Sanatana Diamonds Inc.

(An Exploration Stage Company)
Interim Financial Statements
For the three months ended June 30, 2006
(expressed in Canadian dollars)

Responsibility for Financial Statements

The accompanying financial statements for Sanatana Diamonds Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the March 31, 2006 audited financial statements. Only changes in accounting principles have been disclosed in these interim financial statements. These interim financial statements are unaudited and have not been reviewed by the auditors. These interim financial statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the interim financial statements, management is satisfied that these interim financial statements have been fairly presented.

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Balance Sheets

(expressed in Canadian dollars)

As at		June 30, 2006 Unaudited		March 31 2006 Audited
Assets				
Current assets				
Cash and equivalents	$	**10,150,922**	$	746,637
Amounts receivable		**345,670**		175,071
		10,496,592		921,708
Deferred offering costs (Note 5(b))		**---**		186,350
Exploration advances		**118,938**		---
Mineral properties (Note 3)		**12,557,266**		10,234,133
Property and equipment (Note 4)		**116,746**		93,432
	$	**23,289,542**	$	11,435,623
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	**1,281,763**	$	726,664
Future income tax liability		**922,677**		922,677
		2,204,440		1,649,341
Shareholders' equity				
Common shares (Note 5)		**22,386,554**		11,040,831
Warrants (Note 6)		**178,800**		---
Accumulated deficit		**(1,480,252)**		(1,254,549)
		21,085,102		9,786,282
	$	**23,289,542**	$	11,435,623

Nature of Business and Going Concern (Note 1)

Approved by the Board of Directors

signed "Peter Miles"
Peter Miles, Director

signed "Glenn Laing"
Glenn Laing, Director

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statements of Loss and Accumulated Deficit

(expressed in Canadian dollars)

		Three Months ended June 30 2006 (Unaudited)		Three Months ended June 30 2005 (Unaudited)
Expenses				
Amortization	$	**5,018**	$	---
Consulting and advisory fees		**15,468**		12,500
Directors' fees		**18,516**		---
Filing fees		**25,208**		---
Investor relations		**13,437**		2,896
Management fees		**52,335**		12,000
Office and administration		**79,104**		3,961
Professional fees		**32,888**		66,751
Transfer agent fees		**10,605**		---
Travel and accommodation		**15,809**		42,063
		(268,388)		(140,171)
Other Income				
Interest income		**42,685**		---
Loss before income taxes		**(225,703)**		(140,171)
Decrease in future income tax liability due to change in tax rate		**---**		---
Net loss for the period		**(225,703)**		(140,171)
Accumulated deficit, beginning of period		**(1,254,549)**		(220,851)
Accumulated deficit, end of period	$	**(1,480,252)**	$	(361,022)
Loss per share, basic and diluted	$	**(0.01)**	$	(0.00)
Weighted average number of common shares outstanding – basic and diluted		**37,268,018**		30,679,810

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Statements of Cash Flows

(expressed in Canadian dollars)

	Three Months Ended June 30 2006 (Unaudited)	Three Months Ended June 30 2005 (Unaudited)
Cash provided by (used in):		
Operating activities:		
Net loss for the period	$ **(225,703)**	$ (140,171)
Adjustments for non-cash items:		
Amortization	**5,018**	---
Accrued rent expense	**6,122**	---
Decrease in future income tax liability	**---**	---
Changes in non-cash working capital balances:		
Amounts receivable	**(249)**	94,419
Accounts payable and accrued liabilities	**548,977**	76,271
	334,165	30,519
Investing activities:		
Exploration advances	**(118,938)**	190,006
Mineral properties	**(2,305,005)**	(960,923)
Property and equipment	**(30,460)**	---
Option payment - Kennecott	**---**	---
	(2,454,403)	(770,917)
Financing activities:		
Common share proceeds	**12,500,000**	1,175,000
Share subscriptions receivable	**---**	---
Offering costs	**(975,477)**	(226,469)
	11,524,523	948,531
Increase in cash and equivalents	**9,404,285**	208,133
Cash and equivalents, beginning of period	**746,637**	1,183,691
Cash and equivalents, end of period	$ **10,150,922**	$ 1,391,824
Supplementary information:		
Interest and taxes paid	$ —	$ ---
Non-cash investing activities:		
Amortization included in Mineral properties	$ **2,128**	$ ---
Non-cash financing activities:		
Shares issued as listing costs (Note 5(a))	$ **175,000**	$ ---
Warrants issued as listing costs (Note 5(a))	$ **178,800**	$ ---

