SANATANA DIAMONDS INC.
For the three months ended June 30, 2006

Management's Discussion and Analysis
(All amounts stated in Canadian dollars, unless otherwise indicated)

This interim report, including the interim financial statements and this MD&A contains certain "Forward-Looking Statements", which are prospective and reflect management's expectations regarding Sanatana Diamonds Inc.'s ("Sanatana") future growth, results of operations, performance and business prospects and opportunities. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. All statements, other than statements of historical fact, included herein, including without limitation, statements regarding potential mineralization and reserves, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, exploration results and future plans and objectives of Sanatana are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from Sanatana's expectations are disclosed in its documents filed from time to time with the TSX Venture Exchange and other regulatory authorities and include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore to be mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors.

Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Sanatana undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

Introduction

This discussion and analysis of the operating results and financial condition of Sanatana Diamonds Inc. ("Sanatana", or the "Company") for the three months ended June 30, 2006 should be read in conjunction with the interim financial statements for the same period, as well as the audited annual financial statements and related notes for the year ended March 31, 2006, and is intended to provide the reader with a review of the factors that affected the Company's performance during the three months ended June 30, 2006 and the factors reasonably expected to impact future operations and results.

The interim financial statements and related notes of Sanatana have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") and are expressed in Canadian dollars. All amounts in this report are in Canadian dollars, except where otherwise indicated.

The Sanatana exploration programs are carried out under the supervision of Sanatana's VP Exploration, Mr. Buddy Doyle. Mr. Doyle meets the qualified person requirements (as defined by National Instrument 43-101) with more than 25 years of experience in the gold and diamond exploration industry and is responsible for the geoscientific and technical disclosure contained in this document.

Nature of Business

Sanatana was incorporated under the *Business Corporations Act* (British Columbia) on June 25, 2004. On July 28, 2005, the Company's common shares were admitted to the AIM Market of the London Stock Exchange under the symbol "**SAN**". On November 30, 2005, a receipt was issued for the Company's non-offering Prospectus, making the Company a reporting issuer in every province and territory of Canada, except Quebec. On May 17, 2006, the Company's common shares commenced trading on the TSX Venture Exchange under the symbol "**STA**". The Company is classified as a mining exploration / development company by the TSX Venture Exchange.

The Company's exploration activities are carried out solely in Canada, in the Northwest Territories and Nunavut. Sanatana has carried out prospecting and exploration for diamonds at the Mackenzie Diamond Project since its incorporation in June 2004. As at June 30, 2006, Sanatana had a total land package of 15,865,171 acres in the Northwest Territories and Nunavut. Eight (8) separate areas with anomalous diamond indicator minerals in the glacial till have been identified by work carried out to date by Sanatana. Each separate area is thought to represent a potential kimberlite field containing multiple kimberlite pipes. Any one of these potential pipes may contain economic quantities of diamonds.

In the three months ended June 30, 2006, Sanatana carried out an exploration program consisting of helicopter-borne magnetic surveys and ground magnetic surveys over numerous targets, including the Kilekale Lake area. These surveys were designed to follow-up the over 1,000 magnetic anomalies generated by the airborne surveys flown in 2005. Based on the data from this years work program, the anomalies are being either upgraded to probable drill targets or discarded. Over 50% of the anomalies tested to date remain viable targets. In the Kilekale Lake area, permitting to drill was granted, a drill camp was constructed and four magnetic targets were drill tested with eight drill holes (for a total of 1,226 meters). The magnetic targets tested were between 2.2 kilometres and 8.5 kilometres apart. Four drill holes were drilled into one target and these where spaced 70 metres apart. All the drill holes intersected black mudstones or orange weathered mudstones. No kimberlite was intersected.

In the next quarter, the Company plans to: continue to obtain permits to drill in other areas; continue the geophysical follow-up program; conduct till sampling; and begin a claim staking program.

