SANATANA DIAMONDS INC.

Management's Discussion and Analysis

For the Six Months Ended September 30, 2010

Suite 1925 - 925 West Georgia Street
Vancouver, British Columbia
V6C 3L2

Telephone: 604-408-6680

This management's discussion and analysis ("MD&A") contains certain forward-looking statements that are prospective and reflect management's expectations regarding Sanatana Diamonds Inc.'s ("Sanatana" or the "Company") future growth, results of operations, performance and business prospects and opportunities. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. All statements, other than statements of historical fact, included in this MD&A including without limitation, statements regarding potential mineralization and reserves, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, exploration results and future plans and objectives of Sanatana are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from Sanatana's expectations are disclosed in its documents filed from time to time with the TSX Venture Exchange (the "Exchange") and other regulatory authorities and include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore to be mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors.

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

Introduction

This MD&A has been prepared as of November 26, 2010 and should be read in conjunction with the Company's unaudited interim financial statements and related notes for the six months ended September 30, 2010 and the audited annual financial statements and related notes for the year ended March 31, 2010. This MD&A is intended to provide the reader with a review of the Company's performance for the six months ended September 30, 2010 and through to the date of this report, and the factors reasonably expected to impact future operations and results.

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

Incorporation and Listing Information

Sanatana was incorporated under the British Columbia *Business Companies Act* on June 25, 2004. In November 2005, the Company became a reporting issuer in every province and territory of Canada, except Quebec. On May 17, 2006, the Company's common shares commenced trading on the Exchange under the symbol "STA" as a mining exploration and development company.

Operating Report

During the quarter ended September 30, 2010, Sanatana undertook an exploration program on the Boulder Claims group and completed programs underway on the Mackenzie and Piche Lake projects. The exploration results to date do not warrant further work at this time and Sanatana is actively seeking to acquire interests in other mineral properties.

Sanatana's exploration programs are carried out under the supervision of the Company's vice president of exploration, Mr. Buddy Doyle, and exploration manager, Mr. Troy Gill. Mr. Doyle and Mr. Gill meet the qualified person requirements (as defined by National Instrument 43-101) and together they have 54 years of experience in mineral exploration. They are responsible for the geoscientific and technical disclosure contained in this document.

Boulder Claim Group – Whitegold District Yukon Territory

In June 2010, the Company entered into a non-binding letter of intent to form a joint venture to explore for bedrock gold mineralization on the Boulder Claim Group located 40 kilometres south of Dawson City, Yukon. As consideration, Sanatana has paid $38,640 to maintain the Boulder Claim Group in good standing until June 2011. As described below, the Company undertook a two-phase exploration program at the Boulder Claims but did not identify the location of any gold-bearing bedrock.

Mineral Properties

Mackenzie Project

The Company's principal project since inception has been the Mackenzie project, located in the Northwest Territories, where the Company holds approximately 1.1 million acres under mineral claims in areas indicating anomalous till samples (see green areas on map below):

The Company has identified several geochemical diamond indicator anomalies that are defined by separate areas. They have been systematically explored and named as follows:

- Greenhorn (two diamondiferous kimberlites, several unexplained till anomalies)
- Colville (a broad cloud of indicator minerals)
- Simpson (a defined high count indicator anomaly of unknown source)
- Yeltea (indicator minerals forming down ice trains)
- Horton and Estabrook (isolated clouds of indicator minerals)
- Kilekale (an area of several discrete magnetic anomalies and scattered till anomalies that have been drill tested)

- Raymond (a concentration of G10 pyrope indicator counts within the Colville cloud of till anomalies)

The Company has a joint venture agreement with diamond producer Rio Tinto Exploration Canada Inc. ("Rio Tinto", formerly Kennecott Canada Exploration Inc.), a subsidiary of the Rio Tinto Group. Pursuant to the joint venture, the Company acts as the operator and Rio Tinto has a 15% interest in the Company's Mackenzie diamond project, which can be increased to a maximum of 60% based on certain milestones. Rio Tinto elected not to participate in the Company's 2010 exploration program resulting in its interest being diluted, although the amount of dilution to date has not been material.

Since the Company has not been able to raise funds for diamond exploration without incurring undue dilution, and with Rio Tinto's decision to dilute its interest, the Company has decided to suspend exploration within the Mackenzie project region.