(expressed in Canadian dollars)

1. Nature of Business and Going Concern

Sanatana Diamonds Inc. ("the Company") was incorporated on June 25, 2004 in the Province of British Columbia under the British Columbia Business Corporations Act. The Company is an exploration stage company, and its principal business activity is the acquisition, exploration and development of mineral properties. The Company has entered into agreements in respect to properties in the Northwest Territories in Canada.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. The Company's continuing operations and the underlying value and recoverability of the amounts shown for mineral properties are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests.

The Company's ability to continue operations is contingent on its ability to obtain additional financing. Although there are no assurances that management's plan will be realized, management believes the Company will be able to secure the necessary financing to continue operations into the future. The financial statements do not include any adjustments to the recoverability and classification of recorded assets, or the amounts of, and classification of liabilities that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, and non-compliance with regulatory requirements.

The accompanying financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern. As at June 30, 2006, the Company has no source of operating cash flow and has an accumulated deficit of approximately $1.5 million. Operations for the period ended June 30, 2006 have been funded primarily from the issuance of capital stock and net changes in working capital balances.

These unaudited interim financial statements are prepared in accordance with Canadian generally accepted accounting principles for the preparation of interim financial statements and they follow the same accounting policies and methods of application as the audited financial statements of the Company for the year ended March 31, 2006. These unaudited interim financial statements do not include all the information and note disclosures required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the most recent audited financial statements and the notes below.

2. Significant Accounting Policies

The significant accounting policies reflected in these interim financial statements have been outlined below and are set out in more detail in the audited financial statements for the year ended March 31, 2006.

(expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(a) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period. Significant areas requiring the use of management estimates include the determination of impairment of mineral properties and deferred exploration costs, reclamation obligations, and rates of amortization. Actual results could differ from those estimated.

(b) Mineral properties

Mineral property acquisition and exploration costs are deferred until the property to which they relate is placed into production, sold, abandoned or allowed to lapse. These costs will be amortized over the estimated life of the property following commencement of commercial production or will be written off if the property is impaired, sold, allowed to lapse or abandoned.

Costs include the cash consideration paid and the fair market value of the shares as they are issued, if any, on the acquisition of exploration properties. Properties acquired under option agreements whereby payments are made at the sole discretion of the Company are recorded in the accounts at such time as the payments are made. The proceeds from options granted are applied to the cost of the related property and any excess is included in income for the year.

The amount shown for mineral property interests represents acquisition and exploration costs incurred to date and does not necessarily reflect present or future value. Management reviews the carrying value of mineral properties periodically. Whenever events or changes in circumstances indicate that the carrying value may not be recoverable, reductions in the carrying value of the property are recorded to the extent that the carrying value exceeds the estimated fair value. Management's assessment of a property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review. No write-downs were recognized during the period ended June 30, 2006 or the year ended March 31, 2006.

(c) Property and equipment

Capital assets are carried at cost less accumulated amortization. Amortization is provided on a straight line basis. Principal depreciation rates are:

Computer Equipment	straight-line basis over 3 years
Office Furniture & Equipment	straight-line basis over 5 years
Exploration Equipment	straight-line basis over 5 years
Leasehold Improvements	straight-line basis over 3 years

The Company reviews the carrying values on a regular basis and a provision is made against income in the period that an impairment is determined by management.

