# SANATANA DIAMONDS INC.
## For the quarter ended June 30, 2007

## Management's Discussion and Analysis

*This MD&A contains certain forward-looking statements that 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 (the "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.*

# SANATANA DIAMONDS INC.
## For the quarter ended June 30, 2007
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Introduction

This management's discussion and analysis ("MD&A") of Sanatana Diamonds Inc. ("Sanatana", or the "Company") has been prepared as of August 28, 2007 and should be read in conjunction with the audited annual financial statements and related notes for the year ended March 31, 2007 and the unaudited interim financial statements and related notes for the period ended June 30, 2007. This MD&A is intended to provide the reader with a review the Company's performance during the quarter ended June 30, 2007 and through to the date of this report, and the factors reasonably expected to impact future operations and results.

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

Outlook

Calendar year 2007 is expected to be an important year for the Company. The Company has mobilized ground crews to the Greenhorn area, where till sampling had revealed at least three separate indicator mineral dispersion trains. The most prominent indicator dispersion train has been traced to its termination based on till sampling at about 300 metre spaced grid density. Geophysical surveys have revealed a distinct magnetic high, 250 metres by 150 metres, at this location. A drill program to test these targets will begin shortly.

The targets revealed by the airborne survey are on or near dry land, and can therefore be drilled all year round. Kennecott was previously funding 15% of ongoing exploration costs for the McKenzie Diamond project, but has not yet fully funded at this level for the first three months of 2007 (the period due to date). Under the terms of the McKenzie Project joint venture agreement, Kennecott has the right to dilute its initial 15% interest in the project by not fully funding 15% of ongoing exploration costs, but has not given notice of any intention to dilute.

***Qualified Person***

The Sanatana exploration programs are carried out under the supervision of Sanatana's vice president 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.

Background

Sanatana was incorporated under the *Business Companies Act* (British Columbia) on June 25, 2004. On July 28, 2005, the Company's common shares were admitted to the Alternative Investment Market of the London Stock Exchange plc 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 Exchange under the symbol "STA". The Exchange classifies the Company as a mining exploration/ development company.

The Company's head office is at Suite 1925 - 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2.

## Nature of Business

Sanatana's exploration activities, since its inception in June 2004, have been carried out solely, in the Northwest Territories and Nunavut, in Canada, where the Company has prospected and explored for diamonds at the Mackenzie Platform. The Project is located north of Great Bear Lake and approximately 700 kilometres northwest of Yellowknife. Sanatana currently holds approximately 5.9 million acres of ground under claims and permits, reduced from 16.5 million acres last year as the Company further focuses on selected geochemical and geophysical targets. The primary strategy of the Company has been to capture the majority share of a potential, new diamond province in Canada. The initial large land holding was secured on the basis that its neighbouring explorer, Diamondex Inc., had reported the recovery of diamonds from the Iroquois and Anderson River systems, indicating the entire Mackenzie Platform might be prospective for diamonds. The positive diamond indicator mineral results obtained by Sanatana to date are evidence that this strategy is sound.

> *Technical Note: A Brief Explanation of Diamond Exploration:*
>
> *Scientific studies have shown that diamonds are formed at high pressures and temperatures deep in the Earth's mantle, and can be preserved under older, colder parts of continents. The diamonds sit at this depth for eons after they are formed until they are picked up and brought to the surface by deep-seated magmas that erupt to make small volcanoes and craters. The most common of these diamond bearing magmas are called kimberlite. This volcanic rock type makes up most of the world's diamond mines. Kimberlites form dykes, pipes and craters, can vary in size from one metre to 2.5 kilometres across and usually occur in swarms. This means that where one kimberlite is found, one will usually find many others. Kimberlites have occurred throughout earth's history but tend to form in pulses.*
>
> *Once the eruption is finished and everything is cool and quiet, erosional processes take over and the minerals in the kimberlite, including diamonds, are dispersed. Most exploration companies look for minerals, called indicator minerals, occurring with the diamond rather than the diamonds directly as indicator minerals are of an order of magnitude more abundant and therefore less expensive to find. These minerals (pyrope garnet, picro-ilmenite, chrome diopside, chromite) were made at the same high temperatures and pressures as diamonds. Their chemistry is unique; no other minerals found on the surface of the earth share this chemistry. When these unique indicator minerals are found, it is considered direct evidence of diamond mineralization.*
>
> *In the Canadian Arctic, where Sanatana is exploring, there was, until some 10,000 years ago, a great ice sheet originating near Hudson's Bay. The ice movement caused by this ice sheet eroded the kimberlites and spread the indicator minerals and diamonds "down-ice" in a direction away from the centre of the ice.*

