

**SANATANA DIAMONDS INC.**

**Management's Discussion and Analysis**

**For the Six Months Ended September 30, 2008**

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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 herein, including without limitation, statements regarding potential mineralization and reserves, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, exploration results and future plans and objectives of Sanatana are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from Sanatana's expectations are disclosed in its documents filed from time to time with the TSX Venture Exchange (the "Exchange") and other regulatory authorities and include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore to be mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors.*

*Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Sanatana undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.*

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***Introduction***

This MD&A has been prepared as of November 26, 2008 and should be read in conjunction with the Company's audited annual financial statements and related notes for the year ended March 31, 2008 and the unaudited interim financial statements and related notes for the period ended September 30, 2008. This MD&A is intended to provide the reader with a review of the Company's performance for the six months ended September 30, 2008 through to the date of this report and the factors reasonably expected to impact future operations and results.

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

***Outlook***

The Company discovered its first kimberlite, the "Dharma Kimberlite" on October 1, 2007. A follow-up drill campaign discovered the nearby "Dharma Uttar" Kimberlite in April 2008. These kimberlites proved to be mineralized with diamonds. In total 1,009 kilograms of material was tested from Dharma Kimberlite and 448.5 kilograms of kimberlite from Dharma Uttar. The diamond results from both kimberlites were similar, exhibiting a coarse distribution and a good proportion of larger to smaller stones. The largest stone reported weighed 0.55 ct. In total, 13 drill holes were completed into the combined Dharma kimberlite complex.

The discovery of the Dharma Kimberlite complex is considered to be important as it is the first significantly mineralized kimberlite located on the proposed Mackenzie Craton. The presence of diamonds combined with the chemistry of the indicator minerals from the kimberlite are proof of a deep lithospheric keel that extends to a depth of 180km below surface. These types of deep keels are to date unique to Archean terranes and are not found under younger geological terranes.

The work at the Dharma kimberlite complex to date suggests that, while important, the complex has insufficient tonnage to warrant further evaluation on a standalone basis at this time. Consequently, the Company has shifted focus in the Greenhorn area to finding additional kimberlites. Kimberlites usually occur in swarms: once one finds one kimberlite, the probability of finding others within a 30-kilometre radius is high. The Company tested 22 separate geophysical targets (other than Dharma Uttar) in the Greenhorn project area: none were kimberlite. There is still strong evidence that there are other kimberlites on the Greenhorn project as suggested by the several other indicator anomalies that are separate from those emanating from the Dharma complex. It is apparent that combining till sampling leading, to identifiable indicator mineral trains, with geophysics is more successful than utilizing geophysics alone. Accordingly, the Company has taken 170 till samples on the Greenhorn project this summer to further enhance these other anomalies.

The Company purchased a small heli-portable RC drill rig in an effort to make target testing for kimberlite less expensive and 13 of the 22 targets tested in the Greenhorn project were completed with this rig. There was about an 80% reduction in cost compared to using a

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diamond rig. In the future, this rig will both increase productivity and reduce costs in discovering kimberlites.

The Dharma kimberlite complex was discovered by drilling a magnetic anomaly at the termination of a well developed indicator mineral dispersion train. The Company attempted to repeat this successful strategy this summer at the Colville Lake project. Seven targets were drill tested, each had a prominent magnetic anomaly and each had an apparent indicator mineral dispersion down ice of the magnetic anomaly. No kimberlite was intersected. Most of the magnetic anomalies were explained by a flat lying iron-rich paleo-weathered horizon just beneath the till cover. These must be erosional remnants left behind by glaciation. The source of the indicator minerals remains enigmatic. The magnetic targets tested were selected from 400- metre spaced fixed wing magnetic survey data. It is worth noting that this survey spacing missed detecting the Dharma target. It took a 100-metre helicopter survey to highlight this kimberlite. Further sampling was undertaken on the Colville Lake project to better understand the indicator mineral dispersion.

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. Four of these anomalies were followed up with ground surveys and three returned encouraging potential kimberlite anomalies, the largest being 350 metres across. Staking of the area around the Simpson Lake indicator anomaly was completed during summer 2008.

