

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Financial Statements Unaudited – Prepared by Management For the Periods Ended September 30, 2010 and 2009 (Stated in Canadian dollars)

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Notice to Reader

These unaudited financial statements for the six-month period ended September 30, 2010 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. These unaudited financial statements have been reviewed and approved by the Company's audit committee.

Readers are advised to read the attached financial statements in conjunction with the Company's audited financial statements for the year ended March 31, 2010.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Balance Sheets

Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	Notes	September 30, 2010	March 31, 2010
Assets			
Current			
Cash and equivalents		\$ 2,270,078	\$ 2,801,892
Amounts receivable	4	36,685	28,081
Prepaid expenses		25,882	42,462
		2,332,645	2,872,435
Reimbursable bonds and deposits	5	446,975	446,975
Mineral properties	5	100,000	2,930,072
Property and equipment	6	165,606	204,902
		\$ 3,045,226	\$ 6,454,384
Liabilities			
Current			
Accounts payable	10	\$ 114,700	\$ 88,549
Accrued liabilities		120,000	152,000
		234,700	240,549
Shareholders' Equity			
Common shares	7	30,306,804	30,306,804
Contributed surplus		2,783,660	2,783,660
Deficit accumulated in the exploration stage		(30,279,938)	(26,876,629)
		2,810,526	6,213,835
		\$ 3,045,226	\$ 6,454,384

Ability to continue as a going concern (note 2)

The accompanying notes are an integral part of these financial statements

Approved on behalf of the board of directors:

signed "Peter Miles"

Peter Miles, Director

signed "Edward Marlow"

Edward Marlow, Director

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Changes in Shareholders' Equity

Unaudited – Prepared by Management

(Expressed in Canadian dollars)

	Notes	Number of Shares	Common Shares	Share Purchase Warrants	Contributed Surplus	Deficit Accumulated in the Exploration Stage	Shareholders' Equity
Balance - March 31, 2009		62,762,623	\$ 30,306,804	\$ 530,263	\$ 2,031,397	\$ (12,984,386)	\$ 19,884,078
Broker warrants, expired unexercised		-	-	(530,263)	530,263	-	-
Stock-based compensation	9	-	-	-	222,000	-	222,000
Loss for the year		-	-	-	-	(13,892,243)	(13,892,243)
Balance - March 31, 2010		62,762,623	30,306,804	-	2,783,660	(26,876,629)	6,213,835
Loss for the period		-	-	-	-	(3,403,309)	(3,403,309)
Balance - September 30, 2010		62,762,623	\$ 30,306,804	\$ -	\$ 2,783,660	\$ (30,279,938)	\$ 2,810,526

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statements of Operations and Comprehensive Loss

Unaudited – Prepared by Management

(Expressed in Canadian dollars)

	Notes	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Six Months Ended September 30, 2010	Six Months Ended September 30, 2009
Expenses					
Amortization	6	\$ 20,039	\$ 2,187	\$ 21,917	\$ 4,681
Director fees	10	10,000	10,000	20,000	20,000
Filing fees		1,613	5,428	6,109	10,648
Investor relations		399	250	1,956	529
Office and administration	10	13,485	18,036	30,779	35,667
Rent		22,579	24,534	43,387	51,609
Professional fees		1,768	2,720	4,273	460
Property investigations		614	-	49,265	-
Management fees and salaries	10	43,734	54,674	104,344	97,144
Stock-based compensation	9	-	92,000	-	184,000
Transfer agent fees		5,729	8,095	6,554	10,896
Travel and accomodation		4,150	7,810	23,342	13,247
Loss before undernoted		(124,110)	(225,734)	(311,926)	(428,881)
Abandoned claim costs		(10,956)	-	(34,564)	-
Mineral property write-down	5	(3,059,680)	-	(3,059,680)	-
Interest income		2,160	906	2,861	2,560
Loss before income taxes		(3,192,586)	(224,828)	(3,403,309)	(426,321)
Loss and comprehensive loss for the period		\$ (3,192,586)	\$ (224,828)	\$ (3,403,309)	\$ (426,321)
Loss per share - basic and diluted		\$ (0.05)	\$ (0.00)	\$ (0.05)	\$ (0.01)
Weighted average common shares outstanding - basic and diluted		62,762,623	62,762,623	62,762,623	62,762,623

