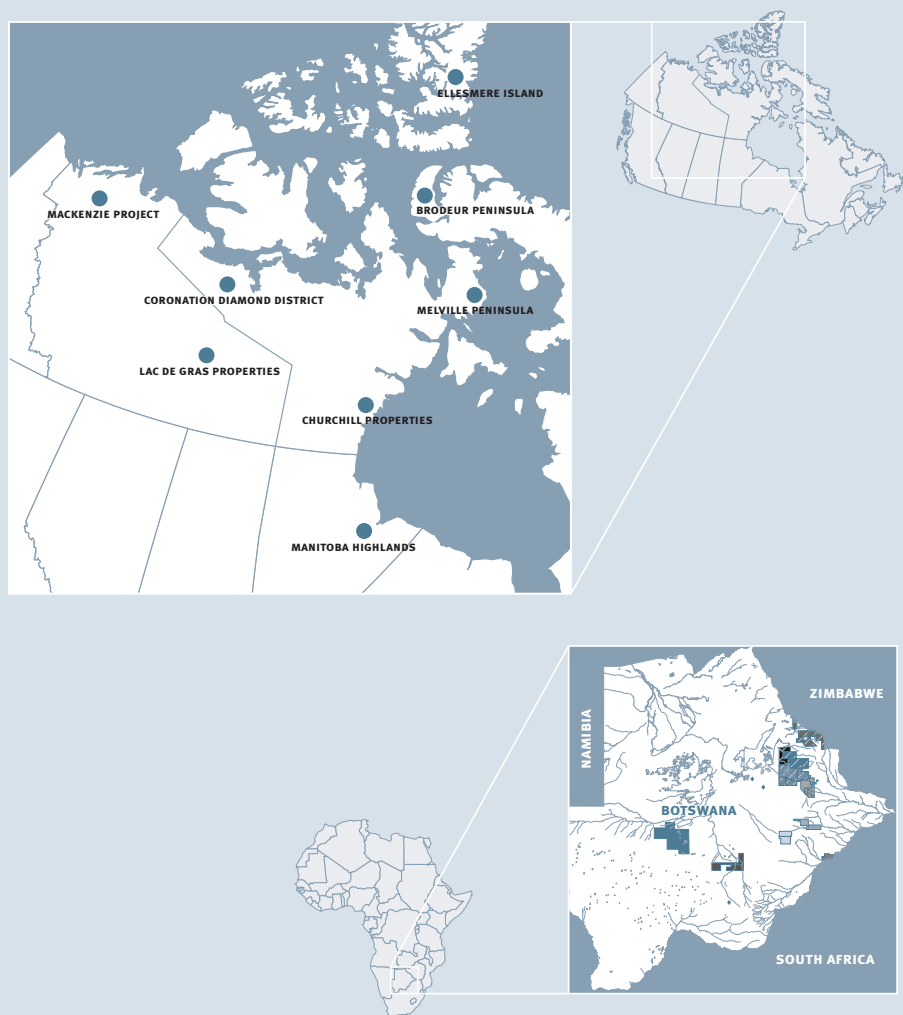




Annual Report | 2005



## Stornoway Diamond Corporation

## ANNUAL REPORT 2005

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**Stornoway Diamond Corporation is an experienced and well-funded Canadian diamond exploration company with an aggressive acquisition, exploration and development philosophy.**

**The Company is focussed on the discovery and development of a world class diamond mine.**



Dear Shareholders:

As one of Canada's premier, publicly traded diamond exploration companies, Stornoway continued to work productively over the past year to assess its extensive property portfolio and pursue its principal goal of discovering and developing a commercial diamond deposit.

During the year, Stornoway and its partners made great progress, discovering 12 new kimberlites on three separate projects in eastern Nunavut. This brings the total number of kimberlites in our portfolio to 43. Four new significantly diamondiferous kimberlites were discovered on the Aviat Project, located on the Melville Peninsula, while six new kimberlites, one diamond bearing, were added on the Churchill Project, located near the community of Rankin Inlet. The final two kimberlites were discovered from drilling at Wales Island in



and caustic fusion capabilities. In-house drilling capacity has also been developed to facilitate target testing in some of our more remote project locations.

Stornoway and its partners have approved a \$7.25 million program for the Aviat Project in 2005. This aggressive program will focus on the discovery of additional kimberlite bodies within the 70 km long Tremblay Corridor, where highly elevated kimberlitic indicator mineral counts and over 100 occurrences of kimberlite float

## President's Message

**As we head into summer 2005, we are looking forward to our busiest exploration season yet – advancing to the drilling stage on all our major projects, including Aviat, Churchill, Wales Island and LDG.**

Committee Bay where assessment of their diamond potential is ongoing.

As we head into summer 2005, we are looking forward to our busiest exploration season yet – advancing to the drilling stage on all our major projects, including Aviat, Churchill, Wales Island and LDG. This year, exploration budgets will approach \$25 million, of which Stornoway will contribute approximately \$16 million. More than 90 targets will be drill-tested throughout our landholdings, a five-fold increase over drilling activities in 2004. To manage this increased activity, we have expanded laboratory capacity in Thunder Bay, and added mini-bulk sampling

have been recovered suggesting the presence of additional, un-sourced diamond deposits. The 2005 budget includes, for the first time, a large component of drilling, testing a minimum of 25 targets between the months of April and October, 2005.

To date, six diamondiferous kimberlites have been discovered on the Aviat property, including the AV-1 kimberlite which has produced an initial sample grade of 0.83 carats/tonne from the processing of 10.4 tonnes of kimberlite in 2003/04. While encouraging, initial tonnage estimates suggest AV-1 may be too small to be developed as a stand-alone project and future work will focus on

assessing other diamondiferous kimberlites as well as new targets in its vicinity. The recently discovered AV-5 kimberlite, which will be drill-tested for the first time in 2005, yielded 93 diamonds from the processing of a 48 kg surface float sample — the best initial diamond counts recovered from the property to date.

At Churchill, Stornoway and its partners are in the midst of assessing one of Canada's largest kimberlite fields. So far, ten of the kimberlites discovered have proven weakly diamondiferous but evidence supports the presence of additional kimberlites with higher diamond potential on the property. The partners will continue with a major exploration effort in 2005. Stornoway's share of the budget is approximately \$2.6 million.

In addition to the Aviat and Churchill Projects, Stornoway maintains varying interests in a further 5.1 million acres in the eastern Arctic stretching from northern Manitoba to Ellesmere Island, 478,000 acres in western Nunavut, 150,000 acres in the central Slave Province and 106,000 acres in the Mackenzie district of the Northwest Territories. All told, Stornoway has exposure to close to 23 million acres of properties throughout northern Canada, representing one of the largest, most diversified land portfolios ever assembled for diamond exploration in Canada.

