estimates that if interest rates had changed by 1% for those funds invested in guaranteed investment certificates ("GICs"), and 0.05% for the other cash equivalents assuming all other variables remained constant, the impact on the Company's loss for the six months ended October 31, 2009 would have been approximately \$7,500.

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5. Financial Instruments and Risk Management – Continued

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise the funds required through future equity financings, asset sales or exploration option agreements, or a combination thereof. The Company has no regular cash flow from its operating activities. The Company manages its liquidity risk by forecasting cash flow requirements for its planned exploration and corporate activities and anticipating investing and financing activities. Failure to realize additional funding, as required, could result in the delay or indefinite postponement of further exploration and development of the Company's properties. As at October 31, 2009, the Company had cash and cash equivalents, and short-term deposits of \$1.9 million (April 30, 2009 - \$2.9 million) as well as other receivables of \$1.6 million (April 30, 2009 - \$2.0 million) to settle current liabilities of \$2.5 million (April 30, 2009 - \$1.9 million). See Note 16 for details on other commitments. Additional information regarding liquidity risk is disclosed in Note 1.

6. Capital Management

The Company's objectives when managing capital are to:

- Safeguard the Company's ability to continue as a going concern,
- Have sufficient capital to continue to acquire, explore and develop the Company's mineral properties, and
- Provide sufficient funds for the Company's corporate activities.

The capital of the Company consists of the items included in shareholder's equity. The Company's mineral properties are in the exploration stage. As an exploration stage company, the Company is currently unable to self-finance its operations. The Company has historically relied on equity financings and, more recently, the monetization of non-core assets and a convertible debenture to finance its operations. In order to carry out the Company's planned exploration programs and to pay for administrative costs, the Company will spend its existing working capital and raise additional funds as required. To effectively manage the Company's capital requirements, the Company's management has in place a planning and budgeting process. The Company is not subject to any externally imposed capital requirements. Additional information regarding capital management is disclosed in Note 1.

7. 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 October 31, 2009, the fair value of these investments was \$265,000. During the period ended October 31, 2009, the Company recognized an unrealized gain of \$39,000 (October 31, 2008 - \$Nil) in accumulated other comprehensive income. During the year ended April 30, 2009, the Company wrote-down its investment in one of the companies by \$1,146,000 to its estimated net realizable value of \$211,000. At the time of the impairment charge, the decline in fair value was deemed to be other than temporary.

8. Property, Plant and Equipment

(Expressed in thousands of Canadian dollars)

Details are as follows:

	As at October 31, 2009			As at April 30, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 744	\$ (655)	\$ 89	\$ 742	\$ (640)	\$ 102
Buildings	91	(21)	70	91	(19)	72
Leasehold improvements	800	(404)	396	800	(358)	442
Exploration equipment	826	(649)	177	825	(619)	206
Vehicles	610	(473)	137	610	(448)	162
Laboratory equipment	6,192	(4,225)	1,967	6,194	(3,878)	2,316
	\$ 9,263	\$ (6,427)	\$ 2,836	\$ 9,262	\$ (5,962)	\$ 3,300

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(An Exploration Stage Company)

Notes to Interim Consolidated Financial Statements

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October 31, 2009

9. Resource Property Costs

a) Foxtrot Property, Quebec (Eastern Canada)

The Company has a 50% interest in the Eastern Ungava property interest through its wholly-owned subsidiary Les Diamants Stornoway (Canada) inc. (formerly Ashton Diamonds (Canada) Inc.). The Company's 50% interest in this agreement covers exploration, property acquisition and the development of mineral interests 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. During the period ended October 31, 2009, management used the undiscounted cash flow method to test for impairment of this project. Management determined that no write-down for impairment is warranted, as the estimated undiscounted future cash flows approximate or exceed the project's carrying value. The Renard Project is sufficiently advanced such that an undiscounted cash flow model can be used to estimate fair value.

b) Aviat One and Two Properties, Melville Peninsula, Nunavut (Eastern Arctic)

The Company has a 90% interest in certain mineral claims and leases, known as the Aviat One and Aviat Two 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.