Significant Events and Transactions

On April 19, 2006, Sanatana received final receipts for its final long form prospectus from the securities regulators in each of British Columbia, Alberta, Manitoba and Ontario and with the TSX Venture Exchange. The Company also obtained conditional approval to list its common shares on the TSX Venture Exchange. On May 17, 2006, Sanatana's common shares commenced trading on the TSX Venture Exchange under the symbol "STA". The Company is classified as a mining exploration / development company by the TSX Venture Exchange.

In July 2006, Kennecott Canada Exploration Inc. ("Kennecott") contributed $2.5 million to the Company's 2006 exploration program. With this contribution, Kennecott has 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 of the Company's shares at the time of its admission to the AIM 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 on July 26, 2006.

By completing this C$7.5 million investment, Kennecott have earned a 15% interest in the Company's Mackenzie Diamond Project. 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.

Exploration Update

On April 24, 2006, the Company was issued final permits for drilling in the Kilekale Lake area, including permission to build a drill camp at Kilekale Lake. This area lies 15 kilometers north of Great Bear Lake and is one of 8 areas identified by Sanatana in the Mackenzie Diamond Project area that have drill potential kimberlite targets. The Kilekale Lake area contains over 30 potential magnetic anomalies, with associated diamond indicator minerals, that represented potential kimberlite targets. A helicopter-borne low level magnetic survey over the Kilekale Lake area at 100 meter spacing was used to define 12 drill targets. Additionally, a drilling program is planned for the Colville Lake-Lac Dubois area.

During the summer of 2006, additional till sampling and ground geophysics is being carried out on the other 6 target areas and on a regional basis throughout the Mackenzie Diamond Project Area.

Drilling at the Kilekale Lake Targets

Drilling commenced on June 1st on an ice target located about 600 meters from the Kilekale Camp site. Four out of the 12 targets where drill tested with eight diamond drill holes (total 1,226 meters). No kimberlite was intercepted. The drill program was abandoned on June 26, 2006. All drill holes intercepted a poorly lithofied mudstone. The overlying till depth varied form 18 meters to 42 meters. Seven of the drill holes passed into a bright red/orange/yellow weathered mudstone profile that persisted for approximately 40 meters before entering into fresh black mudstone. One drill hole went directly into fresh mudstone beneath the till. In most of the drill holes two till blankets were present, separated by a layer of glaciofluvial material. None of the material cored in the drill holes had sufficient magnetism to adequately explain the magnetic anomalies.

The company will continue to study the Kilekale area at a lower priority level, by examining the physical properties of the core and further modelling of the available magnetic and gravity data to try an obtain a better understanding of these unexplained magnetic anomalies

Reporting Period

At June 30, 2006, the Company had net working capital of $9,214,829 (March 31, 2006: $195,044).

The net loss for the three months ended June 30, 2006 was $225,703, compared with $140,171 in the three months ended June 30, 2005. Included in the net loss for 2006 was $32,888 ($66,751) of professional fees, $15,809 ($42,063) of travel expenses and $15,468 ($12,500) of consulting and advisory fees. New categories of costs in 2006 included filing fees ($25,208), transfer agent fees ($10,605) and directors' fees ($18,516) as a result of the Company's listing on the AIM Market of the London Stock Exchange in July 2005 and the TSX Venture Exchange in May 2006. Management fees of $52,335 ($12,000) and office and administration expenses of $79,104 ($3,961) were significantly higher due to the higher level of exploration activities.

Mineral exploration costs form the bulk of the Company's expenditures for the period. These costs are set out in the following table:

	Three months to June 30, 2006	Year ended March 31, 2006	June 2004 to March 31, 2005
Acquisition costs	55,810	188,970	-
Helicopter & fixed wing aircraft costs	269,166	4,570,349	911,433
Sampling and assays	70,500	1,537,325	438,410
Labour	250,819	155,639	127,449
Geological services	560,704	837,203	670,396
Project management fees	20,000	304,432	195,565
Reclamation provision	-	120,000	-
Other expenses	316,735	128,758	235,293
Reimbursable bonds and deposits	179,399	(55,673)	2,368,584
Total costs for the period	$ 2,323,133	$ 7,787,003	$ 4,947,130
Less: Kennecott option payment	-	(2,500,000)	-
Total cost to the Company in the period	$ 2,323,133	$ 5,287,003	$ 4,947,130