*Sanatana has been exploring the Mackenzie Platform area for diamonds by sampling the glacial till for indicator minerals. The Company found a number of areas from which these minerals seem to be originating.*

*Once a source area of indicator minerals is isolated, the Company conducts geophysical testing from the air and on the ground looking for the pipe-like or circular features that may represent kimberlite. These features are then drill tested.*

*If kimberlite is encountered during drilling, it is then assayed for diamonds. Given positive results, the process would then proceed to bulk sampling for grade and value, feasibility, permitting and then to mining.*

### The Sanatana-Kennecott Joint Venture

The Company has a joint venture agreement with diamond producer Kennecott Canada Exploration Inc. ("Kennecott"), a subsidiary of Rio Tinto plc. Pursuant to the joint venture, Sanatana acts as the operator and Kennecott has a 15% interest (refer to Significant Events and Transactions). In addition, Kennecott has made available to Sanatana, one of its project geologists and a geophysicist experienced in diamond exploration.

### Exploration Programs

Till samples taken from Sanatana's Mackenzie Diamond Project have identified six separate areas as having anomalous diamond indicator minerals in glacial till. Each separate area is thought to represent a potential kimberlite field containing multiple kimberlite pipes.

During the 2006 season, Sanatana carried out follow-up exploration programs on the six project areas which consisted of helicopter-borne magnetic surveys as well as ground magnetic surveys over numerous targets, including the Kilekale Lake area. These surveys were designed to follow-up on some of the over 1,000 magnetic anomalies generated by the airborne surveys in 2005. Based on data from the 2006 work program, the anomalies are either being upgraded to probable drill targets or discarded. Over 50% of the anomalies tested to date remain viable targets.

In the Kilekale Lake area, permission to drill has been granted, a drill camp constructed and four magnetic targets have been drill tested with eight diamond drill holes (for a total of 1,226 metres). The magnetic targets tested were between 2.2 kilometres and 8.5 kilometres apart. Four drill holes were drilled into one target spaced 70 metres apart. All the drill holes intersected black mudstones or orange weathered mudstones. No kimberlite was intersected.

The Company continues to work towards obtaining permits to drill in other areas. Sanatana has progressed with a geophysical follow-up program, conducted till sampling and completed a further claim staking program.

### Significant Events and Transactions

On April 19, 2006, Sanatana received final receipts for its long form prospectus from securities regulators in each of British Columbia, Alberta, Manitoba and Ontario and from the TSX Venture

Exchange (the 'Exchange"). On May 17, 2006, Sanatana's common shares commenced trading on the Exchange.

In July 2006, Kennecott contributed $2.5 million to the Company's 2006 exploration program. On January 1, 2007, Kennecott earned a 15% interest in the Sanatana's Mackenzie Diamond Project, which is now run as an 85% Sanatana, 15% Kennecott joint venture. The Company manages and operates the exploration programs and Kennecott has the right to earn additional rights in any individual kimberlite project within the Company's Mackenzie Diamond Project on the following basis:

- Kennecott may earn up to an additional 34% interest (15% plus up to 34% = 49% total interest) in each individual project by completing, at its sole expense, a bulk sample and positive feasibility study within four years; and

- Kennecott may earn a further 11% interest (for a maximum total of up to 60%) 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 20 years of Kennecott earning an initial 49% interest in the individual project.

Exploration Update

***Highlights***

- The summer exploration program has commenced - over 800 till samples have been collected of the 1,200 planned.

- These samples follow the 3,200 till samples collected in 2006 in a program designed to refine and enhance the known mineral and magnetic anomalies at the Mackenzie Diamond Project.

- This work has highlighted a number of indicator mineral anomalies. The most prominent of several areas are;

  - Greenhorn
  - Yeltea
  - Horton
  - Colville
  - Simpson
  - Estabrook

- The Greenhorn area is the most advanced. The Company plans to conduct its next drill program at this site. A land and water use permit is in hand and drilling will commence shortly, targeting magnetic anomalies in an area of anomalous indicator minerals.

