

**SANATANA DIAMONDS INC.**

**Management's Discussion and Analysis**

**For the Three Months Ended June 30, 2010**

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**SANATANA DIAMONDS INC.**  
**Management's Discussion and Analysis**  
**Three Months Ended June 30, 2010**

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*This management's discussion and analysis ("MD&A") contains certain forward-looking statements that are prospective and reflect management's expectations regarding Sanatana Diamonds Inc.'s ("Sanatana" or the "Company") 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 in this MD&A 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.*

## **Introduction**

This MD&A has been prepared as of August 27, 2010 and should be read in conjunction with the Company's unaudited interim financial statements and related notes for the period ended June 30, 2010 and the audited annual financial statements and related notes for the year ended March 31, 2010. This MD&A is intended to provide the reader with a review of the Company's performance for the quarter ended June 30, 2010 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. All financial amounts in this MD&A are in Canadian dollars, except as otherwise indicated.

## **Incorporation and Listing Information**

Sanatana was incorporated under the British Columbia *Business Companies Act* on June 25, 2004. In November 2005, the Company became 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" as a mining exploration and development company. From July 2005 until October 2008, the Company's common shares were also traded on the Alternative Investment Market of the London Stock Exchange plc. ("AIM"). The Company delisted from AIM in October 2008 and now trades solely on the Exchange.

## **Operating Report**

Diamond prices and diamond exploration companies were particularly heavily hit during the 2009 recession. Although the Company was well funded, in view of low diamond prices and the difficulty of financing junior diamond exploration companies, management thought it prudent to curtail expenditures. Diamond prices are now recovering, however this improvement has not yet trickled down to benefit junior diamond explorers and, as a consequence of the recession, the Company now has far fewer peers. As a result of the economic impact on the diamond industry, the Company has looked at other mineral resource opportunities, including gold mineralization, as described below.

Sanatana's exploration programs are carried out under the supervision of the Company's vice president of exploration, Mr. Buddy Doyle, and exploration manager, Mr. Troy Gill. Mr. Doyle and Mr. Gill meet the qualified person requirements (as defined by National Instrument 43-101) and together they have 52 years of experience in the exploration industry with over 21 years specifically in diamond exploration. They are responsible for the geoscientific and technical disclosure contained in this document.

### ***Boulder Claim Group – Whitegold District Yukon Territory***

In June 2010, the Company entered into a non-binding letter of intent to form a joint venture to explore for bedrock gold mineralization on the Boulder Claim Group located 40 kilometres south

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of Dawson City, Yukon. As consideration, Sanatana has paid \$38,640 to maintain the Boulder Claim Group in good standing until July 2011.

Sanatana intends to enter into a joint venture under which the co-venturer will contribute the rights to explore the Boulder Claim Group and Sanatana will fund all exploration activities focused on defining bedrock mineralization. The co-venturer will not contribute any funds towards the bedrock mineralization expenditure but will receive a 1% net smelter royalty from economically viable ore defined from the Boulder Claim Group that is brought into production. It is expected that the joint venture agreement will end when Sanatana either fails to spend or elects not to continue spending at least the annual expenditure commitment of \$38,640 required to keep the Boulder Claim Group in good standing.

***Rio Tinto Joint Venture***

The Company has a joint venture agreement with diamond producer Rio Tinto Exploration Canada Inc. ("Rio Tinto", formerly Kennecott Canada Exploration Inc.), a subsidiary of the Rio Tinto Group. Pursuant to the joint venture, the Company acts as the operator and Rio Tinto has a 15% interest in the Company's Mackenzie diamond project. Rio Tinto has elected not to participate in the Company's 2010 exploration program resulting in its interest being diluted, although the amount of dilution to date has not been material.

The Company manages and operates the exploration programs and Rio Tinto has the right to earn additional rights in any individual kimberlite project within the Company's Mackenzie diamond project on the following basis:

- Rio Tinto may earn up to an additional 34% interest (15% plus up to 34% for a 49% total interest) in each individual project by completing, at its sole expense, a bulk sample and positive feasibility study within four years; and
- Rio Tinto may earn a further 11% interest (in addition to the 49% interest for a maximum 60% total interest) in each individual project by solely funding and managing all future evaluation through to such time as a decision to mine is made, provided that a decision to mine is made within 20 years of Rio Tinto earning an initial 49% interest in the individual project.

In January 2008, an affiliate of Rio Tinto completed a subscription for common shares of the Company. The affiliate, QIT-Fer et Titane Inc., acquired 641,025 common shares of the Company at \$1.56 per share.

On November 27, 2008, the Company amended its agreement with Rio Tinto. Rio Tinto was committed, in certain circumstances, to purchasing additional Sanatana shares at a cost of \$1,000,000 in January 2009 in order to preserve its option rights. Due to changes in the financial markets, Rio Tinto did not wish to subscribe for shares on this basis and the Company thought it would suffer undue dilution if it were to complete a \$1,000,000 private placement at prevailing share prices. Accordingly Rio Tinto and the Company agreed to eliminate the obligation to purchase shares in 2009 only.

In total, to June 30, 2010, Rio Tinto has contributed \$7,982,567 in option and contribution payments to defray exploration expenditures.