Sanatana's exploration programs are carried out under the supervision of the Company's vice president of exploration, Mr. Buddy Doyle. Mr. Doyle meets the qualified person requirements (as defined by National Instrument 43-101) with more than 26 years of experience in the gold and diamond exploration industry and is responsible for the geoscientific and technical disclosure contained in this document.

***Incorporation and Listing Information***

Sanatana was incorporated under the British Columbia *Business Companies Act* on June 25, 2004. On July 28, 2005, the Company's common shares were admitted to the Alternative Investment Market of the London Stock Exchange plc. ("AIM").

On November 30, 2005, a receipt was issued for the Company's non-offering prospectus, making the Company a reporting issuer in every province and territory of Canada, except Quebec. On May 17, 2006, the Company's common shares commenced trading on the Venture Exchange under the symbol "STA". The Venture Exchange classifies the Company as a mining exploration/development company.

In September 2008, the Company announced its intention to delist its shares from AIM and effective October 10, 2008, the Company's AIM listing was cancelled. The Company maintains its listing on the Venture Exchange.

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***Nature of Business***

Since its inception in June 2004, Sanatana's exploration activities have been carried out solely in the Northwest Territories and Nunavut, Canada, where the Company prospected and explored for diamonds at the Mackenzie Platform. The Company's exploration project is located north of Great Bear Lake and approximately 700 kilometres northwest of Yellowknife. As of November 25, 2008, Sanatana holds approximately 5.9 million acres of ground under claims and permits. A further 400,000 acres have been staked in the Greenhorn and Colville areas. The primary strategy of the Company is to capture the majority share of a potential new diamond region in Canada. The initial large land holding was secured on the basis that the Company's neighbouring explorer, Diamondex Inc., reported the recovery of diamonds from the Iroquois and Anderson River systems, indicating the entire Mackenzie Platform might be prospective for diamonds. The discovery of the diamondiferous Dharma Kimberlite pipe and numerous positive diamond indicator mineral anomalies obtained by Sanatana to date are evidence that this strategy is sound.

***Technical Note: A Brief Explanation of Diamond Exploration:***

*Scientific studies have shown that diamonds are formed at high pressures and temperatures deep in the Earth's mantle, and can be preserved under older, colder parts of continents. The diamonds sit at this depth for eons after they are formed until they are picked up and brought to the surface by deep-seated magmas that erupt to make small volcanoes and craters. The most common of these diamond-bearing magmas are called kimberlite. This volcanic rock type makes up most of the world's diamond mines. Kimberlites form dykes, pipes and craters, can vary in size from one metre to 2.5 kilometres across and usually occur in swarms. This means that where one kimberlite is found, one will usually find many others. Kimberlites have occurred throughout earth's history but tend to form in pulses.*

*Once the eruption is finished and everything is cool and quiet, erosional processes take over and the minerals in the kimberlite, including diamonds, are dispersed. Most exploration companies look for minerals, called indicator minerals, occurring with the diamond rather than the diamonds directly as indicator minerals are of an order of magnitude more abundant and therefore less expensive to find. These minerals (pyrope garnet, picro-ilmenite, chrome diopside, chromite) were made at the same high temperatures and pressures as diamonds. Their chemistry is unique; no other minerals found on the surface of the earth share this chemistry. When these unique indicator minerals are found, it is considered direct evidence of diamond mineralization.*

*In the Canadian Arctic, where Sanatana is exploring, there was, until 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.*

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

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

***Kennecott Joint Venture***

The Company has a joint venture agreement with diamond producer Kennecott Canada Exploration Inc. ("Kennecott"), a subsidiary of Rio Tinto plc. Pursuant to the joint venture, the Company acts as the operator and Kennecott has a 15% interest in the Company's Mackenzie diamond project. In addition, Kennecott provided the services of a geologist (who now works directly for the Company) and a geophysicist, who are both experienced in diamond exploration, to Sanatana.

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

- Kennecott may earn up to an additional 49% 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
- Kennecott 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 Kennecott earning an initial 49% interest in the individual project.

In total, to September 30, 2008, Kennecott has contributed \$7,138,438 in option and contribution payments to defray exploration expenditures.

In January 2008, an affiliate of Kennecott 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.

