

**Sanatana Diamonds Inc.**  
(A Development Stage Company)  
**Interim Financial Statements**  
**For the three and six months ended September 30, 2006 and 2005**  
(Stated in Canadian dollars)

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Responsibility for Financial Statements

The accompanying financial statements for Sanatana Diamonds Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the March 31, 2006 audited financial statements. Only changes in accounting principles have been disclosed in these interim financial statements. **These interim financial statements are unaudited and have not been reviewed by the auditors.** These interim financial statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the interim financial statements, management is satisfied that these interim financial statements have been fairly presented. This disclosure has been approved by the Board of Directors.

# Sanatana Diamonds Inc.

(A Development Stage Company)

Balance Sheets

(in Canadian dollars)

As at	September 30 2006 Unaudited \$	March 31 2006 Audited \$
<b>Assets</b>		
<b>Current Assets</b>		
Cash and equivalents	10,573,754	746,637
Amounts receivable	268,596	144,171
Advances and prepaid expenses	29,901	30,900
	<b>10,872,251</b>	<b>921,708</b>
<b>Deferred Offering Costs</b>	---	186,350
<b>Exploration Advances</b>	43,989	---
<b>Mineral Properties</b> (Note 4)	12,156,125	10,234,133
<b>Property and Equipment</b> (Note 5)	114,775	93,432
	<b>23,187,140</b>	<b>11,435,623</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	1,271,284	575,268
Accrued liabilities	135,823	151,396
	<b>1,407,107</b>	<b>726,664</b>
<b>Future Income Tax Liability</b>	922,677	922,677
	<b>2,329,784</b>	<b>1,649,341</b>
<b>Shareholders' Equity</b>		
<b>Common Shares</b> (Note 6)	22,336,388	11,040,831
<b>Share Purchase Warrants</b> (Note 7)	178,800	---
<b>Deficit Accumulated through the Development Stage</b>	(1,657,832)	(1,254,549)
	<b>20,857,356</b>	<b>9,786,282</b>
	<b>23,187,140</b>	<b>11,435,623</b>

Going Concern (Note 2)

Approved on behalf of the Board of Directors

signed "Peter Miles"  
Peter Miles, Director

signed "Edward Marlow"  
Edward Marlow, Director

# Sanatana Diamonds Inc.

(A Development Stage Company)  
Statements of Shareholders' Equity

(in Canadian dollars)

(Unaudited)	Common Shares	Common Shares	Contributed Surplus	Share Purchase Warrants	Deficit accumulated during the development stage	Shareholders' equity
	#	\$	\$	\$	\$	\$
<b>On incorporation</b>	1	-	-	-	-	-
- Issuance of shares for property acquisition	19,000,000	-	-	-	-	-
- Issuance of shares on flow-through private placement, net of issuance costs of \$-	3,435,809	2,704,218	-	-	-	2,704,218
- Issuance of shares on private placement, net of issuance costs of \$126,100	8,234,000	5,316,900	-	-	-	5,316,900
- Finders' fee	10,000	-	-	-	-	-
- Tax value of assets renounced to flow-through share investors	-	(599,515)	-	-	-	(599,515)
Loss for the period	-	-	-	-	(220,851)	(220,851)
<b>Balance - March 31, 2005</b>	<b>30,679,810</b>	<b>7,421,603</b>	-	-	<b>(220,851)</b>	<b>7,200,752</b>
- Issuance of shares on public offering net of issuance costs of \$1,192,123	2,890,398	3,903,610	-	-	-	3,903,610
- Issuance of shares as listing costs	36,586	64,026	-	-	-	64,026
- Tax value of assets renounced to flow-through share investors	-	(348,408)	-	-	-	(348,408)
Loss for the period	-	-	-	-	(1,033,698)	(1,033,698)
<b>Balance - March 31, 2006</b>	<b>33,606,794</b>	<b>11,040,831</b>	-	-	<b>(1,254,549)</b>	<b>9,786,282</b>
- Issuance of shares on public offering, net of issuance costs of \$1,200,643	7,142,857	11,299,357	-	-	-	11,299,357
- Issuance of warrants as listing costs	-	(178,800)	-	178,800	-	-
- Issuance of shares as listing costs	100,000	175,000	-	-	-	175,000
Loss for the period	-	-	-	-	(403,283)	(403,283)
<b>Balance - September 30, 2006</b>	<b>40,849,651</b>	<b>22,336,388</b>	-	<b>178,800</b>	<b>(1,657,832)</b>	<b>20,857,356</b>

