

STORNOWAY DIAMOND CORPORATION

(An Exploration Stage Company)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED OCTOBER 31, 2011

Stornoway Diamond Corporation

(An Exploration Stage Company)

Condensed Interim Consolidated Balance Sheets

Unaudited

(expressed in thousands of Canadian dollars)

		October 31, 2011	April 30, 2011 (Note 17)
ASSETS			
Current			
Cash and cash equivalents		\$ 6,963	\$ 22,745
Short-term deposits		13,573	11,777
Other receivables	6	261	955
Investments	7	84	242
Prepaid expenses		233	772
Prepaid fuel		165	206
		<u>21,279</u>	<u>36,697</u>
Rough Diamond Inventory	9a	1,004	1,004
Property, Plant and Equipment	8	4,817	5,194
Exploration and Evaluation Assets	9h	214,627	214,544
		<u>\$ 241,727</u>	<u>\$ 257,439</u>
LIABILITIES			
Current			
Trade accounts payable	10	\$ 1,521	\$ 928
Accrued liabilities and provisions	10	<u>3,014</u>	<u>3,862</u>
		4,535	4,790
Other Liabilities		-	265
Asset Retirement Obligation	13	<u>1,446</u>	<u>1,442</u>
		5,981	6,497
SHAREHOLDERS' EQUITY			
Share Capital	11	335,839	335,802
Convertible Shares	11b	56,182	56,182
Contributed Surplus	11	13,736	13,580
Accumulated Other Comprehensive Loss		(108)	(25)
Deficit		<u>(169,903)</u>	<u>(154,597)</u>
		<u>235,746</u>	<u>250,942</u>
		<u>\$ 241,727</u>	<u>\$ 257,439</u>

Commitments (Note 15)

ON BEHALF OF THE BOARD:

“Anthony Walsh”, Director

“Matthew Manson”, Director

– See Accompanying Notes –

Stornoway Diamond Corporation

(An Exploration Stage Company)

Condensed Interim Consolidated Statements of Loss

Unaudited

(expressed in thousands of Canadian dollars except for loss per share and weighted average number of shares outstanding)

	Note	For the Three Months Ended		For the Six Months Ended	
		October 31, 2011	October 31, 2010 (Note 17)	October 31, 2011	October 31, 2010 (Note 17)
Expenses					
Amortization	8	\$ 213	\$ 156	\$ 423	\$ 316
Exploration expenses		4,151	2,352	12,441	2,655
Office and sundry		126	97	257	244
Professional fees		383	259	684	350
Regulatory and shareholder communication expense		156	109	364	205
Rent and facility fees		128	108	244	226
Salaries, benefits and director's fees	12a	218	140	406	338
Share-based payments		3	1,236	163	1,549
Loss Before the Following		(5,378)	(4,457)	(14,982)	(5,883)
Other Income (Expenses)					
Bad debt recovery		-	-	-	101
Cost recovery		(3)	132	129	274
Finance expenses	4	(448)	(4)	(889)	(6)
Gain on the sale of investments		29	-	29	-
Gain on the sale of property, plant and equipment		16	-	16	-
Interest income		84	24	189	38
Write-off of exploration and evaluation assets	9g	(1)	-	(50)	-
		(323)	152	(576)	407
Loss Before Income Taxes		(5,701)	(4,305)	(15,558)	(5,476)
Current tax expense		-	-	(2)	-
Deferred income tax recovery		11	10	254	6
Loss for the Period		\$ (5,690)	\$ (4,295)	\$ (15,306)	\$ (5,470)
Loss per Share - Basic and Diluted		\$ (0.04)	\$ (0.06)	\$ (0.11)	\$ (0.07)
Weighted Average Number of Shares Outstanding*		141,163,658	74,377,588	141,159,555	73,655,095

* Post-share consolidation (Note 11a)

Condensed Interim Consolidated Statements of Comprehensive Loss

Unaudited

(expressed in thousands of dollars)

	Note	For the Three Months Ended		For the Six Months Ended	
		October 31, 2011	October 31, 2010 (Note 17)	October 31, 2011	October 31, 2010 (Note 17)
Loss for the Period		\$ (5,690)	\$ (4,295)	\$ (15,306)	\$ (5,470)
Unrealized gain (loss) on available-for-sale investments, net of taxes	7	(13)	59	(36)	26
Reversal of unrealized loss on available-for-sale investments, net of taxes		(35)	-	(47)	-
Comprehensive Loss		\$ (5,738)	\$ (4,236)	\$ (15,389)	\$ (5,444)

- See Accompanying Notes -

Stornoway Diamond Corporation

(An Exploration Stage Company)

Condensed Interim Consolidated Statements of Changes in Equity

Unaudited

(expressed in thousands of Canadian dollars except for loss per share and weighted average number of shares outstanding)