### ***Marmac Option Agreement***

In October 2009, the Company entered into an option agreement with Marmac Mines Ltd. ("Marmac") to acquire up to a 50% undivided interest in four mineral concessions located in the Piche Lake area of Alberta, approximately 170 kilometres northeast of Edmonton. Marmac granted the Company an exclusive option to acquire up to a 50% undivided interest in the Piche Lake property. The Company was entitled to earn a 10% undivided interest in the property by:

- (i) paying Marmac \$52,500 on Exchange approval of the option agreement (paid);
- (ii) drilling a minimum of two test holes on the property and retrieving samples necessary to determine the presence of a kimberlite pipe, if any, by April 10, 2010 (not completed); and
- (iii) incurring a minimum of \$100,000 of exploration expenditures on the property by June 30, 2010 (completed).

Once the Company earned a 10% interest, it had the right to earn a further 40% undivided interest in the property (for a total undivided interest of 50%) by incurring an additional \$1,000,000 in exploration expenditures on the Piche Lake property by April 1, 2012. Based on the exploration program undertaken, (see "Piche Lake Property" below) the Company decided not to pursue the Piche Lake project and wrote off its investment as of March 31, 2010.

## **Mineral Properties**

### ***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 is 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 diamonds 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, micro-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.

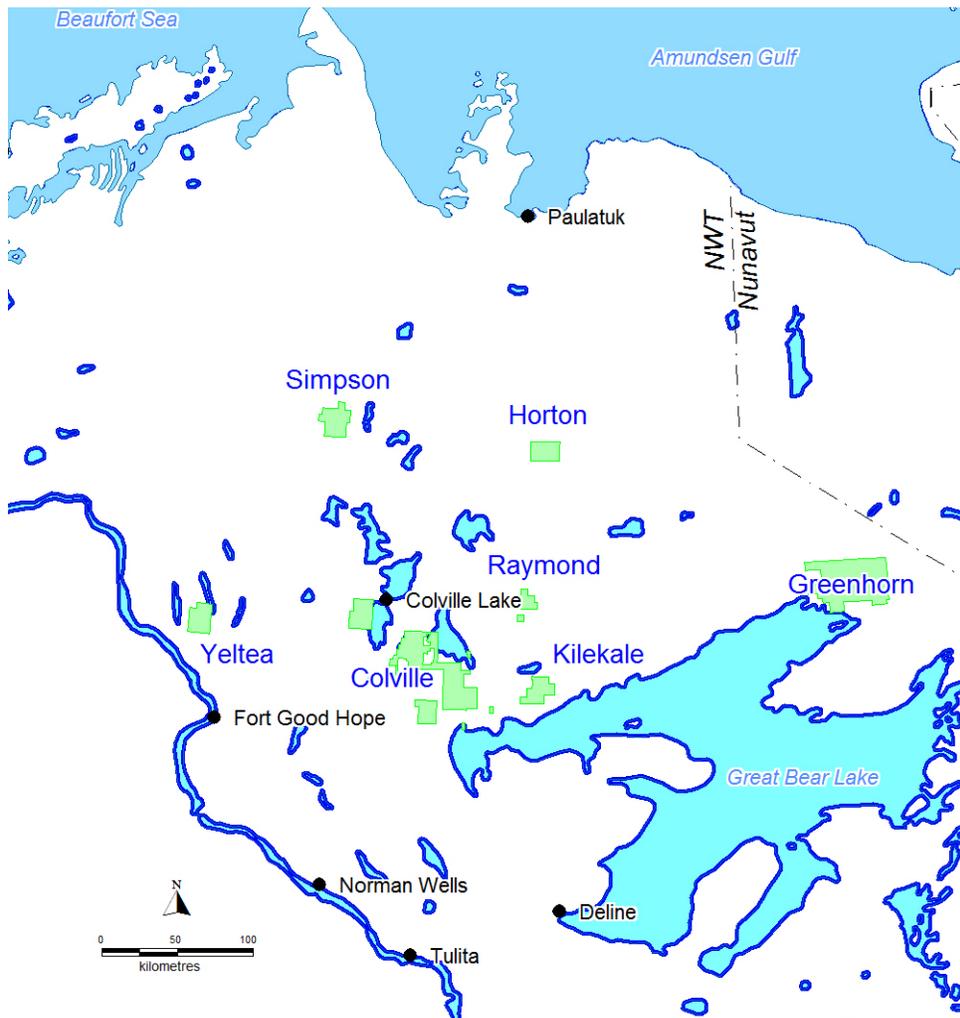
In the Canadian Arctic, where Sanatana is exploring, there was, until approximately 10,000 years ago, a great ice sheet originating near Hudson's Bay. The ice movement caused by this sheet eroded the kimberlites and spread the indicator minerals and diamonds "down-ice" in a direction away from the centre of the ice.

Sanatana has been exploring the Mackenzie Platform area for diamonds by sampling the glacial till for indicator minerals. The Company has 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 assayed for diamonds. Given positive results, the process would then proceed to bulk sampling for grade and value, feasibility, permitting and then to mining.

***Mackenzie Project***

- The Company's original permits have all expired and the Company now holds approximately 1.1 million acres in the Northwest Territories under mineral claims in areas indicating anomalous till samples (see green areas on map):



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- The Company has a portfolio of projects after five years of regional work that has identified several geochemical diamond indicator anomalies that are defined by separate areas. They have been systematically explored and named as follows:
  - Greenhorn (two diamondiferous kimberlites, several unexplained till anomalies)
  - Colville (a broad cloud of indicator minerals)
  - Simpson (a defined high count indicator anomaly of unknown source)
  - Yeltea (indicator minerals forming down ice trains)
  - Horton and Estabrook (isolated clouds of indicator minerals)
  - Kilekale (an area of several discrete magnetic anomalies and scattered till anomalies that have been drill tested)
  - Raymond (a concentration of G10 pyrope indicator counts within the Colville cloud of till anomalies)

*Greenhorn*

The Company has completed 40 magnetic surveys, 14 gravity surveys and four max-min surveys on the Greenhorn area since March 2008. The Company drill tested 22 surveys, which resulted in the Dharma Uttar discovery.

