

**Sanatana Diamonds Inc.**  
(An Exploration Stage Company)  
**Financial Statements**  
**For the Quarters Ended June 30, 2007 and 2006**  
(Stated in Canadian dollars)

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### **Notice to Reader**

These unaudited financial statements for the three-month period ended June 30, 2007 have not been reviewed by our auditors. They have been prepared by the Company's management in accordance with accounting principles generally accepted in Canada, consistent with previous quarters and years, except for the adoption of new accounting policies as described in note 3. These unaudited financial statements have been reviewed and approved by the Company's audit committee.

Readers are advised to read the attached financial statements in conjunction with the Company's audited annual financial statements for the year ended March 31, 2007.

# Sanatana Diamonds Inc.

(An Exploration Stage Company)

Balance Sheets

Unaudited – Prepared by Management

(in Canadian dollars)

As at	June 30, 2007 \$	March 31, 2007 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and equivalents (Note 6(b))	3,560,890	5,572,786
Amounts receivable	386,939	83,115
Prepaid expenses	80,037	64,782
	<b>4,027,866</b>	<b>5,720,683</b>
<b>Exploration advances</b>	<b>118,637</b>	<b>5,287</b>
<b>Mineral properties</b> (Note 4)	<b>17,688,321</b>	<b>16,019,185</b>
<b>Property and equipment</b> (Note 5)	<b>89,701</b>	<b>98,677</b>
	<b>21,924,525</b>	<b>21,843,832</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	289,022	284,083
Accrued liabilities	499,934	275,469
	<b>788,956</b>	<b>559,552</b>
<b>Future income tax liability</b>	<b>3,002,618</b>	<b>3,002,618</b>
	<b>3,791,574</b>	<b>3,562,170</b>
<b>Shareholders' Equity</b>		
Common shares (Note 6)	20,041,875	20,041,875
Share purchase warrants (Note 7)	327,954	327,954
Contributed surplus	71,397	23,146
Deficit accumulated in the exploration stage	(2,308,275)	(2,111,313)
	<b>18,132,951</b>	<b>18,281,662</b>
	<b>21,924,525</b>	<b>21,843,832</b>

Ability to continue as a going concern (Note 2)

Approved on behalf of the Board of Directors

\_\_\_\_\_  
Peter Miles, Director

\_\_\_\_\_  
Edward Marlow, Director

The accompanying notes are an integral part of these financial statements

# Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Shareholders' Equity

Unaudited – Prepared by Management

(in Canadian dollars)

	Common Shares #	Common Shares \$	Contributed Surplus \$	Share Purchase Warrants \$	Deficit Accumulated During the Exploration Stage \$	Shareholders' Equity \$
<b>Balance - March 31, 2005</b>	<b>30,679,810</b>	<b>7,421,603</b>	-	-	<b>(220,851)</b>	<b>7,200,752</b>
Issuance of shares on public offering, net of issuance costs of \$1,192,123	2,890,398	3,903,610	-	-	-	3,903,610
Issuance of shares as listing costs	36,586	64,026	-	-	-	64,026
Tax value of assets renounced to flow-through share investors	-	(348,408)	-	-	-	(348,408)
Loss for the year	-	-	-	-	(1,033,698)	(1,033,698)
<b>Balance - March 31, 2006</b>	<b>33,606,794</b>	<b>11,040,831</b>	-	-	<b>(1,254,549)</b>	<b>9,786,282</b>
Issuance of shares on public offering, net of issuance costs of \$1,266,061	7,142,85	11,233,939	-	-	-	11,233,939
Issuance of warrants as listing costs	-	(327,954)	-	327,954	-	-
Issuance of shares as listing costs	100,000	175,000	-	-	-	175,000
Tax value of assets renounced to flow-through share investors	-	(2,079,941)	-	-	-	(2,079,941)
Stock-based compensation	-	-	23,146	-	-	23,146
Loss for the year	-	-	-	-	(856,764)	(856,764)
<b>Balance - March 31, 2007</b>	<b>40,849,651</b>	<b>20,041,875</b>	<b>23,146</b>	<b>327,954</b>	<b>(2,111,313)</b>	<b>18,281,662</b>
Stock-based compensation	-	-	48,251	-	-	48,251
Loss for the period	-	-	-	-	(196,962)	(196,962)
<b>Balance – June 30, 2007</b>	<b>40,849,651</b>	<b>20,041,875</b>	<b>71,397</b>	<b>327,954</b>	<b>(2,308,275)</b>	<b>18,132,951</b>