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 commenced March 1, 2008 for the Aviat 2 property. In March 2009, the Company advised Hunter that it would not be making the \$50,000 advance royalty payment required to keep the Aviat Two property in good standing and, during the year ended April 30, 2009, the Company wrote off capitalized property interests totalling \$5.1 million, representing capitalized acquisition and exploration costs on exploration permits no longer retained by the Company. As at October 31, 2009 capitalized costs of \$21.0 million relate solely to the Aviat One property interest.

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.

During the year ended April 30, 2009, the Company wrote off \$6.8 million relating to the Churchill property, representing the difference between the estimated fair value of the property and the carrying value of the exploration and acquisition expenditures capitalized to-date. As at October 31, 2009 the carrying value of the Churchill property was \$7.9 million.

In August 2009, the Company and Shear entered into an agreement with Kennecott Canada Exploration Inc. ("Kennecott") to jointly explore an area (the "Chesterfield Inlet" project) consisting of approximately 70,000 acres located in the northern portion of the Churchill Diamond Project. Under the terms of the agreement, Stornoway and Shear have jointly granted Kennecott the right and option to acquire, subject to existing underlying royalties, up to a 70% interest in the diamond rights to the Chesterfield Inlet project. Kennecott has a First Option to acquire a 51% interest in the Chesterfield Inlet project by incurring \$100,000 before December 31, 2010 and an additional \$1,900,000 before December 31, 2012. If the First Option is satisfied, Kennecott has an option to complete a Second Option whereby to earn an additional 19% interest in the Chesterfield Inlet project by incurring an additional \$4,500,000 in exploration expenditures before December 31, 2016.

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9. Resource Property Costs – Continued

d) 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 October 31, 2009 or during the year ended April 30, 2009.

e) 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.

No cash payments or shares were issued pursuant to the Company's other property interests during the period ended October 31, 2009. During the year ended April 30, 2009 the Company received shares with a fair value of \$15,000, pursuant to a property option agreement entered into during the year.

f) Itza Property, Nunavut (Eastern Arctic)

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 76,601 common shares (with a fair value of \$49,025 at the time of issuance) and by incurring \$4,000,000 in exploration expenditures over a five year period, with a minimum first year expenditure of \$500,000 prior to September 1, 2009. In September 2009, this agreement was amended to extend the deadline to incur the minimum first year expenditure of \$500,000 from September 1, 2009 to September 1, 2011. As of October 31, 2009, the Company had spent \$237,000 to explore the Itza property.

g) Write-offs

During the period ended October 31, 2009, the Company wrote-off capitalized property interests of \$6,309,000 (October 31, 2008 - \$321,000). The majority of this write-off (\$6,023,000) relates to properties in Nunavut (\$5,330,000) and Eastern Canada (\$693,000) where no future exploration programs are planned for the foreseeable future. In addition, the Company wrote-off \$286,000 for generative exploration and other, non-material property interests in Canada where no future exploration is warranted or where the Company no longer retains a property interest. Write-offs in the comparative period related to non-material properties where no future exploration programs are planned for the foreseeable future and where no recent exploration programs have been carried out on the properties.

The recent economic downturn warranted an assessment of the estimated recoverable amount for the Company's mineral properties. Based on management's assessment, it was determined that certain properties should be written down on the basis that no further exploration activity is planned or because the carrying value of the property exceeded its estimated recoverable amount. It is management's opinion that the carrying amount of the remaining properties is supported by positive results from recent exploration work and the Company's near-term exploration plans.

Capitalized costs as reported on the balance sheet represent costs incurred to date and may not reflect actual present or future values. The recovery of carrying value is dependent upon future commercial success or proceeds from disposition of the resource interests. It is reasonably possible, based on existing knowledge, that changes in future conditions could require a material change in the recognized amounts (Note 1).

