

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Interim Financial Statements

For the Three and Six Months Ended September 30, 2007 and 2006

(Stated in Canadian dollars)

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Notice to Reader

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

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

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Balance Sheets

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

	September 30 2007	March 31 2007
Assets		
Current		
Cash and equivalents (note 6(b))	\$ 2,373,801	\$ 5,572,786
Amounts receivable (note 9)	215,155	83,115
Prepaid expenses	89,185	64,782
	2,678,141	5,720,683
Exploration advances	37,729	5,287
Mineral properties (note 4)	19,144,011	16,019,185
Property and equipment (note 5)	80,725	98,677
	\$ 21,940,606	\$ 21,843,832
Liabilities		
Current		
Accounts payable	\$ 670,842	\$ 284,083
Accrued liabilities	293,269	275,469
	964,111	559,552
Future income tax liability	3,002,618	3,002,618
	3,966,729	3,562,170
Shareholders' Equity		
Common shares (note 6)	20,041,875	20,041,875
Share purchase warrants (note 7)	327,954	327,954
Contributed surplus	122,397	23,146
Deficit accumulated in the exploration stage	(2,518,349)	(2,111,313)
	17,973,877	18,281,662
	\$ 21,940,606	\$ 21,843,832

Ability to continue as a going concern (note 2)

Approved on behalf of the board of directors:

signed "Peter Miles"

Peter Miles, Director

signed "Edward Marlow"

Edward Marlow, Director

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Shareholders' Equity

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

	Number of Shares	Share Capital	Contributed Surplus	Share Purchase Warrants	Deficit Accumulated in the Exploration Stage	Shareholders' Equity
Balance - March 31, 2005	30,679,810	\$ 7,421,603	\$ -	\$ -	\$ (220,851)	\$ 7,200,752
Issuance of shares on public offering, net of issuance costs of \$1,192,123	2,890,398	3,903,610	-	-	-	3,903,610
Issuance of shares as listing costs	36,586	64,026	-	-	-	64,026
Tax value of assets renounced to flow-through share investors	-	(348,408)	-	-	-	(348,408)
Loss for the year	-	-	-	-	(1,033,698)	(1,033,698)
Balance - March 31, 2006	33,606,794	11,040,831	-	-	(1,254,549)	9,786,282
Issuance of shares on public offering, net of issuance costs of \$1,266,061	7,142,857	11,233,939	-	-	-	11,233,939
Issuance of warrants as listing costs	-	(327,954)	-	327,954	-	-
Issuance of shares as listing costs	100,000	175,000	-	-	-	175,000
Tax value of assets renounced to flow-through share investors	-	(2,079,941)	-	-	-	(2,079,941)
Stock-based compensation	-	-	23,146	-	-	23,146
Loss for the year	-	-	-	-	(856,764)	(856,764)
Balance - March 31, 2007	40,849,651	20,041,875	23,146	327,954	(2,111,313)	18,281,662
Stock-based compensation	-	-	99,251	-	-	99,251
Loss for the period	-	-	-	-	(407,036)	(407,036)
Balance – September 30, 2007	40,849,651	\$ 20,041,875	\$ 122,397	\$327,954	\$ (2,518,349)	\$ 17,973,877

