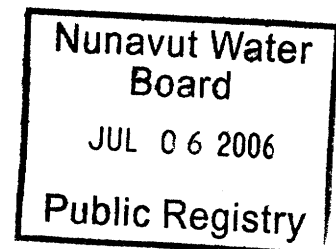


stornoway
DIAMOND CORPORATIONSuite 860 - 625 Howe Street
Vancouver BC V6C 2T6 Canada
Tel: 604.331.2259 Fax: 604.689.5041

July 4, 2006

Phyllis Beaulieu
Licensing Manager
Nunavut Water Board
P.O. Box 119
Gjoa Have, NU
X0A 1J0**Re: NWB License 2BE-SNN0508 – Aviat Project -
Response to INAC Comments to the 2005 Annual Report**

Dear Ms. Beaulieu,

This letter is being written in response to comments sent to your office by Mr. Stephen Bathory on behalf of the Department of Indian and Northern Affairs Canada (DIAND) dated May 19, 2006, regarding the 2005 Annual Report submitted in accordance with Part B, Section 1 of the terms and conditions of the above referenced water use license.

With respect to the comment that the results of the baseline water quality testing for Total Suspended Solids (TSS) for one of the samples was 1 mg/L above the *Canadian Council of Ministers of the Environment (CCME) Canadian Water Quality for Water Quality Guidelines for the Protection of Freshwater Aquatic Life* there are two clarifications that we wish to make in response. First of all the sample number referenced as testing above the aforementioned guidelines for TSS in the correspondence from DIAND is "AN260 A", however the sample with TSS results of 11 mg/L is actually "AN154 A". Secondly, this sample was taken as per Part F, Item 6 of the terms and conditions of 2BE-SNN0508 which states that "the Licensee shall establish baseline water quality conditions before drilling through lake ice". This sample, as per internal sample labeling guidelines, is attached with the suffix of "A" which indicates that it is indeed a pre-drilling sample.

Regarding the respondent's second observation which noted it was reported that combustible refuse was "burned", please be advised that combustible waste was incinerated in a burn barrel as is the common practice in temporary/seasonal exploration camps of this size in the North, and a practice which we believe to be compliant with Part D, Item 3 of the license.

Lastly, please note that the Spill Contingency Plan for the Aviat Project will be updated to include Mr. Peter Kusugak as the INAC contact.

Thank you for the opportunity to respond to these comments. If you have any questions regarding this correspondence please contact the undersigned at your convenience.

Yours truly,
STORNOWAY DIAMOND CORPORATION

Per:

A handwritten signature in dark ink, appearing to read "Nicole Westcott".

Nicole Westcott
Land Administrator

Cc: Mr. Stephen Bathory, Regional Coordinator - DIAND