While diamond exploration in Canada remains a top priority for the company, Stornoway is committed to identifying the best opportunities for its shareholders worldwide and recently entered into an option agreement with Motapa Diamonds Inc. to explore a prospective land package totalling 5.4 million acres in Botswana, the world's leading diamond producer by value. The country is democratically ruled, boasts a growing economy and a stable political environment. This agreement represents a world class opportunity that provides Stornoway with an exposure to some of the best diamond real estate in Africa.

The fundamentals of the rough diamond market remain very strong with predictions of future shortages and increased demand leading to forecasts of higher prices over the next decade or more. New diamond deposits must be found and developed to meet this demand. Stornoway has worked quickly to acquire extensive landholdings in some of the most geologically prospective regions in the world and we are able to conduct such far reaching and aggressive exploration campaigns because we remain fiscally sound, with current cash reserves of \$24 million and fully diluted cash resources of over \$40 million.

Stornoway is looking forward to an action-packed year, with participation in a minimum of four drilling programs generating multiple near-term opportunities for further discoveries.

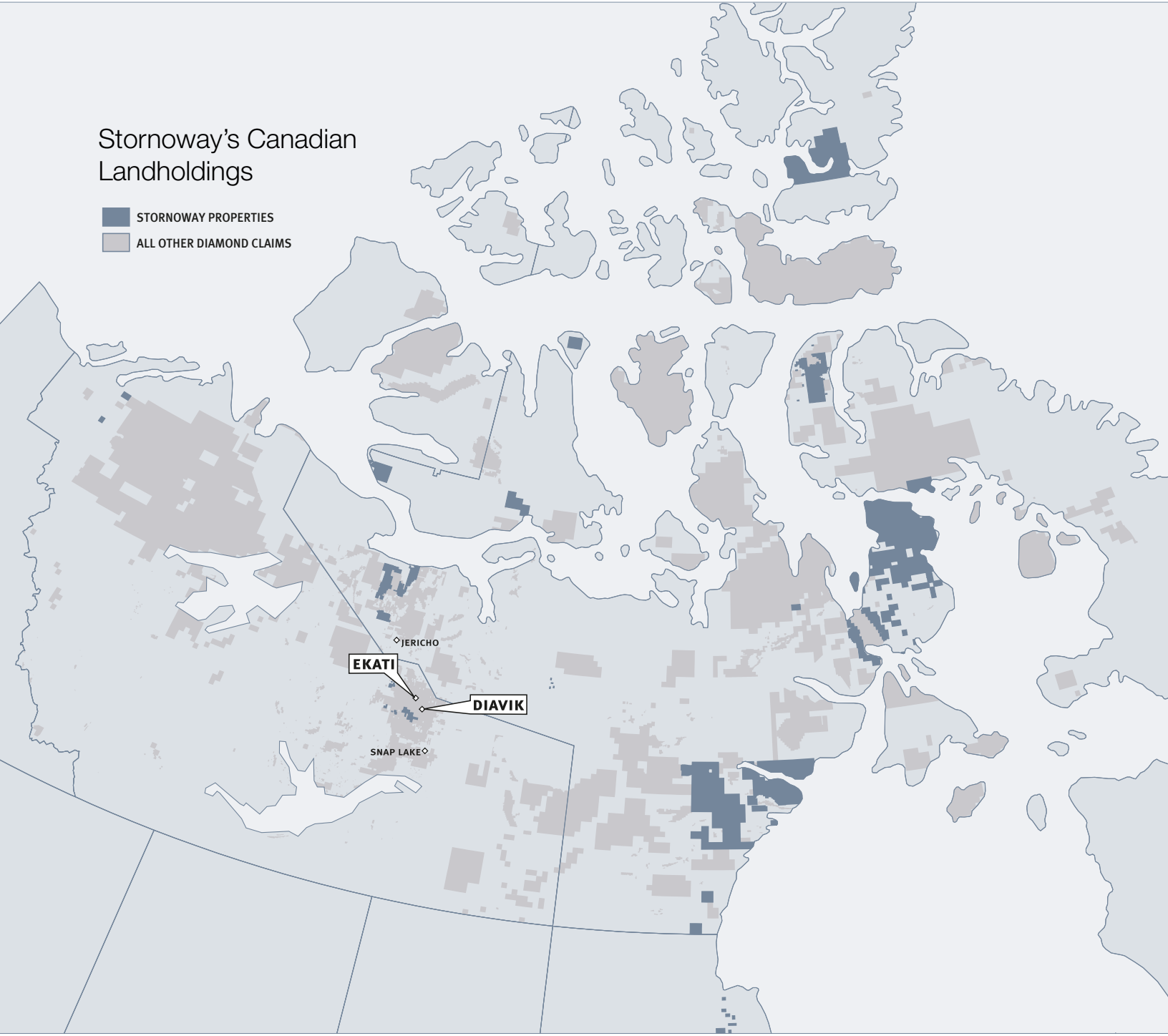
As always, we thank our employees for their hard work and dedication in helping Stornoway to achieve its goals. We would also like to take this opportunity to thank our loyal shareholders for their continued support in 2005 as we embark upon another exciting year.