# Sanatana Diamonds Inc.

(A Development Stage Company)

Statements of Operations and Deficit

(in Canadian dollars)

For the	Three Months ended Sept 30 2006 Unaudited \$	Three Months ended Sept 30 2005 Unaudited \$	Six Months ended Sept 30 2006 Unaudited \$	Six Months ended Sept 30 2005 Unaudited \$
<b>Revenue</b>	---	---	---	---
<b>Expenses</b>				
Amortization	5,552	---	10,570	---
Consulting and advisory fees	15,781	13,124	31,249	25,624
Director's fees	18,676	---	37,192	---
Filing fees	3,980	16,871	29,188	16,871
Investor relations	45,205	37,913	58,642	40,809
Management fees	57,397	36,000	109,732	48,000
Office and administration	43,102	20,100	122,206	24,061
Professional fees	36,029	44,569	68,917	111,320
Transfer agent fees	8,808	24,310	19,413	24,310
Travel and accommodation	30,347	24,351	46,156	66,414
<b>Loss before the undernoted</b>	<b>(264,877)</b>	<b>(217,238)</b>	<b>(533,265)</b>	<b>(357,409)</b>
Interest income	87,297	1,923	129,982	1,923
<b>Loss before income taxes</b>	<b>(177,580)</b>	<b>(215,315)</b>	<b>(403,283)</b>	<b>(355,486)</b>
Provision for income taxes	---	25,246	---	25,246
<b>Net loss for the period</b>	<b>(177,580)</b>	<b>(190,069)</b>	<b>(403,283)</b>	<b>(330,240)</b>
<b>Deficit, beginning of period</b>	<b>(1,480,252)</b>	<b>(361,022)</b>	<b>(1,254,549)</b>	<b>(220,851)</b>
<b>Deficit, end of period</b>	<b>(1,657,832)</b>	<b>(551,091)</b>	<b>(1,657,832)</b>	<b>(551,091)</b>
<b>Loss per share, basic and fully diluted</b>	<b>\$0.00</b>	<b>\$(0.01)</b>	<b>\$(0.01)</b>	<b>\$(0.01)</b>
<b>Weighted average number of basic and fully diluted common shares outstanding during the period</b>	<b>40,849,651</b>	<b>32,738,346</b>	<b>39,068,620</b>	<b>31,709,078</b>

# Sanatana Diamonds Inc.

(A Development Stage Company)  
Statements of Cash Flows

(in Canadian dollars)

