Sanatana Diamonds Inc.

(An Exploration Stage Company)

Interim Financial Statements

For the Three and Nine Months Ended December 31, 2007 and 2006

(Stated in Canadian dollars)

CONTENTS

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Notice to Reader

These unaudited interim financial statements for the nine and three months period ended December 31, 2007 have not been reviewed by our auditors. They have been prepared by the Company's management in accordance with accounting principles generally accepted in Canada, consistent with previous quarters and years, except for the adoption of new accounting policies as described in note 3. These unaudited interim financial statements have been reviewed and approved by the Company's audit committee.

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

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Balance Sheets
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

	December 31, 2007	March 31 2007
Assets		
Current		
Cash and equivalents	$ 3,632,878	$ 5,572,786
Amounts receivable	111,198	83,115
Prepaid expenses	52,322	64,782
	3,796,398	5,720,683
Exploration advances	2,349	5,287
Mineral properties (note 4)	20,923,330	16,019,185
Property and equipment (note 5)	71,758	98,677
	$ 24,793,835	$ 21,843,832
Liabilities		
Current		
Accounts payable (note 9)	$ 296,668	$ 284,083
Accrued liabilities	311,211	275,469
	607,879	559,552
Future income tax liability	5,478,601	3,002,618
	6,086,480	3,562,170
Shareholders' Equity		
Common shares (note 6)	20,724,369	20,041,875
Share subscription receivable (note 7)	93,207	-
Share purchase warrants (note 7)	327,954	327,954
Contributed surplus	637,397	23,146
Deficit accumulated in the exploration stage	(3,075,572)	(2,111,313)
	18,707,355	18,281,662
	$ 24,793,835	$ 21,843,832

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:

Peter Miles, Director

Edward Marlow, Director

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Statement of Shareholders' Equity
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

	Number of Shares	Common Shares	Share Subscription Received	Contributed Surplus	Share Purchase Warrants	Deficit Accumulated in the Exploration Stage	Shareholders' Equity
Balance - March 31, 2005	30,679,810	$ 7,421,603	$ -	$ -	$ -	$ (220,851)	$ 7,200,752
Issuance of shares on public offering, net of issuance costs of $1,192,123	2,890,398	3,903,610	-	-	-	-	3,903,610
Issuance of shares as listing costs	36,586	64,026	-	-	-	-	64,026
Tax value of assets renounced to flow-through share investors	-	(348,408)	-	-	-	-	(348,408)
Loss for the year	-	-	-	-	-	(1,033,698)	(1,033,698)
Balance - March 31, 2006	33,606,794	11,040,831	-	-	-	(1,254,549)	9,786,282
Issuance of shares on public offering, net of issuance costs of $1,266,061	7,142,857	11,233,939	-	-	-	-	11,233,939
Issuance of warrants as listing costs	-	(327,954)	-	-	327,954	-	-
Issuance of shares as listing costs	100,000	175,000	-	-	-	-	175,000
Tax value of assets renounced to flow-through share investors	-	(2,079,941)	-	-	-	-	(2,079,941)
Stock-based compensation	-	-	-	23,146	-	-	23,146
Loss for the year	-	-	-	-	-	(856,764)	(856,764)
Balance - March 31, 2007	40,849,651	20,041,875	-	23,146	327,954	(2,111,313)	18,281,662
Issuance of shares on public offering, net of issuance costs of $419,828	13,515,420	3,292,477	-	-	-	-	3,292,477
Exercise of agent warrants	-	-	93,207	-	-	-	93,207
Tax value of assets renounced to flow-through share investors	-	(2,609,983)	-	-	-	-	(2,609,983)
Stock-based compensation	-	-	-	614,251	-	-	614,251
Loss for the period	-	-	-	-	-	(964,259)	(964,259)
Balance – December 31, 2007	54,365,071	$ 20,724,369	$ 93,207	$ 637,397	$327,954	$ (3,075,572)	$ 18,707,355