	Share Capital		Convertible Shares		Contributed Surplus	AOCL*	Deficit	Total
	Number of shares	Amount	Number of shares	Amount				
Balance at May 1, 2011	118,596,004	\$ 335,802	22,543,918	\$ 56,182	\$ 13,580	\$ (25)	\$ (154,597)	\$250,942
Exercise of options	4,000	2	-	-	(1)	-	-	1
Exercise of warrants	19,736	19	-	-	(6)	-	-	13
Share-based payments	-	-	-	-	163	-	-	163
Share issuance costs	-	16	-	-	-	-	-	16
Unrealized loss on available-for-sale financial assets	-	-	-	-	-	(42)	-	(42)
Income tax recovery in AOCL*	-	-	-	-	-	6	-	6
Reversal of unrealized loss on available-for-sale financial assets	-	-	-	-	-	(55)	-	(55)
Income tax recovery in AOCL*	-	-	-	-	-	8	-	8
Net loss for the period	-	-	-	-	-	-	(15,306)	(15,306)
Balance at October 31, 2011	118,619,740	\$ 335,839	22,543,918	\$ 56,182	\$ 13,736	\$ (108)	\$ (169,903)	\$ (235,746)
Balance – May 1, 2010	72,167,258	225,100	-	-	11,852	(61)	(138,407)	98,484
Shares issued for cash – private placement	2,193,750	5,002	-	-	-	-	-	5,002
Exercise of options	12,500	6	-	-	(1)	-	-	5
Exercise of warrants	8,312	14	-	-	(4)	-	-	10
Share-based payments	-	-	-	-	1,549	-	-	1,549
Share issuance costs	-	(544)	-	-	156	-	-	(388)
Flow-through share premium	-	(527)	-	-	-	-	-	(527)
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	30	-	30
Deferred income tax expense in AOCL*	-	-	-	-	-	(4)	-	(4)
Net loss for the period	-	-	-	-	-	-	(5,470)	(5,470)
Balance at October 31, 2010	74,381,820	\$ 229,051	-	\$ -	\$ 13,552	\$ (35)	\$ (143,877)	\$ 98,691

*Accumulated Other Comprehensive Loss

– See Accompanying Notes –

Stornoway Diamond Corporation

(An Exploration Stage Company)

Condensed Interim Consolidated Statements of Cash Flows

Unaudited

(expressed in thousands of Canadian dollars)

Cash Resources Provided By (Used In)	For the Three Months Ended		For the Six Months Ended	
	October 31, 2011	October 31, 2010 (Note 17)	October 31, 2011	October 31, 2010 (Note 17)
Operating Activities				
Loss for the period	\$ (5,690)	\$ (4,295)	\$ (15,306)	\$ (5,470)
Items not affecting cash				
Accretion	4	4	9	6
Amortization	213	156	423	316
Deferred income tax recovery	(11)	(10)	(254)	(6)
Gain on the sale of investments	(29)	-	(29)	-
Gain on the sale of property, plant and equipment	(16)	-	(16)	-
Share-based payments	3	1,236	163	1,549
Write-off of exploration and evaluation assets	1	-	50	-
Changes in non-cash working capital				
Decrease (increase) in other receivables	869	(1,278)	704	(907)
Decrease in prepaid expenses	28	28	539	37
Increase (decrease) in trade accounts payable, accrued liabilities and provisions	162	2,173	(240)	1,287
Prepaid fuel	53	2	41	2
	<u>(4,413)</u>	<u>(1,984)</u>	<u>(13,916)</u>	<u>(3,186)</u>
Investing Activities				
Increase in short-term deposits	(1,757)	(51)	(1,796)	(97)
Exploration and evaluation assets	(131)	(64)	(139)	(146)
Proceeds on the sale of investments	94	-	94	-
Proceeds on the sale of property, plant and equipment	10	-	10	-
Acquisition of property, plant and equipment	(48)	(26)	(50)	(75)
	<u>(1,832)</u>	<u>(141)</u>	<u>(1,881)</u>	<u>(318)</u>
Financing Activities				
Share capital issued for cash	-	-	-	5,002
Share issue costs	-	-	-	(386)
Options and warrants exercised	-	10	15	15
	<u>-</u>	<u>10</u>	<u>15</u>	<u>4,631</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(6,245)	(2,115)	(15,782)	1,127
Cash and Cash Equivalents – Beginning of period	<u>13,208</u>	<u>12,454</u>	<u>22,745</u>	<u>9,212</u>
Cash and Cash Equivalents – End of Period	\$ 6,963	\$ 10,339	\$ 6,963	\$ 10,339

Cash and Cash Equivalents consist of:

	October 31, 2011	October 31, 2010
Cash	\$ 456	\$ 253
Cash Equivalents	<u>6,507</u>	<u>10,086</u>
Total	\$ 6,963	\$ 10,339

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

- See Accompanying Notes -

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

1. Nature and continuance of operations

Stornoway Diamond Corporation (“Stornoway” or the “Company”) is a diamond exploration company existing under the Canada Business Corporations Act and listed on the Toronto Stock Exchange (“TSX”). The Company’s primary asset is the development-stage Renard Diamond Project in Quebec, Canada. The head office and principal address of the Company is Unit 116, 980 West 1st Street, North Vancouver, British Columbia, V7P 3N4.

The Board of Directors approved these condensed interim consolidated financial statements on December 12, 2011.

2. Basis of preparation and first time adoption of International Financial Reporting Standards (“IFRS”)

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting (“IAS 34”) and IFRS 1, First-Time Adoption of International Financial Reporting Standards (“IFRS 1”).

Note 17 discloses the impact of the transition to IFRS on our reported balance sheets, statements of loss and comprehensive loss and deficit and cash flows, including the nature and effect of significant changes in accounting policies from those used in our consolidated financial statements for the year ended April 30, 2011.