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9. Resource Property Costs – Continued

	October 31, 2009			April 30, 2009		
	Acquisition Cost	Exploration Cost	Total	Acquisition Cost	Exploration Cost	Total
<i>Eastern Arctic Properties</i>						
Balance - Beginning of the year	\$ 10,472	26,214	36,686	\$ 12,690	\$ 30,633	43,323
Financing and interest costs	-	-	-	106	-	106
Airborne Geophysics	-	-	-	-	(2)	(2)
Assays and laboratory	-	30	30	-	1,108	1,108
Camp and general	-	74	74	-	1,497	1,497
Drilling	-	-	-	-	1,196	1,196
Sampling and ground surveys	-	8	8	-	1,361	1,361
Tenure (Permit recoveries)	54	-	54	73	-	73
Management Fees	-	1	1	-	4	4
Recoveries from exploration partner(s)	-	-	-	-	(47)	(47)
Write-offs	(4,839)	(491)	(5,330)	(2,397)	(9,536)	(11,933)
	5,687	25,836	31,523	10,472	26,214	36,686
<i>Eastern Canada Properties</i>						
Balance - Beginning of the year	112,728	18,864	131,592	111,592	15,667	127,259
Financing and interest costs	-	-	-	1,045	-	1,045
Airborne Geophysics	-	-	-	-	142	142
Assays and laboratory	-	305	305	-	892	892
Bulk sampling	-	228	228	-	594	594
Camp and general	-	428	428	-	1,103	1,103
Drilling	-	13	13	-	148	148
Pre-feasibility studies	-	1,677	1,677	-	1,329	1,329
Sampling and ground surveys	-	-	-	-	115	115
Tenure (Permit recoveries)	33	-	33	91	-	91
Exploration recoveries	-	212	212	-	(1,058)	(1,058)
Write-offs	(509)	(184)	(693)	-	(68)	(68)
	112,252	21,543	133,795	112,728	18,864	131,592
<i>Western Arctic Properties</i>						
Balance - Beginning of the year	88	702	790	87	849	936
Assays and laboratory	-	-	-	-	20	20
Camp and general	-	11	11	-	75	75
Sampling and ground surveys	-	1	1	-	25	25
Tenure (Permit recoveries)	-	-	-	6	-	6
Management fees	-	-	-	-	3	3
Write-offs	-	(12)	(12)	(5)	(270)	(275)
	88	702	790	88	702	790
Balance Carried Forward	118,027	48,081	166,108	123,288	45,780	169,068

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9. Resource Property Costs – Continued

	October 31, 2009			April 30, 2009		
	Acquisition Cost	Exploration Cost	Total	Acquisition Cost	Exploration Cost	Total
<i>Balance Carried Forward</i>	118,027	48,081	166,108	123,288	45,780	169,068
<i>Other Canadian Properties</i>						
Balance - Beginning of the year	2,049	76	2,125	1,903	51	1,954
Financing and interest costs	-	-	-	172	-	172
Airborne Geophysics	-	-	-	-	69	69
Assays and laboratory	-	-	-	-	49	49
Camp and general	-	1	1	-	140	140
Sampling and ground surveys	-	4	4	-	139	139
Tenure (Permit recoveries)	1	-	1	(56)	-	(56)
Exploration recoveries	-	-	-	-	(158)	(158)
Write-offs	(10)	(81)	(91)	30	(214)	(184)
	2,040	-	2,040	2,049	76	2,125
<i>Generative Exploration</i>						
Balance - Beginning of the year	-	-	-	106	138	244
Airborne Geophysics	-	-	-	-	70	70
Assays and laboratory	-	92	92	-	875	875
Camp and general	-	103	103	-	605	605
Sampling and ground surveys	-	3	3	-	323	323
Tenure (Permit recoveries)	(15)	-	(15)	(125)	-	(125)
Write-offs	15	(198)	(183)	19	(2,011)	(1,992)
	-	-	-	-	-	-
Ending Balance	\$ 120,067	\$ 48,081	\$ 168,148	\$ 125,337	\$ 45,856	\$ 171,193