Eira Thomas  
President & Director

### Stornoway's Canadian Landholdings

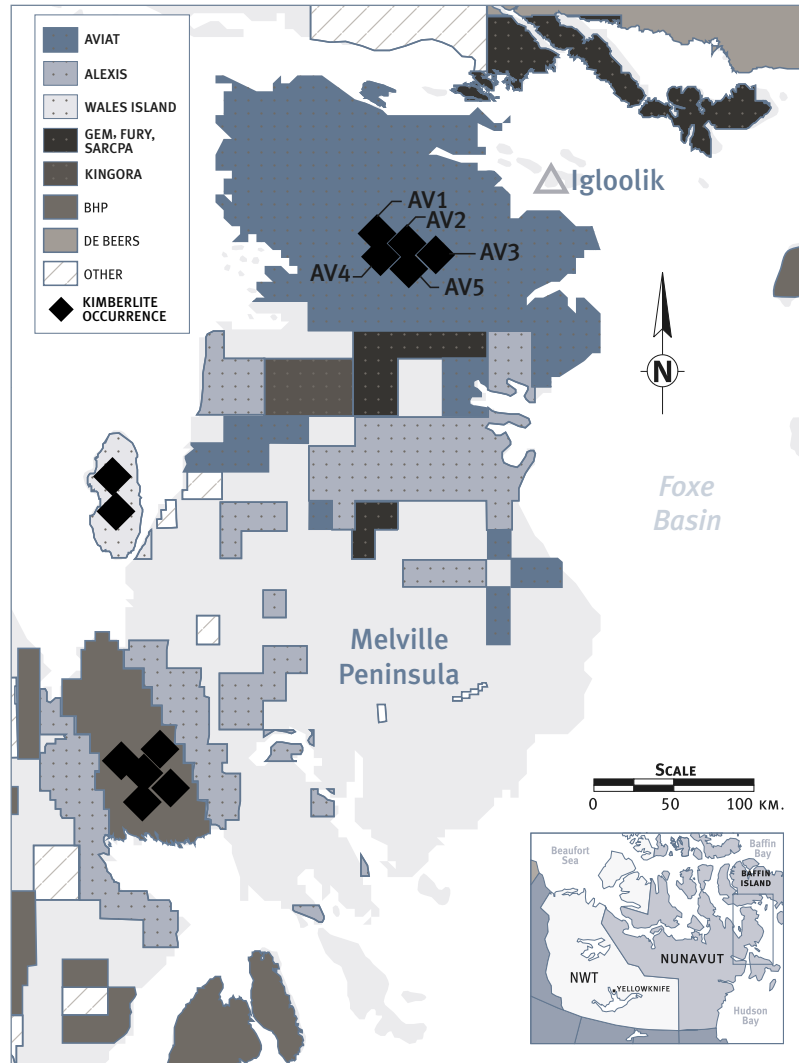
- STORNOWAY PROPERTIES
- ALL OTHER DIAMOND CLAIMS





**Canada remains highly prospective for further diamond discoveries and has attracted the world's largest diamond companies who continued to increase investments in grass roots exploration in 2004.**

**With close to 23 million acres of prospective properties, Stornoway is well positioned to benefit from new discoveries in northern Canada in 2005.**



Melville Peninsula map

# Principal Projects

## EASTERN ARCTIC PROJECTS

### Melville Peninsula

Stornoway is currently participating in five separate joint ventures on the Melville Peninsula of eastern Nunavut, holding varying interests in close to nine million acres. Seven properties are being explored under these agreements including the Aviat, Fury, Sarcpa, Gem, Kingora, Alexis and Wales Island properties. Total expenditures for these projects are expected to exceed \$10 million in 2005.

### Aviat Project

The Aviat Joint Venture is a partnership between Stornoway (70%), BHP Billiton Diamonds Inc. (20%) and Hunter Exploration Group (10%) that covers 4.2 million acres of the Melville Peninsula and remains Stornoway's principal focus for 2005. Six diamondiferous kimberlites have been discovered at Aviat so far.

## **AVIAT HIGHLIGHTS FROM 2004**

- Four new kimberlites discovered at Aviat bringing the total to six, all of which have proven diamondiferous.
- A 10.4 tonne mini-bulk sample collected from AV-1 returned a sample grade of 0.83 carats/tonne (sieved stones>0.85 mm).
- Kimberlite AV-4, located 450m west of AV-1 returned a total of 565 diamonds from 540 kgs collected from boulders and drill-core.
- Kimberlite AV-5 returned 93 diamonds from 48 kgs processed from surface float samples.
- Small samples from AV-1A, AV-2, and AV-3 all contain diamonds.
- More than 100 kimberlite float occurrences identified from prospecting in the Tremblay Corridor, most of which remain unsourced.
- Over 4100 till samples were collected from the property for kimberlitic indicator mineral (KIM) analysis.
- Evidence suggests the presence of additional kimberlite bodies in and around the six kimberlites identified to date as well as elsewhere along the 70 km long Tremblay Corridor.







During the year, Stornoway continued to assess the diamond potential of the Aviat Project spending approximately \$8 million. Activities focussed on till sampling, prospecting, airborne and ground geophysical surveying and limited drilling. To date, Stornoway has collected over 7000 till samples for kimberlitic indicator mineral analysis and more than 100,000 line km of airborne geophysics, including magnetics, electromagnetics and airborne gravity. In 2004, 4175 till samples were collected, 2700 of which were located within the 1700 km<sup>2</sup> Tremblay Corridor. The Corridor has returned numerous samples anomalous in kimberlitic indicator minerals including high percentages of G9A and G10A pyrope garnets which are often found in association with diamondiferous source bodies. In addition, over 100 separate occurrences of kimberlite boulders, varying in shape, size and angularity were mapped within the corridor in proximity to the anomalous samples. The provenance for many of these boulder occurrences remains unknown and will be the focus of further prospecting activities and drilling in 2005. Other work completed included 35,000 line km of airborne magnetics and airborne electromagnetics, 6200 line km of airborne gravity surveys using BHP Billiton's proprietary Falcon™ gravity gradiometer system, prospecting and ground geophysical surveying.

**Overall, the diamond population appears to be dominated by white transparent diamonds, with lesser amounts of brown diamonds and very little fibrous material. Predominantly dodecahedral followed by octahedral crystal forms as whole crystals and fragments are observed.**

The AV-1 kimberlite, which is located approximately 50 km west of Igloolik on the Melville Peninsula, was discovered during a regional reconnaissance sampling and prospecting program in 2002. Samples collected from both surface exposures and drill core were initially processed for micro-diamonds using caustic fusion



analysis, and returned a total of 2350 diamonds from approximately 1.7 tonnes of kimberlite.

The exposed portion of the AV-1 discovery outcrop measures 13.5m x 76.5m and is associated with a prominent magnetic signature. Drilling in 2003 was designed to better determine the shape and size of the AV-1 kimberlite. AV-1 was tested with seven angled holes from four set-ups. Hypabyssal kimberlite (HK), similar in character to the outcrop, was intercepted in all holes except one and showed a good correlation with the double lobed magnetic high anomaly identified from ground geophysical surveying. A second, non-magnetic kimberlite phase was intercepted in five holes and was described as transitional magmatic to tuffisitic kimberlite (TTK). Results from the 2003 and 2004 programs intersected kimberlite over a horizontal distance of more than 225m, and a geological interpretation suggests a complex body measuring up to 50m in width.

Processing of 7.4 dry metric tonnes of HK collected from the surface exposure at AV-1

in 2003, and a further 2.83 dry metric tonnes of TTK and HK collected from drilling in 2004 returned 8.63 carats of diamonds yielding a sample grade of 0.83 carats per tonne. All diamonds recovered were greater than 0.85 mm using a square mesh sieve. Sample material was shipped to SGS Lakefield Research Limited, crushed in stages and processed through a one tonne/hour dense media separation plant. The largest stone weighed 0.40 carats.