These condensed interim consolidated financial statements follow the same accounting policies and methods of application as set out in Note 2 of our condensed interim consolidated financial statements for the three months ended July 31, 2011 and are based on IFRS issued and outstanding as of December 12, 2011, the date the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in our annual consolidated financial statements for the year ending April 30, 2012 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

These condensed interim consolidated financial statements should be read in conjunction with our Canadian GAAP annual financial statements for the year ended April 30, 2011 and the Company’s interim financial statements for the quarter ended July 31, 2011 prepared in accordance with IFRS applicable to interim financial statements. Note 17 discloses IFRS information for the year ended April 30, 2011 that is material to the understanding of these condensed interim consolidated financial statements.

We applied IFRS 1 in preparing these first IFRS interim consolidated financial statements. The effects of the transition to IFRS on equity, total comprehensive loss and cash flows are presented in Note 17.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

2. Basis of preparation and first time adoption of International Financial Reporting Standards (“IFRS”)

– Continued

First-time Adoption Exemptions Applied

IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening balance sheet on our transition date of May 1, 2010, and allows certain exemptions on the transition to IFRS. The elections we have chosen to apply and that are considered significant to the Company include decisions to:

- not restate previous business combinations and the accounting thereof prior to May 1, 2010;
- measure property, plant and equipment at deemed cost, being the carrying value of property, plant and equipment at the date of previously recorded impairments;
- not apply IFRS 2, Share-based Payments to liabilities arising from share-based payment transactions that were settled (vested) before May 1, 2010;
- apply IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities (“IFRIC 1”) as of the date of transition to IFRS. IFRIC 1 requires specified changes in decommissioning, restoration or similar liabilities to be added to or deducted from the cost of the asset to which it relates and the adjusted depreciable amount of the asset to then be depreciated prospectively over its remaining useful life; and
- apply the requirements of IAS 23, Borrowing Costs to only capitalize borrowing costs on qualifying assets effective May 1, 2010.

3. New IFRS Pronouncements

In May and June 2011, the IASB issued several new standards which have not yet been adopted by the Company. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements. The following is a brief summary of the new standards:

IAS 1 – Presentation of Financial Statements

This standard requires companies preparing financial statements under IFRS to group items within Other Comprehensive Income (“OCI”) that may be reclassified to profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 are set out in Presentation of Items of Other Comprehensive Income and are effective for fiscal years beginning on or after July 1, 2012.

IAS 19 - Post-Employment Benefits

In June 2011, the IASB issued an amended version of IAS 19, Employee Benefits (“IAS 19”). The amendments to IAS 19 are meant to improve the quality, transparency and comparability of information presented for postemployment benefits. For defined benefit plans, the amendments eliminate the option to defer actuarial gains and losses on the balance sheet through the “corridor method”. The amendments also require any remeasurement gains or losses, including actuarial gains and losses, to be recognized immediately and presented in other comprehensive income, eliminating the option to recognize and present these through the income statement. Additional disclosures will also be required to present better information about the characteristics, amounts recognized, and risks related to defined benefit plans. The amendments to IAS 19 are effective for financial years beginning on or after January 1, 2013 with earlier adoption permitted. The Company does not have post-employment benefits thus this policy will not have an impact on the Company’s financial statements.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

3. New IFRS Pronouncements – Continued

IFRS 9 – Financial Instruments – classification and measurement

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is recorded at fair value through profit or loss.

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 clarifies the requirements for accounting for the costs of stripping activity in the production phase when stripping improves access to further quantities of material that will be mined in future periods. The amendments to IFRIC 20 are effective for financial years beginning on or after January 1, 2013 with earlier adoption permitted.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

4. Acquisition of the Renard Diamond Project

On April 1, 2011, the Company acquired a 50% interest in the Renard Diamond Project and related assets from Diaquem, Inc. (“Diaquem”) increasing its interest in the Renard Diamond Project to 100%. Diaquem is a wholly-owned subsidiary of SOQUEM INC., itself a wholly-owned subsidiary of Investissement Québec (formerly Société générale de financement du Québec) (“IQ”). The Renard Diamond Project, located within the Foxtrot Property, consists of approximately 54,550 hectares around the Otish Mountains region. Exploration on the property resulted in the discovery of a field of kimberlite intrusions, all of which are diamondiferous and are currently being assessed for possible mining.

Under the terms of the acquisition, Diaquem received 29,588,892 common shares and 22,543,918 non-voting, convertible shares of the Company, and retained a 2% direct royalty interest on future diamond production. IQ also agreed to enter into a credit support agreement with the Company for a minimum of \$100 million to fund a portion of future construction and development costs at the Renard Diamond Project. A commitment fee equal to 1.75% per annum on the \$100 million facility is payable quarterly, in arrears, beginning on April 1, 2011. There are no restrictions and no expiry date on the convertible shares except that Diaquem cannot hold more than 25% of Stornoway’s voting, common shares.

Total consideration of \$132.6 million includes the fair value of 29,588,892 common shares and 22,543,918 convertible common shares issued at \$2.49 per share (based on the five-day volume weighted average price of the Company’s shares calculated before the April 1, 2011 closing date), plus transaction costs of \$2.7 million.