***Mineral Properties***

**Exploration Highlights**

- The Company has a portfolio of projects generated after four years of regional work that are all defined by separate areas of diamond indicator mineral anomalies. They have been named the following:
  - Greenhorn (two diamondiferous Kimberlites, seven unexplained till anomalies)
  - Yeltea (indicator minerals forming down ice trains)

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- Horton (an isolated cloud of indicator minerals)
  - Colville (drill ready, magnetic anomalies with indicator minerals)
  - Simpson (drill ready magnetic anomalies with indicator minerals)
  - Estabrook (an isolated cloud of indicator minerals)
- 
- In April 2008, the Dharma Uttar kimberlite was discovered on the Greenhorn project
  - In October 2007, the Dharma Kimberlite was discovered on the Greenhorn project.
  - Caustic fusion has shown the Dharma Kimberlite to be significantly diamondiferous with a relatively large 0.55ct stone being recovered from this relatively small sample.
  - Caustic fusion of 448.5 kilograms for the Dharma Uttar kimberlite, which also returned significant diamonds with over eight stones larger than 0.85 millimetres.
  - The Company's goal is to find a kimberlite or kimberlites that are large enough to trigger the Rio Tinto option. Although further drilling would be required to determine the tonnage of this kimberlite, indications are that it will not be large enough to satisfy this criterion. If other kimberlites are found nearby the tonnage at Dharma may make up part of a mining complex and further work on this pipe would be justified. Sanatana's main focus is to find more kimberlites in the Greenhorn area and elsewhere on the Company's property holdings.
  - The Company drill tested 22 magnetic and EM targets in the Greenhorn area after completing a 4,300 line kilometre airborne magnetic survey (the Sulky survey) in 2007 and following up with ground geophysics on 40 targets.
  - The RC drill rig was used to test 13 of these magnetic anomalies at Greenhorn at a much reduced time and cost to the diamond drill rig used for the other nine targets. The RC drill rig will be used in the future to reduce testing costs.
  - Drill testing of pure geophysical anomalies on the Greenhorn property failed to find more kimberlites, yet historic till sample results demonstrate there must be many more kimberlites to explain the indicator mineral distribution,
  - A till sampling program was completed in July 2008 around the Greenhorn area to close in on the source of these other till anomalies.
  - Drilling commenced on the Colville Lake project in August.
  - Colville Lake drilling tested seven targets with no success. Some of the magnetic anomalies can be explained by islands of iron rich weathered horizon occurring beneath the till cover. The source of the indicator minerals in the area remains enigmatic.
  - More till sampling was conducted in the Colville area to better understand the indicator mineral dispersion and search for a local source.
  - The Company conducted 30 ground magnetic surveys to help locate and prioritize targets prior to drill testing at Colville
  - The ground geophysical crews recently completed magnetic surveys in the Simpson area which appear to show the characteristics of kimberlite. This area has now been slated for drill testing. The Company will conduct further surveys and apply for a land use permit in the area.
  - Staking was completed in the Simpson Lake area.

**Exploration Programs**

The discovery of the Dharma kimberlite complex is significant as it represents the first kimberlites in a newly discovered Archean craton in North America. This craton does not outcrop and until the Dharma discoveries was inferred purely from regional potential field

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geophysics and the occurrence of diamond indicator minerals in the glacial till. It is the Company's interpretation that the Dharma kimberlite complex occurs on the edge of this newly discovered, "Mackenzie" craton with the centre being 300 kilometres to the west in the vicinity of Colville Lake.

Till samples taken from Sanatana's Mackenzie diamond project over the last four years have identified six separate areas as having anomalous diamond indicator minerals in glacial till. Each separate area is thought to represent a potential kimberlite field containing multiple kimberlite pipes. The chemistry from these indicator minerals shows that they were formed at the same pressures and temperatures as diamonds.

Within the Mackenzie diamond project, the Company has focused its exploration activities in selected areas: The Greenhorn, Yeltea, Colville and Simpson indicator anomalies were given priority due to their higher indicator mineral counts and the presence of abundant fosteritic olivine. Of all diamond indicator minerals, olivine is the most susceptible to chemical and physical weathering and its presence suggests that the Company may be close to source.