Overall, the diamond population appeared to be dominated by white transparent diamonds, with lesser amounts of brown diamonds and very little fibrous material. Predominantly dodecahedral followed by octahedral crystal forms as whole crystals and fragments were observed.

A total of eight exploration holes comprising 1142m were completed between August 27 and October 12, 2004, testing four targets. Kimberlite was intersected in each hole with intersections ranging from 0.1m to 46.5m. The nature, shape and size of these bodies are not fully understood at the present time.



Each of the kimberlite intercepts encountered from drilling to date, with the exception of those associated with the HK phases at AV-1, display poorly defined magnetic signatures. Drilling, for the most part, has been guided by the presence of surficial concentrations of kimberlitic boulders and/or sub-crop.

The first hole tested a geophysical response 475m west of the AV-1 kimberlite and intersected a 2.9m kimberlite dyke, referred to as AV-1A.

Four holes were completed at the AV-4 kimberlite, an occurrence of hypabyssal kimberlite boulders, located approximately 450m west of AV-1 and discovered by prospecting earlier in the summer. AV-4 returned a total of 565 diamonds from 540 kg collected from boulders and drill-core. The largest stone measured 2.2 mm by 2.1 mm by 1.8 mm.

Hole 04-AV4-01, drilled at an angle of  $-45^{\circ}$  beneath the AV-4 boulder showing intersected a continuous 47m section of kimberlite including both HK and TTK at a vertical depth of about 80m below the surface. Hole 04-AV4-02 was

drilled at an angle of  $-45^{\circ}$  on the same section as 04-AV4-01 but 35m closer to the AV-4 boulder occurrence. It intersected HK and TTK mixed with country rock xenoliths over a 61m interval, centred at a vertical depth of 25m. Country rock represents about 38% by volume. A 100m step out hole, 04-AV4-03, also drilled at an angle of  $-45^{\circ}$ , intersected both HK and TTK over a down-hole length of 15m, at a vertical depth of about 90m below the surface. Drill hole 04-AV4-04, situated midway between 04-AV4-01 and 04-AV4-03, was drilled at  $-60^{\circ}$  and intercepted 2.1m of HK at a vertical depth of 115m.

The nature, shape and size of AV-4 is not known at the present time, but it appears to be a complex body similar in nature to AV-1.

A single hole was drilled in the vicinity of the previously discovered diamondiferous kimberlite, AV-2, to test a new surface showing of boulders found in 2004. Hole 04-AV2-1 was drilled at  $-45^{\circ}$  and intercepted two heavily altered HK dykes of 2.35m and 2.90m width respectively,



35m east of the known body intercepted in 2003. Caustic fusion results for a 17.55 kg sample from these intersections produced four diamonds. The previous AV-2 intersection produced 30 diamonds in a 39.4 kg sample of both HK and TTK phases.

Hole 04-AV3-01 was drilled at an angle of  $-45^{\circ}$  beneath the AV-3 surface showing and intersected two altered HK dykes of 0.37m and 2.15m, respectively. A second  $-45^{\circ}$  hole, 04-AV3-02, targeted an HK boulder occurrence 250m south of the hole 04-AV3-02 and encountered two small intersections of 0.10m and 0.23m respectively, but was terminated at 65m prior to reaching its target depth. A surface float sample from AV-3 yielded three diamonds from a 6.3 kg sample.

Kimberlite AV-5 represents another surface concentration of hypabyssal kimberlite boulders in close proximity to the other four kimberlite occurrences. Micro-diamond results returned 93 diamonds from 48 kg processed from surface float samples, and although the sample size is small, the diamond size distribution appears the most promising of all the kimberlites found at Aviat to date.

## PLANS FOR 2005

**A total budget of \$7.25 million has been approved for exploration of the Aviat property in 2005 and will include three phases of drilling. Between the months of April and October 2005, 30 to 50 holes are planned, testing a minimum of 25 targets.**

This first phase of drilling will test a variety of high priority, lake based, geophysical targets situated throughout the 75 km long Tremblay Corridor and will include two targets located within the lake which hosts the diamondiferous AV-1 kimberlite.

The second phase of drilling is expected to commence around early July and will focus in the immediate vicinity of AV-1 where a total of six diamondiferous kimberlite bodies have been identified to date. Till sampling results from 2004 have identified new, anomalous concentrations of kimberlitic indicator minerals in the region which remain unsourced at the present time. In addition, kimberlite AV-5, which represents a surface concentration of diamondiferous hypabyssal kimberlite boulders situated in close proximity to AV-1, will be drill-tested for the first time. AV-5 returned 93 diamonds from the processing of 48 kilograms of kimberlite collected in 2004.

The third phase of drilling will commence in mid to late August and will test targets generated from final results of 2004 till sampling and airborne geophysical surveying programs.







**Stornoway has worked to develop strong relationships within the communities in which we operate. We strive to be responsible stewards of the land and it is our goal to maximize opportunities for Northerners at all stages of exploration and development.**

## Gem, Fury, Sarcpa and Kingora

In addition to the Aviat Joint Venture, Stornoway maintains a 30% interest (carried for the first \$1.3 million in expenditures) in a further one million acres at Melville, governed by two separate option agreements. The first agreement covers about one million acres of permits in three properties (Gem, Fury and Sarcpa) being explored by Strongbow Exploration Inc. (30%) and NDT Ventures Ltd. (30%).

Follow-up field work for 2005 will be guided by the results of 2004 as they become available.

The second agreement covers a further 500,000 acres known as the Kingora property which is also being explored by Strongbow (60%). BHP Billiton holds a 10% interest carried for the first \$10 million in expenditures on each property. Exploration work during 2004 consisted of airborne magnetic surveying, till sampling and prospecting.

Field work for 2005 will focus on a nickel anomaly discovered last season.