The accompanying notes are an integral part of these financial statements

# Sanatana Diamonds Inc.

(An Exploration Stage Company)  
Statements of Operations and Deficit  
Unaudited – Prepared by Management

(in Canadian dollars)

For the	Quarter ended June 30, 2007 \$	Quarter ended June 30, 2006 \$
<b>Expenses</b>		
Amortization	7,014	5,018
Consulting and advisory fees	17,233	15,468
Director fees	16,257	18,516
Filing fees	15,910	25,208
Investor relations	---	13,437
Management fees	25,500	52,335
Office and administration	65,822	79,104
Professional fees	24,439	32,888
Stock-based compensation (Note 8)	48,251	---
Transfer agent fees	6,702	10,605
Travel and accommodation	15,379	15,809
<b>Loss before undernoted</b>	<b>(242,507)</b>	<b>(268,388)</b>
Interest income	45,545	42,685
<b>Loss before income taxes</b>	<b>(196,962)</b>	<b>(225,703)</b>
Provision for income taxes	---	---
<b>Net loss for the period</b>	<b>(196,962)</b>	<b>(225,703)</b>
<b>Deficit, beginning of period</b>	<b>(2,111,313)</b>	<b>(1,254,549)</b>
<b>Deficit, end of period</b>	<b>(2,308,275)</b>	<b>(1,480,252)</b>
<b>Loss per share - basic and fully diluted</b>	<b>\$(0.00)</b>	<b>\$(0.01)</b>
<b>Weighted average common shares outstanding - basic and fully diluted</b>	<b>40,849,651</b>	<b>37,268,018</b>

The accompanying notes are an integral part of these financial statements

# Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statements of Cash Flows

Unaudited – Prepared by Management

(in Canadian dollars)

For the	Quarter ended June 30, 2007 \$	Quarter ended June 30 2006 \$
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
Net loss for the period	(196,962)	(225,703)
Adjustments for non-cash items:		
Amortization	7,014	5,018
Accrued rent expense	(1,695)	6,122
Stock based compensation	48,251	---
Changes in non-cash working capital items:		
Amounts receivable	(303,824)	6,481
Prepaid expenses	(15,255)	9,270
Accounts payable	13,939	548,977
Accrued liabilities	217,160	---
	(231,372)	350,165
<b>Investing activities:</b>		
Exploration advances	(1,667,174)	(118,938)
Mineral properties	(113,350)	(2,321,005)
Property and equipment	---	(30,460)
	(1,780,524)	(2,470,403)
<b>Financing activities:</b>		
Issuance of common shares	---	12,500,000
Offering costs	---	(975,477)
	---	11,524,523
<b>Increase (decrease) in cash and equivalents</b>	(2,011,896)	9,404,285
Cash and equivalents, beginning of period	5,572,786	746,637
Cash and equivalents, end of period	3,560,890	10,150,922
<b>Supplementary information:</b>		
Interest and taxes paid	---	---
Non-cash investing activities:		
Amortization in mineral properties	1,962	2,128
Non-cash financing activities:		
Shares issued as listing costs	---	175,000
Warrants issued as listing costs	---	178,800

The accompanying notes are an integral part of these financial statements

# Sanatana Diamonds Inc.

(An Exploration Stage Company)  
Notes to the Financial Statements  
Unaudited – Prepared by Management

For the quarter ended June 30, 2007  
(in Canadian dollars)

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## 1. Nature of Business and Basis of Presentation

Sanatana Diamonds Inc. (“Sanatana” or 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 and Nunavut 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 business of exploring for and mining of minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties in 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.

# Sanatana Diamonds Inc.

(An Exploration Stage Company)  
Notes to Financial Statements  
For the Quarter Ended June 30, 2007  
Unaudited – Prepared by Management

(in Canadian dollars)

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## 2. Ability to Continue as a Going Concern

The accompanying interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these interim financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

As at June 30, 2007 the Company has no source of operating cash flow and has an accumulated deficit of approximately \$2.3 million (March 31, 2007 - \$2.1 million). Operations have been funded primarily from the issuances of common shares and working capital.