For the	Three Months ended Sept 30 2006 Unaudited \$	Three Months ended Sept 30 2005 Unaudited \$	Six Months ended Sept 30 2006 Unaudited \$	Six Months ended Sept 30 2005 Unaudited \$
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net loss for the period	(177,580)	(190,069)	(403,283)	(330,240)
Adjustments for non-cash items:				
Amortization	5,552	---	10,570	---
Accrued rent expense	(1,695)	---	4,427	---
Decrease in future income tax liability	---	(25,246)	---	(25,246)
Changes in non-cash working capital items:				
Amounts receivable	(3,556)	(163,387)	(124,425)	(68,968)
Advances and prepaid expenses	66,729	---	999	---
Accounts payable	147,039	7,699	696,016	(6,074)
Accrued liabilities	(20,000)	---	(20,000)	---
	<b>16,489</b>	<b>(371,003)</b>	<b>164,304</b>	<b>(430,528)</b>
<b>Financing activities:</b>				
Issuance of common shares, for cash	---	5,095,733	12,500,000	5,095,733
Share subscriptions	---	---	---	1,175,000
Share issue costs	(50,166)	(794,367)	(839,293)	(1,020,836)
	<b>(50,166)</b>	<b>4,301,366</b>	<b>11,660,707</b>	<b>5,249,897</b>
<b>Investing activities:</b>				
Exploration advances	74,949	130,345	(43,989)	320,351
Mineral properties	(2,111,910)	(3,060,854)	(4,416,915)	(3,931,733)
Property and equipment	(6,530)	---	(36,990)	---
Option payment-Kennecott	2,500,000	2,500,000	2,500,000	2,500,000
	<b>456,509</b>	<b>(430,509)</b>	<b>(1,997,894)</b>	<b>(1,111,382)</b>
<b>Net increase in cash and equivalents</b>	<b>422,832</b>	<b>3,499,854</b>	<b>9,827,117</b>	<b>3,707,987</b>
Cash and equivalents, beginning of period	10,150,922	1,391,824	746,637	1,183,691
Cash and equivalents, end of period	<b>10,573,754</b>	<b>4,891,678</b>	<b>10,573,754</b>	<b>4,891,678</b>
<b>Supplementary information:</b>				
Interest and taxes paid	---	---	---	---
Non-cash investing activities:				
Amortization in mineral properties	2,949	---	5,077	---
Non-cash financing activities:				
Shares issued as listing costs	---	64,026	175,000	64,026
Warrants issued as listing costs	---	---	178,800	---

# Sanatana Diamonds Inc.

(A Development Stage Company)

Notes to the Financial Statements

For the six months ended September 30, 2006

(in Canadian dollars)

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## 1. Nature of Business and Basis of Presentation

Sanatana Diamonds Inc. ("Sanatana" or the "Company") was incorporated on June 25, 2004 in the Province of British Columbia under the British Columbia Business Corporations Act. The Company is a development stage company, and its principal business activity is the acquisition, exploration and development of mineral properties. The Company has entered into agreements in respect to properties in the Northwest Territories and Nunavut in Canada.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. The Company's continuing operations, and the underlying value and recoverability of the amounts shown for mineral properties are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests.

The business of exploring for and mining of minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. Changes in future conditions could require material write downs of the carrying values.

Although the Company has taken steps to verify title to the properties in which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, and non-compliance with regulatory requirements.

These unaudited interim financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for the preparation of interim financial statements and they follow the same accounting policies and methods of application as the audited financial statements of the Company for the year ended March 31, 2006. These unaudited interim financial statements do not include all the information and note disclosures required by Canadian GAAP for annual financial statements and therefore should be read in conjunction with the most recent audited financial statements and the notes below.

# Sanatana Diamonds Inc.

(A Development Stage Company)

Notes to Financial Statements

For the six months ended September 30, 2006

(in Canadian dollars)

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## 2. Going Concern

The accompanying interim financial statements have been prepared in accordance with Canadian 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, the interim financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

As at September 30, 2006, the Company has no source of operating cash flow and has an accumulated deficit of approximately \$1.7 million. Operations for the period ended September 30, 2006 have been funded primarily from the issuances of capital stock and net changes in working capital balances.

## 3. Significant Accounting Policies

The significant accounting policies reflected in these interim financial statements have been outlined below and are set out in more detail in the audited financial statements for the year ended March 31, 2006.

### (a) Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenditures during the reporting period. The Company regularly reviews these estimates and assumptions that affect the interim financial statements and actual results could differ from those estimates.

Significant areas where management judgement is applied are asset valuations, the recoverability of exploration and development expenditures on mineral properties, asset retirement obligations, the valuation of warrants, and contingent liabilities. In the opinion of management, all adjustments considered necessary for fair presentation of the results for the periods presented are reflected in the interim financial statements.

### (b) Mineral Properties

Mineral property acquisition costs, holding costs, field exploration and field supervisory costs relating to specific properties are deferred until the property to which they relate is placed into production, at which time they will be amortized on a unit of production basis, or until the properties are abandoned, sold or considered to be impaired in value, at which time an appropriate charge will be made.