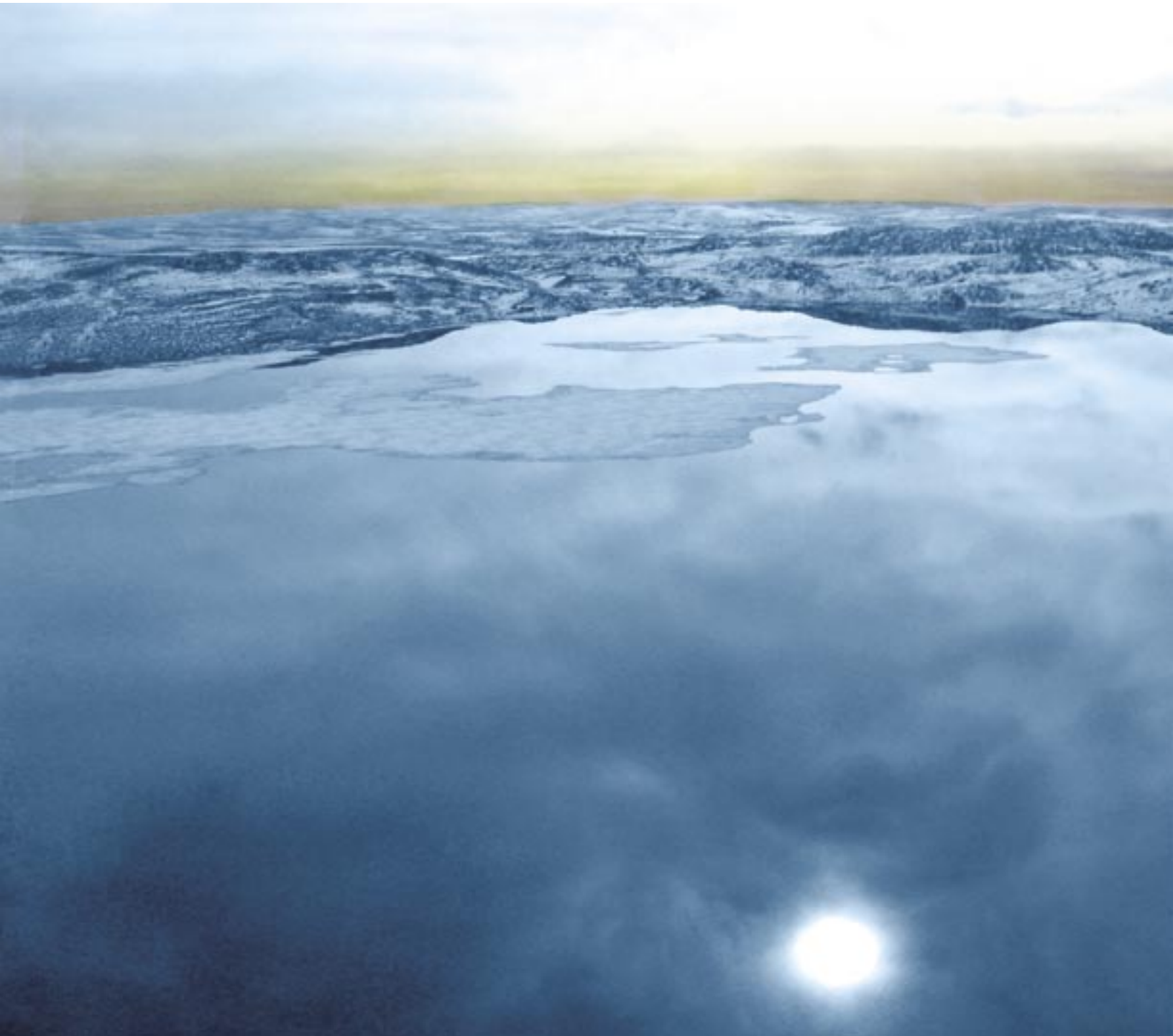
## Alexis

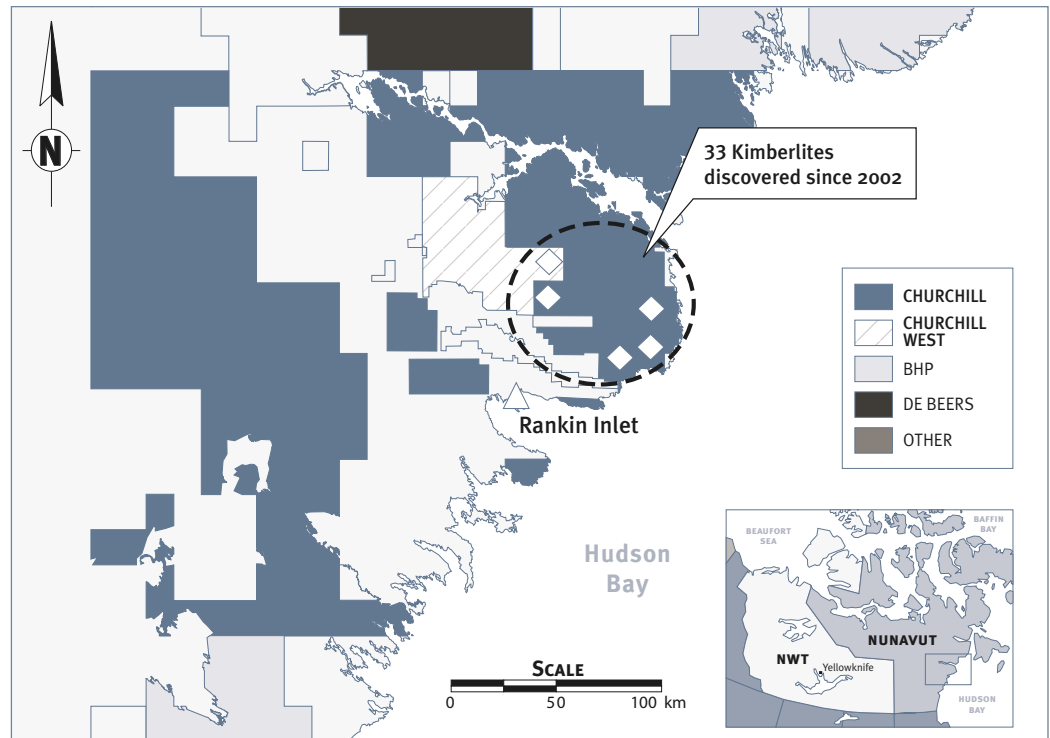
Adding another 3.1 million acres to Stornoway's landholdings on the Melville Peninsula, the Alexis property, acquired in 2004, is a 50/50 joint venture with BHP Billiton. It is situated between two known diamondiferous kimberlite fields (the Aviat and BHP Billiton's, Qilalugaq). Approximately 600 till samples were collected at Alexis during the 2004 summer field season. The results of these till samples were used to scale down the size of the project by 1.4 million acres in February 2005, maintaining the areas of the property with higher diamond potential concentrated in the southern portion of the property. Some work will be completed by BHP Billiton in 2005 pending receipt of final results from 2004.

## Wales Island

Situated 250 km southwest of the Aviat property and 100 km north of BHP Billiton's Qilalugaq property, the 300,000 acre Wales Island property hosts newly discovered kimberlite pipes from what appears to be Canada's newest kimberlite field. Two pipes were found in 2004 and numerous airborne geophysical targets remain to be tested with ground geophysics and drilling in 2005. The joint venture is an equal split between Stornoway, BHP Billiton and Strongbow.