Summary of Results

(In thousands of Canadian dollars, except per share amounts)

Fiscal Period	Revenue	Net Loss	Earnings / (Loss) per Share		Total Assets	Total L.T. Liab.	Dividends
			Basic	Diluted			
2007 – Q1	-	226	(0.01)	(0.01)	23,290	-	-
Total	-	226	(0.01)	(0.01)	N/A	N/A	-
2006 – Q4	-	405	(0.01)	(0.01)	11,436	-	-
2006 – Q3	-	299	(0.01)	(0.01)	11,257	-	-
2006 – Q2	-	190	(0.01)	(0.01)	11,759	-	-
2006 – Q1	-	140	0.00	0.00	7,920	-	-
Total	-	1,034	(0.03)	(0.03)	N/A	N/A	-
2005 – Q4	-	145	(0.06)	(0.06)	6,813	-	-
2005 – Q3	-	23	0.00	0.00	N/A	N/A	-
2005 – Q2	-	53	(0.01)	(0.01)	N/A	N/A	-
2005 – Q1 *	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	-	221	(0.07)	(0.07)	N/A	N/A	-

* The Company was incorporated on June 25, 2004.

Liquidity

The following table summarizes the Company's cash flows and cash on hand:

	June 30, 2006 $	**March 31, 2006 $**	March 31, 2005 $
Cash	**10,150,922**	**746,637**	1,183,691
Working capital	**9,214,829**	**195,044**	1,168,375
Cash (used in)/ generated by operating activities	**334,165**	**(1,033,436)**	(205,535)
Cash used in investing activities	**(2,454,403)**	**(4,670,112)**	(5,267,481)
Cash provided by financing activities	**11,524,523**	**5,266,494**	6,656,707

During fiscal 2007, to date, $11,524,523 (fiscal 2006: $4,091,494) cash was raised, net of issue costs, through the issuance of common shares.

In conjunction with its listing on the TSX Venture Exchange, Sanatana completed a public offering of 7,142,857 flow-through common shares at a price of $1.75 per share on May 16, 2006, for gross proceeds of $12.5 million through Canaccord Capital Corporation ("Canaccord"), as agent. Proceeds of this public offering will be used for exploration programs on Sanatana's Mackenzie Diamond Project. In consideration for services rendered in connection with this public offering, Sanatana paid Canaccord a cash commission equal to 6% of the gross proceeds, granted 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, issued 100,000 non flow-through common shares to Canaccord at an issue price of $1.75 per share, and paid Canaccord's reasonable expenses in connection with the public offering as well as an administration fee of $7,500.

Changes to the Board of Directors and Management

Officers:
Ms. Naomi Nemeth (as Vice-President, Investor Relations). Naomi is president of the Ontario Chapter of the Canadian Investor Relations Institute (CIRI) and has more than 20 years' experience in investor relations and corporate communications. Naomi was Vice President, Investor Relations for Desert Sun Mining until its takeover by Yamana Gold in April 2006. Prior to that, she held senior level investor relations positions in the mining, pharmaceutical and financial services sectors. Naomi began her career as a field exploration geologist with Inco in the Yukon and Northern Ontario. Currently, Naomi serves as VP Investor Relations for Glass Earth Limited, Luiri Gold Limited and Jumbo Petroleum Corp. and is based in Toronto.

Critical Accounting Policies and Estimates

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of any contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues earned and expenses incurred during the period. These estimates are based on historical experience and other assumptions that are believed to be reasonable under the circumstances. The Company's significant accounting policies are those that affect the financial statements and are summarized in Note 2 of the audited annual financial statements for the year ended March 31, 2006. Critical accounting policies and estimates in the period included capitalization of the costs relating to the acquisition, exploration and development of non-producing resource properties and the recognition of impairment of those assets, and the choice of Generally Accepted Accounting Principles ("GAAP"). Actual results could differ from these estimates.