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 2007. 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 which was the target tested that led to the Dharma Kimberlite discovery.

In October 2007 the Company flew a 4,200 kilometre magnetic survey, designated the Sulky survey which encompassed the area of interest around the Greenhorn area. The survey revealed more kimberlite targets.

In July 2008, the Company tested 13 additional magnetic anomalies at Greenhorn utilizing its RC drill rig. Although no additional kimberlites have been discovered, the RC drill rig has significantly enhanced, in a cost-effective and timely manner, the Company's ability to test drill targets. In order to define future drill targets in the Greenhorn area, the Company undertook closer-spaced till sampling on the Greenhorn project to further develop geochemical indicator anomalies distal to the Dharma kimberlite complex discovery.

In December 2008, the Company received mineralogical results from a portion of its summer till sampling program. The highlight of these results is a till sample, containing numerous kimberlitic indicator minerals, located five kilometres to the north east of the Dharma kimberlite complex. The abundance and surface textures of these indicator minerals suggest proximity to source. The grains were observed by KIM Dynamics of North Vancouver, which reports soft fragile kimberlite attached to many of the pyrope grains. This material was so fragile that it suggested the source was within hundreds of metres from the sample site.

The anomalous till sample contains 178 grains dominated by 114 pyrope, 55 ilmenite, six chromite and three eclogitic garnet and is our highest pyrope count from a sample to date.

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Recently received microprobe geochemical analysis results confirm the kimberlitic origin of the indicator minerals.

There is no signature in the airborne geophysical data nearby that can be linked to this anomalous sample. The Company completed detailed closed spaced ground geophysics in the spring of 2009, predominantly in an area with a high grain count. This program identified a few subtle anomalies that may signify a kimberlite source of indicator minerals and so represent possible subtle kimberlite targets.

In the summer of 2009, the Company took 137 follow-up till samples around this anomalous sample and checked the subtle geophysical anomalies for a surface expression. The results of the summer sampling showed that the till anomaly is local. In September 2009, the Company conducted a gravity survey over the immediate area. This work has not generated a drill target and the highly anomalous till sample remains unexplained.

*Dharma and Dharma Uttar Kimberlites*

The Dharma Kimberlite was intersected on October 1, 2007 and three holes were drilled into this target to obtain a one tonne caustic fusion sample. The results for the October 2007 Dharma Kimberlite discovery are shown in Table 1 below.

TABLE 1: Diamond distribution in CIM sieves (mm)<sup>1</sup>

Combined Weight (kg)	0.106 Sieve	0.15 Sieve	0.212 Sieve	0.3 Sieve	0.425 Sieve	0.6 Sieve	0.85 Sieve	1.18 Sieve	1.7 Sieve	2.36 Sieve	3.35 Sieve	TOTAL
1008.9	220	138	94	38	24	17	3	0	1	0	1 <sup>2</sup>	536

<sup>1</sup> This testing was completed by the Thunder Bay Laboratory of Rio Tinto, which is assessed and registered by Intertek Testing Services NA Ltd. as conforming to the requirements of ISO 9001-2000.

<sup>2</sup> This diamond measured 5.10 x 4.50 x 3.5 mm and weighed 0.55 carats; it is described as an octahedral aggregate, grey in colour and translucent. The five stones that sit above the 0.85 mm sieve weigh, in aggregate, 0.76 carats. The results between the separate holes and batches appear consistent. There are multiple kimberlitic phases within the Dharma Kimberlite and some of the caustic fusion samples have two to three times the average stone count of the other samples. It is too early to see any pattern to this stone distribution. The diamonds are described as being 54% white in colour and 32% have octahedral crystal habits. The largest stone 2 weighed 0.55 carats and measured 5.1 x 4.5 x 3.5 mm, falling on a 3.35 mm sieve. The Dharma Kimberlite was intersected by four drill holes. The first hole was vertical, 180 metres in length and ended in kimberlite. The second was a 60 degree angle hole collared from the same location on an azimuth of 335 degrees that exited kimberlite at 43 metres into the country-rock, dolomite. The third hole, a vertical hole collared approximately 10 metres to the east, ended at 208 metres in kimberlite. The fourth hole, collared from the location of the third hole angled at 60 degrees on a due east azimuth, exited kimberlite after five metres. The samples were taken from the first three holes.

The Company returned to the area in late February 2008 and began testing other geophysical targets. Dharma Uttar was discovered in April 2008 during the diamond drill program and 448 kilograms of kimberlite were sent to the laboratory. These returned significant diamonds.

Results for the April 2008 Dharma Uttar discovery are shown in Table 2.

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TABLE 2: Diamond distribution in CIM sieves (mm)<sup>1</sup>

Combined Weight (kg)	0.106 Sieve	0.15 Sieve	0.212 Sieve	0.3 Sieve	0.425 Sieve	0.6 Sieve	0.85 Sieve	1.18 Sieve	TOTAL
448.47 <sup>2</sup>	96	68	30	14	8	3	5	3	227

<sup>1</sup> This testing was completed by the Thunder Bay Laboratory of Rio Tinto, which is assessed and registered by Intertek Testing Services NA Ltd. as conforming to the requirements of ISO 9001-2000.