- Electron micro-probe results have been received for the indicator minerals recovered in 2006. When these are combined with the results from 2004 and 2005 a picture of good diamond mineralisation potential within Sanatana's land holdings emerges. High chrome (>9%$Cr_2O_3$) and low calcium (<4% CaO) pyropes have been recovered from all areas. These are considered to be co-genetic with diamonds. The presence of picro-ilmenite, chrome diopside, high chrome chromite and fosteritic olivine further strengths the evidence for diamond mineralization on the Company's properties.

- The Company completed IMPULSE frequency domain EM and magnetic airborne surveys at the end of March 2007 over three separate areas: Greenhorn, Yeltea, and Simpson. The surveys were designed to generate drill targets in areas of high indicator minerals counts. Final results for these surveys were received in May. Ground crews have conducted follow-up surveys on promising anomalies in the Greenhorn area.

- The Ground geophysical crews have recently completed magnetic surveys in the Simpson area.

***Sampling***

Electron micro-probe results from the 2006 sampling have been received, further enhancing the known anomalies defined by the 2004 and 2005 exploration programs. The probe chemistry of the indicator minerals is positive for diamond mineralisation, and the pristine structure of some grains is suggestive of proximity to source. The results have generated several indicator anomalies separated by many kilometres. The most prominent of these have been named are:

- Greenhorn
- Yeltea
- Horton
- Colville
- Simpson
- Estabrook

The Greenhorn, Yeltea and Simpson indicator anomalies were prioritised due to their higher indicator mineral counts and the presence of abundant fosteritic olivine. Of all the diamond indicator minerals, olivine is the most fragile to chemical and physical weathering, and its presence suggests that the Company may be close to source.

***Land position***

The Company's land position is continually changing based on results, exploration and Canada's mining regulations. The Company initially held ground in the form of prospecting permits and, at the beginning of 2006, the area held under permits totalled 16.5 million acres. Prospecting permits located below 68 degrees latitude have a three-year life and many of these expired in 2006. The Company staked mineral claims in this zone over areas of interest during 2006. In total, helicopter supported crews staked 1,222,281 acres of mineral claims. Map permits, north of 68 degrees latitude, have a five-year life and will not expire until 2009. Currently the Company holds 5.9 million acres of mineral rights. Sanatana plans to stake additional areas of interest north of the 68th parallel over the next two years.

***Airborne and ground follow-up Surveys***

In March 2007, the Company deployed a helicopter-based EM and magnetometer survey over the Greenhorn, Yeltea and Simpson areas using 100 metre line spacing, of which, final results were received in May. This survey was designed to locate the source of diamond indicators. Ground geophysical crews followed up on several targets in the Greenhorn area prior to and during the spring melt and generated drill targets focused on magnetic anomalies. The most prominent of these, dubbed "G14", is a 250 metre by 130 metre isolated magnetic anomaly that is at the termination of a major indicator mineral train. This will be the first drill target.

***Drilling Programmes***

The Company was recently awarded a land and water use permit required to commence drilling at Greenhorn. The Company will commence camp construction, expected to take 10 days, followed by drill testing.

The Company holds a drill permit around the Kilekale lake area, and is currently dismantling the camp at this location for use in the Greenhorn program. Upon final clean up of this campsite, the Company will seek to close this land use permit.

The Company also holds a land and water use permit in the area around Colville Lake. This permit allows Sanatana to drill up to 30 magnetic targets situated within a 60 kilometre radius of the hamlet of Colville Lake. The Company has taken till samples down ice from many of these targets during summer sampling program. Positive results from these samples will help prioritize its targets for drilling in the 2008 season.

The Company has begun preparations for a land and water use permit in the Simpson area by arranging community consultations at Paulatuk.

***Base Metal Potential***

During the Company's till sampling program, designed to find diamonds and their indicator minerals, Sanatana has been directing a portion of its samples to multi-element trace element analysis. This work has revealed five separate areas with elevated zinc (>250 ppm), lead and silver in the till. The highest zinc value found in the till to date is 0.3%. Up to 360 ppm of lead and up to 1.4 ppm of silver has also been recorded. Ground traverses in one of these areas have recovered galena and sulphide float. The zinc anomalies appear to be associated within Ordovician limestone. Elsewhere, these same limestones host known mineralisation such as the Pine Point, Polaris and Nanasivik, all past producers of lead, zinc and silver. This style of mineralisation is known as Mississippi Valley and is the model being used to find the source of the anomalies and float. Sanatana plans to complete a sampling and float mapping program this summer, designed to identify the source of these till anomalies.