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Operations and Deficit

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

	Three Months Ended September 30		Six Months Ended September 30	
	2007	2006	2007	2006
Expenses				
Amortization	\$ 7,014	\$ 5,552	\$ 14,028	\$ 10,570
Consulting and advisory fees	16,257	15,781	33,490	31,249
Director fees	15,152	18,676	31,409	37,192
Filing fees	7,251	3,980	23,161	29,188
Investor relations	-	45,205	-	58,642
Management fees	11,670	57,397	37,170	109,732
Office and administration	62,226	43,102	128,048	122,206
Professional fees	14,184	36,029	38,623	68,917
Stock-based compensation (note 8)	51,000	-	99,251	-
Transfer agent fees	10,259	8,808	16,961	19,413
Travel and accommodation	43,433	30,347	58,812	46,156
Loss before under-noted	(238,446)	(264,877)	(480,953)	(533,265)
Interest income	28,372	87,297	73,917	129,982
Loss before income taxes	(210,074)	(177,580)	(407,036)	(403,283)
Provision for income taxes	-	-	-	-
Net loss for the period	(210,074)	(177,480)	(407,036)	(403,283)
Deficit, beginning of period	(2,308,275)	(1,480,252)	(2,111,313)	(1,254,549)
Deficit, end of period	\$(2,518,349)	\$(1,657,832)	\$(2,518,349)	\$(1,657,832)
Loss per share - basic and fully diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average common Shares outstanding - basic and fully diluted	40,849,651	40,849,651	40,849,651	39,068,620

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Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statements of Cash Flows

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

	Three Months Ended September 30		Six Months Ended September 30	
	2007	2006	2007	2006
Cash provided by (used in):				
Operating activities:				
Net loss for the period	\$ (210,074)	\$ (177,580)	\$ (407,036)	\$ (403,283)
Adjustment for non-cash items:				
Amortization of property and equipment	7,014	5,552	14,028	10,570
Amortization of lease inducement	(1,695)	(1,695)	(3,390)	4,427
Stock-based compensation	51,000	-	99,251	-
Amounts receivable	171,784	(3,556)	(132,040)	(124,425)
Prepaid expenses	(9,148)	66,729	(24,403)	999
Accounts payable	372,820	147,039	386,759	696,016
Accrued liabilities	(195,970)	(20,000)	21,190	(20,000)
	185,731	16,489	(45,641)	164,304
Investing activities:				
Exploration advances	80,908	74,949	(32,442)	(43,989)
Mineral properties	(1,653,728)	(2,111,910)	(3,320,902)	(4,416,915)
Property and equipment	-	(6,530)	-	(36,990)
Kennecott-option and contribution	200,000	2,500,000	200,000	2,500,000
	(1,372,820)	456,509	(3,153,344)	(1,997,894)
Financing activities:				
Issuance of common shares	-	--	-	12,500,000
Offering costs	-	(50,166)	-	(839,293)
	-	(50,166)	-	11,660,707
Increase (decrease) in cash and equivalents	(1,187,089)	422,832	(3,198,985)	9,827,117
Cash and equivalents, beginning of period	3,560,890	10,150,922	5,572,786	746,637
Cash and equivalents, end of period	\$ 2,373,801	\$ 10,573,754	\$ 2,373,801	\$ 10,573,754
Supplementary Information:				
Interest and taxes	\$ -	\$ -	\$ -	\$ -
Non-cash investing activities:				
Amortization in mineral properties	1,962	2,949	3,924	5,077
Non-cash financing activities:				
Shares issued as listing costs	-	-	-	175,000
Warrants issued as listing costs	-	-	-	178,800

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to the Financial Statements

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

1. Nature of Business and Basis of Presentation

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

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

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

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

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Operations and Deficit

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

2. Ability to Continue as a Going Concern

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

As at September 30, 2007 the Company has no source of operating cash flow and has an accumulated deficit of approximately \$2.5 million (March 31, 2007 - \$2.1 million). Operations have been funded primarily from the issuances of common shares and working capital.