<sup>2</sup> A number of dolomite country rock fragment samples with clay in the joint fractures were sent for assay and returned zero diamonds - these have been excluded. These were tested to determine if the clay fracture fill was diamondiferous kimberlite. The test was negative.

There are eight stones that sit above the 0.85 millimetre sieve and these weigh, in aggregate, 0.14 carats. Their presence suggests a coarse distribution that parallels the diamond population recovered from the Dharma Kimberlite. The two kimberlites have similar diamond size distributions; however the diamonds from Dharma Uttar are described as being 41% white in colour and 19% having octahedral crystal habits. The colour, crystal shape and diamond count numbers from Dharma Uttar are different enough from those of the Dharma Kimberlite discovery (54% white and 32% octahedral) to suggest different diamond populations. The Dharma Uttar kimberlite was intersected by six drill holes.

Dharma Uttar occurs 50 metres north of the Dharma Kimberlite discovery and together they appear to form a kimberlite complex of dykes, sills and pipes intruding into Proterozoic platform carbonates of the Dismal Lakes Group. Coral and bivalve shell fragments have been observed in the volcanic breccias in this complex. These fragments cannot be derived from the surrounding country rock and must have been sourced from younger rock higher in the sequence when the kimberlite erupted. Since the eruption event erosion has erased any trace of the younger rocks, they are now only preserved in the kimberlite. This indicates that the kimberlite complex is Devonian or younger.

The discovery of the Dharma kimberlite complex represents the first kimberlites in a newly discovered Archean craton in North America. This craton does not outcrop and until the Dharma discoveries were made, it was inferred purely from regional potential field geophysics and the occurrence of diamond indicator minerals in the glacial till. The Company has also received further collaborating evidence of an Archean diamondiferous terrane from work conducted by Dr. William Griffin of Macquarie University in Sydney, Australia. Dr. Griffin and his faculty assay the trace elements within diamond indicator minerals using laser ablation techniques. The results are then interpreted based on a large database from other kimberlites around the world. Dr. Griffin reports that the indicators from the Dharma Kimberlite plot at temperatures and pressures within the diamond stability field and derive a 38mW/m<sup>2</sup> geotherm. (For comparison, the Slave craton, which hosts the Ekati and Diavik mines exhibited a 36mW/m<sup>2</sup> geotherm using the same technique. The cratons hosting diamond mines in Siberia and Southern Africa have 40mW/m<sup>2</sup> and 42mW/m<sup>2</sup> geotherms, respectively).

The base of the lithosphere at the Dharma kimberlite complex plots at a depth of 180 kilometres, implying a 30-kilometre thick diamond window in the lithosphere beneath the Dharma kimberlite complex. Thermodynamic arguments indicate that for such a thick diamondiferous lithosphere to be stable over time, the keel must be at least 400 kilometres in diameter. The Company has interpreted that the Dharma kimberlite complex occurs on the edge

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of this newly discovered "Mackenzie" craton with the centre being 200 kilometres to the west in the vicinity of Colville Lake.

The Company's option with Rio Tinto is triggered by locating a kimberlite or kimberlites meeting specific criteria. Triggering the Rio Tinto option would be advantageous as Sanatana would enjoy a free-carry period up until a bankable feasibility study is completed. It appears at this early stage of exploration that the Dharma kimberlite complex will not contain enough tonnage to meet the criteria to cause this trigger. The Company is therefore concentrating on finding other kimberlites. The Dharma kimberlite complex can always be revisited in the future. Its diamond content and distribution is encouraging and it is possible that it will be part of a future mine if more kimberlites with economic tonnage can be located nearby (within 30 kilometres).

*Colville*

The Company 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 took till samples down ice from many of these targets during its 2007 summer sampling program. Many of these samples returned with diamond indicator minerals, which enhanced and prioritized the pipe-like geophysical anomalies. The Company completed ground magnetic surveys over the 30 targets at Colville Lake in July 2008.

The Company completed a drill program testing seven targets on the Colville project area in early September 2008. This program used a combination of diamond drill and RC rigs. The Company was concerned that the small heli-portable RC rig would not be able to penetrate deep till, as the till cover at Colville is much deeper than at Greenhorn, but it easily attained 30 metres depth in this program. The drilling targeted magnetic anomalies that had associated indicator minerals anomalies within their vicinity. The drilling did not intersect kimberlite. Most of the magnetic anomalies were explained by a flat lying iron-rich paleo-weathered ("laterite") horizon just beneath the till cover. These must be erosional remnants left behind by the glaciation.

The source of the indicator minerals remains enigmatic. The magnetic targets tested were selected from a 400-metre spaced fixed wing magnetic survey and it is worth noting that this survey missed detecting the Dharma target. It took a 100-metre helicopter survey to highlight this kimberlite. The Company undertook further sampling on this project to better understand the indicator mineral dispersion. The Company is currently reviewing this data to determine alternative kimberlite targets.

The Company has focused its efforts in the area of the sample with the highest pyrope indicator mineral count that also exhibits the best geochemical affinity for diamonds. The Company completed a ground magnetics survey in this area in April 2009 and more recently completed a till sampling program (59 samples) around a highly anomalous till sample to better define its source area. Results of the 2009 summer till sampling program are encouraging and a distinct indicator train has been identified pointing towards an up ice source. This suggests that the Company should conduct further till sampling along the up ice trend of the MK-58 indicators in till train, along with a close spaced airborne magnetometer survey with the view of defining the source and a drill target. The Company is evaluating whether or not to undertake further sampling and possibly a closely spaced airborne magnetometer survey in 2010.