In order to define future drill targets in the Greenhorn area, the Company has recently undertaken closer spaced till sampling on the Greenhorn project to further develop geochemical indicator anomalies distal to the Dharma kimberlite complex discovery. Further sampling was undertaken around the Colville area.

*Airborne and Ground Follow-up Surveys*

In March 2007, the Company deployed a helicopter-based EM and magnetometer survey over the Greenhorn, Yeltea and Simpson areas using 100 metre line spacing, of which, final results were received in May 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.

This was the target tested which 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 has revealed more kimberlite targets.

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

Ground magnetic surveys commenced at Colville Lake in July 2008 and a total of 30 targets have been completed. A diamond drill rig, along with the RC drill rig, was mobilized on July 28, 2008. Seven targets have been selected for drill testing and all are supported by a coincident cloud of indicator minerals in till or by an indicator train leading directly to them. The indicators include the full spectrum of minerals you would expect from a diamond bearing kimberlite; pyrope, eclogitic garnet, ilmenite, chromite, chrome diopside and olivine. In addition, the indicator chemistry in the till at Colville Lake is superior to that of the till in the Greenhorn area in that it contains more numerous high sodium eclogitic garnets and high chrome G10 pyropes.

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*Greenhorn Project – Dharma and Dharma Uttar Kimberlites*

In August 2007, the Company was awarded a land and water use permit required to commence drilling at Greenhorn. A camp was constructed during September and drilling commenced on September 30, 2007. The Dharma Kimberlite was intersected on October 1, 2007. Three holes were drilled into this target to obtain a one tonne caustic fusion sample. Drilling was shut down with the onset of seasonal freezing. The Company returned to the area in late February 2008 and began testing other geophysical targets. In July 2008, the RC rig was deployed to test other targets in the project, many which could not be tested in winter as no water was available because most lakes were frozen to their base. Dharma Uttar was discovered during the diamond drill program and 448 kilograms of kimberlite were sent to the laboratory. These returned significant diamonds.

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> The Thunder Bay Laboratory of Kennecott 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.

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

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> The Thunder Bay Laboratory of Kennecott 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

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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. The eruption event erosion has erased any trace of the younger rocks as 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 is significant as it 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 recently received further collaborating evidence, from a report recently received from Dr. William Griffin of Macquarie University in Sydney, Australia, that an Archean craton lies beneath the platform sediments that cover the Company's properties. 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  $38\text{mW/m}^2$  geotherm. (For comparison, the Slave craton, which hosts the Ekati and Diavik mines exhibited a  $36\text{mW/m}^2$  geotherm using the same technique. The cratons hosting diamond mines in Siberia and Southern Africa have  $40\text{mW/m}^2$  and  $42\text{mW/m}^2$  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 the complex to be stable over time, a deep lithospheric keel must be at least 400 kilometres in diameter. The Company has interpreted that the Dharma kimberlite complex occurs on the edge of this newly discovered "Mackenzie" Craton with the centre being 200 kilometres to the west in the vicinity of Colville Lake.

In July 2008, the Company tested 13 additional magnetic anomalies at Greenhorn utilizing the RC drill rig. Although no additional kimberlites have been discovered, the RC rig has significantly enhanced, in a cost effective and timely manner, the Company's ability to test drill targets. In order to better define future drill targets in the Greenhorn area, the Company is currently undertaking closer spaced till sampling to further develop geochemical indicator anomalies distal to the Dharma kimberlite complex discovery. The Company's option with Kennecott is triggered by locating a kimberlite or kimberlites meeting specific criteria. Triggering the Kennecott 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 this criteria. The

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Company is therefore concentrating on finding more kimberlite so it can attain more kimberlite that will meet the criteria (approximately \$2 billion in situ or greater). The Dharma kimberlite complex can always be re-visited 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 economic tonnage can be located nearby (within 30 kilometres).

The Company carried out till sampling on the Greenhorn project subsequent to quarter-end and expects to receive results by January 2009. This work is designed to develop the several other indicator anomalies known on the Greenhorn property.

*Colville Project*

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. A diamond drill rig was mobilized to site on July 24, 2008 and it tested seven targets intersecting no kimberlite. The till cover at Colville is much deeper than at Greenhorn. The light weight RC drill rig will also be brought over to Colville to test its abilities in thick till to determine if it can be used in these thick till conditions in the future. It successfully drill tested one target with 4 drill holes easily penetrating 30 metres of till.