***Budget***

The budget for the 2007 exploration program is $6.1 million, of which approximately 50% has been spent to date.

## *1. Exploration Expenditures*

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

| | Quarter ended June 30, 2007 $ | Year ended March 31, 2007 $ | June 2004 to March 31, 2006 $ |
|---|---|---|---|
| Acquisition costs | $ 15,394 | $ 232,830 | $ 188,970 |
| Helicopter and fixed wing aircraft | 448,318 | 3,978,563 | 4,491,768 |
| Sampling and assays | 2,639 | 1,383,889 | 1,975,735 |
| Labour | 885,212 | 1,307,662 | 283,088 |
| Geological services | --- | 1,256,014 | 1,507,599 |
| Project management fees | 9,000 | 76,000 | 499,997 |
| Field and camp | 108,084 | 646,045 | 196,037 |
| Transport and accommodation | 155,376 | 895,568 | 734,339 |
| Expediting | 20,385 | 327,412 | 116,110 |
| Other expenses | 24,291 | 35,007 | 307,579 |
| Reclamation provision | --- | --- | 120,000 |
| | 1,669,136 | 10,138,990 | 10,421,222 |
| Reimbursable bonds and deposits | --- | (1,853,938) | 2,312,911 |
| Kennecott option payment | --- | (2,500,000) | (2,500,000) |
| Net cost to the Company | $ 1,669,136 | $ 5,785,052 | $ 10,234,133 |

## *2. Selected Quarterly Financial Data (unaudited)*

| **Financial Results** | June 30 2007 $ | March 31 2007 $ | December 31 2006 $ | September 30 2006 $ |
|---|---|---|---|---|
| Net loss for the period | (196,962) | (252,200) | (201,281) | (177,580) |
| Basic and diluted loss per share | (0.00) | (0.01) | (0.00) | (0.00) |
| **Balance Sheet Data** | | | | |
| Cash and short term deposits | 3,560,890 | 5,572,786 | 7,277,347 | 10,573,754 |
| Mineral properties | 17,688,321 | 16,019,185 | 14,251,589 | 12,156,125 |

| **Financial Results** | **June 30 2006** $ | **March 31 2006** $ | **December 31 2005** $ | **September 30 2005** $ |
|---|---|---|---|---|
| Net loss for the period | (225,703) | (404,663) | (298,795) | (190,069) |
| Basic and diluted loss per share | (0.01) | (0.01) | (0.01) | (0.01) |
| **Balance Sheet Data** | | | | |
| Cash and short term deposits | 10,150,992 | 746,637 | 2,883,207 | 4,891,678 |
| Mineral properties | 12,557,266 | 10,234,133 | 8,192,462 | 6,625,977 |

The Company is an exploration stage company, it did not have any sales or revenues, nor has it had any extraordinary items or discontinued operations.

As the Company is still in the exploration stage, variances in its quarterly losses are not affected by sales or production-related factors. Variances by quarter reflect overall corporate activity and are also affected by factors which may not recur each quarter.

The Company's operating loss is relatively constant from period to period. In the quarter ended December 31, 2005 the Company's loss increased from prior quarter due to higher consulting and advisory fees and professional fees relating to its application for listing on the TSX Venture Exchange.

The losses increased in the quarter ended March 31, 2006 from the quarter ended December 31, 2005 due to year-end accruals and further expenses incurred towards a listing on the TSX Venture Exchange.

In the subsequent quarter ended June 30, 2006, the Company's common shares commenced trading on the TSX Venture Exchange. The loss in the quarter decreased from the previous quarter as there were no further expenses relating to the listing and fell back to within a normal quarterly range of $175,000 to $250,000.

The quarterly loss decreased in the quarter ended September 30, 2006 attributable only to higher interest income earned on short-term deposits.

For the quarter ended December 31, 2006, Company's loss increased due to higher travel expenses attributable to management visits to the project area, attendance of directors at in-person Board Meetings, and attendance of an industry focussed conference in London. The Company also incurred higher management fees and office and administration expenses, which were significantly higher than the comparable quarters of fiscal 2006 due to the higher level of exploration activities and resultant expansion of the office facilities and management structure. These higher costs were offset by lower investor relation expenses compared to the previous quarter.

The loss for the quarter ended March 31, 2007 increased because of higher travel and accommodation expenses and reduced interest income from short-term deposits.