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*Simpson*

In 2007, mineral anomaly, airborne magnetic and EM surveys were completed on the Simpson project, where the Company has a 25 kilometre by 15 kilometre indicator mineral anomaly. This generated numerous magnetic anomalies. Eight of these anomalies were followed up with ground surveys and three returned encouraging potential kimberlite anomalies, the largest being 350 metres across. The Company recently staked this area in order to retain the most prospective indicator mineral and geophysical anomalies after the prospecting permits expired in February 2009.

In May 2009, the Company deployed ground geophysical crews and the lightweight RC drill rig to test these targets. After meeting with members of the local community, primarily in the area of Paulatuk, Northwest Territories, the Company built a temporary camp there to support this work. Drilling was not successful in locating kimberlite and the camp has disbanded from the area. Future work in the Simpson area has therefore been given a lower priority, dependent on any future success at Colville and Greenhorn. The prominent indicator minerals in till anomaly at Simpson remain unexplained.

*Kilekale Lake*

The Company holds a drill permit around the Kilekale Lake area and had a camp there but dismantled the camp at this location for use in the Greenhorn program. The Company has cleaned up the site; however, the site is still subject to inspection by the government land use office at the end of the license term in 2011. The Company holds a land use permit for the Kilekale Lake camp until April 2011 and will keep the permit open in case it wishes to return within that period.

*Raymond*

In 2008 the Raymond area was recognised from the Colville cloud of indicator anomalies as a place of concentrated higher counts of G10 pyropes in the mix of indicator minerals. G10 pyrope is a significant indicator mineral species as it has been documented to have affinities with diamondiferous kimberlite source rocks. Part of the 2009 till sampling programme focused on trying to better define the indicator train of G10 pyrope at Raymond, however no further G10 pyropes were observed from this infill round of sampling and so Raymond remains an unexplained isolated cloud for G10 pyrope anomalism within the general indicator till anomaly of the Colville area.

*Land position*

The Company's land holdings are continually changing based on exploration results expenditures and Canada's Mining Regulations. The Company initially held a large area of ground in the form of prospecting permits and, based on exploration results, the Company has been progressively focusing on the most prospective areas and now holds mineral claims covering approximately 1.1 million acres. As long as the Company completes its work obligations, these claims will not expire. An annual expenditure of \$2 per acre is required to keep mineral claims in good standing under the Canada Mining Regulations. However, expenditures beyond this amount in a single year may be applied to successive years, thereby securing tenure without the need for new expenditure for years to come. This is the case for many of the mineral claims that make up the Mackenzie project. Over time, the Company will

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either have to (1) undertake further exploration work; (2) pay fees under Canada Mining Regulations; or (3) forgo mineral claims.

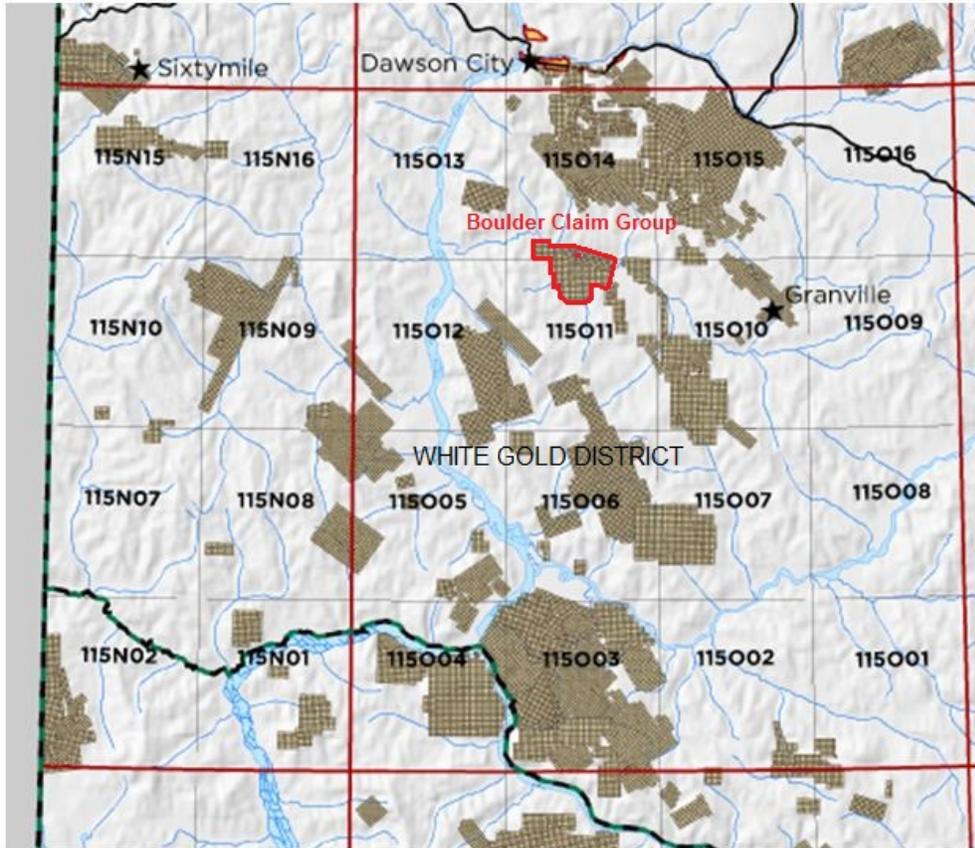
***Base Metal Potential***

During the Company's till sampling program, which was designed to find diamonds and their indicator minerals, Sanatana directed a portion of its samples to multi-element trace element analysis. This work revealed 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 were also 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 mineralization such as the Pine Point, Polaris and Nanasivik, all past producers of lead, zinc and silver. This style of mineralization is known as Mississippi Valley and the Company is using this model to find the source of the anomalies and float. Due to the success in identifying the Dharma kimberlite complex, the Company is concentrating on diamond exploration and plans to address base metal exploration at a later date.