# Sanatana Diamonds Inc.

(A Development Stage Company)

Notes to Financial Statements

For the six months ended September 30, 2006

(in Canadian dollars)

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## 3. Significant Accounting Policies (continued)

Costs include the cash consideration paid and the fair market value of the shares as they are issued, if any, on the acquisition of exploration properties. Properties acquired under option agreements whereby payments are made at the sole discretion of the Company are recorded in the accounts at such time as the payments are made. The proceeds from options granted are applied to the cost of the related property and any excess is included in income for the year. Costs incurred for administration and general exploration that are not project specific, are charged to operations.

The recorded amounts for acquisition costs of properties and their related capitalized exploration and development expenses represent actual expenditures incurred and are not intended to reflect present or future values. The Company, however, reviews the capitalized costs on its properties on a periodic, or at least annual, basis and will recognize an impairment in value based upon the stage of exploration and/or development, work programs proposed, current exploration results and upon management's assessment of the future probability of profitable revenues from each property, or from the sale of the relevant property. Management's assessment of a property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review. The recovery of costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and future profitable production or proceeds from disposition of such properties. No write-downs were recognized during the period ended September 30, 2006, or the year ended March 31, 2006.

### (c) Property and Equipment

Property and equipment is carried at cost less accumulated amortization. Amortization is provided on a straight line basis over their estimated useful lives at the following rates:

Computer Equipment	straight-line basis over 3 years
Office Furniture	straight-line basis over 5 years
Exploration Equipment	straight-line basis over 5 years
Leasehold Improvements	straight-line basis over 3 years

The Company reviews the carrying values on a regular basis and a provision is made against income in the period that an impairment is determined by management.

# Sanatana Diamonds Inc.

(A Development Stage Company)

Notes to Financial Statements

For the six months ended September 30, 2006

(in Canadian dollars)

## 4. Mineral Properties

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

	Six Months ended September 30 2006 \$	Year ended March 31 2006 \$
Acquisition costs		
Opening balance	188,970	---
Incurred in the period	55,810	188,970
Closing balance	244,780	188,970
Helicopter and fixed wing aircraft costs		
Opening balance	5,481,782	911,433
Incurred in the period	3,006,635	4,570,349
Closing balance	8,488,417	5,481,782
Sampling and assays		
Opening balance	1,975,735	438,410
Incurred in the period	431,555	1,537,325
Closing balance	2,407,290	1,975,735
Labour		
Opening balance	283,088	127,449
Incurred in the period	855,234	155,639
Closing balance	1,138,322	283,088
Geological services		
Opening balance	1,507,599	670,396
Incurred in the period	988,556	837,203
Closing balance	2,496,155	1,507,599
Project management fees		
Opening balance	499,997	195,565
Incurred in the period	42,000	304,432
Closing balance	541,997	499,997
Field and camp		
Opening balance	---	---
Incurred in the period	389,139	---
Closing balance	389,139	---
Transport and accommodation		
Opening balance	---	---
Incurred in the period	558,821	---
Closing balance	558,821	---
Expediting		
Opening balance	---	---
Incurred in the period	205,722	---
Closing balance	205,722	---
Reclamation provision		
Opening balance	120,000	---
Provided in the period	---	120,000
Closing balance	120,000	120,000
Other		
Opening balance	364,051	235,293
Incurred in the period	18,959	128,758
Closing balance	383,010	364,051

# Sanatana Diamonds Inc.

(A Development Stage Company)

Notes to Financial Statements

For the six months ended September 30, 2006

(in Canadian dollars)