## *3. Results of Operations for the Quarter Ended June 30, 2007*

The net loss for the three months ended June 30, 2007 was $196,962 (2006: $225,703). For the three months ended June 30, 2007, many expense categories exhibited only a slight variance compared to the three months ended June 30, 2006. Some of the expense items warranting further discussion are discussed below.

Included in the net loss for the three months ended June 30, 2007 is $65,822 (2006 - $79,104) for office and general administrative expenses. This decrease is primarily due to reduced reliance by the Company on outside administrative assistance. The decrease in director fees, $16,257 (2006 - $18,516) is due to the reduction of the size of the board of directors from six people to five, in November 2006.

For the three months ended June 30, 2007, management fees were $25,500 (2006 - $52,335). The decrease in management fees is due to the expiry of the Company's management contract with Misape Management Inc., subsequent to which Mr. Peter Miles, previously the Company's executive vice president, was appointed to the full-time position of chief executive officer and president in November 2006. The Company's contract with 1693467 Ontario Inc. also expired during the period and Mr. Stephen Woodhead resigned as the Company's chief financial officer. Effective June 30, 2007, the Company appointed Mr. Simon Anderson as Sanatana's chief financial officer.

For the three months ended June 30, 2007, the decrease in professional fees $24,439 (2006 - $32,888) is primarily caused by a variance in audit fees, which were higher than expected for the year ended March 31, 2006. The expense in excess of the 2006 fiscal year-end accrual was recognized in the quarter from April 2006 to June 2006.

Stock-based compensation of $48,251 (2006 - $nil) represents recognition of the fair value of stock options granted over their vesting term, calculated using the Black-Scholes option-pricing model. There was no stock-based compensation expense in the prior period, as the Company did not grant options until March 2007.

Investor relations fees declined from $13,437 in the quarter ended June 30, 2007 to $nil in the current quarter as investor relations activities, previously outsourced, were brought in-house.

Transfer agent fees at $6,702 (2006 - $10,605) and filing fees at $15,910 (2006 - $25,208) were both lower in the current period than in the comparative period as the Company was admitted to the Exchange in May 2006, and as such incurred related initial listing expenses that are not of a recurring nature.

As a consequence of the Company's decision to migrate investor relations in-house effective beginning of 2007, the $nil figure for the three month's ending June 30, 2007, (2006 - $13,437) is indicative of the termination of a previously existing contractual relationship with an outside investor relations firm. The Company decided that the president will handle the investor relations function directly, given the relatively small size of the Company.

## *4. Liquidity*

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

| **As at** | **June 30, 2007**<br>**$** | **March 31, 2007**<br>**$** |
|---|---|---|
| Cash and equivalents | 3,560,890 | 5,572,786 |
| Working capital | 3,247,910 | 5,161,131 |

| **For the quarter ended** | **June 30, 2007**<br>**$** | **June 30, 2006**<br>**$** |
|---|---|---|
| Cash generated by (used in) operating activities | (231,372) | 334,165 |
| Cash used in investing activities | (1,780,524) | (2,454,403) |
| Cash provided by financing activities | --- | 11,524,523 |
| | (2,011,896) | 9,404,285 |

In the quarter ended June 30, 2007, cash used in operating activities of $231,372 was largely accounted for by the loss for the period.

Cash used in investing activities represented exploration advances of $1,667,174 (2006 - $118,938) and acquisition of mineral properties totalling $113,350 (2006 - $2,321,005).

The Company did not generate any cash from financing activities in the current period, but generated net proceeds of $11,524,523 from a share offering in the comparative period.

The Company does not currently own or have an interest in any producing mineral properties and does not derive any revenues from operations. The Company will continue to require funds for ongoing exploration work and to meet its ongoing day-to-day operating requirements and will have to continue to rely on equity financing during such period. The Company's activities have been funded primarily through equity financing and the Company expects that it will continue to be able to utilize this source of financing. There can be no assurance, however, that the Company will be successful in its efforts. If such funds are not available or other sources of financing cannot be obtained, then the Company will be forced to curtail its activities to a level for which funding is available or can be attained.

## *5. Share Capital*

The Company had a total of 40,849,651 common shares issued and outstanding as at March 31, 2007 and June 30, 2007. The Company did not issue any shares during the quarter ended June 30, 2007.