3. Adoption of Accounting Policies

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

Other Comprehensive Income

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

Financial Instruments - Recognition and Measurement

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

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

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Operations and Deficit

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

4. Mineral Properties

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

	6 Months Ended September 30, 2007	Year Ended March 31, 2007
Acquisition costs		
Opening balance	421,800	188,970
Incurred in the period	108,573	232,830
Closing balance	530,373	421,800
Helicopter and fixed wing aircraft costs		
Opening balance	8,470,331	4,491,768
Incurred in the period	1,547,509	3,978,563
Closing balance	10,017,840	8,470,331
Sampling and assays		
Opening balance	3,359,624	1,975,735
Incurred in the period	(53,475)	1,383,889
Closing balance	3,306,149	3,359,624
Labour		
Opening balance	1,590,750	283,088
Incurred in the period	1,259,315	1,307,662
Closing balance	2,850,065	1,590,750
Geological services		
Opening balance	2,763,613	1,507,599
Incurred in the period	-	1,256,014
Closing balance	2,763,613	2,763,613
Project management fees		
Opening balance	575,997	499,997
Incurred in the period	39,000	76,000
Closing balance	614,997	575,997
Field and camp		
Opening balance	842,082	196,037
Incurred in the period	241,180	646,045
Closing balance	1,083,262	842,082
Transport and accommodation		
Opening balance	1,629,907	734,339
Incurred in the period	377,961	895,568
Closing balance	2,007,868	1,629,907
Expediting		
Opening balance	443,522	116,110
Incurred in the period	45,197	327,412
Closing balance	488,719	443,522
Reclamation provision		
Opening balance	120,000	120,000
Provided in the period	-	-
Closing balance	120,000	120,000
Other		
Opening balance	342,586	307,579
Incurred in the period	39,803	35,007
Closing balance	382,389	342,586

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Operations and Deficit

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

4. Mineral Properties (continued)

Total costs incurred on mineral properties	<u>24,165,275</u>	<u>20,560,212</u>
Reimbursable bonds and deposits ¹		
Opening balance	458,973	2,312,911
Recovered in the period	(280,237)	(2,327,884)
Incurred in the period	-	473,946
Closing balance	<u>178,736</u>	<u>458,973</u>
Option and contribution payments - Kennecott		
Opening balance	(5,000,000)	(2,500,000)
Received in the period	(200,000)	(2,500,000)
Closing balance	<u>(5,200,000)</u>	<u>(5,000,000)</u>
Total cash outlay, net of funding received from Kennecott and reimbursable bonds	<u>19,144,011</u>	<u>16,019,185</u>

- ¹ The Company is required to make deposits against its mineral permits to guarantee its performance. In addition to the \$178,736 currently on deposit, there are performance bonds secured by letter of credit in the amount of \$283,320 (note 12).

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Operations and Deficit

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

5. Property and Equipment

	September 30, 2007		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Office furniture	30,010	8,456	21,554
Computer equipment	24,727	11,586	13,141
Leasehold improvements	41,357	21,497	19,860
Exploration equipment	39,250	13,080	26,170
	<u>135,344</u>	<u>54,619</u>	<u>80,725</u>

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

6. Common Shares

(a) Authorized share capital

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

(b) Flow-through shares

In 2006, the Company completed a \$12.5 million flow-through financing structured to, effectively, pass on to subscribers the tax benefits associated with Canadian exploration expenditures (as defined in the Canadian Income Tax Act) funded by the proceeds of the shares. Through to September 30, 2007, Sanatana had renounced tax deductions totalling \$6,095,958 in favour of subscribers to the 2006 flow-through financing. In addition to these expenditures, the Company has incurred a further \$4,906,251 in eligible exploration expenditures (March 31, 2007 - \$1,390,899). As at September 30, 2007, the remaining balance available for eligible expenditures was \$1,497,791 (March 31, 2007 - \$5,013,143). These funds must be spent on exploration activities by May 2008.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Operations and Deficit

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

6. Common Shares (continued)

(c) Escrowed shares

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

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

7. Share Purchase Warrants

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

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

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

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

The fair value of each warrant granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility 76.9%; risk-free interest rate 4.06% and an expected life of two years.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Operations and Deficit

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

8. Stock Options

In 2005, the Company's shareholders approved a stock option plan (the "2005 Option Plan") which is a "rolling" plan that provides for the issuance to directors, officers, consultants and employees of the Corporation up to 10% of the Common shares of the Corporation issued and outstanding at the date of the stock option grant. The 2005 Option Plan was amended and restated in 2006 to comply with the requirements of the TSX Venture Exchange, however, it remains governed by the laws of England. In July 2007, the Company's shareholders approved a new stock option plan with similar provisions to the 2005 Option Plan. The directors may set option terms, but options granted under the plan typically have a life of five years and vest over a three-year period.