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 cover 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 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 worthy 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.

*Simpson Project*

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. Four of these anomalies were followed up with ground surveys and three returned encouraging potential kimberlite anomalies, the largest being 350 metres across. The Company completed a staking program over this area during the reporting period. The Company has begun preparations to obtain a land and water use permit in the Simpson area by arranging community consultations at Paulatuk.

*Kilkale Lake Project*

The Company holds a drill permit around the Kilkale Lake area but camp was dismantled at this location for use in the Greenhorn program. The Company completed a clean-up; however, the

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government land use office has not yet inspected the site. The Company holds a land use permit for the camp for another three years and there is no advantage to closing this early.

*Land position*

The Company's land holdings are continually changing based on drilling results, exploration and Canada's mining regulations. The Company initially held ground in the form of prospecting permits and, at the beginning of 2006, its area held under permits totalled 16.5 million acres. Based on exploration results, the Company is focusing on the most prospective areas and now holds 5.9 million acres under permit. Prospecting permits located below 68 degrees latitude have a three-year life and many of these expired in 2006. The Company staked mineral claims in this zone over areas of interest during 2006. In total, helicopter-supported crews staked 1,222,281 acres of mineral claims. North of 68 degrees latitude, map permits have a five-year life and the Company's permits will not expire until 2009. The Company staked approximately 400,000 acres in the Greenhorn and Colville areas. It also completed staking in the Simpson Lake area.

*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 five separate areas with elevated zinc (>250 ppm), lead and silver in the till. The highest zinc value found in the till to date is 0.3%. Up to 360 ppm of lead and up to 1.4 ppm of silver 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 of the Dharma kimberlite complex the Company is concentrating on diamond exploration and plans to address base metal exploration at a later date.

*Exploration Budget*

Given the current state of the Capital markets, the Company is currently reviewing its planned expenditures for fiscal 2009. As at November 25, 2008, the Company has adequate financial resources to continue exploration on the Mackenzie project in 2009.

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***Financial***

**Exploration Expenditures**

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

	Six months ended September 30, 2008	Year ended March 31, 2008	Year ended March 31, 2007
Acquisition costs	\$ -	\$ 4,276	\$ 232,830
Helicopter and fixed wing aircraft	3,281,918	3,598,029	3,978,563
Sampling and assays	68,197	565,006	1,383,889
Contractor and consulting	1,986,974	2,648,161	2,563,676
Project management fees	74,625	86,000	76,000
Field and camp	466,022	649,971	646,045
Transport and accommodation	458,262	673,340	895,568
Expediting	5,848	65,142	327,412
Other expenses	156,695	80,065	35,007
Reclamation provision	-	-	-
Total exploration costs for the period	6,498,541	8,369,990	10,138,990
Reimbursable bonds and deposits	(929,273)	938,985	(1,853,938)
Kennecott option and contribution payments	(468,093)	(1,670,345)	(2,500,000)
Net expenditures for the period	\$ 5,101,175	\$ 7,638,630	\$ 5,785,052

**Selected Quarterly Financial Data**

Quarter Ended	Cash and short term deposits	Mineral Properties	Income (Loss) for the Quarter	Income (Loss) per Share	
				Basic	Fully Diluted
December 31, 2006	\$ 7,277,347	\$ 14,251,589	\$ (201,281)	\$ (0.00)	\$ (0.00)
March 31, 2007	5,572,786	16,019,185	(252,200)	(0.01)	(0.01)
June 30, 2007	3,560,890	17,688,321	(196,962)	(0.00)	(0.00)
September 30, 2007	2,373,801	19,144,011	(210,074)	(0.00)	(0.00)
December 31, 2007	3,632,878	20,923,330	(557,223)	(0.01)	(0.01)
March 31, 2008	10,058,876	23,657,815	432,651	0.01	0.01
June 30, 2008	8,028,599	26,565,020	(1,336,829)	(0.02)	(0.02)
September 30, 2008	\$ 6,012,657	\$ 28,758,990	\$ (262,724)	\$ (0.00)	\$ (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

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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.