### Escrowed Shares

Under the Canadian Securities Administrator's National policy and the Exchange policy for Sanatana's initial public offering, 13,803,373 of the Company's shares were subject to escrow at the time the shares were first listed on the Exchange. These escrowed shares are to be released over a three-year automatic time-release escrow, in equal tranches of 15% of the holdings at 6-month intervals, and with 10% of the holdings exempt from escrow on the date the Company's shares were first listed on the Exchange. The anniversary dates for escrow release are May 16 and November 16 of each year. On May 16, 2007, 2,070,506 shares were released from escrow and, as of the date of this MD&A, 8,282,024 shares (March 31, 2007 - 10,352,530 common shares) remain in escrow.

### Stock Option Plans

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 Company of up to 10% of the common shares of the Company 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 Exchange; however, it is governed by the laws of England.

On July 18, 2007, the Company's shareholders approved a new stock option plan (the "2007 Option Plan") which is also a "rolling" plan that provides for the issuance to directors, officers, consultants and employees of the Company (under the 2005 Option Plan) of up to 10% of the Common shares of the Company 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.

Stock options are non-transferable, and expire at the end of five years from the date of grant, or 90 days after the termination of employment or other contracting arrangement of the option holder. The board of directors of the Company determines the exercise price, which may be no less than the market price at the day of grant.

On March 26, 2007, the Company granted a total of 3,170,000 stock options to its directors, officers, employees and consultants, exercisable for a period of five years. 2,000,000 of the options were granted at a price of $1.40 and 1,170,000 were granted at a price of $0.75 per common share. These options will vest three years from the date of grant.

On July 18, 2007, the Company granted 300,000 stock options to an officer, exercisable for a period of five years at a price of $0.75 per common share.

### Dividends

Sanatana has not paid any dividends in the past and does not expect to pay any dividends in the near future.

## *6. Changes to the Board of Directors and Management*

### Board of Director Changes

There were no changes to the board of directors during the three months ended June 30, 2007.

### Management Changes

Following the resignation of Mr. Stephen Woodhead as chief financial officer, Mr. Simon Anderson assumed the position of chief financial officer for Sanatana effective June 30, 2007.

## *7. Adoption of New Accounting Pronouncements*

Effective April 1, 2007, Sanatana adopted the following accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"): "Comprehensive Income" (Section 1530), "Financial Instruments – Recognition and Measurement" (Section 3855) and "Financial Instruments – Disclosure and Presentation" (Section 3861).

- Comprehensive Income (Section 1530) involves changes in a company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders. It includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments.

- Financial Instruments – Recognition and Measurement (Section 3855) requires that all financial assets, except those classified as held to maturity, and derivative financial instruments be measured at fair value. Fair values are determined directly by reference to published price quotations in an active market. Changes in the fair value of these instruments are reflected in other comprehensive income and included as a component of shareholder's equity in the balance sheet. All financial liabilities must be measured at fair value when they are classified as held-for-trading; otherwise they are measured at cost or amortized cost.

- Financial Instruments – Disclosure and Presentation (Section 3861) establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. As required, prior periods have not been revised except to classify unrealized foreign currency transaction gains or losses related to foreign operations in accumulated other comprehensive income.

Adoption of these accounting standards is not expected to have a material effect on the Company's financial position and results of operations.

## 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. Actual results could differ from these estimates.

Property acquisition costs and related direct exploration costs may be deferred until the properties are placed into production, sold, abandoned, or written down, where appropriate. The Company's accounting policy is to capitalize exploration costs consistent with Canadian GAAP and applicable guidelines for exploration stage companies. The policy is consistent with other junior exploration companies which have not established mineral reserves objectively. An alternative policy would be to expense these costs until sufficient work has been done to determine that there is a probability a mineral reserve can be established; or alternatively, to expense such costs until a mineral reserve has been objectively established.

Management is of the view that its current policy is appropriate for the Company at this time. Based on annual impairment reviews made by management, or earlier reviews if circumstances warrant, in the event that the long-term expectation is that the net carrying amount of these capitalized exploration costs will not be recovered, then the carrying amount is written down accordingly and the write-down charged to operations. A write-down may be warranted in situations where a property is to be sold or abandoned or where exploration activity ceases on a property due to unsatisfactory results or insufficient availability of funding.