The principal exploration activities on the Mackenzie project are discussed below*:*

Greenhorn

The Company undertook extensive magnetic, gravity and max-min surveys and drill programs in the Greenhorn area, which lead to the discovery of two kimberlites, Dharma and Dharma Uttar. The drill program intersected the Dharma Kimberlite in 2007 and three holes were drilled into this target to obtain a one tonne caustic fusion sample. The results for the October 2007 Dharma Kimberlite discovery are shown in Table 1 below.

TABLE 1: Diamond distribution in CIM sieves (mm)[1]

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[2]	536

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

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

The Company returned to the area in late February 2008 and began testing other geophysical targets. Dharma Uttar was discovered in April 2008 during the diamond drill program and 448 kilograms of kimberlite were sent to the laboratory. These returned significant diamonds. Results for the April 2008 Dharma Uttar discovery are shown in Table 2.

TABLE 2: Diamond distribution in CIM sieves (mm)[1]

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[2]	96	68	30	14	8	3	5	3				227

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

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

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

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

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

Colville

The Company holds a land and water use permit in the area around Colville Lake. This permit allows Sanatana to drill up to 30 magnetic targets situated within a 60-kilometre radius of the hamlet of Colville Lake. The Company has completed a drill program, but the source of the indicator minerals remains enigmatic.

Simpson

The Company has completed airborne magnetic and EM surveys on the Simpson project, where there is a 25 kilometre by 15 kilometre indicator mineral anomaly. The Company staked this area in order to retain the most prospective indicator mineral and geophysical anomalies after the prospecting permits expired. Drilling was not successful in locating kimberlite and the prominent indicator minerals in till anomaly at Simpson remain unexplained.

Kilekale Lake

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

Raymond

In 2008 the Raymond area was recognised from the Colville cloud of indicator anomalies as a place of concentrated higher counts of G10 pyropes in the mix of indicator minerals. G10 pyrope is a significant indicator mineral species. Raymond remains an unexplained isolated cloud for G10 pyrope anomalism within the general indicator till anomaly of the Colville area.