This transaction has been accounted for as an asset acquisition under IFRS. The consideration paid has been allocated to the acquired assets based on their fair value at the date of acquisition. The purchase price of the acquisition has been primarily allocated as follows (expressed in thousands of Canadian dollars):

Purchase Price

Common shares issued (29,588,892 shares)	\$	73,739
Convertible shares issued (22,543,918 shares)		56,182
Transaction costs		2,715
	\$	132,636

Net Assets Acquired

Current assets	\$	548
Rough diamond inventory		674
Property, plant and equipment		2,011
Exploration and evaluation assets		130,880
Current liabilities		(757)
Asset retirement obligations		(720)
	\$	132,636

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

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, trade accounts payable, accrued liabilities and provisions and amounts due to related parties. The carrying value of cash and cash equivalents, short-term deposits, other receivables, trade accounts payable, accrued liabilities and provisions and amounts due to related parties approximate their fair values due to their immediate or short-term maturity. Investments are recorded at fair value based on the quoted market prices in active markets at the balance sheet date, which is consistent with Level 1 of the fair value hierarchy. Short-term deposits are recorded consistent with Level 2 of the hierarchy.

The fair values of financial instruments at October 31, 2011 and April 30, 2011 are summarized as follows (expressed in thousands of Canadian dollars):

	October 31, 2011		April 30, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial Assets				
<i>Held-for-trading</i>				
Short-term deposits	13,573	13,573	11,777	11,777
<i>Loans and Receivables</i>				
Cash and cash equivalents	6,963	6,963	22,745	22,745
Other receivables	261	261	955	955
<i>Available for sale</i>				
Investments	84	84	242	242
Financial Liabilities				
Trade accounts payable, accrued liabilities, provisions and due to related parties	4,535	4,535	4,790	4,790

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 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 (7% of receivables). Other miscellaneous receivables total approximately 12% of the Company's receivables while the remainder of the Company's receivables at the balance sheet date (81% of receivables totalling \$212,000 as at October 31, 2011) 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 financial assets.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

5. Financial Instruments and Risk Management – Continued

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, 2011, management estimates that if interest rates had changed by 1% for those funds invested in guaranteed investment certificates (“GICs”), and 0.2% 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, 2011 would have been approximately \$70,000.

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, 2011, the Company had cash and cash equivalents and short-term deposits of \$20.5 million (April 30, 2011 - \$34.5 million) as well as other receivables of \$261,000 (April 30, 2011 - \$955,000) to settle current liabilities of \$4.5 million (April 30, 2011 - \$4.8 million). See Note 15 for details on other commitments.

6. Other Receivables

The Company’s other receivables arise primarily from goods and services tax (“GST”), harmonized sales tax (“HST”) and Quebec sales tax (“QST”) receivables due from various government taxation authorities (*expressed in thousands of Canadian dollars*).

	As at October 31, 2011	As at April 30, 2011
Sales tax receivables	212	833
Other receivables	49	122
Other Receivables - Current	\$ 261	\$ 955

7. Investments

The Company’s investments consisted 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 represented less than a 5% interest in these companies.

During the period ended October 31, 2011, the Company received gross proceeds of \$94,000 from the sale of one investment and recognized a \$29,300 gain from the sale. As at October 31, 2011, the fair value of the remaining investment was \$84,000 (April 30, 2011 - \$242,000). During the period ended October 31, 2011, the Company recognized an unrealized loss of \$36,000, net of taxes (October 31, 2010 –\$26,000) in accumulated other comprehensive income/loss.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

8. Property, Plant and Equipment

(Expressed in thousands of Canadian dollars)

Details are as follows:

	Office Equipment	Buildings	Leasehold improvements	Exploration equipment	Vehicles	Laboratory equipment	Total
Cost							
As at May 1, 2010	\$ 743	\$ 91	\$ 800	\$ 826	\$ 610	\$ 6,154	\$ 9,224
Additions	101	-	-	-	-	11	112
Acquisition (Note 4)	67	-	-	656	560	3,752	5,035
Disposals	(56)	-	-	(12)	-	(59)	(127)
As at April 30, 2011	855	91	800	1,470	1,170	9,858	14,244
Additions	5	-	-	43	-	2	50
Disposals	(3)	-	-	(48)	-	-	(51)
As at October 31, 2011	\$ 857	\$ 91	\$ 800	\$ 1,465	\$ 1,170	\$ 9,860	\$ 14,243
Accumulated amortization							
As at May 1, 2010	\$ (667)	\$ (22)	\$ (451)	\$ (681)	\$ (497)	\$ (3,169)	\$ (5,487)
Charge for the year	(54)	(4)	(93)	(79)	(48)	(713)	(991)
Acquisition (Note 4)	(12)	-	-	(534)	(451)	(1,701)	(2,698)
Eliminated on disposals	55	-	-	13	-	58	126
As at April 30, 2011	(678)	(26)	(544)	(1,281)	(996)	(5,525)	(9,050)
Charge for the period	(33)	(1)	(46)	(30)	(15)	(298)	(423)
Eliminated on disposals	3	-	-	44	-	-	47
As at October 31, 2011	\$ (708)	\$ (27)	\$ (590)	\$ (1,267)	\$ (1,011)	\$ (5,823)	\$ (9,426)
Net book value							
As at May 1, 2010	\$ 76	\$ 69	\$ 349	\$ 145	\$ 113	\$ 2,985	\$ 3,737
As at April 30, 2011	\$ 177	\$ 65	\$ 256	\$ 189	\$ 174	\$ 4,333	\$ 5,194
As at October 31, 2011	\$ 149	\$ 64	\$ 210	\$ 198	\$ 159	\$ 4,037	\$ 4,817

9. Exploration and Evaluation Assets and Exploration Expenses

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

The Company has a 100% interest in the Eastern Ungava property interest located in north-central Quebec, including the Foxtrot Property. On April 1, 2011, the Company acquired Diaquem's 50% interest in the Renard Diamond Project and related assets (Note 4). Rough diamonds weighing approximately 7,500 carats have been derived from exploration activities at Renard. 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. As at October 31, 2011, the carrying value of exploration and evaluation assets, consisting primarily of capitalized acquisition costs for the Renard Diamond Project totaled \$206.9 million.

