

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Financial Statements For the Period Ended June 30, 2008 and 2007 (Stated in Canadian dollars)

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Notice to Reader

These unaudited financial statements for the three-month period ended June 30, 2008 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 financial statements for the year ended March 31, 2008.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Operations and Comprehensive Loss

(Expressed in Canadian dollars)

	June 30, 2008	March 31, 2008
Assets		
Current		
Cash and equivalents	\$ 8,028,599	\$ 10,058,876
Amounts receivable	155,045	1,313,039
Prepaid expenses	32,123	111,504
	8,215,767	11,483,419
Mineral properties (note 4)	26,545,020	23,657,815
Property and equipment (note 5)	361,451	382,094
	\$ 35,122,238	\$ 35,523,328
Liabilities		
Current		
Accounts payable (note 10)	\$ 688,815	\$ 816,479
Accrued liabilities	192,708	347,113
	881,523	1,163,592
Future income tax liability	4,370,601	4,370,601
	5,252,124	5,534,193
Shareholders' Equity		
Common shares (note 6)	31,898,323	31,377,515
Share purchase warrants (note 7)	378,144	755,144
Contributed surplus	1,573,397	499,397
Deficit accumulated in the exploration stage	(3,979,750)	(2,642,921)
	29,870,114	29,989,135
	\$ 35,122,238	\$ 35,523,328

Ability to continue as a going concern (note 2)

The accompanying notes are an integral part of these financial statements

Approved on behalf of the board of directors:

signed "Peter Miles"

Peter Miles, Director

signed "Edward Marlow"

Edward Marlow, Director

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Changes in Shareholders' Equity

(Expressed in Canadian dollars)

	Number of Shares	Common Shares	Contributed Surplus	Share Purchase Warrants	Deficit Accumulated in the Exploration Stage	Shareholders' Equity
Balance - March 31, 2007	40,849,651	20,041,875	23,146	327,954	(2,111,313)	18,281,662
Private placement of units at \$0.25	6,846,420	1,711,605	-	-	-	1,711,605
Private placement of flow-through units at \$0.30 per unit	6,669,000	2,000,700	-	-	-	2,000,700
Share issuance costs	-	(796,828)	-	-	-	(796,828)
Issuance of warrants as listing costs	-	-	-	377,000	-	377,000
Private placement of units at \$1.35	4,200,055	5,670,074	-	-	-	5,670,074
Private placement of flow-through units at \$1.55 per unit	2,793,500	4,329,925	-	-	-	4,329,925
Share issuance costs	-	(1,065,329)	-	-	-	(1,065,329)
Private placement of units at \$1.56	641,025	1,000,000	-	-	-	1,000,000
Issuance of warrants as listing costs	-	-	-	212,000	-	212,000
Tax value of assets renounced to flow-through share investors	-	(2,082,983)	-	-	-	(2,082,983)
Exercise of agent warrants	211,461	531,867	-	(161,810)	-	370,057
Exercise of warrants	108,142	36,609	-	-	-	36,609
Stock-based compensation	-	-	476,251	-	-	476,251
Loss for the year	-	-	-	-	(531,608)	(531,608)
Balance - March 31, 2008	62,319,254	31,377,515	499,397	755,144	(2,642,921)	29,989,135
Share issuance costs	-	(1,178)	-	-	-	(1,178)
Exercise of warrants	421,999	141,200	-	-	-	141,200
Exercise of agent warrants	12,620	14,226	-	(10,440)	-	3,786
Stock-based compensation (note 8)	-	-	1,074,000	-	-	1,074,000
Loss for the period	-	-	-	-	(1,336,829)	(1,336,829)
Balance - June 30, 2008	62,753,873	\$ 31,531,763	\$ 1,573,397	\$ 744,704	\$ (3,979,750)	\$ 29,870,114

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Operations and Comprehensive Loss

(Expressed in Canadian dollars)

For the three months ended June 30,	2008	2007
Expenses		
Amortization	\$ 7,161	\$ 7,014
Consulting and advisory fees	21,029	17,233
Director fees	15,366	16,257
Filing fees	15,814	10,318
Investor relations	59,210	14,412
Management fees	23,796	25,500
Office and administration	60,281	57,002
Professional fees	60,013	24,439
Salaries and wages	25,000	-
Stock-based compensation (note 8)	1,074,000	48,251
Transfer agent fees	6,723	6,702
Travel and accommodation	17,065	15,379
Loss before undernoted	(1,385,458)	(242,507)
Interest income	48,629	45,545
Loss before income taxes	(1,336,829)	(196,962)
Future income tax recovery	-	-
Net loss and comprehensive loss for the period	\$ (1,336,829)	\$ (196,962)
Loss per share - basic and diluted	\$ (0.02)	\$ (0.00)
Weighted average common shares outstanding - basic and diluted	62,598,311	40,849,651