Significant estimates are made in respect of the Company's asset retirement obligations. The Company's proposed mining and exploration activities are subject to various laws and regulations for federal, regional and provincial jurisdictions governing the protection of the environment. These laws are continually changing. The Company believes its operations are in compliance with all applicable laws and regulations. In the future, the Company expects expenditures will be required to comply with such laws and regulations but cannot predict the full amount or timing of such future expenditures. Estimated future reclamation costs are based principally on legal and regulatory requirements. Reclamation and remediation obligations arise from the acquisition, development, construction and normal operation of mining property, plant and equipment.

Another significant estimate relates to accounting for stock-based compensation. Option pricing models require the input of highly subjective assumptions, including expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options recognized during the period.

## *8. Risks and Uncertainties*

Sanatana's business of exploring for diamonds involves a variety of operational, financial and regulatory risks that are typical in the natural resource industry. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future, and Sanatana's common shares should therefore be considered speculative.

### Nature of Mineral Exploration and Development Projects

The business of exploring for diamonds involves a high degree of risk. Few properties that are explored are ultimately developed into mines. Sanatana's properties are in the exploration stage and at present none of the Company's properties have a known commercial diamond deposit. Proposed exploration programs are an exploratory search for such a deposit. The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors that are beyond the control of the Company.

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, flooding, explosions, cave-ins, landslides, the inability to obtain suitable or adequate equipment or machinery, labour disputes, 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 favorable 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 the Company's activities 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, directors, advisors 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 will receive all necessary 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 regulations, 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 Company's properties. To the extent such approvals are required and not obtained, the Company's planned exploration and development 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 land located within the Mackenzie Diamond Project area.

## Conflicts of Interest

Certain of the Company's directors, officers and significant shareholders are or may become shareholders, directors and/or officers of other natural resource companies, and, to the extent that such other companies may participate in ventures with the Company, these individuals 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 officers 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, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed, and the financial position of the Company at that time.

## *9. Related Party Transactions*

For the quarter ended June 30, 2007, the Company did not have any employees. Rather, the Company has arrangements with a number of contractors to provide certain administrative, accounting, and management services. In addition, certain directors, officers and significant shareholders provide management and consulting services to the Company.

Management agreements for the three months ended June 30, 2007:

| | **Peter Miles $** | **Lithosphere Services Inc. $** | **St George Minerals Ltd. $** | **Total for the Period $** |
|---|---|---|---|---|
| Consulting fees | --- | --- | 22,862[3] | 22,862 |
| Rent | --- | --- | 4,500 | 4,500 |
| Management services | 16,500[1] | 18,000[2] | --- | 34,500 |
| | 16,500 | 18,000 | 27,362 | 61,862 |

[1] Mr. Miles, a director and officer of the Company, provides financial and management services to the Company.
[2] Fees paid or accrued for technical services performed by a company controlled by a director and officer of the Company.
[3] Fees paid or accrued for financial and administrative services performed by a company controlled by a former director of the Company.
[4] In addition to the above, fees for directors of the Company totalled $16,257 for the period.

## *10. Contractual Obligations and Commitments*

Sanatana had no capital expenditure commitments as at June 30, 2007 (March 31, 2007 - $nil).

- Under the terms of non-cancellable operating leases, the Company is committed to rental payments as follows:

| | **2008** | **2009** |
|---|---|---|
| Operating lease (office) | $ 55,800 | $ 62,000 |

- Under the terms of a contract, the Company is to pay a total of $524,000 for an airborne survey on its properties. As at June 30, 2007, Sanatana has a remaining commitment of $150,520 towards the contract.

- Under the terms of the flow-through financing of $12,500,000 that completed May 16, 2006, Sanatana is restricted to using these proceeds only for qualifying exploration expenditures relating to Canadian properties. Sanatana has renounced $6,095,958 of tax benefits to subscribers and, through to June 30, 2007, incurred a further $3,097,413 in exploration expenditures. The Company must spend the remaining $3,306,629 on qualifying exploration expenditures by December 31, 2009.

## *11. 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 fulfil bonding requirements for the 2007 exploration season.

On August 7, 2007, under the terms of its agreement with Kennecott, the Company received a payment of $273,723 from Kennecott towards exploration expenditures incurred by the Company for the period January 1, 2007 to March 31, 2007.

## *12. Outstanding Share Information*

As the date of this MD&A, the Company had the following securities issued and outstanding:

- 40,849,651 common shares, including 8,282,024 escrowed common shares;
- 3,470,000 stock options; and
- 428,571 share purchase warrants.

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