## 3. Adoption of Accounting Policies

The Company has adopted three new accounting standards: Handbook Section 1530, "Comprehensive Income", Handbook Section 3855, "Financial Instruments –Recognition and Measurement", and Handbook Section 3865, "Hedges". Adoption of these standards has not had a material effect on the Company's financial condition or results of operations.

### Other Comprehensive Income

As a result of adopting these standards, a new category, accumulated other comprehensive income, will be added to shareholders' equity on the Company's balance sheet. Major components for this category will include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, and changes in fair value of the effective portion of cash flow hedging instruments.

### Financial Instruments - Recognition and Measurement

All financial instruments are be classified as one of the following: held-to-maturity, loans and receivables, held-for-trading or available-for-sale. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income.

Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition.



# Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Financial Statements

For the Quarter Ended June 30, 2007

Unaudited – Prepared by Management

(in Canadian dollars)

## 4. Mineral Properties

The cumulative costs incurred on the Company's mineral properties are as follows:

	3 Months Ended June 30, 2007 \$	Year Ended March 31, 2007 \$
Acquisition costs		
Opening balance	421,800	188,970
Incurred in the period	15,394	232,830
Closing balance	437,194	421,800
Helicopter and fixed wing aircraft costs		
Opening balance	8,470,768	4,491,768
Incurred in the period	448,318	3,978,563
Closing balance	8,919,086	8,470,768
Sampling and assays		
Opening balance	3,359,624	1,975,735
Incurred in the period	2,639	1,383,889
Closing balance	3,362,263	3,359,624
Labour		
Opening balance	1,590,750	283,088
Incurred in the period	885,212	1,307,662
Closing balance	2,475,962	1,590,750
Geological services		
Opening balance	2,763,613	1,507,599
Incurred in the period	---	1,256,014
Closing balance	2,763,613	2,763,613
Project management fees		
Opening balance	575,997	499,997
Incurred in the period	9,000	76,000
Closing balance	584,997	575,997
Field and camp		
Opening balance	842,082	196,037
Incurred in the period	108,084	646,045
Closing balance	950,166	842,082
Transport and accommodation		
Opening balance	1,629,907	734,339
Incurred in the period	155,376	895,568
Closing balance	1,785,283	1,629,907
Expediting		
Opening balance	443,522	116,110
Incurred in the period	20,385	327,412
Closing balance	463,907	443,522
Reclamation provision		
Opening balance	120,000	120,000
Provided in the period	---	---
Closing balance	120,000	120,000
Other		
Opening balance	342,586	307,579
Incurred in the period	24,291	35,007
Closing balance	366,877	342,586

# Sanatana Diamonds Inc.

(An Exploration Stage Company)  
 Notes to Financial Statements  
 For the Quarter Ended June 30, 2007  
 Unaudited – Prepared by Management

(in Canadian dollars)

## 4. Mineral Properties (continued)

<b>Total costs incurred on mineral properties</b>	<b>22,229,348</b>	<b>20,560,212</b>
<hr/>		
Reimbursable bonds and deposits		
Opening balance	<b>458,973</b>	2,312,911
Recovered in the period	---	(2,327,884)
Incurred in the period	---	473,946
Closing balance	<b>458,973</b>	<b>458,973</b>
<hr/>		
Option payment - Kennecott		
Opening balance	<b>(5,000,000)</b>	(2,500,000)
Received in the period	---	(2,500,000)
Closing balance	<b>(5,000,000)</b>	<b>(5,000,000)</b>
<hr/>		
<b>Total cash outlay, net of funding received from Kennecott and reimbursable bonds</b>	<b>17,688,321</b>	<b>16,019,185</b>

The Company is required to make deposits against its mineral permits to guarantee its performance, some of which are secured by letter of credit. Changes in the balance of letters of credit in the three months ended June 30, 2007 were as follows:

	Secured by Letter of Credit
	\$
Balance, March 31, 2007	5,514,803
Performance-based release	(4,911,037)
Forfeited	-
Shortfall paid in cash	(87,687)
Balance, June 30, 2007	<u>516,079</u>

# Sanatana Diamonds Inc.

(An Exploration Stage Company)  
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For the Quarter Ended June 30, 2007  
Unaudited – Prepared by Management

(in Canadian dollars)

## 5. Property and Equipment

	June 30, 2007		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Office furniture	30,010	6,950	23,060
Computer equipment	24,727	9,525	15,202
Leasehold improvements	41,357	18,050	23,307
Exploration equipment	39,250	11,118	28,132
	<u>135,344</u>	<u>45,643</u>	<u>89,701</u>

	March 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Office furniture	30,010	5,444	24,566
Computer equipment	24,727	7,464	17,263
Leasehold improvements	41,357	14,603	26,754
Exploration equipment	39,250	9,156	30,094
	<u>135,344</u>	<u>36,667</u>	<u>98,677</u>

## 6. Common Shares

### (a) Authorized share capital

Authorized share capital comprises an unlimited number of common shares with no par value.