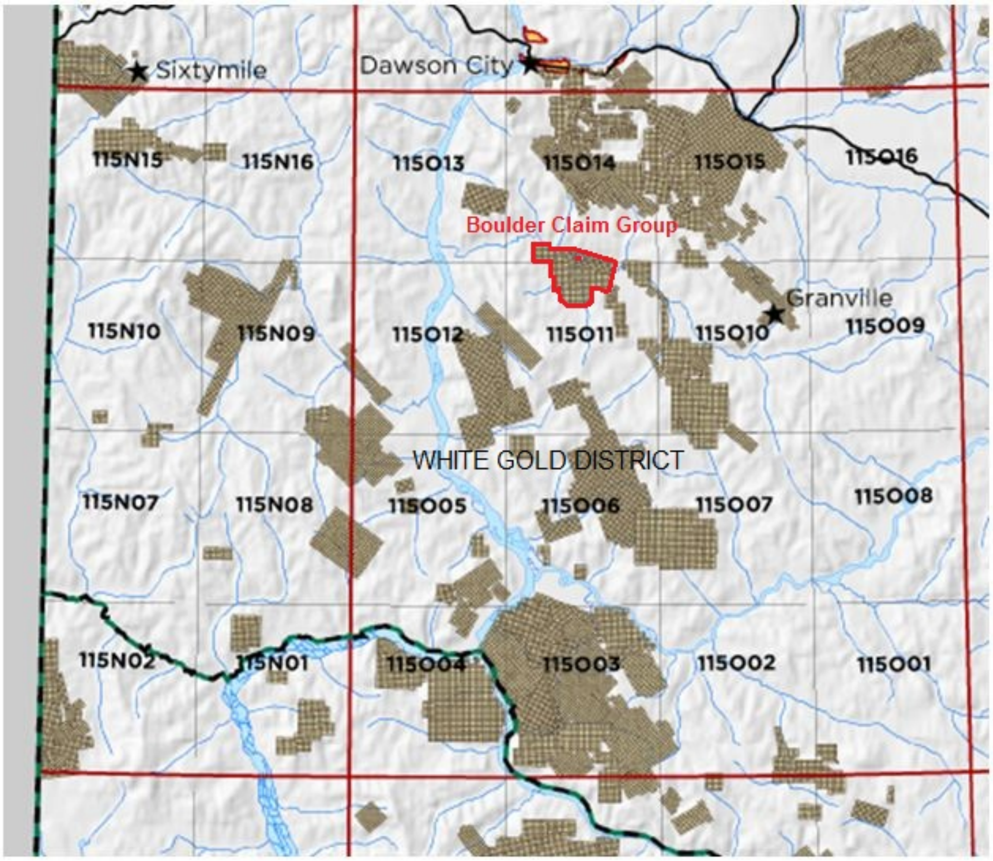
Land position

The Company's land holdings are continually changing based on exploration results expenditures and Canada's Mining Regulations. The Company initially held a large area of ground in the form of prospecting permits and, based on exploration results, the Company has been progressively focusing on the most prospective areas and now holds mineral claims covering approximately 1.1 million acres. As long as the Company completes its work obligations, these claims will not expire. An annual expenditure of $2 per acre is required to keep mineral claims in good standing under the Canada Mining Regulations. However, expenditures beyond this amount in a single year may be applied to successive years, thereby securing tenure without the need for new expenditure for years to come. This is the case for many of the mineral claims that make up the Mackenzie project. Over time, the Company will either have to (1) undertake further exploration work; (2) pay fees under Canada Mining Regulations; or (3) forgo mineral claims.

Piche Lake Property

The Company completed a one-RC drill hole program testing the seismic target at the Piche Lake property, located in Alberta, in late March 2010. The Company drilled to a depth of 87 metres, however, the drill hole failed to reach bedrock and was terminated in till cover. The Company collected and analyzed samples for indicator mineral processing but they were found to be negative for kimberlitic indicator minerals. The unexpectedly deep till cover over the seismic target casts doubt over the validity of the geophysical anomaly. Therefore, the Company decided not to pursue the Piche Lake project any further at this time and wrote off its investment as of March 31, 2010. The Company incurred $34,000 of expenses in the first quarter of fiscal 2011 relating to the Piche Lake project.

Boulder Claim Group



The Company completed a reconnaissance field mapping and prospecting program at the Boulder Claim Group during August 2010. The program involved fact mapping of bedrock outcrops and surface cover along existing roads and trails across the property as well as visiting selected locations on the surrounding hills by helicopter and collecting representative samples of the rocks. The Company also collected samples of placer material and sluice concentrates to gain some background data on gold affinity and distribution across the property. Fifty-three samples were submitted for ICP multi-element analysis and other processing including mineral observation and microprobe geochemical analysis.

Based on the geological map and rock sample results of the first reconnaissance program, the Company undertook a second bedrock mapping and sampling field program in September 2010. In ten days of field work the mapping was extended to all areas of the property by traversing creeks and ridgelines. The Company collected 66 bedrock samples that it had analyzed for gold and trace elements by fire assay and ICP methods.

Although the Company sampled quartz veining and visually altered looking country rocks, no significant precious or base metal results were returned. The highest bedrock gold value was 0.26 g/t. Placer gold analysis by microprobe showed two groups of nuggets with distinctly different fineness values: one had high fineness and the other significantly less. The higher fineness gold is finer grained and flattened and interpreted to be transported over a greater distance. The morphology of the lower fineness placer gold implied a more proximal source.

This was the most important finding of the reconnaissance fieldwork as it provided the Company with some confidence that there might be a bedrock gold source within the placer catchment area on the property. Unfortunately, the exploration program did not identify the location of a bedrock gold source, if it exists, and the assay results do not justify further exploration work on the Boulder Group of claims at this time. The Company may return to this property if new information comes to light and any further work can be coordinated with another of the Company's exploration programs.

Exploration Budget

The Company curtailed its diamond exploration budget for the 2011 fiscal year and did not conduct any field programs. The Company approved a budget of $64,000 to be spent on the reconnaissance mapping field program at the Boulder Claim Group, which was subsequently, increased by $95,000 plus management costs to fund follow-up mapping and sampling from the findings of the first reconnaissance program.