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. As at October 31, 2011, the carrying value of exploration and evaluation assets, consisting primarily of capitalized acquisition costs for this property totaled \$1.97 million.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

9. Exploration and Evaluation Assets and Exploration Expenses – Continued

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 April 30, 2011, the Company wrote-off \$2.1 million of capitalized property interests, resulting in a carrying value of \$Nil. A portion of the Churchill property (the “Chesterfield Inlet” project) was subject to an option out agreement between the Company, Shear and Kennecott Canada Exploration (optionee) as of August 2009, which was terminated by the optionee in June 2011.

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 October 31, 2011 or the year ended April 30, 2011.

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.

No acquisition cash payments or shares were issued pursuant to the Company’s other property interests during the period ended October 31, 2011 or the year ended April 30, 2011.

g) Write-offs

During the period ended October 31, 2011, the Company wrote-off exploration and evaluation assets related to capitalized acquisition costs of \$50,000 where no future exploration programs were planned for the foreseeable future (October 31, 2010 – \$Nil).

h) Exploration and Evaluation Assets

(Expressed in thousands of Canadian dollars)

	April 30, 2011	Acquisition Expenditures	Write-down	Change in ARO estimate	October 31, 2011
	\$	\$	\$	\$	\$
Arctic Properties	2,121	118	(50)	-	2,189
Eastern Canada Properties	212,312	20	-	(6)	212,326
Other Canadian Properties	111	1	-	-	112
	214,544	139	(50)	(6)	214,627

	April 30, 2010	Acquisition Expenditures	Acquisition (Note 4)	Write-down	April 30, 2011
	\$	\$	\$	\$	\$
Arctic Properties	4,166	97	-	(2,142)	2,121
Eastern Canada Properties	81,255	201	130,862	(6)	212,312
Other Canadian Properties	20	91	-	-	111
	85,441	389	130,862	(2,148)	214,544

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

9. Exploration and Evaluation Assets and Exploration Expenses – Continued

i) Exploration Expenses

(Expressed in thousands of Canadian dollars)

	For the Three Months Ended		For the Six Months Ended	
	October 31, 2011	October 31, 2010	October 31, 2011	October 31, 2010
<i>Arctic Properties</i>				
Assays and laboratory	\$ 60	\$ 46	\$ 139	\$ 51
Camp and general	(93)	53	689	130
Drilling	102	-	661	-
Sampling and ground surveys	11	-	17	9
Management fees	-	1	-	1
Exploration recoveries	(3)	-	(3)	-
	<u>77</u>	<u>100</u>	<u>1,503</u>	<u>191</u>
<i>Eastern Canada Properties</i>				
Airborne geophysics	122	-	227	-
Assays and laboratory	54	97	93	150
Camp and general	479	159	988	458
Drilling	-	363	-	374
Pre-feasibility and feasibility studies	2,313	1,172	7,784	1,585
Sampling and ground surveys	393	130	404	207
Mineral exploration tax re-assessment (credits received)	(21)	(52)	15	(827)
	<u>3,340</u>	<u>1,869</u>	<u>9,511</u>	<u>1,947</u>
<i>Other Canadian Properties</i>				
Airborne geophysics	516	-	516	-
Camp and general	102	22	115	12
Sampling and ground surveys	(72)	247	287	250
	<u>546</u>	<u>269</u>	<u>918</u>	<u>262</u>
<i>Generative Exploration</i>				
Assays and laboratory	197	101	382	202
Camp and general	55	13	110	53
Drilling	(76)	-	-	-
Sampling and ground surveys	12	-	17	-
	<u>188</u>	<u>114</u>	<u>509</u>	<u>255</u>
Total exploration expenses during the period	<u>\$ 4,151</u>	<u>\$ 2,352</u>	<u>\$ 12,441</u>	<u>\$ 2,655</u>

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

10. Trade Accounts Payable, Accrued Liabilities and Provisions

(Expressed in thousands of Canadian dollars)

Trade and other payables of the Company are principally comprised of amounts outstanding for trade purchases relate to exploration and development activities. The usual credit period taken for trade purchases is between 30 to 90 days.

	As at October 31, 2011	As at April 30, 2011
Trade payables	\$ 1,521	\$ 928
Accrued liabilities and provisions	3,001	3,638
Other current liabilities	13	224
Total trade accounts payable, accrued liabilities and provisions	\$ 4,535	\$ 4,790

11. Share Capital

a) Authorized Share Capital

At October 31, 2011, the authorized share capital comprised of an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

Share Consolidation

On February 22, 2011, shareholders approved a 1-new-for-4-old share consolidation. All share, per share, share option, warrant and weighted average exercise price information included in the condensed interim consolidated financial statements and accompanying notes has been adjusted to reflect this share consolidation for all periods presented.

b) Convertible Shares (expressed in thousands of Canadian dollars except share numbers):

	Number	Amount
Authorized:		
Unlimited non-voting convertible shares without par value		
Issued and fully paid:		
Balance – May 1, 2010	-	\$ -
Issuance of convertible shares for asset acquisition (Note 4)	22,543,918	56,182
Balance – October 31, 2011 and April 30, 2011	22,543,918	\$ 56,182