### (b) Flow-through shares

In 2006, the Company completed a \$12.5 million flow-through financing structured to, effectively, pass on to subscribers the tax benefits associated with Canadian exploration expenditures (as defined in the Canadian Income Tax Act) funded by the proceeds of the shares. Through to June 30, 2007, Sanatana had renounced tax deductions totalling \$6,095,958 in favour of subscribers to the 2006 flow-through financing. In addition to these expenditures, the Company has incurred a further \$3,097,423 in eligible exploration expenditures (March 31, 2007 - \$1,390,899) on eligible exploration expenditures. As at June 30, 2007, the remaining balance available for eligible expenditures was \$3,306,629 (March 31, 2007 - \$5,013,143). These funds must be spent on exploration activities by December 31, 2009.

# Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Financial Statements

For the Quarter Ended June 30, 2007

Unaudited – Prepared by Management

(in Canadian dollars)

## 6. Common Shares (continued)

### (c) Escrowed shares

Pursuant to escrow agreements, 13,803,373 of the Company's common shares were placed in escrow at the time the shares were first listed on the TSX Venture Exchange. The escrowed shares were subject to a three-year automatic time release escrow, in equal tranches of 15% of each principal's holdings released at six-month intervals, with 10% of each principal's holdings being exempt from escrow effective on the date the Company's shares were first listed on the Exchange.

As at June 30, 2007, 8,282,024 common shares (March 31, 2007 – 10,352,530 common shares) remained in escrow.

## 7. Share Purchase Warrants

The Company's movement in share purchase warrants is as follows:

	2007		2006	
	Number of Warrants	Weighted Average Exercise Price \$	Number of Warrants	Weighted Average Exercise Price \$
Balance, beginning of period	428,571	1.75	-	-
Granted, agents' warrants	-	-	-	-
Exercised	-	-	-	-
Expired or cancelled	-	-	-	-
<b>Balance, end of period</b>	<b>428,571</b>	<b>1.75</b>	<b>-</b>	<b>-</b>

Summary of outstanding warrants at March 31, 2007, and June 30, 2007:

Expiry Date	Exercise Price \$	Warrants Outstanding #	Value \$
May 15, 2008	\$1.75	428,571	327,954
		428,571	327,954

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 76.9%; risk-free interest rate 4.06% and an expected life of two years.

# Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Financial Statements

For the Quarter Ended June 30, 2007

Unaudited – Prepared by Management

(in Canadian dollars)

## 8. Stock Options

In 2005, the Company's shareholders approved a stock option plan (the "2005 Option Plan") which is a "rolling" plan that provides for the issuance to directors, officers, consultants and employees of the Corporation up to 10% of the Common shares of the Corporation issued and outstanding at the date of the stock option grant. The 2005 Option Plan was amended and restated in 2006 to comply with the requirements of the TSX Venture Exchange, however, it remains governed by the laws of England. Subsequent to quarter end, the shareholders approved a new stock option plan (see Note 13). The directors may set option terms, but options granted under the plan typically have a life of five years and vest over a three-year period. No stock options were granted prior to March 26, 2007

The Company amortizes the stock-based compensation expense over the vesting period and recorded \$48,251 of stock-based compensation in the quarter ended June 30 2007.