## 4. Mineral Properties (continued)

<b>Total costs incurred on mineral properties</b>	<b>16,973,653</b>	<b>10,421,222</b>
<u>Adjusted for:</u>		
Reimbursable bonds and deposits		
Opening balance	<b>2,312,911</b>	2,368,584
Recovered in the period	<b>(2,327,884)</b>	(234,289)
Incurred in the period	<b>197,445</b>	178,616
Closing balance	<b>182,472</b>	2,312,911
Option Payment- Kennecott		
Opening balance	<b>(2,500,000)</b>	---
Received in the period	<b>(2,500,000)</b>	(2,500,000)
Closing balance	<b>(5,000,000)</b>	(2,500,000)
<b>Total cash outlay, net of funding received from Kennecott and reimbursable bonds</b>	<b>12,156,125</b>	<b>10,234,133</b>

### MacKenzie Diamond Project

On July 31, 2004, and March 4, 2005, the Company entered into a series of agreements with the Jaeger Joint Venture ("Jaeger"), an entity partially-owned by a director of the Company, to purchase the rights to any diamonds located on a series of properties (the MacKenzie Diamond Project) in the Inuvialuit, Gwich'in and Sahtu mining districts in the Northwest Territories, Canada. In June 2005, the Company acquired from Jaeger all other mineral rights, excluding uranium rights, to the prospecting permits to which it already owned diamond rights. Jaeger retains a 10% production carried interest and a member of Jaeger retains a 2% net smelter returns royalty (NSR). In addition, in terms of the agreements, the Company has agreed to pay 100% of the exploration and mine construction costs.

In July 2005, the Company signed an agreement with Kennecott Canada Exploration Inc (Kennecott), in terms of which Kennecott has earned a 15% undivided contributory interest in the MacKenzie Diamond Project property. The agreement also grants Kennecott the option to earn up to a 60% interest in any identified kimberlite or deposit ("Development Area") by solely funding the activities on the Development Area until a decision to mine is made.

- Kennecott will earn a 49% interest in each individual project by completing, at its sole expense, a bulk sample and a positive feasibility study within 4 years; and
- Kennecott will earn a further 11% interest in each individual project by solely funding and managing all future evaluation through to such time as a decision to mine is made, provided that a decision to mine is made within twenty years of Kennecott earning the initial 49% interest in the individual project.

Upon Kennecott earning this further interest in respect of a particular kimberlite or mineral deposit, the Kennecott Agreement provides that the Development Area will be carved out of the entire Mackenzie Diamond Project area and a development joint venture will be created, which will be jointly managed with each party funding its own interest and each party having votes according to its respective interest.

# Sanatana Diamonds Inc.

(A Development Stage Company)

Notes to Financial Statements

For the six months ended September 30, 2006

(in Canadian dollars)

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## 4. Mineral Properties (continued)

### Mackenzie Diamond Project (continued)

The party with the majority interest will be project manager and be entitled to an annual management fee of 1% of operating expenses. Either party's failure to contribute will lead to dilution of that party's interest in the development joint venture.

In the event of production of diamonds from any particular development joint venture, the entire Mackenzie Diamond project will become the property of that development joint venture and all subsequent exploration, evaluation and development will be carried out by the development joint venture. Rio Tinto Diamonds, a subsidiary of Kennecott, will market all diamonds from the development joint venture in exchange for a 3% marketing fee.

The Company has entered into an access and benefits agreement dated January 18, 2006 with D line Land Corporation with respect to the drilling for potential kimberlites in the Kilekale Lake area. The term of this agreement commenced effective as of August 15, 2005 and, subject to the renewal or termination, will end on December 31, 2007.

Based on the results of the 2004 and 2005 exploration programs, in January 2006 Sanatana allowed 88 of the 2004 Jaeger Permits and 2 of the 2005 Jaeger Permits to lapse. The Company currently holds 382 prospecting permits and 52 unpatented mining claims, which cover a total area of 15,865,171 acres,

### Reimbursable bond

The reimbursable bond consists of amounts held on deposit by the Northwest Territories government to ensure that the required minimum levels of exploration and reporting are met. Exploration activity must be conducted on the property in the amount of the deposit during the period to which the deposit relates in order for the deposit to qualify for refund. These deposits must accompany the application for permit that must be filed in the month of December previous to the calendar year to which the application pertains. The permits for properties located above the 68<sup>th</sup> parallel and below the 68<sup>th</sup> parallel are for five years and three years respectively. Subsequent to these periods, claims are staked for the properties to be retained for further exploration work. In order to maintain the claims in good standing, the Company must complete minimum exploration expenditures as required.