Financial

Exploration Expenditures

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

	Six months ended September 30, 2010	Year ended March 31, 2010	Year ended March 31, 2009
Mackenzie property			
Helicopter and fixed wing aircraft	$ 7,524	$ 480,051	$ 3,375,608
Sampling and assays	21,045	116,278	322,116
Contractor and consulting	615	345,108	2,097,480
Project management fees	25,000	135,500	170,968
Field and camp	11,721	46,350	493,793
Transport and accommodation	7,404	141,213	469,619
Expediting	-	-	5,848
Permitting and other	49,228	109,786	293,107
Total exploration costs for the period	122,537	1,374,286	7,228,539
Mineral property impairment	(2,872,997)	(15,700,000)	(11,000,000)
Rio Tinto contribution payments	(79,612)	(172,309)	(1,060,301)
Increase (decrease) in carrying value	(2,830,072)	(14,498,023)	(4,831,762)
Piche Lake property			
Total exploration costs for the period	34,564	167,370	-
Expensed as abandoned claim costs	(34,564)	-	-
Mineral property impairment	-	(167,370)	-
Increase in carrying value	-	-	-
Boulder Claims			
Acquisition costs	38,640	-	-
Helicopter and fixed wind aircraft costs	13,155	-	-
Sampling and assays	2,996	-	-
Contractor and consultant	67,955	-	-
Project management fees	32,625	-	-
Field and camp	1,927	-	-
Transport and accommodation	29,385	-	-
Total exploration costs for the period	186,683	-	-
Mineral property impairment	(186,683)		
Increase in carrying value	-	-	-
All mineral properties			
Increase (decrease) in carrying value	$ (2,830,072)	$ (14,498,023)	$ (4,831,762)

During the quarter ended September 30, 2010, the Company undertook a review of its mineral properties and assessed exploration success and market conditions. After this review, the Company recorded a total impairment provision of $3,059,680 representing substantially all of the carrying value.

Selected Quarterly Financial Data

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

Quarter Ended	Cash and Equivalents	Mineral Properties	Income (Loss) for the Quarter	Income (Loss) per Share (Basic and Diluted)
December 31, 2008	$ 4,778,968	$ 17,907,417	$ (8,477,495)	$ (0.14)
March 31, 2009	4,905,843	17,670,592	(264,417)	(0.00)
June 30, 2009	3,885,700	18,436,050	(201,493)	(0.00)
September 30, 2009	3,459,028	18,792,204	(224,828)	(0.00)
December 31, 2009	3,063,436	19,108,693	(178,337)	(0.00)
March 31, 2010	2,801,892	3,377,047	(13,287,585)	(0.21)
June 30, 2010	2,478,438	3,426,782	(210,723)	(0.00)
September 30, 2010	$ 2,270,078	$ 100,000	$ (3,192,586)	$ (0.05)

The Company is an exploration stage company and did not have any sales or revenues, nor has it had any extraordinary items or discontinued operations in the most recent eight fiscal quarters. As the Company is still in the exploration stage, variances in its quarterly losses are not affected by sales or production-related factors. Variances by quarter reflect overall exploration and corporate activity and certain factors that may not recur each quarter.

The Company's quarterly operating loss has typically been between $175,000 and $275,000, with expenses trending downwards over the last two years following the delisting from AIM (with resulting cost savings) and as the Company scaled back its operations to reflect the weak market for diamonds. Operating expenditures were even lower in the September 30, 2010 quarter. Variations from the normal level of operating loss include:

- December 31, 2008 – The Company incurred a $154,000 write-down of bonds. The loss for the quarter also reflected an $11,000,000 impairment taken against the book value of mineral properties partially offset by a future income tax recovery against the impairment.
- March 31, 2010 – The loss for the quarter reflects a $15,867,000 impairment against the Company's mineral properties.
- September 30, 2010 – The loss for the quarter includes a $3,060,000 impairment of the Company's mineral properties.

Results of Operations for the Six Months Ended September 30, 2010

Some of the factors necessary to understand the Company's results of operations are:

- Director fees, which are paid to the three non-executive directors, total $40,000 annually. Two members of management are also on the board, but have agreed to forgo their director fees until the Company's financial position improves. If the executive directors

had not agreed to forgo their fees, aggregate annual director fees would be $60,000 and director fees for the year to date would be $30,000.
- Investor relations expenses relate to investor communications, including maintaining and updating the website and disseminating news releases.
- Office and administration fees represent general administrative expenses including fees paid for office administration services.
- Professional fees were paid to lawyers and auditors.
- Rent relates to the Company's office premises. The Company signed a lease effective February 1, 2010 at a lower rate reflecting prevailing rental market conditions. As a result, rent expense for the current period is lower than for the comparative period.
- Management fees and salaries represent amounts paid to officers, employees and contractors and related benefits, net of amounts capitalized to mineral properties. Management fees decreased in the period as a greater proportion of geological consulting was capitalized to mineral properties rather than charged to operations due primarily to work on the Boulder Claim Group.
- Stock-based compensation represents recognition of the fair value of stock options granted over their vesting term, calculated using the Black-Scholes option-pricing model. All options vested in prior periods, so no expense has been recognized in the current period.
- Travel and accommodation represents the cost of management travel to the mineral properties and for corporate development activities. Travel and accommodation expense fluctuates significantly from period to period depending on the initiatives under way. Travel increased in the year-to-date period due to a director visiting the Company's offices from overseas, but current quarter expenditures were in line with normal activities.
- Abandoned claim costs relate to expenses incurred to complete exploration work on the Piche Lake property, which was written off effective March 31, 2010.
- Mineral property impairment reflects a $2,873,000 impairment of the Mackenzie property and $187,000 impairment of the Boulder Claims property.

Liquidity

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

As at		**September 30, 2010**		**March 31, 2010**
Cash and equivalents	$	2,270,078	$	2,801,892
Working capital	$	2,097,945	$	2,631,886
For the six months ended		**September 30, 2010**		**September 30, 2009**
Cash used in operating activities	$	(337,534)	$	(358,534)
Cash used in investing activities		(194,280)		(1,088,281)
Cash provided by financing activities		-		-
Change in cash	$	(531,814)	$	(1,446,815)

In the period ended September 30, 2010, cash used in operating activities was largely accounted for by the loss for the period and settlement of year-end liabilities. The reduction in cash consumed by operating activities in the current period reflects the lower level of activity.

Cash used in investing activities was represented by expenditures on mineral properties partially offset by a refund of exploration expenditures by Rio Tinto. The Company received $80,000 from Rio Tinto in the period relating to exploration expenditures incurred in fiscal 2010.

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

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

The Company's activities have been funded primarily through equity financing and the Company expects that it will continue to be able to employ this form of financing, although management expects challenges in raising such financing, particularly for diamond exploration. There can be no assurance, however, that the Company will be successful in its efforts. If such funds are not available or other sources of financing cannot be obtained, then the Company will be forced to curtail its activities.

Adoption of New Accounting Pronouncements

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

The transition from GAAP to IFRS is a significant undertaking that may materially affect Sanatana's reported financial position and operations. The Company has appointed internal staff to lead the IFRS conversion process. The Company expects to be IFRS compliant by April 1, 2011.

The Company has not yet completed its IFRS changeover plan (the "IFRS Plan"), but has completed a high-level scoping study to consider the potential impact of the implementation of IFRS on the Company's financial reporting. The Company has also prepared a balance sheet at April 1, 2010 under IFRS, which it will have audited. This opening balance sheet will form the opening position of the Company's comparative financial statements when reporting under IFRS. IFRS will not only impact the presentation and disclosure of items in the financial statements but also the determination of future net income and the measurement of balance sheet items.

The Company's IFRS Plan will include modeling the impact of individual IFRS standards and related interpretations on our financial statements. Based on the high-level scoping study, the following IFRS standards are expected to have the most significant impact on the Company:

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

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

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

Related Party Transactions

At September 30, 2010, the Company had three employees and arrangements with contractors to provide certain administrative, accounting and management services. In addition, certain directors, officers and significant shareholders provide management and consulting services to the Company. The Company does not have any contractual commitments with related parties. Particulars of related party transactions are disclosed in note 10 of the September 30, 2010 financial statements.

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

As a result of CRA's conclusion in fiscal 2010 that certain contractors of the Company should have been treated as employees, the Company paid remittances and related penalties for payroll deductions. CRA will refund an estimated $16,000 to the individuals, who have agreed to return the funds to the Company when received. The amount due from employees also includes GST of $5,000 arising from the characterization of the contractors as employees. To September 30, 2010, the Company collected $4,000 of the $21,000 initially recorded as receivable.

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

Contractual Obligations and Commitments

Particulars of the Company's contractual obligations and commitments are disclosed in note 11 to the September 30, 2010 financial statements.