For the quarter ended December 31, 2006, the Company's loss increased due to higher travel expenses attributable to management visits to the project area, attendance of directors at in-person board meetings, and attendance at an industry-focused conference in London, UK. These higher costs were offset by lower investor relations expenses, as compared to the previous quarter.

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

In the quarter ended June 30, 2007, the loss decreased as travel decreased and there was no need to accrue an audit fee. In the quarter ended September 30, 2007, the loss increased slightly and a decrease in stock-based compensation was offset by higher travel and accommodation costs due to fundraising activities.

The significant increase in the loss for the quarter ended December 31, 2007 was primarily attributable to stock-based compensation, although this did not represent a cash outflow to the Company.

The results of operations for the quarter ended March 31, 2008 improved as stock-based compensation went from an expense of \$515,000 in the December 31, 2007 quarter to a recovery of \$138,000 in the March 31, 2008 quarter. Offsetting this cost reduction were increased travel costs associated with visits to the exploration property, investor relations activity and the year-end audit accrual. The Company also recorded a \$581,000 future income tax recovery as a result of reduced income tax rates enacted by the Canadian government, which resulted in income for the quarter.

In the quarter ended June 30, 2008, the loss increased due to stock-based compensation of \$1,074,000 but was otherwise comparable to previous quarters.

In the quarter ended September 30, 2008, the loss decreased, primarily due to lower stock-based compensation

**Results of Operations for the Six Months Ended September 30, 2008**

In the discussion of results of operations and financial condition, amounts have been rounded to the nearest thousand dollars.

The net loss for the three and six months ended September 30, 2008 was \$263,000 (2007 - \$210,000) and \$1,600,000 (2007 - \$407,000) respectively. Some of the factors necessary to understand the Company's results of operations are:

- Consulting and advisory fees are for services other than for those directly associated with exploration activities, which are capitalized to mineral properties.
- Director fees for all five board members aggregate £35,000 annually (approximately \$65,000 at prevailing exchange rates).

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- Investor relations expenses relate to investor communications, including maintaining and updating the website and disseminating news releases. The Company did not undertake any significant investor communications in the quarter ended September 30, 2008.
- Management fees represent amounts paid to the Company's CEO and CFO.
- Office and administration fees represent general administrative expenses including fees paid for office administration services.
- Professional fees were paid to lawyers and auditors. The Company recorded an expense recovery in the current period caused by an over-accrual of audit fees in the year ended March 31, 2008. In the comparative period, the Company recorded higher than expected professional fees due to an under accrual of audit fees at March 31, 2007.
- Salaries and wages represents amounts paid to employees (as opposed to contractors) net of amounts capitalized to mineral properties.
- Stock-based compensation represents the fair value of stock options over their vesting term, calculated using the Black-Scholes option-pricing model. The current provision includes a reduction in expense (of approximately \$90,000) relating to unvested options caused by a decrease in the Company's share price since the last quarter-end.
- 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.
- Interest income is earned on funds held; the amount earned in the period is a function of the principal amount, which has been declining as the funds are drawn down, and to a lesser extent on yields.

*Changes in Financial Condition*

Between the Company's last year-end on March 31, 2008 and September 30, 2008, the main changes in its financial condition were:

- cash decreased by \$4,046,000 reflecting expenditures on operations and collection of amounts receivable;
- amounts receivable declined by \$1,164,000, largely as a result of collecting Kennecott's joint venture contribution; and
- mineral properties increased by \$5,101,000 as the Company spent \$6,408,000 on its Mackenzie diamond project, with these expenditures partially offset by a recovery of \$929,000 in reimbursable bonds and deposits and \$468,000 representing Kennecott's 15% share of expenditures.

*Liquidity*

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

<b>As at</b>	<b>September 30, 2008</b>	<b>March 31, 2008</b>
Cash and equivalents	\$ 6,012,657	\$ 10,058,876
Working capital	\$ 4,967,016	\$ 10,319,827

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<b>For the six months ended</b>	<b>September 30, 2008</b>	<b>September 30, 2007</b>
Cash generated by (used in) operating activities	\$ 879,516	\$ (45,641)
Cash used in investing activities	(5,069,519)	(3,153,344)
Cash provided by financing activities	143,784	-
Change in cash	<u>\$ (4,046,219)</u>	<u>\$ (3,198,985)</u>

In the six months ended September 30, 2008, cash generated by operating activities was largely accounted for by the loss for the period, offset by stock-based compensation (which does not use cash) and collection of accounts receivable.