***Piche Lake Property***

The Company completed a one-RC drill hole program testing the seismic target at the Piche Lake property in late March 2010. The Company drilled to a depth of 87 metres, however, the drill hole failed to reach bedrock and was terminated in till cover. The Company collected and analyzed samples for indicator mineral processing but they were found to be negative for kimberlitic indicator minerals. The unexpectedly deep till cover over the seismic target casts doubt over the validity of the geophysical anomaly. Therefore, the Company decided not to pursue the Piche Lake project any further at this time, terminated the Marmac option agreement and wrote off its investment as of March 31, 2010. The Company incurred \$24,000 of expenses in the current quarter relating to the Marmac Option Agreement.

***Boulder Claim Group***



The Company completed a reconnaissance field mapping and prospecting program at the Boulder Claim Group during August 2010. The program involved fact mapping of bedrock outcrops and surface cover along existing roads and trails across the property as well as visiting selected locations on the surrounding hills by helicopter and collecting representative samples of the rocks. The Company also collected samples of placer material and sluice concentrates to gain some background data on gold affinity with and distribution across the property. 53 samples will be submitted for ICP multi-element analysis and other processing including mineral observation and microprobe geochemical analysis. The resultant geological map and rock sample data will form a basis for how the Company will plan future field programs to systematically explore the property for bedrock gold mineralization.

***Exploration Budget***

The Company has curtailed its diamond exploration budget for the 2011 fiscal year and no field programs are planned for the season. The Company has approved a budget of \$64,000 to be spent on the reconnaissance mapping field program at the Boulder Claim Group.

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**Financial**

**Exploration Expenditures**

Mineral exploration costs formed the bulk of the Company's expenditures in the period. These costs, net of impairment provisions and reimbursements, are set out in the following table:

	Quarter ended June 30, 2010	Year ended March 31, 2010	Year ended March 31, 2009
<b>Mackenzie property</b>			
Acquisition costs	\$ -	\$ -	\$ -
Helicopter and fixed wing aircraft	-	480,051	3,375,608
Sampling and assays	17,112	116,278	322,116
Contractor and consulting	450	345,108	2,097,480
Project management fees	18,750	135,500	170,968
Field and camp	11,336	46,350	493,793
Transport and accommodation	1,770	141,213	469,619
Expediting	-	-	5,848
Permitting and other	35,039	109,786	293,107
Total exploration costs for the period	84,457	1,374,286	7,228,539
Mineral property impairment	-	(15,700,000)	(11,000,000)
Rio Tinto contribution payments	(79,612)	(172,309)	(1,060,301)
Increase (decrease) in carrying value	4,845	(14,498,023)	(4,831,762)
<b>Marmac property</b>			
Total exploration costs for the period	23,608	167,370	-
Expensed as abandoned claim costs	(23,608)	-	-
Mineral property impairment	-	(167,370)	-
Increase (decrease) in carrying value	-	-	-
<b>Boulder Claims</b>			
Acquisition costs	38,640	-	-
Project management fees	6,250	-	-
Total exploration costs for the period and increase in carrying value	44,890	-	-
<b>All mineral properties</b>			
Increase (decrease) in carrying value	\$ 49,735	\$ (14,498,023)	\$ (4,831,762)

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***Selected Quarterly Financial Data***

The Company did not have any sales, discontinued operations, extraordinary items, cash dividends or long-term liabilities in the period under review. Material factors affecting operations and mineral property expenditures are described elsewhere in this MD&A.

Quarter Ended	Cash and Equivalents	Mineral Properties	Income (Loss) for the Quarter	Income (Loss) per Share (Basic and Diluted)
September 30, 2008	\$ 6,012,657	\$ 28,758,990	\$ (262,724)	\$ (0.00)
December 31, 2008	4,778,968	17,907,417	(8,477,495)	(0.14)
March 31, 2009	4,905,843	17,670,592	(264,417)	(0.00)
June 30, 2009	3,885,700	18,436,050	(201,493)	(0.00)
September 30, 2009	3,459,028	18,792,204	(224,828)	(0.00)
December 31, 2009	3,063,436	19,108,693	(178,337)	(0.00)
March 31, 2010	2,801,892	3,377,047	(13,287,585)	(0.21)
June 30, 2010	\$ 2,478,438	\$ 3,426,782	\$ (210,723)	\$ (0.00)

The Company is an exploration stage company and did not have any sales or revenues, nor has it had any extraordinary items or discontinued operations in the most recent eight fiscal quarters. 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 exploration and corporate activity and certain factors that may not recur each quarter.