The non-voting convertible shares have no expiry date and no restrictions except that Diaquem cannot hold more than 25% of Stornoway's voting, common shares. The convertible shares can be converted into common shares of the Company at any time either by way of a disposition or sale which is exempt from prospectus requirements under applicable securities law, or by way of a distribution to the public. The Company has the right, in connection with a Multilateral Instrument 61-101 transaction, to require that all convertible shares be converted into common shares of the Company.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

11. Share Capital – Continued

c) Equity Financings

On June 29, 2010, the Company completed a private placement, with Desjardins Securities Inc. as lead agent, which consisted of 2,193,750 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 \$2.28 per share. The Company paid a 6.5% cash commission on certain subscriptions received and issued 131,625 Compensation Options. The Compensation Options are exercisable at \$2.28 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.

On January 6, 2011, the Company completed a prospectus offering and issued 14,350,000 common shares at \$2.44 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.

d) Flow-through Funds

To finance certain of its exploration activities, the Company raised \$1,431,617 in May 2009 (renounced to shareholders as at December 31, 2009) and \$5,001,750 in June 2010 (renounced to shareholders as at December 31, 2010) by way of flow-through private placements. Under the terms of the June 2010 subscription agreement, the Company was required to spend \$5,001,750 on eligible Canadian Exploration Expenditures (“CEE”) on or before December 31, 2011 and has met this expenditure requirement as of October 31, 2011. 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.

e) Stock Option Plan

On October 20, 2011, the Company’s shareholders approved a resolution to change the maximum number of common shares issuable pursuant to the Company’s Stock Option Plan (the “Plan”) from a fixed number of common shares to a fixed percentage (10%) of the issued and outstanding common shares and non-voting convertible shares.

The Plan provides the directors with discretion to set vesting terms for each stock option grant. 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 granted as part of the annual grant 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 and outstanding common shares and non-voting convertible shares, or to insiders as a group, shall not exceed 10% of the total number of issued and outstanding common shares on a non-diluted basis.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

11. Share Capital – Continued

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

	Number of Options		Weighted Average Exercise Price
Balance May 1, 2010	3,632,951	\$	3.16
Granted	1,195,000		2.32
Forfeited	(53,750)		3.15
Expired	(378,355)		4.85
Exercised	(138,750)		0.61
Balance April 30, 2011	4,257,096	\$	2.86
Granted	75,000		2.08
Forfeited	(38,875)		2.59
Expired	(94,050)		5.00
Exercised	(4,000)		0.40
Balance October 31, 2011	4,195,171	\$	2.80
Number of options currently exercisable	4,195,171	\$	2.80

g) As at October 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
\$ 4.08	27,750	\$ 4.08	2011	0.14 years
\$ 2.52 ~ \$ 27.76	1,248,495	\$ 4.68	2012	0.71 years
\$ 0.40 ~ \$ 29.68	980,301	\$ 2.03	2013	2.06 years
\$ 0.40 ~ \$ 19.44	671,025	\$ 1.18	2014	2.95 years
\$ 2.24 ~ \$ 5.36	1,167,600	\$ 2.40	2015	3.78 years
\$ 2.08 ~ \$ 2.50	100,000	\$ 2.19	2016	4.65 years
	4,195,171			

The Company granted the following stock options between May 1, 2010 and October 31, 2011:

Grant Date	Stock Options Granted	Exercise Price	Expiry Date	Vesting Terms
May 3, 2010	305,000	\$2.48	May 3, 2015	a
September 14, 2010	820,000	\$2.24	September 14, 2015	b
September 14, 2010	20,000	\$2.60	September 14, 2015	a
April 1, 2011	50,000	\$2.50	April 1, 2016	b
July 20, 2011	75,000	\$2.08	July 20, 2016	b
	1,270,000			

a These stock options vest in thirds over one-year following the grant date.

b These stock options vest on the grant date.

Subsequent to the quarter-end, on November 21, 2011, the Company granted 1,250,000 stock options to non-executive employees of the Company. These stock options vest on the grant date, are exercisable at \$1.04 and have a five-year term.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

11. Share Capital - Continued

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

	Number of Warrants		Weighted Average Exercise Price
Balance May 1, 2010	409,833	\$	1.90
Issued – Compensation options	131,625		2.28
Exercised	(157,354)		0.54
Balance April 30, 2011	384,104	\$	1.95
Exercised	(19,737)		0.68
Balance October 31, 2011	364,367	\$	2.02

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

Number of Warrants	Exercise Price	Expiry Date
26,325	\$ 2.28	December 29, 2011
338,042	\$ 2.00	February 23, 2012
364,367		

i) Share-Based Payments

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 October 31, 2011	Year Ended April 30, 2011
Risk-free interest rate	2.0%	1.7% - 2.7%
Expected dividend yield	NIL	NIL
Expected stock price volatility ⁽ⁱ⁾	83%	84 - 99%
Expected option life in years	5 years	3 – 5 years

(i) Expected volatility has been based on historical volatility of the Company's publicly traded shares.

During the period ended October 31, 2011, the Company granted options to purchase up to 75,000 (April 30, 2011 – 1,195,000 stock options to directors, officers and employees) shares of the Company's stock to directors at an exercise price of \$2.08 (April 30, 2011 - exercise price range of \$2.24 – \$2.60). These options expire five years from the grant date. The Company used the Black-Scholes Option Pricing Model to estimate a fair value of \$103,000 (April 30, 2011 - \$1.8 million) for this grant.