10. 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, 2009	254,234,063	\$ 212,739	\$ 10,865
Issued for cash – private placement	8,421,276	1,432	-
Reversal of shares cancelled in error	81,553	-	-
Exercise of warrants	227,478	56	(17)
Stock-based compensation	-	-	494
Share issuance costs	-	(210)	41
Balance – October 31, 2009	262,964,370	\$ 214,017	\$ 11,383

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10. Share Capital - Continued

b) Private Placement

On May 29, 2009, the Company completed a brokered private placement, with Sandfire Securities Inc. as lead agent, which consisted of 8,421,276 flow-through common shares of the Company for gross proceeds of \$1,431,617. The flow-through common shares were issued at a price of \$0.17 per share. The Company paid a 7% cash commission on certain subscriptions received and issued 568,695 Compensation Warrants (the “warrants”). The warrants are exercisable at \$0.17 to acquire one non-flow-through common share and will expire May 29, 2011. The fair value of the warrants was estimated to be \$41,400 using the Black-Scholes option pricing model (1.23% risk-free interest rate; two-year term, 97.6% volatility) with this amount being recorded in contributed surplus. Expenditures from the flow-through shares will constitute Canadian exploration expense (“CEE”) (as defined in the Income Tax Act) for the 2009 tax year.

c) Flow-through Funds

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

Flow-through funds on hand at April 30, 2009	\$	1,398
Flow-through commitment at May 29, 2009		1,432
Qualifying expenditures to October 31, 2009		(2,528)
Flow-through funds on hand at October 31, 2009	\$	302

To finance eligible CEE, the Company raised \$3,928,250 in November 2008 and \$1,431,617 in May 2009 (Note 10b). The Company is required to spend \$3,928,250 on or before December 31, 2009. The Company met this expenditure requirement and has accrued \$34,000 in Part 12.6 tax on amounts unspent between February and December 2009, which will be paid in February 2010. The 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. The Company must incur qualifying CEE of \$1,431,617 before December 31, 2010.

d) Stock Option Plan

The maximum number of common shares 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 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 2009. 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 5 year option level targets for optionees, by level of responsibility. Options vest immediately on 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, 2009	12,653,845	\$	1.06
Granted	3,395,000		0.25
Expired	(1,106,360)		2.09
Balance October 31, 2009	14,942,485	\$	0.80
Number of options currently exercisable	13,272,985	\$	0.88

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10. Share Capital - Continued

- f) As at October 31, 2009, 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
\$ 0.10 ~ \$ 1.34	13,977,425	\$ 0.58	3.46 years
\$ 1.53 ~ \$ 2.17	561,500	\$ 1.77	1.27 years
\$ 4.86 ~ \$ 7.42	403,560	\$ 7.13	2.89 years
	<u>14,942,485</u>		

On October 20, 2009, the Company granted 2,630,000 stock options with an exercise price of \$0.25. The options expire October 20, 2014 and vest immediately on the date of grant. Also, on October 20, 2009, the Company granted a further 765,000 stock options with an exercise price of \$0.25. The options expire October 20, 2013 and vest in thirds over a one-year period.

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

	Number of Warrants	Exercise Price	Expiry Date
Balance April 30, 2009	-	\$ -	
Granted	568,695	0.17	May 29, 2011
Exercised	(227,478)	0.17	May 29, 2011
Balance October 31, 2009	341,217	\$ 0.17	May 29, 2011

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:

	Six Months Ended October 31, 2009	Year Ended April 30, 2009
Risk-free interest rate	2.5% - 2.7%	1.9%
Expected dividend yield	NIL	NIL
Expected stock price volatility	83% - 94%	86% - 92%
Expected option life in years	3 - 5 years	3 - 5 years

For the six months ended October 31, 2009, the Company recorded stock-based compensation expense of \$494,000 (October 31, 2008 - \$267,000), of which \$194,000 (October 31, 2008 - \$207,000) has been capitalized to resource property costs. The Company granted 3,395,000 stock options during the six months ended October 31, 2009. The options have an exercise price of \$0.25 and expire between four to five years from the grant date. The Company used the Black-Scholes Option Pricing Model to estimate a fair value of \$543,000 for this grant.