Risks & Uncertainties

Nature of Mineral Exploration and Development Projects

The business of exploring for minerals involves a high degree of risk. Few properties that are explored are ultimately developed into mines. At present, none of the Company's properties have a known diamond deposit and the proposed exploration programs are an exploratory search for such a deposit.

The Company's operations are subject to all the hazards and risks normally associated with the exploration for diamonds, any of which could result in damage to life, or property, or the environment. The Company's operations may be subject to disruptions caused by unusual or unexpected formations, formation pressures, fires, power failures and labour disputes, flooding, explosions, cave-ins, landslides, the inability to obtain suitable or adequate equipment, machinery, labour or adverse weather conditions. Although the Company maintains insurance to cover normal business risks, the availability of insurance for many of the hazards and risks is extremely limited or uneconomical at this time. Through high standards and continuous improvement, Sanatana works to reduce these risks.

The Company's operations are also subject to the additional risks associated with the short exploration season in the Northwest Territories and Nunavut. With ice and snow cover in the remote Mackenzie Diamond Project area from October to June, the Company's exploration program is dependent upon sufficient logistical support, including camps and fuel caches, to allow productive exploration activities during the brief arctic summer. A breakdown in logistical support could severely curtail the Company's planned exploration program.

In the event the Company is fortunate enough to discover a diamond deposit, the economics of commercial production depend on many factors, including the cost of operations, the size, quantity and quality of the diamonds, proximity to infrastructure, financing costs and Government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of diamonds and environmental protection. The effects of these factors cannot be accurately predicted, but any combination of these factors could adversely affect the economics of commencement or continuation of commercial diamond production.

The profitability of the Company's operations will be dependent, inter alia, on the market price of diamonds. Diamond prices are affected by numerous factors beyond the control of the Company, including international economic and political conditions, levels of supply and demand, the policies of the Diamond Trading Company and international currency exchange rates.

Success in establishing reserves is a result of a number of factors, including the quality of management, the Company's level of geological and technical expertise, the quality of land available for exploration, the availability of suitable contractors, and other factors. If mineralization is discovered, it may take several years in the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish reserves through drilling, to determine the optimal metallurgical process and to construct mining and processing facilities. Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of resources or reserves.

Financing risk, until such time as the Company is cash flow positive
In the absence of cash flow from operations, Sanatana relies on the capital markets to fund operations. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that additional funding will be available, or available under terms favourable to the Company. Failure to obtain such additional finance could result in delay or the indefinite postponement of further exploration and the development of the Company's properties.

Licenses and Permits, Laws and Regulations
Sanatana's exploration activities require permits from various government authorities, and are subject to extensive federal, provincial and local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly. Sanatana draws on the expertise and commitment of its management team, their advisors, its employees and contractors to ensure compliance with current laws and fosters a climate of open communication and co-operation with regulatory bodies.

The Company believes that it holds all necessary licenses and permits under applicable laws and regulations and believes it is presently complying in all material respects with the terms of such licenses and permits. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations. Government approvals and permits are required in connection with the exploration activities proposed for the Properties. To the extent such approvals are required and not obtained, the Company's planned exploration, development and production activities may be delayed, curtailed, or cancelled entirely.

Claim Titles and Aboriginal Rights

Aboriginal rights may be claimed on Crown properties or other types of tenure with respect to which mining rights have been conferred. Aboriginal land claim settlements are more advanced in the Northwest Territories than they are in most other areas of Canada. The Mackenzie Diamond Project area is located in the Gwich'in, Sahtu and Inuvialuit settlement regions. With the exception of the Gwich'in Comprehensive Land Claim Agreement, Sahtu Dene and Metis Comprehensive Land Claim Agreement, and the Inuvialuit Final Agreement pertaining to certain areas in the Northwest Territories, the Company is not aware of any aboriginal land claims having been asserted or any legal actions relating to aboriginal issues having been instituted with respect to any of the Mackenzie Diamond Project area.