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statements of Cash Flow

(Expressed in Canadian dollars)

For the three months ended June 30,	2008	2007
Cash provided by (used in):		
Operating activities		
Net loss for the year	\$ (1,336,829)	\$ (196,962)
Adjustment for non-cash items:		
Amortization of property and equipment	7,161	7,014
Amortization of lease inducement	(3,958)	(1,695)
Stock-based compensation (note 8)	1,074,000	48,251
Amounts receivable	1,157,994	(303,824)
Prepaid expenses	79,381	(15,255)
Accounts payable	(127,664)	13,939
Accrued liabilities	(150,447)	217,160
	699,638	(231,372)
Investing activities:		
Exploration advances	-	(1,667,174)
Mineral properties	(2,869,031)	(113,350)
Property and equipment	(4,692)	-
	(2,873,723)	(1,780,524)
Financing activities:		
Issuance of common shares	144,986	-
Offering costs	(1,178)	-
	143,808	-
Increase in cash and equivalents	(2,030,277)	(2,011,896)
Cash and equivalents, beginning of period	10,058,876	5,572,786
Cash and equivalents, end of period	\$ 8,028,599	\$ 3,560,890
Cash and equivalents comprise:		
Cash	\$ 631,006	\$ 98,302
Equivalents	7,397,593	3,462,588
	\$ 8,028,599	\$ 3,560,890

Supplementary Cash Flow Information (note 12)

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the three months ended June 30, 2008

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 properties. The Company has mineral property rights in the Northwest Territories which it is exploring and developing in a joint venture with Kennecott Canada Exploration Inc. (note 6) 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.

2. Ability to Continue as a Going Concern

The accompanying annual financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") 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 financial statements do not reflect any adjustments to 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, 2008 the Company has no source of operating cash flow and has an accumulated deficit of approximately \$4.0 million. Operations for the period ended June 30, 2008 have been funded primarily from issuances of capital stock.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the three months ended June 30, 2008

3. Basis of Presentation and Adoption of Accounting Policies

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for the presentation of interim financial information. These financial statements do not include all disclosures required for annual financial statements and therefore should be read in conjunction with the most recent audited annual consolidated financial statements of the Company for the year ended March 31, 2008.

Presentation

Where applicable, comparative figures have been reclassified to conform with presentation used in the current year.

The financial statements follow the same accounting policies and methods of their application as the annual financial statements except as described below.

Effective April 1, 2008, the Company adopted the following accounting pronouncements:

- a) Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" which replace Section 3861 "Financial Instruments– Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the existing presentation requirements. These new standards are effective for the Company for periods beginning on or after October 1, 2007. Adoption of Section 3862 and Section 3863 will not have a material impact on the Company's financial statements.
- b) Section 1535, "Capital Disclosures", which requires companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements and, if not in compliance, the consequences of such non-compliance.
- c) Section 3031, "Inventories", which replaces the existing Section 3030 and establishes standards for the measurement and disclosure of inventories. The new standard provides more extensive guidance on the determination of cost, including allocation of overhead, requires impairment testing and expands the disclosure requirements. Adoption of Section 3031 has not had a material impact on the Company's financial position and results of operations.
- d) Updated Section 1400, "General Standards on Financial Statement Presentation" which includes requirements to assess and disclose a company's ability to continue as a going concern. Adoption of the revised Section 1400 has not had a material impact on financial statement disclosure.

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(An Exploration Stage Company)

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the three months ended June 30, 2008

3. Basis of Presentation and Adoption of Accounting Policies

- e) Section 3064, "Goodwill and Intangible Assets". This section replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning April 1, 2009. The Company is currently assessing the impact that the adoption of this standard will have on its financial statements.
- f) On February 13, 2008, the CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS") by 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