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statements of Cash Flow

Unaudited – Prepared by Management

(Expressed in Canadian dollars)

	Notes	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Six Months Ended September 30, 2010	Six Months Ended September 30, 2009
Cash provided by (used in):					
Operating activities:					
Loss for the period		\$ (3,192,586)	\$ (224,828)	\$ (3,403,309)	\$ (426,321)
Adjustment for non-cash items:					
Amortization of property and equipment	6	20,039	2,187	21,917	4,681
Stock-based compensation	9	-	92,000	-	184,000
Mineral property write-down	5	3,059,680	-	3,059,680	-
Change in non-cash working capital items					
Amounts receivable		(7,292)	16,025	(8,604)	(12,778)
Prepaid expenses		8,290	20,992	16,580	31,060
Accounts payable		(2,510)	(19,386)	8,202	(109,173)
Accrued liabilities		(5,000)	15,000	(32,000)	(30,003)
		(119,379)	(98,010)	(337,534)	(358,534)
Investing activities:					
Mineral properties	5	(88,981)	(434,349)	(273,097)	(1,052,551)
Reimbursable bonds and deposits		-	-	-	(208,039)
Property and equipment	6	-	-	(795)	-
Kennecott contribution	5	-	105,687	79,612	172,309
		(88,981)	(328,662)	(194,280)	(1,088,281)
Financing activities:					
		-	-	-	-
Decrease in cash and equivalents		(208,360)	(426,672)	(531,814)	(1,446,815)
Cash and equivalents, beginning of period		2,478,438	3,885,700	2,801,892	4,905,843
Cash and equivalents, end of period		\$ 2,270,078	\$ 3,459,028	\$ 2,270,078	\$ 3,459,028
Cash and equivalents comprise:					
Cash		\$ 12,296	\$ 245,406	\$ 12,296	\$ 245,406
Equivalents		2,257,782	3,213,622	2,257,782	3,213,622
		\$ 2,270,078	\$ 3,459,028	\$ 2,270,078	\$ 3,459,028

Supplementary cash flow information (note 13)

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the six months ended September 30, 2010

1. Nature of Business and Basis of Presentation

Sanatana Diamonds Inc. ("Sanatana" or the "Company") was incorporated on June 25, 2004 in the Province of British Columbia under the British Columbia Business Corporations Act. The Company is an exploration stage company, and its principal business activity is the acquisition, exploration and development of properties. The Company has mineral property rights in the Northwest Territories which it is exploring and developing in a joint venture with Rio Tinto Exploration Canada Inc. ("Rio Tinto"), mineral property rights in Piche Lake, Alberta and has entered into an option agreement to acquire an exploration property in Yukon.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for the presentation of interim financial information. These financial statements do not include all disclosures required for annual financial statements and therefore should be read in conjunction with the most recent audited annual consolidated financial statements of the Company for the year ended March 31, 2010.

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.

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

2. Ability to Continue as a Going Concern

The accompanying financial statements have been prepared in accordance with GAAP applicable to a going concern, under which material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern must be disclosed. These financial statements do not reflect any adjustments to the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material. As at September 30, 2010 the Company has no source of operating cash flow and has an accumulated deficit of \$30,279,938. Operations from inception through September 30, 2010 have been funded primarily from issuances of capital stock and from contributions received from Rio Tinto. Should the current weak market for diamond exploration persist, management expects challenges raising further financing.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the six months ended September 30, 2010

3. Accounting Pronouncements

The Company plans to adopt accounting pronouncements as follows:

- i. Section 1582, "Business Combinations". This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at acquisition date fair value. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. The Company will be required to adopt this standard prospectively for business combinations with acquisition dates on or after April 1, 2011, but may adopt the standard sooner. The Company is currently evaluating the impact of adopting this standard on its financial statements.
- ii. On February 13, 2008, the CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS") by 2011. The Company's first year end under IFRS will be March 31, 2012. The Company has completed a high-level scoping study and concluded that the following IFRS standards will have the most significant impact:
 - IFRS 1 – First-time adoption of IFRS
 - IFRS 2 – Share Based Payments
 - IFRS 6 – Exploration and evaluation of mineral resources
 - IAS 16 – Property, plant and equipment
 - ED 9 – Joint arrangements (replacing IAS 31 – Interests in joint ventures)
 - IAS 36 – Impairment of Assets

In addition, while IFRS does not prescribe how to account for flow-through shares, common practice may differ from Canadian GAAP and some adjustment to shareholders' equity may be required on the first-time adoption of IFRS.