The Company amortizes the stock-based compensation expense over the vesting period and recorded \$99,251 of stock-based compensation in the six-month period ended September 30, 2007.

	Six Months Ended September 30			
	2007		2006	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of period	3,170,000	1.16	-	-
Granted	300,000	0.75	-	-
Exercised	-	-	-	-
Expired or forfeited	-	-	-	-
Balance, end of period	3,470,000	1.12	-	-

Summary of outstanding options at September 30, 2007:

Exercise Price Range	Outstanding Options			Exercisable Options
	Weighted Average Exercise Price	Number	Weighted Average Remaining Life	Number
\$0.75	\$0.75	1,470,000	4.6 years	-
\$1.40	\$1.40	2,000,000	4.5 years	-
	\$1.12	3,470,000	4.5 years	

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Operations and Deficit

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

8. Stock Options (continued)

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

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

9. Related Party Transactions

At September 30, 2007, the Company did not have any employees and had arrangements with a number of contractors to provide most of the administrative, accounting and management services required. Certain directors and significant shareholders provided management and consulting services to the Company.

The Company has agreed to pay its directors fees totalling £35,000 (approximately \$71,000) per year.

Services provided by:	Six months ended September 30	
	2007	2006
Directors and insiders (a)	68,579	99,060
Lithosphere Services Inc. (b)	39,000	-
St. George Minerals Limited (c)	44,642	40,142
MCSI Consulting Services Inc. (d)	4,170	-

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

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

The government of the Northwest Territories refunded deposits totalling \$98,643 to Matthew Mason, who is a significant shareholder in the Company. These funds should have been returned to the Company but were returned to Mr. Mason inadvertently. This amount is recorded in the Company's accounts as being receivable from Mr. Mason.

Sanatana Diamonds Inc.

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Statement of Operations and Deficit

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

9. Related Party Transactions (continued)

Balances included in accounts payable and accrued liabilities	September 30, 2007	March 31, 2007
	\$	\$
St. George Minerals Limited	3,20	6,969
Lithosphere Services Inc.	18,020	10,600
MCSI Consulting Services Inc.	-	-

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

10. Commitments

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

Period Ending March 31	\$
2008	37,200
2009	62,000
2010	-
2011	-
2012	-
	99,200

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

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

- b) Sanatana signed a 36-month lease for office space, starting February 1, 2006. The total lease commitment is \$6,000 per month plus GST. In addition, the first three months were rent-free. The rental liability related to this inducement has been accrued and is being amortized over the term of the lease.
- c) Under the conditions of flow-through financing (see note 6), the Company is committed to spending \$1,497,791 on future eligible exploration expenditures before May 31, 2008. Subsequent to September 30, 2007, the Company undertook a further flow-through financing that has committed the Company to spending a further \$2,000,700 before October 31, 2009 (note 13).

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Operations and Deficit

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

11. Financial Instruments

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

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

12. Off-Balance Sheet Arrangements and Contingent Liabilities

Kennecott had deposited a letter of credit in the amount of \$283,320 on the Company's behalf to fulfill bonding requirements for the 2007 exploration season (see note 4).

13. Subsequent Event

In October 2007, the Company closed a brokered private placement consisting of 6,846,420 non flow-through shares and 6,669,000 flow-through shares. Attached to the non flow-through shares are share purchase warrants to purchase 3,423,210 additional non flow-through shares at a price of \$0.30 per share for an 18-month period, and attached to the flow-through shares are 3,334,500 share purchase warrants priced at \$0.35 per share exercisable for an 18-month period. The private placement raised gross proceeds of \$3,271,176; the Company paid an 8% commission and incurred other expenses estimated at \$48,000. The Company is committed to spending a further \$2,000,700 on exploration expenditures before October 31, 2009.

14. Comparative Figures

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