Conflicts of Interest

Certain of the Company's shareholders and directors are or may become shareholders and/or directors of other natural resource companies, and, to the extent that such other companies may participate in ventures with the Company, the directors may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or of its terms. In appropriate cases the Company will establish a special committee of independent directors to review a matter in which one or more directors or management may have a conflict. From time to time, the Company, together with several other companies, may be involved in a joint venture opportunity where several companies participate in the acquisition, exploration and development of natural resource properties, thereby permitting the Company to be involved in a greater number of larger projects with an associated reduction of financial exposure in any given project. The Company may also assign all or a portion of its interest in a particular project to any of these companies due to the financial position of the other company or companies. In accordance with the laws of the province of British Columbia, the directors are required to act honestly and in good faith with a view to furthering the best interest of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time.

For a more complete description of the uncertainties and risk factors faced by the Company, please refer to Management's Discussion and Analysis of the audited annual financial statements for the year ended March 31, 2006.

<u>Related Party Transactions</u>

At June 30, 2006, the Company did not have any employees, but 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.

Management Agreements for the year period to June 30, 2006:

$	Misape Mgt	Peter Miles	1693467 Ontario	St George Minerals	Totals
Administration fees	-	-	-	-	-
Consulting fees	-	-	-	(4) 25,773	25,773
Management Services	(1) 19,500	(2) 16,500	(3) 16,335	-	52,335
Totals	19,500	16,500	16,335	25,773	78,108

1 Fees paid or accrued to a management company, which has a common director of the Company. The director provides management and technical services.
2 Mr. Peter Miles provides financial and management services.
3 Fees paid or accrued for financial and management services performed by a company, which is controlled by an officer of the Company.
4 Fees paid or accrued for financial and administrative services performed by a company, which has a common director of the Company.
5 In addition to the above, fees for directors totalled $18,516.

Contractual Obligations and Commitments

	2007	**2008**	**2009**
Operating Leases (office)	55,944	74,595	68,379

Off-Balance Sheet Arrangements and Contingent Liabilities

Kennecott deposited a $5 million letter of credit on the Company's behalf to fulfil bonding requirements for the 2006/2007 exploration season.

Outlook

During the summer of 2006, additional till sampling, ground and airborne geophysics and field prospecting will be carried out on 10 separate target areas and on a regional basis throughout the Mackenzie Diamond Project area.

A helicopter-borne aeromagnetic system is currently generating drill targets in the Colville, Raymond and Horton areas. Ground magnetic crews have generated drill targets in the Yeltea, Mackintosh and Tuitaluj areas. The company will focus on generating more drill targets and obtaining permitting in other areas, especially where there is a strong coincidence between the magnetics and the geochemistry. The Colville - Lac Dubois area is in an advanced stage of permitting for drilling.

Over 2,500 till samples are planned this year to follow-up on these magnetic anomalies, the density of sampling will be less than 1.6 kilometer between sample sites and it is hoped to begin to define individual kimberlite indicator mineral trains at this level of work.

For additional information, please refer to the Company's website at www.sanatanadiamonds.com and for regulatory filings, including news releases, please refer to www.SEDAR.com.

Subsequent Events

In July 2006, Kennecott Canada Exploration Inc. ("Kennecott") contributed a further $2.5 million to the Company's 2006 exploration program. With this contribution, Kennecott earned a 15% interest in the Company's Mackenzie Diamond Project pursuant to the July 2005 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 C$2.5 million of the Company's shares at the time of the Company's admission to the AIM Market of the London Stock Exchange;
- Kennecott contributed C$2.5 million towards the Company's 2005 exploration programs; and
- Kennecott contributed a further C$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.

Supplement to the Financial Statements

As at August 28, 2006, the following items were issued and outstanding:

- 40,849,651 common shares;
- No common share purchase options; and
- 428,571 share purchase warrants with an exercise price of $1.75 per share and an expiry date of May 15, 2008.

August 29, 2006