Till sampling as well as ground geophysics and drilling of approximately ten airborne geophysical targets is planned to commence in September 2005 with a total budget of \$1.5 million.





Churchill Area Property map

### Churchill Property

The 8.5 million acre Churchill Diamond Project is located near the communities of Rankin Inlet and Chesterfield Inlet in the Kivalliq region of Nunavut and is a joint venture between Shear Minerals Ltd (51%), Stornoway (35%) and BHP Billiton (14%). Since 2002, the joint venture has discovered 31 kimberlites, broadly distributed throughout the Churchill landholdings, ten of which are diamond bearing, nine for which results are pending.

The Churchill kimberlite field is still in the earliest stages of its assessment and numerous priority targets remain to be tested. The partners are confident that future work will result in additional kimberlite discoveries that could ultimately define one of the largest kimberlite fields in Canada. More than 5800 till samples collected and processed over the last two years have identified and helped to constrain two geographically distinct zones of elevated kimberlitic indicator mineral counts with high interest mineral chemistry, referred to as the Josephine River and Sedna corridors. The partners have now narrowed down the areas of interest to these two areas which contain the most compelling G10 pyrope mineral chemistry.

Stornoway's budget for exploration on the Churchill property in 2005 is approximately \$2.6 million. The partners plan to drill-test up to 50 geophysical targets located within the Josephine River and Sedna corridors.

The drill targets were selected after careful integration and review of the Churchill Project data base which now contains more than 6600 surface samples and 69,000 line km of magnetic and electromagnetic data.

On February 1, 2005, the partners were granted additional federal prospecting permits bringing the total acreage being explored at the Churchill Diamond Project to 8.5 million acres.

### Churchill West Property

The Churchill West Diamond Project encompasses more than 558,000 acres immediately west of the Churchill Diamond Project. Having earned a 65% interest in the project, International Samuel sold back a 10% interest to the other joint venture partners. The resulting interests are as follows: Shear (operator) 22.95%,

BHP Billiton 6.3%, International Samuel 55%, and Stornoway 15.75%

In 2003, exploration at Churchill West included the acquisition of more than 12,000 line km of aeromagnetic data and the collection of more than 250 regional and target specific till samples. Two kimberlites were discovered, one of which returned 12 micro-diamonds from caustic fusion of approximately 129 kg of material.

A budget for 2005 is being developed to further assess the property's diamond potential and will include till sampling and ground geophysics.

## Manitoba Highlands

The Manitoba Highlands Project is a 50/50 joint venture agreement between Stornoway Diamond Corporation and Diamonds North Resources Ltd. The project is located in the Hudson Bay Lowlands of northeastern Manitoba and was originally acquired by Diamonds North in 2004.

Under the terms of a joint venture finalized on April 18, 2005, Stornoway and Diamonds North have agreed to fund the original acquisition and exploration costs and all future exploration work on the project equally. Diamonds North will act as the operator.

The 874,000 acre Highlands property lies within a favourable geological setting similar to that which hosts the Attawapiskat kimberlites where De Beers Canada Inc. has recently completed feasibility and environmental assessment studies on the Victor pipe.

During the 2004 exploration program, the companies recovered kimberlite indicator minerals from several samples collected on the property. In addition a 14,950 line km magnetic airborne survey completed over the entire property has revealed approximately 50 magnetic anomalies, of which 15 are rated as high priority and require immediate follow-up work.

Plans for the 2005 exploration program include ground geophysical surveying to assist in target selection for an anticipated diamond drilling program later in the field season.

## Ellesmere Island

Stornoway has an option to earn a 41% interest in the Baumann Project located on Ellesmere Island, Nunavut.

The Baumann Project is comprised of 87 prospecting permits totalling more than 2.8 million acres. The property was acquired based on the recovery of kimberlite indicator minerals from regional heavy mineral samples including one high chrome G10 pyrope garnet.

Under the terms of the option agreement, Stornoway can earn a 41% interest in the Baumann Project by spending \$1.0 million before December 31, 2008 and incurring 100% of the cost of staking mineral claims. Upon exercise of the option the Baumann Project will be held 41% by Stornoway, 39% by Indicator Minerals Inc., and 20% by Hunter Exploration Group, with Stornoway acting as operator.

Stornoway has committed to collecting 100 heavy mineral samples from the project area in 2005 and results from this year's program will be used to determine a budget and work program for 2006.

## Brodeur Peninsula

In August of 2004 Stornoway joined with Twin Mining Corp. in the exploration of a 980,000 acre south-claim block of Twin's Jackson Inlet Diamond Project.

Stornoway participated by way of a private placement and the signing of a binding letter agreement, which grants Stornoway an exclusive "option" to acquire in the Jackson Inlet 980,000 acre south-claim block a 51% interest.