For the period ended October 31, 2011, the Company recorded a share-based payment expense of \$163,000 (October 31, 2010 - \$1.55 million).

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.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

12. Related Party Transactions

a) Key Management Personnel Remuneration

Key management includes the Company's directors and officers. Compensation awarded to key management includes (expressed in thousands of Canadian dollars):

	Six Months Ended	
	October 31, 2011	October 31, 2010
Salaries and other short-term employee benefits ⁽ⁱ⁾	\$ 569	\$ 562
Director's fees	39	35
Share-based payments	103	1,155
	<u>\$ 711</u>	<u>\$ 1,752</u>

(i) Certain salaries for key management personnel are allocated to exploration and evaluation expense.

b) Transactions with related parties

The Company entered into the following transaction with a related party not disclosed elsewhere in these financial statements:

- i) During the six months ended October 31, 2011, the Company paid legal fees of \$50,000 to Lavery de Billy LLP ("Lavery"). On July 20, 2011, a partner of Lavery was appointed to the Company's Board of Directors as a designee pursuant to an investor agreement between the Company and Diaquem Inc. (Note 4).

These amounts are non-interest bearing, unsecured and are due on demand. All transactions with related parties have occurred in the normal course of the Company's operations and are based on agreed upon amounts between the parties.

13. Asset Retirement Obligations

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

	October 31, 2011	April 30, 2011
Balance – beginning of the period	\$ 1,442	\$ 728
Accretion	9	13
Acquisition (Note 4)	-	720
Change in estimate	(5)	(19)
Balance – end of the period	<u>\$ 1,446</u>	<u>\$ 1,442</u>

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 Diamond 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 at the end of 2011. Should the Company decide to proceed with a production decision on the Renard Diamond Project, the obligation will be realized further into the future. The pre-tax market based discount rate at which the estimated cash flows have been discounted to arrive at the obligation is 1.02%. The discounted amount of inflation-adjusted estimated future cash flows is \$1,446,000.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

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

(expressed in thousands of Canadian dollars)

	October 31, 2011	October 31, 2010 (Note 17)
Issuance of compensation options (Note 11c)	\$ -	\$ 157
Options and warrants exercised (Note 11)	\$ 6	\$ 6
Finance expense accrual (Note 4)	\$ 148	\$ -

15. Commitments

The Company is committed to minimum future operating lease payments for its office premises and to minimum future financial capital contributions for the construction and maintenance of the Route 167 segment for a maximum of ten years from year 2015 as follows (expressed in thousands of Canadian dollars):

	Operating lease payments	Commitment fee	Route 167	Total
Fiscal year ending April 30, 2013	\$ 454	\$ 1,750	\$ -	\$ 2,204
Fiscal year ending April 30, 2014	380	1,750	-	2,130
Fiscal year ending April 30, 2015	117	1,750	-	1,867
Fiscal year ending April 30, 2016	19	-	4,042	4,061
Fiscal year ending April 30, 2017	-	-	7,275	7,275
Thereafter	-	-	61,430	61,430
	\$ 970	\$ 5,250	\$ 72,747	\$ 78,967

In August 2011, the Company entered into two financing agreements with the Government of Québec by which the Company will contribute to the construction and maintenance costs of the Route 167 extension, the road development project that will provide year round highway access to the Renard Diamond Project by way of the communities of Mistissini and Chibougamau. In two separate agreements executed with the ministère des Ressources naturelles et de la Faune and the ministère des Transports, the Company has agreed to contribute \$44 million to the development of the Route 167 extension, to be amortized over a ten year period and starting in July 2015. The Company's contribution will be financed by Québec at 6.3% and will be conditional upon, amongst other things, the completion of the road on schedule, the receipt of all regulatory approvals for the construction of the Renard Diamond Project and the successful completion of project financing for the Renard Diamond Project. In addition, the Company has agreed to contribute a maximum of \$5,000 per kilometer, or \$1.215 million per year, to the maintenance of the road starting July 1, 2015. It is management's assumption that these conditions will be met, and therefore these commitments have been disclosed.

The Company has a \$100 million credit support agreement with IQ (Note 4) to fund a portion of future construction and development costs at the Renard Diamond Project, under which commitment fee payments equal to 1.75% per annum are payable by the Company. The obligations of IQ will terminate on the earlier to occur of: (a) the date on which the Company notifies IQ in writing that the credit support agreement is terminated; (b) the date of the initial borrowing under the IQ commitment; and (c) April 1, 2015.

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.

16. Segmented Information

The Company has identified its operating segments based on the internal reports that are reviewed and used by the executive management team in assessing performance and in determining the allocation of resources. The Company has two main operating segments being development stage exploration (Renard) and other advanced and grass roots exploration. The development stage exploration segment and the other advanced and grass roots exploration segments are principally engaged in the acquisition, exploration and development of diamond properties in distinct geographical locations within Canada. Refer to the Condensed Interim Consolidated Statements of Loss and Notes 9h and 9i for more information.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

17. First Time Adoption of IFRS

As stated in Note 2, these condensed interim consolidated financial statements have been prepared in accordance with IFRS. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's balance sheet and comprehensive loss has been set out in Notes 2 and 16 of the condensed interim consolidated financial statements for the three months ended July 31, 2011.

There have been no changes to these accounting policies during the six months ended October 31, 2011.