4. Mineral Properties

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

	Balance March 31, 2007		Balance March 31, 2008		Balance June 30, 2008
		Expenditures		Expenditures	
Acquisition costs	\$ 421,800	\$ 4,276	\$ 426,076	\$ -	\$ 426,076
Helicopter and fixed wing aircraft costs	8,470,331	3,598,029	12,068,360	1,401,102	13,469,462
Sampling and assays	3,359,624	565,006	3,924,630	525	3,925,155
Contractor and consultant	4,354,363	2,648,161	7,002,524	1,122,156	8,124,680
Project management fees	575,997	86,000	661,997	16,000	677,997
Field and camp	842,082	649,971	1,492,053	273,978	1,766,031
Transport and accomodation	1,629,907	673,340	2,303,247	48,444	2,351,691
Expediting	443,522	65,142	508,664	5,848	514,512
Reclamation provision	120,000	-	120,000	-	120,000
Other	342,586	80,065	422,651	19,152	441,803
Total costs incurred	20,560,212	8,369,990	28,930,202	2,887,205	31,817,407
Reimursable bonds and deposits (*)	458,973	938,985	1,397,958	-	1,397,958
Options and contribution payments - Kennecott	(5,000,000)	(1,670,345)	(6,670,345)	-	(6,670,345)
Total cash outlay, net of funding from Kennecott and reimburseable bonds	\$ 16,019,185	\$ 7,638,630	\$ 23,657,815	\$ 2,887,205	\$ 26,545,020

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Notes to the Financial Statements

(Expressed in Canadian dollars)

For the three months ended June 30, 2008

4. Mineral Properties (continued)

(*) The Company is required to make deposits against its mineral permits to guarantee its performance. In addition to the \$1,397,958 currently on deposit, there are performance bonds secured by letter of credit in the amount of \$283,320 (note 16).

5. Property and Equipment

	June 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Office furniture	\$ 34,703	\$ 13,034	\$ 21,669
Computer equipment	25,663	17,925	7,738
Leasehold improvements	41,357	31,823	9,534
Exploration equipment	363,497	40,987	322,510
	<u>\$ 465,220</u>	<u>\$ 103,769</u>	<u>\$ 361,451</u>

	March 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Office furniture	\$ 30,010	\$ 11,456	\$ 18,554
Computer equipment	25,663	15,786	9,877
Leasehold improvements	41,357	28,379	12,978
Exploration equipment	363,497	22,812	340,685
	<u>\$ 460,527</u>	<u>\$ 78,433</u>	<u>\$ 382,094</u>

6. Common Shares

a) Authorized share capital

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

b) Issued share capital

At June 30, 2008 there were 4,141,012 common shares issued and outstanding (March 31, 2008 - 62,319,254 common shares).

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Notes to the Financial Statements

(Expressed in Canadian dollars)

For the three months ended June 30, 2008

6. Common Shares (continued)

c) Flow-through shares

The Company has undertaken several flow-through financings in which the tax benefit of eligible exploration expenditures is passed to equity investors. As at June 30, 2008, the remaining balance required to be spent on eligible expenditures was \$2,668,000 (March 31, 2008 - \$5,139,155).

d) 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 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, 2008, 6,211,518 common shares (March 31, 2008 – 6,211,518 common shares) remained in escrow.

7. Share Purchase Warrants

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

	June 30, 2008		March 31, 2008	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
	Of Warrants		Of Warrants	
Balance, beginning of period	10,807,797	\$0.65	428,571	1.75
Granted	-	-	10,698,829	0.63
Exercised	(434,619)	0.33	(319,603)	1.27
Expired or cancelled	(217,110)	1.75	-	-
Balance, end of period	10,156,068	\$0.64	10,807,797	\$0.65

Sanatana Diamonds Inc.

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Notes to the Financial Statements

(Expressed in Canadian dollars)

For the three months ended June 30, 2008

7. Share Purchase Warrants (continued)

Summary of outstanding warrants at June 30, 2008:

Expiry Date	Exercise Price	Financing Warrants Outstanding	Broker Warrants Outstanding
April 22, 2009	\$ 0.35	2,959,168	-
April 22, 2009	\$ 0.30	3,293,210	-
April 22, 2009	\$ 0.30	-	1,314,113
August 4, 2009	\$ 1.65	2,100,028	-
February, 2009	\$ 1.35	-	489,549
		8,352,406	1,803,662

The Company estimated the fair value of each broker warrant at the date of grant using the Black-Scholes option pricing model with the following assumptions:

For the years ended March 31,	For the Three Months Ended June 30, 2008	For the Year Ended March 31, 2008
Expected dividend yield	-	0%
Expected volatility	-	76.9%
Risk-free interest rate	-	3.00%
Expected life	-	1.41 years

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 Company issued and outstanding at the date of the stock option grant. In July 2007, the Company's shareholders approved a stock option plan with similar provisions to the 2005 Option Plan under the rules of the Exchange. The 2007 stock option plan is considered a continuation of the 2005 option plan. The directors may set option terms, but options granted under the plan typically have a life of five years and vest over an 18-month period. In April 2008, the Company's board of directors changed the vesting period of granted options from three years to 18 months.

Sanatana Diamonds Inc.

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Notes to the Financial Statements

(Expressed in Canadian dollars)

For the three months ended June 30, 2008

8. Stock Options (continued)

The Company amortizes the stock-based compensation expense over the respective vesting period of the options granted and recorded \$1,074,000 of stock-based compensation in the three months ended June 30, 2008 (2007 - \$48,251).