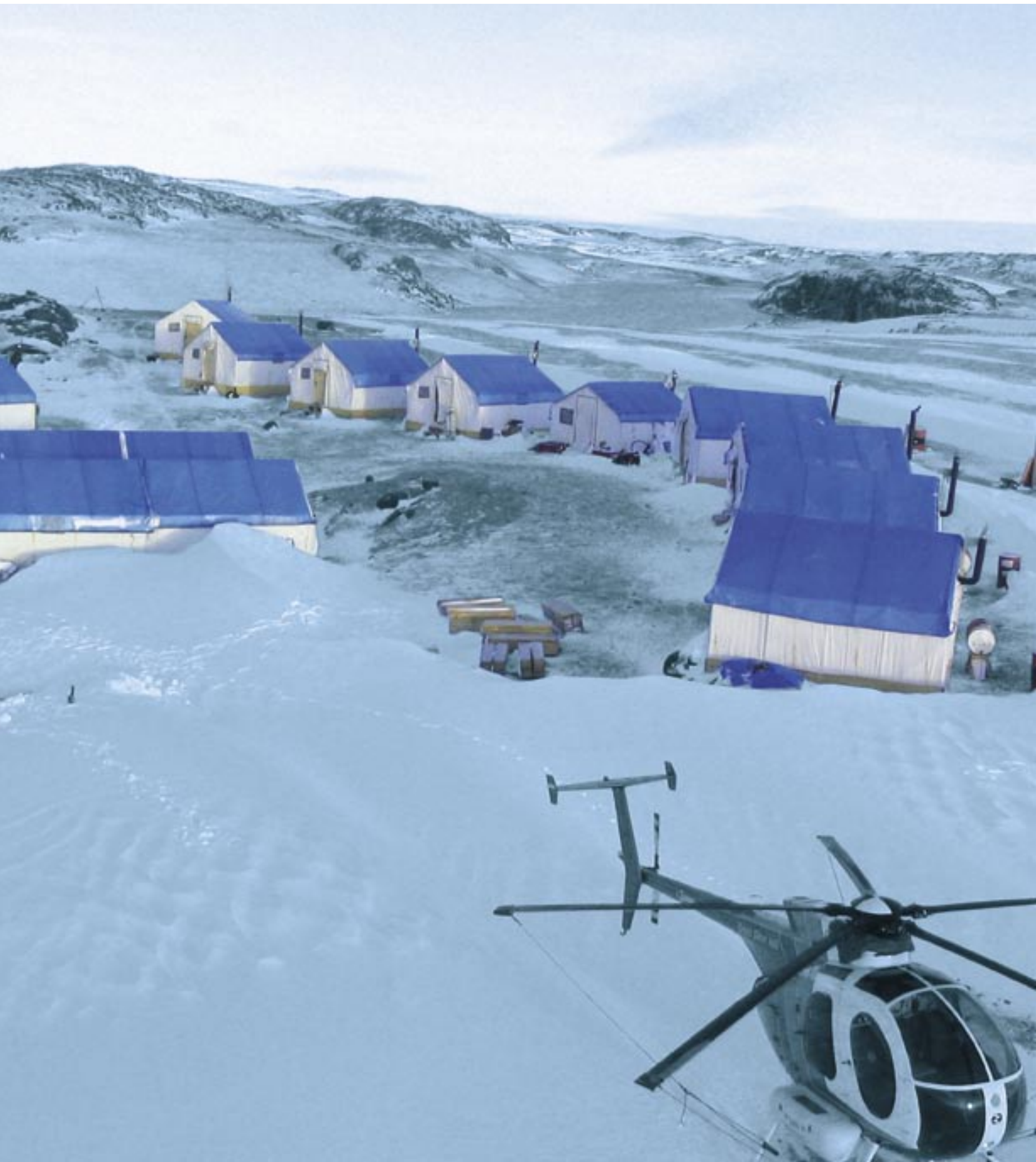
With the closing of a private placement of \$450,000 by Stornoway, Twin Mining, as operator, committed to completing and fully funding a minimum \$900,000 exploration program on the Jackson Inlet south claim block.

Plans for 2005 have yet to be outlined.

**Through its experienced exploration team, strategic partnerships and strong balance sheet, Stornoway is able to aggressively advance exploration activities on its properties.**

**More than 90 priority targets will be drill-tested in 2005 alone.**





## WESTERN ARCTIC PROJECTS

### Coronation Diamond District

Stornoway holds varying interests (between 30 and 100%) in nine separate properties, totalling close to 500,000 acres in the Coronation (North Slave) Diamond District in western Nunavut and is the operator on all but two of them. During 2002 and 2003 Stornoway collected airborne geophysics and more than 5000 till samples from the properties.

In 2004, 500 till samples were collected, 50 line km of ground geophysics were completed and seven holes were drilled.

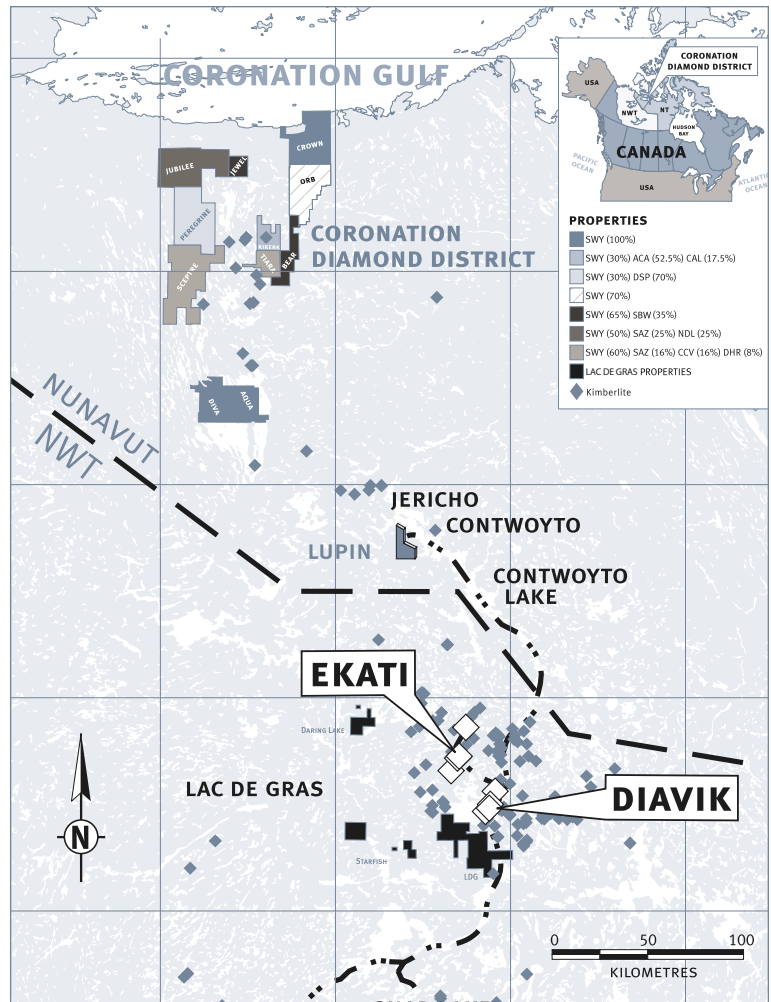
Additional sampling and prospecting are planned for 2005.

### LDG Properties

In May 2004, Stornoway entered into an option agreement with Strongbow Exploration Inc. to earn up to a 60% interest in three properties representing more than 150,000 acres of prospective diamond claims located in the Lac de Gras region of the Northwest Territories.

Under the terms of the agreement Stornoway may earn a 51% interest in the LDG, Starfish and Daring Lake properties by spending \$3 million within three years, and may increase this interest to 60% by completing a feasibility study.

Known kimberlites occur within five km of all four sides of the 123,000 acre LDG Property, and the Diavik diamond mine is situated just across Lac de Gras, some 15 km from the northern claim boundary. The 27,000 acre Daring Lake Property lies at the south end of Yamba Lake, just west of the Ekati mine property. The



Western Arctic Landholdings

company wrote-off all exploration costs relating to the 2004 program on the Starfish Property and returned it to Strongbow Exploration.

Approximately \$784,000 was spent in 2004 to add to previous data and included drilling, ground geophysics, and till sampling.