Cash used in investing activities largely represented expenditures on mineral properties net of receipts from reimbursable bonds and a refund of exploration expenditures by Kennecott.

Cash flow from financing activities represents the exercise of warrants partially offset by some minor offering costs from a prior period offering.

With \$6,012,657 in cash and equivalents at September 30, 2008, the Company has enough cash to last at least 12 months. The Company has exercisable share purchase warrants outstanding, but these are not currently in the money and cannot be counted on as a source of cash.

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. 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 adopted new accounting pronouncements as disclosed in note 3 of the interim financial statements. Adoption of these accounting standards is not expected to have a material effect on the Company's financial position and results of operations.

*Off-Balance Sheet Arrangements and Contingent Liabilities*

During the quarter ended September 30, 2008, government agencies returned deposits to the Company. In conjunction with this transaction, the letter of deposit that Kennecott had deposited to fulfil bonding requirements for the 2008 exploration season was cancelled.

*Related Party Transactions*

At September 30, 2008, the Company had one employee and arrangements with a number of contractors to provide certain administrative, accounting, and management services. In addition, certain directors, officers and significant shareholders provide management and consulting services to the Company. The Company does not have any contractual commitments with related parties. Transactions with related parties for management and technical services for the six months ended September 30, 2008 were:

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Peter Miles <sup>(1)</sup>	\$ 33,000
Lithosphere Services Inc. <sup>(2)</sup>	34,000
S2 Management Inc. <sup>(3)</sup>	11,854
MCSI Consulting Services Inc. <sup>(4)</sup>	2,972
	<hr/>
	\$ 81,286

- (1) Mr. Miles, a director and officer of the Company, provides financial and management services to the Company.
- (2) Fees paid or accrued for technical services performed by a company controlled by a director and officer of the Company.
- (3) Fees paid or accrued for the services of the Company's chief financial officer to a company controlled by him.
- (4) Fees paid or accrued to MCSI Consulting Services Inc., a company in which an officer of the Company holds a 50% interest, for the services of the Company's chief financial officer.

The Company pays its directors fees of £35,000 (approximately \$65,000), in aggregate, annually. Director fees in the period were \$30,813.

**Contractual Obligations and Commitments**

Particulars of the Company's contractual obligations and commitments are disclosed in note 10 to the September 30, 2008 financial statements.

**Share Capital**

The Company had 62,753,873 common shares issued and outstanding at September 30, 2008. In October 2008, the Company delisted its shares from AIM of the London Stock Exchange in accordance with a shareholder resolution passed at the Company's annual general meeting in September 2008.

**Escrowed Shares**

At the date the Company's shares were listed on the Exchange, 13,803,373 of the Company's shares were placed in escrow. These escrowed shares are to be released over a three-year automatic time-release in equal tranches of 15% of the holdings at six-month intervals, and with 10% of the holdings exempt from escrow on the date the Company's shares were first listed on the Exchange. The anniversary dates for escrow release are May 16 and November 16 of each year. Under the terms of the escrow agreement, 2,070,506 shares were released from escrow on November 16, 2008 with the result that, as of the date of this MD&A, 2,070,506 common shares remain in escrow.

**Stock Option Plan**

In 2005, the Company's shareholders approved a stock option plan (the "2005 Option Plan") which is a "rolling" plan that provides for the issuance to directors, officers, consultants and employees of the Company of up to 10% of the common shares of the Company that have been issued and are outstanding at the date of the stock option grant. The 2005 Option Plan was amended and restated in 2006 to comply with the requirements of the Exchange. On July 18,

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2007, the Company's shareholders approved a new stock option plan (the "2007 Option Plan"), which is a continuance of the 2005 Option Plan. The 2007 Option Plan is governed by the laws of British Columbia.

Stock options are non-transferable and expire at the end of five years from the date of grant, or 90 days after the termination of employment or other contracting arrangement of the option holder. The board of directors of the Company determines the exercise price, which may be no less than the market price at the day of grant. Stock options are typically granted for a five year-term with options vesting over an 18-month period.