	For the three months ended June 30, 2008		2007	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance, beginning of period	3,420,000	\$1.13	3,170,000	\$1.16
Granted	2,050,000	1.15	-	-
Exercised	-	-	-	-
Expired or cancelled	(250,000)	(0.75)	-	-
Balance, end of period	5,220,000	\$1.16	3,170,000	\$1.16

Summary of outstanding options at June 30, 2008:

Exercise Price Range	Weighted Average Exercise Price	Number of Outstanding Options	Weighted Average Remaining Life	Number of Exercisable Options
\$0.75-\$1.00	\$0.77	2,020,000	4.27 years	1,015,000
\$1.01-\$1.40	\$1.39	3,200,000	4.14 years	1,800,000
	\$1.16	5,220,000	4.19 years	2,815,000

The options granted to consultants of the Company were revalued in the three months ended June 30, 2008, using the Black-Scholes options pricing model with the following assumptions:

	For the three months Ended June 30, 2008	For the year ended March 31, 2008
For the years ended March 31,		
Expected dividend yield	0%	0%
Expected volatility	87.0%	86.9%
Risk-free interest rate	3.40%	2.80%
Expected life	5.0 years	5.0 years

The weighted average grant date fair value of options awarded in the three months ended June 30, 2008 was \$0.61 (2007 - \$0.28).

Sanatana Diamonds Inc.

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Notes to the Financial Statements

(Expressed in Canadian dollars)

For the three months ended June 30, 2008

9. Related Party Transactions

At June 30, 2008, the Company had one employee and had arrangements with a number of contractors to provide administrative, accounting and management services. Certain directors and significant shareholders provided management and consulting services to the Company.

Related party transactions in the three months ended June 30, 2008 were:

For the three months ended June 30,	2008	2007
Services provided by:		
Directors and insiders (a)	\$ 31,866	\$ 32,757
Lithosphere Services Inc. (b)	16,000	18,000
St. George Minerals Limited (c)	-	27,362
S2 Management Inc. (d)	4,323	-
MCSI Consulting Services Inc. (d)	2,972	-

- 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 for technical services performed by a company controlled by a director of the Company
- Fees for financial and administrative services performed by a company controlled by a former director of the Company.
- Fees for financial services performed by a company controlled by an officer of the Company.

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

Balances included in accounts payable and accrued liabilities are as follows:

	Three months Ended June 30, 2008	Year ended March 31, 2007
Directors and insiders (a)	\$ 10,244	\$ -
Lithosphere Services Inc. (b)	3,150	-
St. George Minerals Limited (c)	-	-
MCSI Consulting Services Inc. (d)	-	1,927
S2 Consulting Inc. (d)	3,186	-

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

Sanatana Diamonds Inc.

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Notes to the Financial Statements

(Expressed in Canadian dollars)

For the three months ended June 30, 2008

10. Commitments

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

Year ending March 31,	
2009	\$ 78,000
2010	-
2011	-
2012	-
	<hr/>
	\$ 78,000

- 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 chief executive officer, Geoinformatics is entitled to a 0.9% gross overriding royalty.
- b) A member of Jaeger Joint Venture, from which the Company purchased an interest in the MacKenzie Diamond Project, is entitled to a 2% net sales revenue royalty from that project.
- c) The Company 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.
- d) Under the conditions of flow-through financings (see note 6) and related income tax law at June 30, 2008, the Company was committed to spending \$2,668,000 on future eligible exploration expenditures before February 2010.

11. Capital Management

The Company considers that its capital comprises shareholders' equity. The Company's objectives in managing capital are to ensure that it has sufficient funds to complete its planned exploration activities; maintain creditor confidence; and to safeguard the Company's ability to obtain further financing when the need arises.

The Company does not have any externally or internally imposed capital requirements. In maintaining its capital, the Company has a strict investment policy which includes investing surplus cash only in highly liquid, highly rated financial instruments. The Company regularly reviews its capital management approach. There were no changes in the Company's approach to capital management during the period.

Sanatana Diamonds Inc.

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Notes to the Financial Statements

(Expressed in Canadian dollars)

For the three months ended June 30, 2008

12. Supplementary Cash Flow Information

For the three months ended June 30,	2008	2007
Interest and taxes paid	\$ -	\$ -
Non-cash investing activities:		
Amortization in mineral properties	18,174	1,962

13. Off-Balance Sheet Arrangements and Contingent Liabilities

Kennecott had deposited a letter of credit in the amount of \$283,320 on the Company's behalf to fulfill bonding requirements (note 6).