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Statement of Operations and Deficit
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
Expenses				
Amortization	$ 7,005	$ 8,595	$ 21,033	$ 19,165
Consulting and advisory fees	-	16,068	33,490	47,317
Director fees	15,000	15,535	46,409	52,727
Filing fees	7,209	2,705	30,370	31,893
Investor relations	-	24,074	-	82,716
Management fees	22,807	68,745	59,977	178,477
Office and administration	98,881	59,421	226,929	181,627
Professional fees	30,360	24,663	68,983	93,580
Stock-based compensation	515,000	-	614,251	-
Transfer agent fees	7,781	5,833	24,742	25,246
Travel and accommodation	18,023	52,001	76,835	98,157
Loss before undernoted	(722,066)	(277,640)	(1,203,019)	(810,905)
Interest income	30,843	76,359	104,760	206,341
Loss before income taxes	(691,223)	(201,281)	(1,098,259)	(604,564)
Future income tax recovery	(134,000)	-	(134,000)	-
Net loss for the period	(557,223)	(201,281)	(964,259)	(604,564)
Deficit, beginning of period	(2,518,349)	(1,657,832)	(2,111,313)	(1,254,549)
Deficit, end of period	$(3,075,572)	$(1,859,113)	$(3,075,572)	$(1,859,113)
Loss per share - basic and fully diluted	$ (0.01)	$ (0.00)	$ (0.02)	$ (0.02)
Weighted average common Shares outstanding - basic and fully diluted	51,107,557	40,849,651	44,244,085	39,664,456

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Statements of Cash Flows
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
Cash provided by (used in):				
Operating activities:				
Net loss for the period	$ (557,223)	$ (201,281)	$ (964,259)	$ (604,564)
Adjustment for non-cash items:				
Amortization of property and equipment	7,005	8,595	21,033	19,165
Amortization of lease inducement	(1,695)	(1,695)	(5,085)	2,732
Stock-based compensation	515,000	-	614,251	-
Future income tax recovery	(134,000)	-	(134,000)	-
Amounts receivable	103,957	140,235	(28,083)	15,810
Prepaid expenses	36,863	(9,218)	12,460	(8,219)
Accounts payable	(359,174)	(1,034,298)	27,585	(338,282)
Accrued liabilities	4,637	-	25,827	(20,000)
	(384,630)	(1,097,662)	(430,271)	(933,358)
Investing activities:				
Exploration advances	35,380	(38,672)	2,938	(82,661)
Mineral properties	(1,777,357)	(2,094,655)	(5,098,259)	(6,511,570)
Property and equipment	-	-	-	(36,990)
Kennecott- option and contribution	-	-	200,000	2,500,000
	(1,741,977)	(2,133,327)	(4,895,321)	(4,131,221)
Financing activities				
Issuance of common shares	3,712,305	-	3,712,305	12,500,000
Share subscription receivable	93,207	-	93,207	-
Offering costs	(419,828)	(65,418)	(419,828)	(904,711)
	3,385,684	(65,418)	3,385,684	11,595,289
Increase (decrease) in cash and equivalents	1,259,077	(3,296,407)	(1,939,908)	6,530,710
Cash and equivalents, beginning of period	2,373,801	10,573,754	5,572,786	746,637
Cash and equivalents, end of period	$ 3,632,878	$ 7,277,347	$ 3,632,878	$ 7,277,347
Cash and equivalents comprise:				
Cash			$ 148,421	$ 256,543
Equivalents			3,484,457	7,020,804
			$ 3,632,878	$ 7,277,347

The accompanying notes are an integral part of these financial statements

1. Nature of Business and Basis of Presentation

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

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

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

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

2. Ability to Continue as a Going Concern

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

As at December 31, 2007 the Company has no source of operating cash flow and has an accumulated deficit of approximately $3,200,000 (March 31, 2007 - $2,100,000). Operations have been funded primarily from the issuances of common shares and working capital. Subsequent to December 31, 2007, the Company completed a financing (note 14) that provided cash to support at least 12 months' operations.

3. Adoption of Accounting Policies

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

Other Comprehensive Income

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

Financial Instruments - Recognition and Measurement

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

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

(Expressed in Canadian dollars)

4. Mineral Properties

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

	Nine Months Ended December 31, 2007 $	Year Ended March 31, 2007 $
Acquisition costs		
Opening balance	421,800	188,970
Incurred in the period	5,925	232,830
Closing balance	427,725	421,800
Helicopter and fixed wing aircraft costs		
Opening balance	8,470,331	4,491,768
Incurred in the period	2,229,429	3,978,563
Closing balance	10,699,760	8,470,331
Sampling and assays		
Opening balance	3,359,624	1,975,735
Incurred in the period	366,168	1,383,889
Closing balance	3,725,792	3,359,624
Labour		
Opening balance	1,590,750	283,088
Incurred in the period	1,615,131	1,307,662
Closing balance	3,205,881	1,590,750
Geological services		
Opening balance	2,763,613	1,507,599
Incurred in the period	22,000	1,256,014
Closing balance	2,785,613	2,763,613
Project management fees		
Opening balance	575,997	499,997
Incurred in the period	39,000	76,000
Closing balance	614,997	575,997
Field and camp		
Opening balance	842,082	196,037
Incurred in the period	363,618	646,045
Closing balance	1,205,700	842,082
Transport and accommodation		
Opening balance	1,629,907	734,339
Incurred in the period	507,117	895,568
Closing balance	2,137,024	1,629,907
Expediting		
Opening balance	443,522	116,110
Incurred in the period	63,182	327,412
Closing balance	506,704	443,522
Reclamation provision		
Opening balance	120,000	120,000
Provided in the period	-	-
Closing balance	120,000	120,000
Other		
Opening balance	342,586	307,579
Incurred in the period	54,703	35,007
Closing balance	397,289	342,586