In January 2005, the Company paid deposits of \$2,368,584 to the Northwest Territories government for the following year's exploration permits. Deposits in the amount of \$234,289 had been refunded as of March 31, 2006, with a further \$2,327,884 being refunded during the period to which these interim financial statements relate.

The bond for 2006/2007, in the amount of \$5,177,123, was partially funded by a letter of credit for \$4,998,724 that was provided by Kennecott. The balance of \$178,399 was paid by the Company in May 2006. Management is of the opinion that the Company has sufficient funding to carry out the exploration program and to obtain the release of the bond. In the event that the Company should fail to carry out sufficient exploration work, it will have to reimburse Kennecott for any shortfall.

# Sanatana Diamonds Inc.

(A Development Stage Company)

Notes to Financial Statements

For the six months ended September 30, 2006

(in Canadian dollars)

## 5. Property and Equipment

	September 30, 2006		
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Office furniture	19,492	1,625	17,867
Computer equipment	33,019	3,455	29,564
Leasehold improvements	41,357	7,376	33,981
Exploration equipment	39,250	5,887	33,363
	<u>133,118</u>	<u>18,343</u>	<u>114,775</u>
	March 31, 2006		
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Computer equipment	21,522	407	21,115
Leasehold improvements	35,357	982	34,375
Exploration equipment	39,250	1,308	37,942
	<u>96,129</u>	<u>2,697</u>	<u>93,432</u>

## 6. Common Shares

Authorized:

Unlimited number of common shares with no par value.

Issued and outstanding:

Common Shares	Number of Shares #	Amount \$
Balance, March 31, 2005	30,679,810	7,421,603
Public offering (c)	2,890,398	5,095,733
Offering costs	--	(1,192,123)
Shares issued as listing costs (c)	36,586	64,026
Tax value of assets renounced to flow-through share investors (b)	---	(348,408)
Balance, March 31, 2006	33,606,794	11,040,831
Public offering (a)	7,142,857	12,500,000
Offering costs (a)	---	(1,200,643)
Warrants issued as listing costs (a)	---	(178,800)
Shares issued as listing costs (a)	100,000	175,000
<b>Balance, September 30, 2006</b>	<b>40,849,651</b>	<b>22,336,388</b>

# Sanatana Diamonds Inc.

(A Development Stage Company)

Notes to Financial Statements

For the six months ended September 30, 2006

(in Canadian dollars)

## 6. Common Shares (continued)

### (a) Public offering

On May 16, 2006, the Company completed a public offering of 7,142,857 flow-through common shares at a price of \$ 1.75 per common share, for gross proceeds of \$12.5 million. Sanatana incurred offering costs of \$ 1,200,643, including a cash commission equal to 6% of the gross proceeds paid to Canaccord Capital Corporation ("Canaccord"), an administration fee of \$ 7,500 paid to Canaccord and \$ 50,166 of legal and administrative expenses incurred by Canaccord. Sanatana has also granted Canaccord agent's warrants to acquire up to 428,571 non-flow-through common shares at an exercise price of \$ 1.75 per share for a period of up to 24 months, and has issued 100,000 non flow-through common shares to Canaccord at an issue price of \$1.75 per share.

### (b) Flow-through shares

The flow-through shares issued effectively pass on to subscribers the tax credits associated with Canadian exploration expenditures (as defined in the Canadian Income Tax Act) funded by the proceeds of the shares. \$1,683,086 of the proceeds were renounced to the subscribers as tax benefits during the period ended March 31, 2005. The balance of proceeds from flow-through share issuances, of \$1,021,125, was expended and renounced to subscribers during the year ended March 31, 2006.