The Company's quarterly operating loss has typically been between \$175,000 and \$275,000, with expenses trending downwards over the last year following the delisting from AIM (with resulting cost savings) and as the Company scaled back its operations to reflect the weak market for diamonds. Variations from the normal level of operating loss include:

- December 31, 2008 – The Company incurred a \$154,000 write-down of bonds. The loss for the quarter also reflected an \$11,000,000 impairment taken against the book value of mineral properties partially offset by a future income tax recovery against the impairment.
- March 31, 2010 – The loss for the quarter reflects a \$15,867,000 impairment against the Company's mineral properties.

***Results of Operations for the Quarter Ended June 30, 2010***

The Company has reclassified certain consulting and management fees in the year ended March 31, 2010 and revised the comparative presentation accordingly. Some of the factors necessary to understand the Company's results of operations are:

- Director fees, which are paid to the three non-executive directors, total \$40,000 annually. Two members of management are also on the board, but have agreed to forgo their director fees until the Company's financial position improves. If the executive directors had not agreed to forgo their fees, aggregate annual director fees would be \$60,000.

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- Investor relations expenses relate to investor communications, including maintaining and updating the website and disseminating news releases.
- Office and administration fees represent general administrative expenses including fees paid for office administration services.
- Professional fees were paid to lawyers and auditors.
- Rent relates to the Company's office premises. The Company signed a lease effective February 1, 2010 at a lower rate reflecting prevailing rental market conditions. As a result, rent expense for the current year is lower than for the comparative period.
- Management fees and salaries represent amounts paid to officers, employees and contractors and related benefits, net of amounts capitalized to mineral properties. Management fees increased in the period as time spent on evaluating new properties meant that some geological consulting was charged to operations rather than being capitalized to mineral properties.
- Stock-based compensation represents recognition of the fair value of stock options granted over their vesting term, calculated using the Black-Scholes option-pricing model. All options vested in prior periods, so no expense has been recognized in the current fiscal year.
- Travel and accommodation represents the cost of management travel to the mineral properties and for corporate development activities. Travel and accommodation expense fluctuates significantly from period to period depending on the initiatives under way. Travel increased in the current period due to a director visiting the Company's offices from overseas.
- Abandoned claim costs relate to expenses incurred to complete exploration work on the Marmac property, which was written off effective March 31, 2010.

**Liquidity**

The following table summarizes the Company's cash on hand, working capital and cash flow:

<b>As at</b>	<b>June 30, 2010</b>		<b>March 31, 2010</b>	
Cash and equivalents	\$	2,478,438	\$	2,801,892
Working capital	\$	2,390,685	\$	2,631,886
<b>For the quarter ended</b>	<b>June 30, 2010</b>		<b>June 30, 2009</b>	
Cash used in operating activities	\$	(218,155)	\$	(260,527)
Cash used in investing activities		(105,299)		(759,619)
Cash provided by financing activities		-		-
Change in cash	\$	(323,454)	\$	(1,020,143)

In the quarter ended June 30, 2010, cash used in operating activities was largely accounted for by the loss for the period and settlement of year-end liabilities. The Company expects to recover \$450,000 of reimbursable deposits in the next few months. The reduction in cash consumed by operating activities in the current year reflects the lower level of activity.

Cash used in investing activities was represented by expenditures on mineral properties partially offset by reimbursable bonds and deposits and refunds of exploration expenditures by Rio Tinto. The Company received \$79,612 from Rio Tinto in the period relating to exploration

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expenditures incurred in fiscal 2010.

The Company did not have any cash flows relating to financing activities in the period.

In its March 31, 2010 fiscal year, the Company reduced its ongoing cash requirements and projects it has sufficient cash and equivalents at the date of this MD&A to last at least 12 months. The Company has the ability to further reduce costs, should the need arise. Favourable exploration results could lead to an accelerated exploration program at either property, but the Company would first seek additional financing before significantly expanding the scope of its exploration programs. The Company no longer has share purchase warrants outstanding and all options have exercise prices much greater than the Company's current share price, so the Company does not expect to generate cash from the exercise of these securities.

The Company's activities have been funded primarily through equity financing and the Company expects that it will continue to be able to employ this form of financing, although management expects challenges in raising such financing, particularly for diamond exploration. 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.

***Adoption of New Accounting Pronouncements***

The Company has not adopted new accounting pronouncements in the current fiscal period. In the fiscal year beginning April 1, 2011 the Company will commence reporting under International Financial Reporting Standards ("IFRS"). The Company has begun to evaluate the impact of IFRS on its financial accounting and reporting systems and made changes in its year ended March 31, 2010 so that it can begin to prepare accounting information under IFRS for comparative purposes effective April 1, 2010.

The transition from GAAP to IFRS is a significant undertaking that may materially affect Sanatana's reported financial position and operations. The Company has appointed internal staff to lead the IFRS conversion process and plans to use a web-based service to prepare a diagnostic analysis that identifies the differences between our current accounting policies and IFRS. The Company expects to be IFRS compliant by April 1, 2011.

The Company has not yet prepared a complete IFRS changeover plan (the "IFRS Plan"), but has completed a high-level scoping study to consider the potential impact of the implementation of IFRS on the Company's financial reporting. IFRS will not only impact the presentation and disclosure of items in the financial statements but also the determination of future net income and the measurement of balance sheet items. The next stage will be to develop a detailed IFRS Plan.

The Company's IFRS Plan will include modeling the impact of individual IFRS standards and related interpretations on our financial statements. As part of the IFRS Plan, it will be required to prepare a transition balance sheet as at March 31, 2010 (to be representative of the opening April 1, 2010 balance sheet) in accordance with IFRS. This opening balance sheet will form the opening position of the Company's comparative financial statements when reporting under IFRS. Based on the high-level scoping study, the following IFRS standards are expected to have the most significant impact us.