	Three Months Ended March 31, 2007		Three Months ended March 31, 2007	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of period	3,170,000	1.16	-	-
Granted	-	-	-	-
Exercised	-	-	-	-
Expired or forfeited	-	-	-	-
<b>Balance, end of period</b>	<b>3,170,000</b>	<b>1.16</b>	-	-

Summary of outstanding options at June 30, 2007:

Expiry Date	Outstanding Options			Exercisable Options Number
	Exercise Price	Number	Weighted Average Remaining Life	
March 26, 2012	\$0.75	1,170,000	4.74 years	---
March 26, 2012	\$1.40	2,000,000	4.74 years	---
		3,170,000		

# Sanatana Diamonds Inc.

(An Exploration Stage Company)  
Notes to Financial Statements  
For the Quarter Ended June 30, 2007  
Unaudited – Prepared by Management

(in Canadian dollars)

## 8. Stock Options (continued)

The options granted to consultants of the Company were re-valued as of June 30, 2007, using the Black-Scholes options pricing model with the following assumptions:

	Quarter ended June 30 2007	Quarter ended June 30 2006
Expected dividend yield	0%	-
Expected volatility	86.9%	-
Risk-free interest rate	4.55%	-
Expected life	4.74 years	

## 9. Related Party Transactions

At June 30, 2007, 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.

The Company has agreed to pay its directors fees totalling £35,000 (approximately \$75,000) per year.

Services provided by:	Quarter ended June 30 2007 \$	Year ended March 31 2007 \$
Directors and insiders (a)	32,757	302,473
Lithosphere Services Inc. (b)	18,000	76,000
St. George Minerals Limited (c)	27,362	76,043

- Directors and insiders provided services in the normal course of business. These services are classified according to their nature, including financial, technical, investor relations, and management services.
- Fees paid or accrued for technical services performed by a company controlled by a current director of the Company
- Fees paid or accrued for financial and administrative services performed by a company controlled by a former director of the Company.

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

# Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Financial Statements

For the Quarter Ended June 30, 2007

Unaudited – Prepared by Management

(in Canadian dollars)

## 9. Related Party Transactions (continued)

Balances included in accounts payable and accrued liabilities	June 30, 2007 \$	March 31, 2007 \$
St. George Minerals Limited	11,881	6,969
Lithosphere Services Inc.	9,000	10,600

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

## 10. Commitments

The Company has the following future minimum commitments based on existing leases and agreements:

Period Ending March 31	\$
2008	206,320
2009	62,000
2010	-
2011	-
2012	-
	268,320

- a) Under the terms of an agreement dated November 25, 2004 with Geoinformatics Explorations Limited ("Geoinformatics"), a company in which the Company's former chief executive officer was formerly a director, and of which a current director is currently chief executive officer, Geoinformatics is entitled to a 0.9% gross overriding royalty.

A member of Jaeger Joint Venture, from which the Company purchased an interest in the MacKenzie Diamond Project, is entitled to a 2% net smelter returns royalty from that project.

- b) Sanatana signed a 36-month lease for office space, starting February 1, 2006. The total lease commitment is \$6,000 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.
- c) Under the conditions of flow-through financing (see Note 6), the Company is committed to spending \$3,306,629 on future eligible exploration expenditures before December 31, 2009.

# Sanatana Diamonds Inc.

(An Exploration Stage Company)  
Notes to Financial Statements  
For the Quarter Ended June 30, 2007  
Unaudited – Prepared by Management

(in Canadian dollars)

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## **11. Financial Instruments**

The Company is exposed to interest rate risk on its term deposits, and has not engaged in any interest rate hedging activity.

The Company is exposed to credit risk on its deposits and letters of credit. Credit risk arises from the possibility that any counterparty to an instrument fails to perform. The Company only transacts with highly rated counterparties.

## **12. Off-Balance Sheet Arrangements and Contingent Liabilities**

Kennecott had deposited a letter of credit in the amount of \$516,078 on the Company's behalf to fulfill bonding requirements for the 2007 exploration season (see Note 4).

## **13. Subsequent Events**

- a) On July 18, 2007 the Company's shareholders approved a stock option plan (the "2007 Option Plan") which is a "rolling" plan that provides for the issuance to directors, officers, consultants and employees of the Corporation (under the 2007 Option Plan or any other plan) of up to 10% of the Common shares of the Corporation issued and outstanding at the date of the stock option grant. Unlike the 2005 Option Plan, the 2007 Option Plan is governed by the laws of British Columbia and is fully compliant with TSX Venture Exchange rules.
- b) On July 18, 2007 the Company granted 300,000 stock options to an officer of the Company. These options have an exercise price of \$0.75 and a term of five years from the date of grant.
- c) On August 7, 2007 the Company received a payment of \$200,000 from Kennecott, as payment towards exploration expenditures incurred by the Company in the three-month period ended March 31, 2007.

## **14. Comparative Figures**

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