(Expressed in Canadian dollars)

4. Mineral Properties (continued)

	Nine Months Ended December 31, 2007 $	Year Ended March 31, 2007 $
Total costs incurred on mineral properties	25,826,485	20,560,212
Reimbursable bonds and deposits[1]		
Opening balance	458,973	2,312,911
Recovered in the period	(162,128)	(2,327,884)
Incurred in the period	-	473,946
Closing balance	296,845	458,973
Option and contribution payments - Kennecott		
Opening balance	(5,000,000)	(2,500,000)
Received in the period	(200,000)	(2,500,000)
Closing balance	(5,200,000)	(5,000,000)
Total cash outlay, net of funding received from Kennecott and reimbursable bonds	20,923,330	16,019,185

1 The Company is required to make deposits against its mineral permits to guarantee its performance. In addition to the $296,845 currently on deposit, there are performance bonds secured by letter of credit in the amount of $283,320 (note 13).

5. Property and Equipment

	December 31, 2007		
	Cost $	Accumulated Amortization $	Net Book Value $
Office furniture	30,010	9,944	20,066
Computer equipment	24,727	13,647	11,080
Leasehold improvements	41,357	24,953	16,404
Exploration equipment	39,250	15,042	24,208
	135,344	63,586	71,758

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

6. Common Shares

a) Authorized share capital

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

b) Common share issuances

The Company has completed several “flow-through” financings structured to pass on to subscribers the tax benefits associated with Canadian exploration expenditures (as defined in the Canadian Income Tax Act) funded by the proceeds of the shares. Under these financings, the Company renounces tax deductions in favour of subscribers.

In October 2007, the Company closed a brokered private placement consisting of 6,846,420 non flow-through shares and 6,669,000 flow-through shares. Attached to the non flow-through shares are share purchase warrants to purchase 3,423,210 additional non flow-through shares at a price of $0.30 per share for an 18-month period, and attached to the flow-through shares are 3,334,500 share purchase warrants priced at $0.35 per share exercisable for an 18-month period. The private placement raised gross proceeds of $3,271,176 and the Company paid offering expenses estimated of $419,828. Through to December 31, 2007, the Company renounced the full amount in tax deductions in respect of the $2,000,700 flow-through component of the private placement.

In May 2006, the Company completed a $12,500,000 flow-through financing. Through to December 31, 2007, the Company renounced tax deductions totalling $12,100,000 in favour of subscribers to the 2006 flow-through financing. As at December 31, 2007, the remaining balance available for eligible expenditures was $400,000 (March 31, 2007 - $5,013,143). These funds must be spent on exploration activities by May 2008.

c) Escrowed shares

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

As at December 31, 2007, 6,211,518 common shares (March 31, 2007 – 10,352,530 common shares) remained in escrow.

(Expressed in Canadian dollars)

7. Share Purchase Warrants

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

	2007		2006	
	Number of Warrants	Weighted Average Exercise Price $	Number of Warrants	Weighted Average Exercise Price $
Balance, beginning of period	428,571	1.75	-	-
Granted	6,757,710	0.32	-	-
Exercised	-	-	-	-
Expired or cancelled	-	-	-	-
Balance, end of period	7,186,281	0.40	-	-

Summary of outstanding warrants at December 31, 2007:

Expiry Date	Exercise Price $	Financing Warrants Outstanding	Broker Warrants Outstanding	Fair Value of Broker Warrants at Issue Date $
May 15, 2008	$1.75	-	428,571	327,954
April 22, 2009	$0.35	3,334,500	-	-
April 22, 2009	$0.30	3,423,210	-	-
		6,757,710	428,571	327,954

During the period ended December 31, 2007, the holder of 53,261 broker warrants indicated their intention to exercise. The corresponding shares were issued in January 2008.

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

8. Stock Options

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

(Expressed in Canadian dollars)

8. Stock Options (continued)

The Company amortizes the stock-based compensation expense over the vesting period and recorded $614,251 of stock-based compensation in the nine-month period ended December 31, 2007.