During the year ended April 30, 2009 the Company granted options to purchase up to 3,478,500 (2008 - 3,272,265) shares of the Company's stock to employees and non-employees at an exercise price of \$0.10 (2008 - \$0.63 and \$0.75). The Company used the Black-Scholes Option Pricing Model to estimate a fair value of \$138,000 (2008 - \$1,104,000) for these grants.

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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11. Related Party Transactions

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

- a) As at October 31, 2009, other receivables included *(expressed in thousands of Canadian dollars)*:

	October 31, 2009	April 30, 2009
Strongbow Exploration Inc. (“Strongbow”), a company with a director in common	1	-
	\$ 1	\$ -

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

	October 31, 2009	April 30, 2009
Strongbow	-	2
Agnico-Eagle Mines Limited (“Agnico-Eagle”), a significant shareholder and a company with a director in common	5	3
	\$ 5	\$ 5

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

- c) During the period ended October 31, 2009, the Company paid or accrued as payable \$24,500 (October 31, 2008 - \$38,000) for the reimbursement of administrative and technical time to Strongbow.
- d) In May 2007, the Company entered into a sub-lease agreement with Agnico-Eagle, 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 *(Note 16)*.
- e) During the period ended October 31, 2009, the Company paid, or accrued as payable on behalf of the Eastern Ungava JV, \$13,200 (October 31, 2008 - \$122,000) to Agnico-Eagle, of which the Company’s share is 50%, for work completed by Agnico-Eagle related to a preliminary assessment at the Renard Project (Foxtrot Property).

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

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12. Income Taxes

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

	For the Six Months Ended October 31, 2009	For the Year Ended April 30, 2009
Loss before income taxes	\$ (7,595)	\$ (5,070)
Canadian federal and provincial income tax rates	30.67%	31.00%
Income tax recovery based on the above rates	(2,329)	(1,572)
Increase (decrease) due to:		
Non-deductible expenses and other permanent differences	92	310
Losses and temporary differences for which no future income tax asset has been recognized	388	5,263
Reduction in long-term income tax rates	208	(531)
Income tax benefit recognition on the issuance of flow-through shares	-	(280)
Difference in calculation of gain on extinguishment of debt for tax purposes	-	(379)
Use of losses for which no tax benefit was previously recognized	-	(3,202)
Income tax expense (recovery)	\$ (1,641)	\$ (391)

- b) As at October 31, 2009, the Company has non-capital losses of approximately \$16,147 (April 30, 2009 - \$16,982), which can be used to reduce taxable income. These loss carry forwards (expressed in thousands of Canadian dollars) expire as follows:

2010	\$	1,298
2011 to 2016		5,054
2017 to 2021		721
2022 to 2026		6,310
2027 to 2029		2,764
	\$	16,147

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):

	October 31, 2009	April 30, 2009
<i>Future income tax assets</i>		
Non-capital losses	\$ 5,095	\$ 4,869
Capital losses	214	255
Property, plant and equipment	805	680
Financing fees	756	951
Resource property costs	11,180	10,876
Other	441	354
Total future tax assets	18,491	17,985
Valuation allowance	(14,976)	(14,512)
Net future income tax assets	\$ 3,515	\$ 3,473
<i>Future income tax liabilities</i>		
Resource property costs	\$ 22,718	\$ 24,255
Future tax liabilities	22,718	24,255
Future tax liability, net	\$ 19,203	\$ 20,782

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.