### (c) AIM listing

On July 28, 2005, the Company completed a listing and placement on the AIM Market of the London Stock Exchange of 2,890,398 shares at 82 pence (approximately \$1.75) for gross proceeds of approximately £2.4 million Great Britain Pounds (approximately \$5.1 million). An additional 36,586 shares were issued to Ininger de Beaufort, the Company's Nominated Advisor and Broker, as payment for fees.

## 7. Share Purchase Warrants

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

	Number of Warrants #	2006 Weighed Average Price \$	Number of Warrants #	2005 Weighed Average Price \$
Balance, beginning of period	-	-	-	-
Granted, agents' Warrants	428,571	1.75	-	-
Exercised	-	-	-	-
Expired or cancelled	-	-	-	-
<b>Balance, end of period</b>	<b>428,571</b>	<b>1.75</b>	-	-

# Sanatana Diamonds Inc.

(A Development Stage Company)

Notes to Financial Statements

For the six months ended September 30, 2006

(in Canadian dollars)

## 7. Share Purchase Warrants (continued)

Summary of outstanding warrants at September 30, 2006:

Expiry Date	Exercise Price \$	Warrants Outstanding #	Value \$
May 15, 2008	\$1.75	428,571	178,800
		428,571	178,800

The fair value of each warrant granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility 47%; risk-free interest rate 4% and an expected life of two years.

## 8. Stock-Based Compensation

In terms of a stock option plan re-approved by shareholders on August 9, 2006, Sanatana may grant incentive stock options numbering up to 10% of the number of issued and outstanding common shares of the Company to its officers, directors, employees and consultants, for the purchase of common shares of the Company. Stock options are non-transferable. The Board of Directors of the Company determines the exercise price, but it may be no less than the current market price at the time of the grant. Options have a maximum term of five years and terminate 90 days after the termination of employment or other contracting arrangement of the option holder. Vesting of options may be at the time of granting of the option, or over a period as set out in each option agreement. Once approved and vested, options are exercisable at any time until expiry or termination as above. The Company has not issued any stock options to date.

## 9. Related Party Transactions

At September 30, 2006, the Company did not have any employees and had arrangements with a number of contractors to provide most of the administrative, accounting and management services required. Certain directors and significant shareholders provided management and consulting services to the Company.

Pursuant to agreements with the Company's directors, the Company has agreed to pay its directors fees totalling £35,000 GBP (approximately \$75,000) per annum.

Services provided by:	Six Months ended September 30 2006 \$	Six Months ended September 30 2005 \$
Directors and insiders (a)	99,060	51,000
Hermes Management (b)	---	6,000
St. George Minerals Limited (c)	40,142	3,624

# Sanatana Diamonds Inc.

(A Development Stage Company)

Notes to Financial Statements

For the six months ended September 30, 2006

(in Canadian dollars)

## 9. Related Party Transactions (continued)

- a) Directors and insiders provided services in the normal course of business. These services are classified according to their nature, including financial, technical and management services.
- b) Fees paid or accrued for secretarial services performed by a company controlled by a member of the Jaeger Joint Venture.
- c) Fees paid or accrued for financial and administrative services performed by a company, which has a common director 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	September 30, 2006 \$	March 31, 2006 \$
St. George Minerals Limited	25,893	31,995

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

## 10. Commitments

- a) Sanatana had no capital expenditure commitments as at September 30, 2006 (March 31, 2006: nil).
- b) Under the terms of an agreement with Geoinformatics Explorations Limited ("Geoinformatics", a company in which the Company's chief executive officer was formerly a director) dated November 25, 2004, the Company acknowledges that Geoinformatics is entitled to a 0.9% gross overriding royalty.

A member of Jaeger is entitled to a 2% gross overriding royalty.

- c) Sanatana signed a 36 month lease for office space, starting February 1, 2006. The total lease commitment is \$6,216 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.

## 11. Off-Balance Sheet Arrangements and Contingent Liabilities

Kennecott has deposited a letter of credit in the amount of \$4,998,724 on the Company's behalf to fulfill bonding requirements for the 2006 exploration season (see Note 4).

## 12. Comparative Figures

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