	Nine Months Ended December 31			
	2007		2006	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Balance, beginning of period	3,170,000	1.16	-	-
Granted	300,000	0.75	-	-
Exercised	-	-	-	-
Expired or forfeited	(50,000)	(0.75)	-	-
Balance, end of period	3,420,000	1.13	-	-

Summary of outstanding options at December 31, 2007:

Exercise Price Range	Outstanding Options			Exercisable Options
	Weighted Average Exercise Price	Number	Weighted Average Remaining Life	Number
$0.75	$0.75	1,420,000	4.30 years	-
$1.40	$1.40	2,000,000	4.23 years	-
	$1.13	3,420,000	4.26 years	-

The options granted to consultants of the Company were revalued as of December 31, 2007, using the Black-Scholes options pricing model with the following assumptions:

	Nine months ended December 31	
	2007	2006
Expected dividend yield	0%	-
Expected volatility	86.9%	-
Risk-free interest rate	3.87%	-
Expected life	4.29 years	-

The weighted average grant date fair value of options awarded in the nine months ended December 31, 2007 was $0.24.

(Expressed in Canadian dollars)

9. Related Party Transactions

At December 31, 2007, the Company did not have any employees and had arrangements with a number of contractors to provide most of the administrative, accounting and management services required. Certain directors and significant shareholders provided management and consulting services to the Company.

Related party transactions in the nine months ended December 31, 2007 were:

	Nine months ended December 31,	
Services provided by:	2007	2006
Directors and insiders (a)	$ 95,909	$ 99,060
Lithosphere Services Inc. (b)	71,500	-
St. George Minerals Limited (c)	54,945	40,142
MCSI Consulting Services Inc. (d)	$ 10,477	$ -

a) Directors and insiders provided services in the normal course of business. These services are classified according to their nature, including financial, technical, investor relations, and management services.

b) Fees paid or accrued for technical services performed by a company controlled by a director of the Company

c) Fees paid or accrued for financial and administrative services performed by a company controlled by a former director of the Company.

d) Fees paid or accrued for financial services performed by a company controlled by an officer of the Company.

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

Balances included in accounts payable and accrued liabilities	December 31, 2007	March 31, 2007
	$	$
Directors and insiders	15,000	17,195
St. George Minerals Limited	-	6,969
Lithosphere Services Inc.	9,540	10,600
MCSI Consulting Services Inc.	5,107	-

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

(Expressed in Canadian dollars)

10. Commitments

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

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

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

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.

c) The Company signed a 36-month lease for office space, starting February 1, 2006. The total lease commitment is $6,000 per month plus GST. In addition, the first three months were rent-free. The rental liability related to this inducement has been accrued and is being amortized over the term of the lease.

d) Under the conditions of flow-through financing (see note 6) and related income tax law, the Company is committed to spending $400,000 on future eligible exploration expenditures before May 31, 2008 and to spending a further $1,900,500 before October 31, 2009.

11. Financial Instruments

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

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

(Expressed in Canadian dollars)

12. Supplementary Cash Flow Information

	Three Months Ended December 31 2007	Three Months Ended December 31 2006	Nine Months Ended December 31 2007	Nine Months Ended December 31 2006
Interest and taxes	$ -	$ -	$ -	$ -
Non-cash investing activities:				
Amortization in mineral properties	$ 1,962	$ 809	$ 5,886	$ 5,886
Non-cash financing activities:				
Shares issued as listing costs	-	-	-	175,000
Warrants issued as listing costs	-	-	-	178,800

13. Off-Balance Sheet Arrangements and Contingent Liabilities

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

14. Subsequent Events

On January 16, 2008, the Company completed the subscription for common shares of the Company by an affiliate of Kennecott Canada Exploration Inc. The affiliate, QIT-Fer et Titane Inc., acquired 641,025 common shares at a price of $1.56 per share. The shares may not be traded in Canada until May 16, 2008.

On February 5, 2008 the Company closed a private placement of 4,200,055 units and 2,793,500 flow-through shares at a price of $1.35 per unit and $1.55 per flow-through share, raising total gross proceeds of $9,999,999. The units consist of one common share of the Company and one-half of one warrant, each whole warrant entitling the holder to purchase one common share of the Company at an exercise price of $1.65 for a period of 18 months following the closing. A syndicate of agents led by Genuity Capital Markets and including J.F. Mackie & Company Ltd., Haywood Securities Inc. and Raymond James Ltd. acted as agents in connection with the brokered portion of the private placement. The agents received broker warrants to purchase in aggregate 489,549 common shares of the Company at an exercise price of $1.35 for a period of 12 months following the closing. All securities issued in connection with the private placement are subject to a four-month hold period ending June 6, 2008.

15. Comparative Figures

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