(expressed in Canadian dollars)

3. Mineral Properties

The cumulative costs of the Company's interest in its Northwest Territories mineral properties are as follows:

	Three Months ended June 30 , 2006	Year ended March 31, 2006
Acquisition costs		
Opening balance	**188,970**	---
Incurred in the period	**55,810**	188,970
Closing balance	$ **244,780**	$ 188,970
Helicopter and fixed wing aircraft costs		
Opening balance	**5,481,782**	911,433
Incurred in the period	**869,166**	4,570,349
Closing balance	**6,350,948**	5,481,782
Sampling and assays		
Opening balance	**1,975,735**	438,410
Incurred in the period	**70,500**	1,537,325
Closing balance	**2,046,235**	1,975,735
Labour		
Opening balance	**283,088**	127,449
Incurred in the period	**250,819**	155,639
Closing balance	**533,907**	283,088
Geological services		
Opening balance	**1,507,599**	670,396
Incurred in the period	**560,704**	837,203
Closing balance	**2,068,303**	1,507,599
Project management fees		
Opening balance	**499,997**	195,565
Incurred in the period	**20,000**	304,432
Closing balance	**519,997**	499,997
Reclamation provision		
Opening balance	**120,000**	---
Provided in the period	---	120,000
Closing balance	**120,000**	120,000
Other		
Opening balance	**364,051**	235,293
Incurred in the period	**316,735**	128,758
Closing balance	**680,786**	364,051
Reimbursable bonds and deposits		
Opening balance	**2,312,911**	2,368,584
Recovered in the period	**---**	(234,289)
Incurred in the period	**179,399**	178,616
Closing balance	**2,492,310**	2,312,911
Option Payment- Kennecott		
Opening balance	**(2,500,000)**	---
Received in the period	**---**	(2,500,000)
Closing balance	**(2,500,000)**	(2,500,000)
Total	$ **12,557,266**	$ 10,234,133

(expressed in Canadian dollars)

3. Mineral Properties (continued)

MacKenzie Diamond Project

On July 31, 2004, and March 4, 2005, the Company entered into a series of agreements with the Jaeger Joint Venture ("Jaeger"), an entity partially-owned by a director of the Company, to purchase the right to any diamonds located on a series of properties (the MacKenzie Diamond Project). The MacKenzie Diamond Project covered approximately 20 million acres in the Inuvialuit, Gwich'in and Sahtu mining districts in the Northwest Territories, Canada. Under these agreements, Jaeger retained a 10% carried interest in the properties. The agreements required the Company to issue 19,000,000 common shares to Jaeger (fully issued) and to reimburse costs incurred by Jaeger. In addition, the Company agreed to pay 100% of the exploration and mine construction costs.

Under the terms of an agreement with Geoinformatics Explorations Limited ("Geoinformatics", a company in which the Company's chief executive officer was formerly a director) dated November 25, 2004, the Company acknowledges that Geoinformatics is entitled to a 0.9% gross overriding royalty. A member of Jaeger is entitled to a 2% gross overriding royalty.

On January 27, 2005, the Company entered into a further agreement with Jaeger, pursuant to which the parties agreed to amend the Jaeger Diamond Property Sale and Purchase Agreement to include a geographical area of common interest within which either party may require that any mineral interests acquired by either party be added to the property to which that agreement applies. The geographical area of interest includes that part of the NWT bounded by the line of latitude 65ºNorth; bounded on the west by meridian 135ºWest; bounded on the east by meridian 115ºWest; and bounded on the north by the coastline of the Arctic Ocean.

In May 2005, the Company acquired the diamond rights to an additional 42 prospecting permits from a member of Jaeger for $60,000.

In June 2005, the Company acquired from Jaeger all other mineral rights, excluding uranium rights, to the prospecting permits to which it already owned diamond rights, subject to Jaeger retaining a 10% production carried interest and subject to a member of Jaeger retaining a 2% net smelter returns royalty (NSR).

In June 2005, a member of Jaeger executed an amended and restated declaration of trust in which he acknowledged that he holds recorded title to a total of 462 prospecting permits with a total acreage of 19,766,689 acres as bare trustee and nominee for and on behalf of the Company to the extent of any diamonds or other minerals, excluding uranium, located on, in or under such permits, including the right to explore for and exploit any and all such diamonds or other minerals. The Company has no rights in respect of uranium.

(expressed in Canadian dollars)

3. Mineral Properties (continued)

MacKenzie Diamond Project (continued)

The Company also has rights in 52 unpatented mining claims, which were staked on the Company's behalf in spring, 2005. These claims were registered to an outside party in June 2005 and are subject to the Company's agreement with Jaeger by virtue of the area of interest provision contained therein.