The Company has updated its accounting procedures so as to collect information required under IFRS.

4. Amounts Receivable

	September 30, 2010	March 31, 2010
GST receivable	\$ 19,668	\$ 6,814
Due from employees (note 10)	17,017	21,267
	<u>\$ 36,685</u>	<u>\$ 28,081</u>

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the six months ended September 30, 2010

5. Mineral Properties

	Balance March 31, 2009		Change	Balance March 31, 2010		Change	Balance September 30, 2010			
Mackenzie property										
Acquisition costs	\$	426,076	\$	-	\$	426,076	\$	-	\$	426,076
Helicopter and fixed wing aircraft costs		15,443,968		480,051		15,924,019		7,524		15,931,543
Sampling and assays		4,246,746		116,278		4,363,024		21,045		4,384,069
Contractor and consultant		9,100,004		345,108		9,445,112		615		9,445,727
Project management fees		832,965		135,500		968,465		25,000		993,465
Field and camp		1,985,846		46,350		2,032,196		11,721		2,043,917
Transport and accomodation		2,772,866		141,213		2,914,079		7,404		2,921,483
Expediting		514,512		-		514,512		-		514,512
Reclamation provision		120,000		-		120,000		-		120,000
Permitting and other		715,758		109,786		825,544		49,228		874,772
Total costs incurred		36,158,741		1,374,286		37,533,027		122,537		37,655,564
Mineral property impairment		(11,000,000)		(15,700,000)		(26,700,000)		(2,872,997)		(29,572,997)
Options and contribution payments - Rio Tinto		(7,730,646)		(172,309)		(7,902,955)		(79,612)		(7,982,567)
Mackenzie property, net		17,428,095		(14,498,023)		2,930,072		(2,830,072)		100,000
Piche Lake property										
Acquisition costs		-		52,565		52,565		-		52,565
Contractor and consultant		-		64,220		64,220		-		64,220
Project management fees		-		39,500		39,500		-		39,500
Field and camp		-		2,387		2,387		-		2,387
Transport and accomodation		-		8,036		8,036		-		8,036
Permitting and other		-		662		662		-		662
Total costs incurred		-		167,370		167,370		-		167,370
Mineral property impairment		-		(167,370)		(167,370)		-		(167,370)
Piche Lake property, net		-		-		-		-		-
Boulder Claims - Yukon										
Acquisition costs		-		-		-		38,640		38,640
Helicopter and fixed wing aircraft costs		-		-		-		13,155		13,155
Sampling and assays		-		-		-		2,996		2,996
Contractor and consultant		-		-		-		67,955		67,955
Project management fees		-		-		-		32,625		32,625
Field and camp		-		-		-		1,927		1,927
Transport and accomodation		-		-		-		29,385		29,385
Total costs incurred		-		-		-		186,683		186,683
Mineral property impairment		-		-		-		(186,683)		(186,683)
Boulder claims, net		-		-		-		-		-
Total expenditures	\$	17,428,095	\$	(14,498,023)	\$	2,930,072	\$	(2,830,072)	\$	100,000

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the six months ended September 30, 2010

5. Mineral Properties (Continued)

The Company is required to make deposits against its Northwest Territories mineral permits to guarantee its performance and has \$446,975 on deposit as at September 30, 2010 (March 31, 2010 - \$446,975).

In June 2010, the Company entered into a non-binding letter of intent to form a joint venture to explore for bedrock gold mineralization on the Boulder Claim Group. As consideration, Sanatana has paid \$38,640 to maintain the Boulder Claim Group in good standing until June 2011.

The Company undertook an assessment of its mineral properties at September 30, 2010 and recorded an impairment of \$2,872,997 against the value of the Mackenzie property and an impairment of \$186,683 against the Boulder Claims property.