Share Capital

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

Stock Option Plan

The Company's shareholders have approved a stock option plan (the "Option Plan") which is a "rolling" plan that provides for the issuance to directors, officers, consultants and employees of the Company of up to 10% of the common shares of the Company that have been issued and are outstanding at the date of the stock option grant. The Company's shareholders reapproved the Option Plan on September 15, 2010.

Stock options are non-transferable and expire at the end of five years from the date of grant, or 90 days after the termination of employment or other contracting arrangement of a director, officer, employee or consultant of the Company. If the option holder provides investor relations services to the Company, the options will expire 30 days after termination of contract arrangement. The board of directors of the Company determines the exercise price, which may be no less than the market price at the day of grant. Stock options are typically granted for a five-year term with options vesting over an 18-month period.

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

Share Purchase Warrants

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

Dividends

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

Outstanding Share Information

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

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

Changes to the Board of Directors and Management

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

Risks and Uncertainties

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

Capital Markets and Economic Uncertainty

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

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

*Nature of Mineral Explor*ation and Development Projects

The business of mineral exploration involves a high degree of risk. Few of the properties that are explored are ultimately developed into mines. Sanatana's properties are in the exploration stage; at present the Mackenzie project does not have a known commercial diamond deposit and the Boulder Claims property is not known to have any valuable mineralization. Proposed exploration programs are exploratory searches for such a deposit. The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors that are beyond the control of the Company.

The Company's operations are subject to all the hazards and risks normally associated with the mineral exploration, any of which could result in damage to life or property or the environment. The Company's operations may be subject to disruptions caused by unusual or unexpected formations, formation pressures, fires, power failures, flooding, explosions, cave-ins, landslides, the inability to obtain suitable or adequate equipment or machinery, labour disputes, or adverse weather conditions. Although the Company maintains insurance to cover normal business risks, the availability of insurance for many of the hazards and risks is extremely limited or uneconomical at this time. Through high operating standards, Sanatana works to reduce these risks.

The Company's operations are also subject to the additional risks associated with the short exploration season in the Northwest Territories, Nunavut and the Yukon Territory. The Company's exploration programs are dependent upon sufficient logistical support, including camps and fuel caches, to allow productive exploration activities during the brief arctic summer. A breakdown in logistical support could severely curtail the Company's planned exploration program.

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

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

Success in establishing reserves is the result of a number of factors, including the quality of management, the Company's level of geological and technical expertise, the quality of land available for exploration, the availability of suitable contractors, and other factors. If mineralization is discovered, the initial phases of drilling may take several years until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish reserves through drilling, to determine the optimal metallurgical process and to construct mining and processing facilities. Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of resources or reserves.

Licenses and Permits, Laws and Regulations

Sanatana's exploration activities require permits from various government authorities and are subject to extensive federal, provincial and local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly. Sanatana draws on the expertise and commitment of its management team, directors, advisors and contractors to ensure compliance with current laws and fosters a climate of open communication and co-operation with regulatory bodies.

The Company believes that it holds all necessary licenses, and will receive all necessary permits under applicable laws and regulations, and believes it is presently complying in all material respects with the terms of such licenses and permits. There is no assurance that future changes in applicable regulations, if any, will not adversely affect the Company's operations. Government approvals and permits are required in connection with the exploration activities proposed for the Company's properties. To the extent such approvals are required and not obtained, the Company's planned exploration and development activities may be delayed, curtailed, or cancelled entirely.

Claim Titles and Aboriginal Rights

Aboriginal rights may be claimed on Crown properties or other types of tenure with respect to which mining rights have been conferred. Aboriginal land claim settlements are more advanced in the Northwest Territories than they are in most other areas of Canada. The Mackenzie diamond project area is located in the Gwich'in, Sahtu and Inuvialuit settlement regions. With the exception of the Gwich'in Comprehensive Land Claim Agreement, Sahtu Dene and Metis Comprehensive Land Claim Agreement and the Inuvialuit Final Agreement pertaining to certain areas in the Northwest Territories, the Company is not aware of any aboriginal land claims having been asserted or any legal actions relating to aboriginal issues having been instituted with respect to any of the land located within the Mackenzie diamond project area.

Conflicts of Interest

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

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

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

For additional information, please refer to the Company's website at www.sanatanadiamonds.com. For all regulatory filings including news releases, please refer to the Company's profile on www.sedar.com.