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13. Convertible Debentures

On March 16, 2007, the Company concluded a non-brokered sale of \$20.0 million in unsecured convertible debentures to Agnico-Eagle (a related party) (\$10.0 million) and Lorito Holdings Limited (“Lorito”) (\$10.0 million). The proceeds of the debenture financing were used to repay the bridge loan that was used to finance the acquisition of Ashton in September 2006. The debentures would have matured March 16, 2009 and interest was payable under the debentures quarterly at 12% per annum. At the date of issuance, the debentures were segregated into a liability component of \$17.08 million and an equity component of \$2.92 million based on the estimated fair value of the holder’s conversion option. The Company estimated the fair value of the conversion option by using the Black-Scholes option pricing model with the following assumptions: two-year estimated life, 42.2% volatility and a risk-free rate of 4.1%.

In July 2008, the Company issued 22,222,222 common shares, split equally between Agnico-Eagle and Lorito, to redeem the \$10.0 million principal amount of the convertible debentures held by each company. The Company also issued 1,111,111 shares to each company in respect of the early redemption of the convertible debentures. The redemption consideration of 22,222,222 common shares was fair valued at \$6.7 million based on the market price of the Company’s common shares on the transaction date of \$0.30 per share and was recorded in share capital. At the date of the early redemption, \$1.66 million of the redemption consideration was attributed to the equity component of the convertible debentures, based on the fair value of the holder’s conversion option, while the \$5.0 million residual of the redemption consideration was attributed to the liability component of the convertible debentures. Since the carrying values of the liability and equity components were \$18.9 million and \$2.92 million respectively, the Company recognized a \$13.3 million net gain on the early extinguishment of the convertible debentures on the consolidated statement of operations, and a \$1.3 million increase in shareholder’s equity/(deficit) in accordance with EIC-96 “Accounting for the early extinguishment of convertible securities through early redemption or repurchase”. The Company reduced the \$13.9 million gain by \$667,000, being the fair value at \$0.30 per share of the 1,111,111 common shares issued to each of Agnico-Eagle and Lorito for permitting the early redemption of the convertible debentures. The fair value of this share issuance was also recorded in share capital. At the date of early redemption, the Company estimated the fair value of the holder’s conversion option again by using the Black-Scholes option pricing model with the following assumptions: eight month estimated life, 44.3% volatility and a risk free rate of 2.9%.

14. Asset Retirement Obligations

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

	October 31, 2009	April 30, 2009
Balance – beginning of the period	\$ 634	\$ 637
Accretion	38	76
Change in estimate	-	(79)
Balance – end of the period	\$ 672	\$ 634

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. 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 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 inflation-adjusted estimated future cash flows is \$795,000.

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

(expressed in thousands of Canadian Dollars)

	For the Three Months Ended		For the Six Months Ended	
	October 31, 2009	October 31, 2008	October 31, 2009	October 31, 2008
Issuance of shares for early redemption of convertible debenture (Note 13)	\$ -	\$ -	\$ -	\$ 7,333
Stock-based compensation included in resource properties	\$ 180	\$ 95	\$ 194	\$ 207
Deferred exploration costs included in accounts payable and accrued liabilities	\$ 1,399	\$ 2,281	\$ 1,399	\$ 2,281
Deferred exploration costs included in other receivables	\$ 1,300	\$ 2,581	\$ 1,300	\$ 2,581
Issuance of common shares in settlement of interest payments (Note 13)	\$ -	\$ -	\$ -	\$ 889
Interest and financing fees included in resource property costs	\$ -	\$ -	\$ -	\$ 1,324
Amortization included in resource property costs	\$ 160	\$ 428	\$ 361	\$ 856

16. Commitments

The Company has minimum commitments under its operating leases for its premises averaging approximately \$405,000 per year until June 30, 2010; then decreasing to approximately \$300,000 per year through 2013. A portion of these payments may be recovered through sub-leases.

In addition, the Company has GICs in the amount of \$259,000 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.