6. Property and Equipment

	Office Furniture	Computer Equipment	Leasehold Improvements	Exploration Equipment	Total
Cost					
At March 31, 2009	\$ 34,703	\$ 25,663	\$ 41,357	\$ 363,497	\$ 465,220
At March 31, 2010	34,703	25,663	41,357	363,497	465,220
Additions	-	795	-	-	795
At September 30, 2010	34,703	26,458	41,357	363,497	466,015
Accumulated Amortization					
At March 31, 2009	18,392	24,060	41,357	95,508	179,317
Charge for the year	6,936	1,369	-	72,696	81,001
At March 31, 2010	25,328	25,429	41,357	168,204	260,318
Charge for the period	3,455	288	-	36,348	40,091
At September 30, 2010	28,783	25,717	41,357	204,552	300,409
Net book value					
At March 31, 2009	16,311	1,603	-	267,989	285,903
At March 31, 2010	9,375	234	-	195,293	204,902
At September 30, 2010	\$ 5,920	\$ 741	\$ -	\$ 158,945	\$ 165,606

The amortization change for the period comprises \$21,917 expensed to operations (2009 - \$4,681) and \$18,174 capitalized to mineral properties (2009 - \$36,348).

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the six months ended September 30, 2010

7. Common Shares

a) Authorized share capital

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

b) Issued share capital

At September 30, 2010 there were 62,762,623 common shares issued and outstanding (March 31, 2010 - 62,762,623 common shares).

8. Share Purchase Warrants

The Company's has no outstanding warrants at September 30, 2010.

9. 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 Company up to 10% of the common shares of the Company issued and outstanding at the date of the stock option grant. In July 2007, the Company's shareholders approved a stock option plan with similar provisions to the 2005 Option Plan under the rules of the Exchange. The 2007 stock option plan is considered a continuation of the 2005 Option Plan and was most recently confirmed by shareholders in September 2010. The directors may set option terms, but options granted under the plan typically have a life of five years and vest over an 18-month period. Stock option compensation expense is amortized over the vesting period.

The Company amortizes stock-based compensation expense over the respective vesting period of the options granted and recorded \$nil of stock-based compensation in the six-month period ended September 30, 2010 (2009 - \$184,000).

	For the six months ended September 30,			
	2010	2009		
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance, beginning of period	5,220,000	\$1.16	5,220,000	\$1.16
Granted	-	-	-	-
Forfeited	-	-	-	-
Balance, end of period	5,220,000	\$1.16	5,220,000	\$1.16

Sanatana Diamonds Inc.

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Notes to the Financial Statements

(Expressed in Canadian dollars)

For the six months ended September 30, 2010

9. Stock Options (continued)

Summary of outstanding options at September 30, 2010:

Exercise Price Range	Outstanding Options			Exercisable Options	
	Number	Weighted Average Exercise Price	Weighted Average Remaining Life	Number	Weighted Average Exercise Price
\$0.75-\$1.00	2,020,000	\$0.80	2.27 years	2,020,000	\$0.80
\$1.01-\$1.40	3,200,000	\$1.38	2.14 years	3,200,000	\$1.38
	5,220,000	\$1.16	2.19 years	5,220,000	\$1.16

The Company valued options using the Black-Scholes options pricing model with the following assumptions:

For the six months ended September 30,	2010	2009
Expected dividend yield	-	0%
Expected volatility	-	86.9%
Risk-free interest rate	-	2.9%
Expected life	-	5.0 years

10. Related Party Transactions

At September 30, 2010, the Company had three employees and had arrangements with a number of contractors to provide administrative, accounting and management services. Certain directors and significant shareholders provided management and consulting services to the Company.

Related party transactions in the periods presented were:

Six Months Ended September 30, 2010	Director Fees	Management Fees and Salaries	Capitalized Technical Services Fees (note 5)	Exploration Expense Contribution (note 5)
Edward Marlow	\$ 10,000	\$ -	\$ -	-
Harley Hotchkiss	5,000	-	-	-
Nick Archibald	5,000	-	-	-
Peter Miles (a)	-	33,000	-	-
Lithosphere Services Inc. (b)	-	17,000	5,000	-
S2 Management Inc. (c)	-	7,360	-	-
Rio Tinto (d)	-	-	-	79,612
	\$ 20,000	\$ 57,360	\$ 5,000	\$ 79,612

Sanatana Diamonds Inc.