Drilling is planned for the summer of 2005 as well as tighter spaced till sampling to help better define the dispersion train of indicator minerals.

### Mackenzie Project

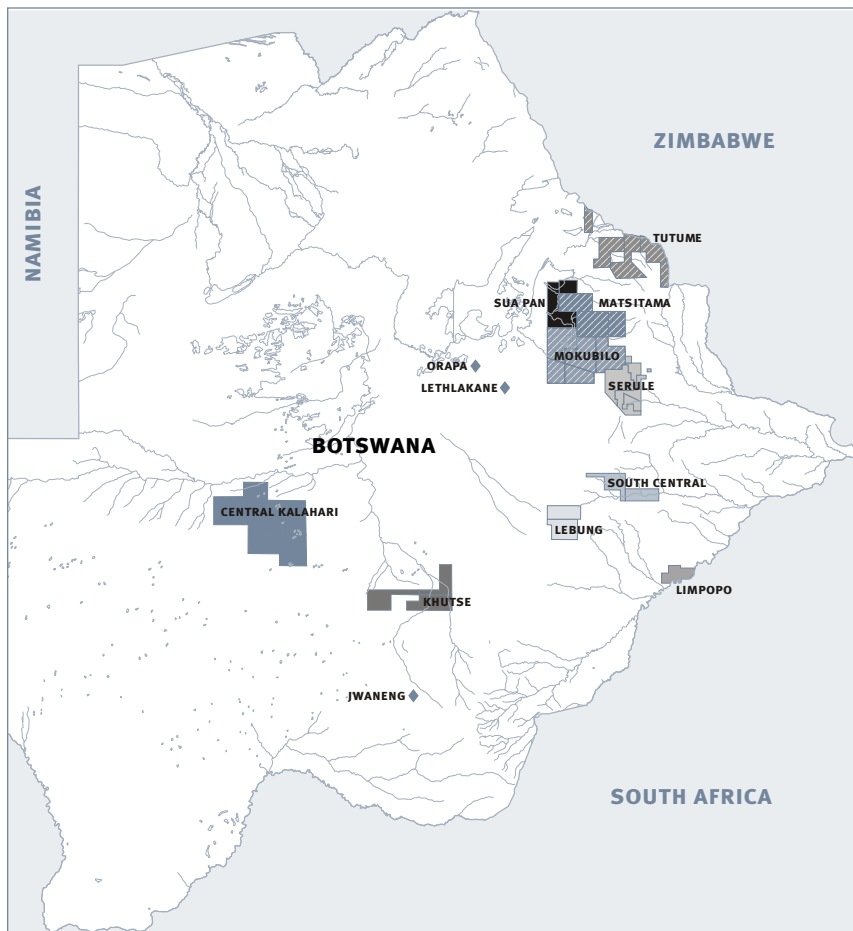
Exploration plans have not yet been finalized for 106,000 acres of prospecting permits situated in the Mackenzie Delta, immediately west of ground being explored by Diamondex Resources Ltd., De Beers Canada Inc. and others.

## GENERATIVE PROJECTS

In May of 2005 Stornoway entered into a joint venture agreement with Contact Diamond Corporation designed to pursue a generative diamond exploration project within Canada.

The project will be funded 50/50 by the partners and will comprise initial desktop generative study, field exploration and land acquisition ahead of target testing. The Companies have collectively allocated approximately \$1 million to the joint venture in fiscal 2005.





Botswana map

## BOTSWANA PROPERTIES

Stornoway and Motapa Diamonds Inc. are going to be jointly exploring for diamonds on Motapa's extensive Botswana landholdings, totalling in excess of 5.4 million acres.

Motapa is among the leading diamond explorers in Africa and controls over 29.7 million acres of diamond prospective properties located in Namibia, Zambia, Botswana and Gabon. Motapa's Chairman, Dr. John J. Gurney, is one of the world's leading authorities in the field of geochemical exploration for diamondiferous kimberlites and has been associated with successful diamond exploration programs, including the discovery of the kimberlites that comprise the Ekati diamond mine.

The Motapa joint venture properties cover highly prospective terrain throughout central and eastern Botswana and include a 100% interest in 28 prospecting licenses covering close to 4.4 million acres and a 60% interest in seven prospecting licenses covering approximately 1.2 million acres.

Stornoway and Motapa plan to begin work this year on the Sua Pan Project, located approximately 50 km northeast of the Orapa diamond mine. The joint venture program consists of airborne gravity and magnetics followed by drill-testing targets of merit. Sua Pan is a large dry lake bed which creates an environment that is not conducive to conventional heavy mineral prospecting techniques. Motapa has recovered numerous kimberlite indicator minerals on the periphery of Sua Pan which suggests the possibility of a local diamondiferous kimberlite source.

The agreement provides Stornoway with the option to earn a 50% participating interest in the joint venture holding Motapa's Botswana diamond interests by fulfilling the following obligations:

- Issuing to Motapa an initial tranche of common shares in Stornoway equal to US\$500,000 upon regulatory approval of the agreement,
- Completing an airborne gravity survey over the Sua Pan costing at least US\$500,000 on or before December 31, 2005,
- Issuing to Motapa a second tranche of common shares in Stornoway equal to US\$500,000 on or before the later of April 27, 2006 and 30 days after receipt of the results of the airborne survey, and
- Solely funding the first US\$2.0 million in joint venture expenditure requirements on any project (including the costs of flying the airborne gravity survey over the Sua Pan) within 30 months of receipt of results of the airborne gravity survey.

Upon completion by Stornoway of its vesting requirements, Motapa and Stornoway will share in ongoing funding requirements in proportion to their respective participating interests.

Stornoway, as operator, will focus on the Botswana properties in the quiet winter months of the Canadian Arctic, providing the Company with the potential for year round news flow.

# CORPORATE INFORMATION

**EXCHANGE SYMBOL:** SWY:TSX

**SHARES ISSUED:** 73,314,050

**FULLY DILUTED:** 80,319,050

**DIRECTORS  
AND OFFICERS:** Eira Thomas, President, CEO and Director  
Catherine McLeod-Seltzer, Co-Chairman and Director  
John E. Robins, Co-Chairman and Director  
D. Bruce McLeod, COO and Director  
Peter Nixon, Director  
Jeff Stibbard, Director  
Anthony Walsh, Director  
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**TEL:** 604.331.2259 1.888.338.2200

**FAX:** 604.689.5041

The Annual General Meeting of Shareholders will be held at the XChange Centre, 888 Dunsmuir Street, 2nd floor, Vancouver on Monday, August 22nd, 2005 at 1:00 pm.



**PIONEERING DIAMOND EXPLORATION SWY:TSX**

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