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- IFRS 1 – First-time adoption of IFRS
- IFRS 2 – Share Based Payments
- IFRS 6 – Exploration and evaluation of mineral resources
- IAS 16 – Property, plant and equipment
- ED 9 – Joint arrangements (replacing IAS 31 – Interests in joint ventures)
- IAS 36 – Impairment of Assets

In addition, while IFRS does not prescribe how to account for flow-through shares, common practice may differ from Canadian GAAP and some adjustment to shareholders' equity may be required on the first-time adoption of IFRS. As part of its IFRS analysis, the Company will determine whether to continue capitalizing exploration expenses or to adopt a policy of expensing exploration expenses until economic resources are discovered.

Once the detailed IFRS Plan is complete, the Company will begin to design and build an IFRS framework, which includes decisions on available accounting policy choices, formulate policy positions and execution and roll-out of communications strategy. Once the design and build phase is complete the Company will move to the implement and review phase which includes, preparation of an IFRS opening balance sheet, compilation of comparative data, preparation of quarterly financial statements and disclosures, preparation of annual financial statements and disclosures, monitoring how IFRS evolves, conducting post implementation review and communicating ongoing requirements.

***Related Party Transactions***

At June 30, 2010, the Company had three employees and arrangements with 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. The Company does not have any contractual commitments with related parties. Particulars of related party transactions are disclosed in note 10 of the June 30, 2010 financial statements.

The Company pays its three non-executive directors annual fees of \$40,000 in aggregate. The two executive directors (Peter Miles and Buddy Doyle) agreed to forgo their director fees until the Company's financial position improves.

As a result of CRA's conclusion in fiscal 2010 that certain contractors of the Company should have been treated as employees, the Company paid remittances and related penalties for payroll deductions. CRA will refund an estimated \$16,000 to the individuals, who have agreed to return the funds to the Company when received. The amount due from employees also includes GST of \$5,000 arising from the characterization of the contractors as employees.

In addition, the Company has received reimbursement of exploration expenses from Rio Tinto (which is a shareholder), as described in more detail in notes 5 and 10 of the June 30, 2010 financial statements.

***Contractual Obligations and Commitments***

Particulars of the Company's contractual obligations and commitments are disclosed in note 12 to the June 30, 2010 financial statements.

**Share Capital**

The Company had 62,762,623 common shares issued and outstanding at June 30, 2010, unchanged from March 31, 2010.

***Stock Option Plan***

The Company's shareholders have approved a stock option plan (the "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 that have been issued and are outstanding at the date of the stock option grant. The Company's shareholders reapproved the Option Plan on September 9, 2009.

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 a director, officer, employee or consultant of the Company. If the option holder provides investor relations services to the Company, the options will expire 30 days after termination of contract arrangement. 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. Stock options are typically granted for a five-year term with options vesting over an 18-month period.

The Company did not grant any stock options in the three months ended June 30, 2010.

***Share Purchase Warrants***

The Company did not issue any share purchase warrants in the three months ended June 30, 2010.

***Dividends***

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

***Outstanding Share Information***

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

- 62,762,623 common shares; and
- 5,220,000 stock options.

**Changes to the Board of Directors and Management**

There were no changes to the board of directors or management during the three months ended June 30, 2010.

## **Risks and Uncertainties**

Sanatana's business of mineral resource exploration 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.

### *Capital Markets and Economic Uncertainty*

Sanatana does not have sufficient cash or access to capital to complete development of its mineral properties, even if it were to find an economic mineral resource. The Company's business plan currently relies on obtaining funding further offerings of its equity. Interest in junior diamond exploration companies has significantly decreased since 2008, which has adversely affected the Company's ability to raise money. Accordingly, the Company has looked at other mineral resource opportunities, in particular gold, to expand its opportunities since there is more capital market interest.

Given the current state of capital markets, even if the Company could complete the sizeable public offering necessary to develop its properties, it is unlikely that such an offering could be done on anything other than very dilutive terms. If it were impractical to raise funds, the Company would have to defer development of its properties until economic conditions improved.

### *Nature of Mineral Exploration and Development Projects*

The business of mineral exploration involves a high degree of risk. Few of the properties that are explored are ultimately developed into mines. Sanatana's properties are in the exploration stage; at present the Mackenzie project does not have a known commercial diamond deposit and the Boulder Claims property is not known to have any valuable mineralization. Proposed exploration programs are exploratory searches 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 mineral exploration, 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, 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, Nunavut and the Yukon Territory. The Company's exploration programs are 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.

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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 on the market price of the resources it is seeking, diamonds and gold. Resource prices are affected by numerous factors beyond the control of the Company, including international economic and political conditions, levels of supply and demand, international currency exchange rates and, in the case of diamonds, the policies of the Diamond Trading Company.

Success in establishing reserves is the 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, the initial phases of drilling may take several years 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.

*Licenses and Permits, Laws and Regulations*

Sanatana's exploration activities require permits from various government authorities and are subject to extensive federal, provincial and local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly. Sanatana draws on the expertise and commitment of its management team, 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 applicable 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

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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 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.

For additional information, please refer to the Company's website at [www.sanatanadiamonds.com](http://www.sanatanadiamonds.com). For all regulatory filings including news releases, please refer to [www.sedar.com](http://www.sedar.com).