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Notes to the Financial Statements

(Expressed in Canadian dollars)

For the six months ended September 30, 2010

10. Related Party Transactions (Continued)

Six Months Ended September 30, 2009	Director Fees	Management Fees and Salaries	Capitalized Technical Services Fees (note 5)	Exploration Expense Contribution (note 5)
Edward Marlow	\$ 10,000	\$ -	\$ -	-
Harley Hotchkiss	5,000	-	-	-
Nick Archibald	5,000	-	-	-
Peter Miles (a)	-	33,000	-	-
Lithosphere Services Inc. (b)	-	-	15,000	-
S2 Management Inc. (c)	-	9,150	-	-
Rio Tinto (d)	-	-	-	172,309
	<u>\$ 20,000</u>	<u>\$ 42,150</u>	<u>\$ 15,000</u>	<u>\$ 172,309</u>

a) Mr. Miles is the Company's President and CEO, and a director.

b) Lithosphere Services Inc. is controlled by Mr. Doyle the Company's VP Exploration and a director

c) S2 Management Inc. is controlled by the Company's CFO

d) Rio Tinto is a shareholder of the Company (note 5).

During fiscal 2010, Canada Revenue Agency ("CRA") concluded that certain contractors of the Company were actually employees and required that the Company make payroll remittances in respect of those individuals. The individuals will receive a refund of \$22,267 from CRA and have agreed to return these amounts to the Company, when received (note 4).

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

As at September 30,	2010	2009
Directors and insiders	\$ 10,000	\$ 11,907
Lithosphere Services Inc.	6,720	4,200
S2 Management Inc.	-	955

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

11. Commitments

a) Under the terms of an agreement dated November 25, 2004 with Kiska Metals Corporation, formerly Geoinformatics Explorations Inc. ("Kiska"), a company in which one of the Company's directors was formerly chief executive officer, Kiska is entitled to a 0.9% gross overriding royalty in respect of the Mackenzie Diamond project.

b) A member of Jaeger Joint Venture, from which the Company purchased an interest in the Mackenzie Diamond Project, is entitled to a 2% net sales revenue royalty from that project.

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(Expressed in Canadian dollars)

For the six months ended September 30, 2010

11. Commitments (Continued)

c) The Company is contractually committed under a lease agreement to make payments as follows:

Year ending March 31,	
2011	\$ 45,508
2012	<u>78,950</u>
	<u>\$124,458</u>

12. Capital Management

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

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

13. Supplementary Cash Flow Information

For the six months ended September 30,	2010	2009
Interest and taxes paid	\$ -	\$ -
Non-cash investing activities:		
Amortization in mineral properties	36,348	36,348

14. Financial Risk Management

Interest Rate Risk

The Company's interest rate risk mainly arises from changes in the interest rates on cash and equivalents. Cash and equivalents generate interest based on market interest rates. At September 30, 2010, the Company was not subject to any significant interest rate risk.

Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's credit risk arises primarily with respect to money market investments.

The Company manages its credit risk by investing only in obligations of any province of Canada, Canada or their respective agencies; banker's acceptances purchased in the secondary market and having received the highest credit rating from a recognized rating agency in Canada, with a term of less than 180 days; and bank term deposits and bearer deposit notes, with a term of less than 180 days.

The Company's maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents, and amounts receivable.

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Notes to the Financial Statements

(Expressed in Canadian dollars)

For the six months ended September 30, 2010

14. Financial Risk Management (Continued)

Liquidity Risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances. If necessary, the Company may raise funds through the issuance of debt, equity or monetization of non-core assets. The Company ensures that there is sufficient capital to meet its obligations by continuously monitoring and reviewing actual and forecasted cash flows, and match the maturity profile of financial assets to development, capital and operating needs.

The following table presents the financial instruments recorded at fair value in the balance sheet, classified using the fair value hierarchy:

	Level 1	Level 2	Level 3	Total financial assets at fair value
Financial assets				
Cash	\$ 2,270,078	\$ -	\$ -	\$ 2,270,078
Total financial assets	\$ 2,270,078	\$ -	\$ -	\$ 2,270,078