In July 2005, the Company signed an agreement with Kennecott Canada Exploration Inc (Kennecott), which contains the following options and requirements:

i) The agreement grants Kennecott a 15% undivided interest in the MacKenzie Diamond Project property in exchange for assuming proportionate responsibility for both a 2% and a 0.9% gross overriding royalty on diamonds and a 2% NSR royalty on other minerals, and for paying $2.5 million (received) to Sanatana to fund the 2005 exploration program, as well as paying an additional $2.5 million to Sanatana (received July, 2006) to fund the 2006 exploration program. Kennecott will also contribute 15% of ongoing exploration costs beginning in 2007.

ii) The agreement also grants Kennecott the option to earn up to a 60% interest in any identified kimberlite or deposit ("Development Area") by solely funding the activities on the Development Area until a decision to mine is made. Upon Kennecott earning this further interest in respect of a particular kimberlite or mineral deposit, the Kennecott Agreement provides that the Development Area will be carved out of the entire Mackenzie Diamond Project area and a development joint venture will be created in respect of the carved out area.

The development joint venture will be jointly managed with each party funding its own interest and each party having votes according to its respective interest. The party with the majority interest will be project manger and be entitled to an annual management fee of 1% of operating expenses. Either party's failure to contribute will lead to dilution of that party's interest in the development joint venture.

In the event of production of diamonds from any particular development joint venture, the entire Mackenzie Diamond project will become the property of that development joint venture and all subsequent exploration, evaluation and development will be carried out by the development joint venture. Rio Tinto Diamonds, a subsidiary of Kennecott, will market all diamonds from the development joint venture in exchange for a 3% marketing fee.

iii) The agreement requires Kennecott to subscribe for a minimum of $2.5 million or 9.9% of the outstanding shares in the capital of Sanatana on the completion of the initial public offering (completed) and grants Kennecott the option to subscribe for an additional number of shares to bring Kennecott's ownership of Sanatana up to 9.9% of the issued and outstanding shares in the capital of Sanatana. Also, Kennecott may elect to purchase $1M worth of shares on each anniversary closing date until the first time it chooses not to so elect.

(expressed in Canadian dollars)

3. Mineral Properties (continued)

The Company has entered into an access and benefits agreement dated January 18, 2006 with Déline Land Corporation with respect to the drilling for potential kimberlites in the Kilekale Lake area. The term of this agreement commenced effective as of August 15, 2005 and, subject to the renewal or termination, will end on December 31, 2007.

On January 26, 2006, the Company entered into an agreement with Diamonds North Resources Ltd and Majescor Resources Inc. (the “Diamonds North Agreement”) whereby the Company acquired 10 additional prospecting permits in the Northwest Territories.

Based on the results of the 2004 and 2005 programs, in January 2006 the Company allowed 88 of the 2004 Jaeger Permits and 2 of the 2005 Jaeger Permits to lapse; to hold approximately 16 million acres.

Reimbursable bond

The reimbursable bond consists of amounts held on deposit by the Northwest Territories government to ensure required minimum levels of exploration and reporting are performed. Exploration activity must be conducted on the property in the amount of the deposit during the period to which the deposit relates in order for the deposit to qualify for refund. These deposits must accompany the application for permit that must be filed in the month of December previous to the calendar year to which the application pertains. The permits for properties located above the 68^{th} parallel and below the 68^{th} parallel are for five years and three years respectively. Subsequent to these periods, claims are staked for the properties to be retained for further exploration work. In order to maintain the claims in good standing, the Company must complete minimum exploration expenditures as required.

In December 2003, exploration deposits of $1,815,544 were paid by Jaeger to the Northwest Territories government for 2004 exploration permits. $1,265,001 of these deposits had been refunded to Jaeger as of the date of these financial statements. In the event that insufficient exploration expenditures are incurred by the Company on the properties above the 68th parallel, the balance of the deposits, $550,543, may not be fully refunded to Jaeger, and the Company may be liable to Jaeger for the shortfall. Any shortfall in amounts refunded will be recorded in the period the shortfall becomes likely to occur. Management believes these amounts will be fully refunded to Jaeger.

In January 2005, the Company paid deposits of $2,368,584 to the Northwest Territories government for the following year’s exploration permits. Deposits in the amount of $234,289 have been refunded as of the date of these financial statements.