On April 25, 2008 the Company granted 1,200,000 stock options to directors and officers of the Company at an exercise price of \$1.35 for a term of five years. The Company also granted 400,000 stock options to contractors at an exercise price of \$1.00 for a period of five years. The Company also accelerated the vesting of options previously issued with a three-year vesting term so that the options now vest in tranches over an 18-month period from the date of grant.

In June 2008, the Company granted 450,000 stock options to an employee and contractors of the Company at an exercise price of \$0.75 for a term of five years. These options vest in tranches over an 18-month period from the date of grant.

**Share Purchase Warrants**

During the six months ended September 31, 2008 warrant holders exercised 434,619 warrants generating proceeds of \$155,426.

The Company did not issue any share purchase warrants in the period. The Company has, however, revised its disclosure of shares purchase warrants to reflect 1,351,542 broker warrants issued as part of a financing in October 2007. Due to an oversight, these warrants were not disclosed in our March 31, 2008 year-end financial statements. The warrants are exercisable at \$0.30 for a period expiring April 22, 2009. In the period from issuance through to September 30, 2008, holders exercised 37,429 warrants and so 1,314,113 remain outstanding.

**Dividends**

Sanatana 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:

- 62,753,873 common shares, including 2,070,506 escrowed common shares;
- 5,220,000 stock options; and
- 10,156,068 share purchase warrants.

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

There were no changes to the board of directors or management during the six months ended September 30, 2008.

***Risks and Uncertainties***

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

*Nature of Mineral Exploration and Development Projects*

The business of diamond exploration involves a high degree of risk. Few properties that are explored are ultimately developed into mines. Sanatana's properties are in the exploration stage and at present none of the Company's properties have a known commercial diamond deposit. Proposed exploration programs are 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 exploration for diamonds, any of which could result in damage to life or property or the environment. The Company's operations may be subject to disruptions caused by unusual or unexpected formations, formation pressures, fires, power failures, flooding, explosions, cave-ins, landslides, the inability to obtain suitable or adequate equipment or machinery, labour disputes, or adverse weather conditions. Although the Company maintains insurance to cover normal business risks, the availability of insurance for many of the hazards and risks is extremely limited or uneconomical at this time. Through high standards and continuous improvement, Sanatana works to reduce these risks.

The Company's operations are also subject to the additional risks associated with the short exploration season in the Northwest Territories and Nunavut. With ice and snow cover in the remote Mackenzie diamond project area from October to June, the Company's exploration program is dependent upon sufficient logistical support, including camps and fuel caches, to allow productive exploration activities during the brief arctic summer. A breakdown in logistical support could severely curtail the Company's planned exploration program.

In the event the Company is fortunate enough to discover a diamond deposit, the economics of commercial production depend on many factors, including the cost of operations, the size, quantity and quality of the diamonds, proximity to infrastructure, financing costs and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of diamonds and environmental protection. The effects of these factors cannot be accurately predicted, but any combination of these factors could adversely affect the economics of commencement or continuation of commercial diamond production.

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The profitability of the Company's operations will be dependent, inter alia, on the market price of diamonds. Diamond prices are affected by numerous factors beyond the control of the Company, including international economic and political conditions, levels of supply and demand, the policies of the Diamond Trading Company and international currency exchange rates.

Success in establishing reserves is 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 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.

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*Conflicts of Interest*

Certain of the Company's directors, officers and significant shareholders are or may become shareholders, directors and/or officers of other natural resource companies, and, to the extent that such other companies may participate in ventures with the Company, these individuals may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or of its terms. In appropriate cases the Company will establish a special committee of independent directors to review a matter in which one or more directors or officers may have a conflict.

From time to time, the Company, together with several other companies, may be involved in a joint venture opportunity where several companies participate in the acquisition, exploration and development of natural resource properties, thereby permitting the Company to be involved in a greater number of larger projects with an associated reduction of financial exposure in any given project. The Company may also assign all or a portion of its interest in a particular project to any of these companies due to the financial position of the other company or companies.

In accordance with the laws of the province of British Columbia, the directors are required to act honestly and in good faith with a view to furthering the best interest of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed, and the financial position of the Company at that time.

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).