In preparing the opening IFRS condensed interim consolidated balance sheet and comparative information for the six months ended October 31, 2010, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's balance sheet and statements of financial performance is set out in the following tables.

a) Reconciliation of Assets, Liabilities and Equity

IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in significant changes to the reported balance sheets and statements of loss and deficit of the Company. Presented below are reconciliations prepared by the Company to reconcile to IFRS the assets, liabilities, equity, loss and comprehensive loss and cash flows of the Company from those reported under Canadian GAAP (expressed in thousands of Canadian dollars):

ASSETS	Notes	April 30, 2011	October 31, 2010	May 1, 2010
Total assets under Canadian GAAP		\$ 264,502	\$ 111,444	\$ 109,438
Adjustments for differing accounting treatments:				
Property, Plant and Equipment	(i)	2,325	1,393	1,371
Exploration and Evaluation Assets	(ii)(iii)	(9,388)	(8,420)	(8,413)
Total assets under IFRS		\$ 257,439	\$ 104,417	\$ 102,396

LIABILITIES	Notes	April 30, 2011	October 31, 2010	May 1, 2010
Total liabilities under Canadian GAAP		\$ 12,340	\$ 12,475	\$ 11,700
Adjustments for differing accounting treatments:				
Other Liabilities	(v)	265	527	-
Deferred Income Tax Liabilities	(ii)	(5,960)	(7,249)	(7,806)
Asset Retirement Obligations	(iii)	(148)	(27)	18
Total liabilities under IFRS		\$ 6,497	\$ 5,726	\$ 3,912

EQUITY	Notes	April 30, 2011	October 31, 2010	May 1, 2010
Total equity under Canadian GAAP		\$ 252,162	\$ 98,969	\$ 97,738
Adjustments for differing accounting treatments:				
Share Capital	(v)	1,040	(310)	217
Contributed Surplus	(iv)	(50)	70	45
Accumulated Other Comprehensive Loss		5	6	11
Deficit		(2,215)	(44)	473
Total equity under IFRS		\$ 250,942	\$ 98,691	\$ 98,484

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

17. First Time Adoption of IFRS – Continued

b) Reconciliation of Loss and Comprehensive Loss

	Notes	Three months ended October 31, 2010	Six months ended October 31, 2010
Loss under Canadian GAAP		\$ (3,915)	\$ (4,952)
Adjustments for differing accounting treatments:			
Accretion	(iii)	18	37
Amortization	(i)	10	22
Share-based payments	(iv)	130	(26)
Deferred income tax recovery	(v)	(538)	(551)
Loss under IFRS		(4,295)	(5,470)
Unrealized gain on available for sale investments, net of taxes		59	26
Comprehensive loss under IFRS		\$ (4,236)	\$ (5,444)

c) Reconciliation of Cash Flows

The adoption of IFRS has had no impact on the net cash flows of the Company. The changes made to the condensed interim consolidated statements of loss and comprehensive loss and to the condensed interim consolidated balance sheets have resulted in the reclassification of various amounts on the statements of cash flows however, as there have been no changes to the net cash flows, no reconciliations have been prepared.

d) Notes to the IFRS Reconciliations

- i) *Property, plant and equipment* – Under IFRS, where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment, and are depreciated separately. Under Canadian GAAP, there was no such requirement.
- ii) *Deferred tax on exploration and evaluation assets* – Under Canadian GAAP, the Company recognized a future income tax liability on temporary differences arising on the initial recognition of mineral property interests (where the fair value of the asset acquired exceeded its tax basis) in a transaction which was not a business combination and affected neither accounting profit or loss nor taxable profit or loss. IAS 12, “Income Taxes” does not permit the recognition of deferred taxes on such transactions. As of May 1, 2010, the Company has derecognized the impacts of all future income tax liabilities which had previously been recognized on the initial acquisition of the mineral property interests through transactions deemed not to be business combinations and affecting neither accounting profit or loss nor taxable profit or loss.
- iii) *Asset retirement obligation* – At May 1, 2010, the Company did an analysis of the discount rate used to present value its ARO liability. Under Canadian GAAP, a change in the discount rate alone did not result in a re-measurement of the ARO liability. Under IFRS, IAS 37, “Provisions, Contingent Liabilities and Contingent Assets” a change in the current market-based discount rate will result in a change in the measurement of the provision. As a result, the ARO liability recorded in 2010 has been re-measured using the pre-tax market-based discount rate in effect at each reporting period and an adjustment has been recorded to the corresponding asset.
- iv) *Share-based payments* – Under Canadian GAAP, the Company used the straight-line method of calculating vested options. The fair value of share-based awards with graded vesting was calculated as one grant and the resulting fair value was recognized on a straight-line basis over the vesting period. Also, forfeitures of awards were recognized as they occurred. Under IFRS, each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is recognized using the graded-vesting method. Also, forfeiture estimates are recognized on the grant date and revised for actual experiences in subsequent periods.

Stornoway Diamond Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Consolidated Financial Statements

Unaudited

17. First Time Adoption of IFRS – *Continued*

d) Notes to the IFRS Reconciliations – *Continued*

- v) *Flow-through shares* – Flow-through shares are a unique Canadian tax incentive which is the subject of specific guidance under Canadian GAAP, however there is no equivalent IFRS guidance. Therefore, the Company intends to adopt a policy whereby the premium paid for flow through shares in excess of the market value of the shares without the flow through features at the time of issue is credited to other liabilities and included in income as a deferred income tax recovery at the time the qualifying expenditures are made.