The bond in the amount of $5,177,123 for 2006/2007 was partially funded by a letter of credit for $4,998,724 provided by Kennecott. The balance of $179,399 was paid by the Company in May 2006. Management is of the opinion that the Company has sufficient funding to carry out the exploration program and to obtain the release of the bond. In the event that the Company should fail to carry out sufficient exploration work, it will have to reimburse Kennecott for any shortfall.

(expressed in Canadian dollars)

4. Property and Equipment

	June 30, 2006		
	Cost $	Accumulated Depreciation $	Net Book Value $
Office and computer equipment	47,014	2,478	44,536
Leasehold improvements	35,357	3,929	31,428
Exploration equipment	44,218	3,436	40,782
	126,589	9,843	116,746

	March 31, 2006		
	Cost $	Accumulated Depreciation $	Net Book Value $
Office and computer equipment	21,522	407	21,115
Leasehold improvements	35,357	982	34,375
Exploration equipment	39,250	1,308	37,942
	96,129	2,697	93,432

5. Share Capital

Authorized:
Unlimited common shares without par value.

Issued:

Common Shares	Number of Shares	Amount
On incorporation	1	$ ---
Shares issued for property acquisition	19,000,000	---
Shares issued in private placements:		
Flow-through private placements	3,435,809	2,704,218
Private placements	8,234,000	5,443,000
Finders' fees (shares and cash)	10,000	(126,100)
Tax value of assets renounced to flow-through share investors (c)	---	(599,515)
Balance, March 31, 2005	30,679,810	7,421,603
Public offering (e)	2,890,398	5,095,733
Offering costs (b)	--	(1,192,123)
Shares issued as listing costs (e)	36,586	64,026
Tax value of assets renounced to flow-through share investors (c)	---	(348,408)
Balance, March 31, 2006	33,606,794	$ 11,040,831
Public offering (a)	7,142,857	12,500,000
Offering costs (a)(b)	---	(1,150,477)
Warrants issued as listing costs	---	(178,800)
Shares issued as listing costs (a)	100,000	175,000
Balance, June 30, 2006	40,849,651	$ 22,386,554

(expressed in Canadian dollars)

5. Share Capital (continued)

(a) Public offering

On May 16, 2006, the Company completed a public offering of 7,142,857 flow-through common shares at a price of $ 1.75 per common share, for gross proceeds of $12.5 million. Sanatana has incurred offering costs of $ 1,150,477, including a cash commission equal to 6% of the gross proceeds paid to Canaccord Capital Corporation (“Canaccord”), as well as an administration fee of $ 7,500 paid to Canaccord. In addition Canaccord has held back a $ 65,000 retainer to settle its legal and administrative expenses incurred in association with this offering. Sanatana has granted Canaccord agent’s warrants to acquire up to 428,571 non-flow through common shares at an exercise price of $ 1.75 per share for a period of up to 24 months, and has issued 100,000 non flow-through common shares to Canaccord at an issue price of $1.75 per share.

(b) Deferred offering costs

Legal, brokerage and accounting costs incurred in respect of the Company’s AIM registration were deferred until the registration was complete on July 28, 2005. After the AIM registration the costs previously deferred were recorded as a reduction to proceeds received from the common shares issued upon registration. See also Note 5(e).

Costs associated with the Company’s listing on the TSX Venture Exchange and concurrent flow-through financing were deferred until the listing was completed on May 16, 2006. See also Note 5(a)

(c) Flow-through shares

The flow-through shares issued effectively pass on to subscribers the tax credits associated with Canadian exploration expenditures (as defined in the Canadian Income Tax Act) funded by the proceeds of the shares. $1,683,086 of the proceeds were renounced to the subscribers as tax benefits during the period ended March 31, 2005. The balance of proceeds from flow-through share issuances, of $1,021,125, was expended and renounced to subscribers during the year ended March 31, 2006.

(d) Stock options

The Company has not issued any stock options to date. The Company adopted a stock option plan for the Company’s employees and directors on May 11, 2005. The plan allows for the issuance of options numbering up to 10% of the outstanding number of common shares of the Company.

(e) AIM listing

The Company completed a listing and placement on the AIM Market of the London Stock Exchange. In conjunction with the placement, 2,890,398 shares were issued at 82 pence, ($1.75) for gross proceeds of approximately ₤2.4 million Great Britain Pounds ($5.1 million). An additional 36,586 shares were issued to Insinger de Beaufort, the Company’s Nominated Adviser and Broker as payment in lieu of fees.

(expressed in Canadian dollars)

6. Warrants

	Number of Warrants	2006 Weighted Average Price	Number of Warrants	2005 Weighed Average Price
Balance, beginning of period	-	$ -	-	$ -
Granted, agents' Warrants	428,571	$1.75	-	$ -
Exercised	-	$ -	-	$ -
Expired or cancelled	-	$ -	-	$ -
Balance, end of period	428,571	$1.75	-	$ -

Summary of outstanding warrants at June 30, 2006:

Expiry Date	Exercise Price $	Warrants Outstanding #	Value $
May 15, 2008	$1.75	428,571	178,800
		428,571	178,800

The fair value of each warrant granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility 47%; risk-free interest rate 4% and an expected life of two years.

7. Financial Instruments

The Company's financial assets and liabilities are comprised of cash and equivalents, amounts receivable, reimbursable bonds (Note 3), and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to the immediate or short-term maturity of the financial instruments.

8. Related Party Transactions

At June 30, 2006, the Company did not have any employees and had arrangements with a number of contractors to provide most of the administrative, accounting, and management services required. Certain directors and significant shareholders provided management and consulting services to the Company.

St. George Minerals Limited, a private company, which has a common director of the Company, provided management and consulting services to the Company.

(expressed in Canadian dollars)

8. Related Party Transactions (continued)

Pursuant to agreements with the Company's directors, the Company has agreed to pay its directors a fee totalling £35,000 GBP ($74,690) per annum.

Services provided by:		Three Months ended June 30 2006		Three Months ended June 30 2005
Directors and insiders (a)	$	52,335	$	12,000
Hermes Management (b)	$	---	$	3,000
St. George Minerals Limited (c)	$	25,773	$	---

a) Directors and insiders provided services in the normal course of business. These services are classified according to their nature, including financial, technical and management services.

b) Fees paid or accrued for secretarial services performed by a company controlled by a member of the Jaeger Joint Venture.

c) Fees paid or accrued for financial and administrative services performed by a company, which has a common director of the Company.

These transactions were recorded at the exchange amount, being the consideration established and agreed to by the related parties.

Balances included in accounts payable and accrued liabilities		June 30, 2006		June 30, 2005
St. George Minerals Limited	$	19,994	$	---

Related party balances are due on demand, bear no interest, and are considered current liabilities.

9. Commitments

Sanatana has signed a 36 month lease for office space, starting February 1, 2006. Total commitment for the lease is $6,216 per month, plus GST. In addition, the first three months were rent-free. The rental liability related to this inducement has been accrued and is being amortized over the term of the lease.

10. Off-Balance Sheet Arrangements and Contingent Liabilities

Kennecott has deposited a letter of credit in the amount of $4,998,724 on the Company's behalf to fulfill bonding requirements for the 2006 exploration season.

(expressed in Canadian dollars)

11. Subsequent Events

On July 26, 2006, Kennecott Canada Exploration Inc. ("Kennecott") contributed $2.5 million to the Company's 2006 exploration program, and in the process earned a 15% interest in the Company's Mackenzie Diamond Project pursuant to the exploration and development agreement between the Company and Kennecott. The principal terms of this exploration and development agreement are as follows:

• the Company manages and operates its exploration programs;
• Kennecott subscribed for $2.5 million worth of the Company's shares at the time of the Company's admission to the Alternative Investment Market of the London Stock Exchange;
• Kennecott contributed $2.5 million towards the Company's 2005 exploration programs; and
• Kennecott contributed a further $2.5 million towards the Company's 2006 exploration programs.

The exploration and development agreement also grants Kennecott the right to earn additional rights in any individual kimberlite project within the Company's Mackenzie Diamond Project on the following basis:

• Kennecott will earn a 49% interest in each individual project by completing, at its sole expense, a bulk sample and a positive feasibility study within 4 years; and
• Kennecott will earn a further 11% interest in each individual project by solely funding and managing all future evaluation through to such time as a decision to mine is made, provided that a decision to mine is made within twenty years of Kennecott earning the initial 49% interest in the individual project.

12. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.