Sanatana Diamonds Inc.

(An Exploration Stage Company)

Financial Statements
Unaudited – Prepared by Management
For the Periods Ended December 31, 2009 and 2008
(Stated in Canadian dollars)

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Notice to Reader

These unaudited financial statements for the nine-month period ended December 31, 2009 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 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, 2009.

Sanatana Diamonds Inc.

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

	December 31, 2009	March 31, 2009
Assets		
Current		
Cash and equivalents	$ 3,063,436	$ 4,905,843
Amounts receivable (note 4)	30,298	-
Prepaid expenses	18,643	63,771
	3,112,377	4,969,614
Mineral properties (note 5)	19,108,693	17,670,592
Property and equipment (note 6)	224,888	285,903
	$ 22,445,958	$ 22,926,109
Liabilities		
Current		
Accounts payable (note 10)	$ 83,937	$ 136,427
Accrued liabilities	120,000	165,003
	203,937	301,430
Future income tax liability	2,740,601	2,740,601
	2,944,538	3,042,031
Shareholders' Equity		
Common shares (note 7)	30,306,804	30,306,804
Share purchase warrants (note 8)	-	530,263
Contributed surplus	2,783,660	2,031,397
Deficit accumulated in the exploration stage	(13,589,044)	(12,984,386)
	19,501,420	19,884,078
	$ 22,445,958	$ 22,926,109

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)

	Number of Shares	Common Shares	Share Purchase Warrants	Contributed Surplus	Deficit Accumulated in the Exploration Stage	Shareholders' Equity
Balance - March 31, 2008	62,319,254	$ 31,377,515	$ 755,144	$ 499,397	$ (2,642,921)	$ 29,989,135
Share issuance costs	-	(1,203)	-	-	-	(1,203)
Exercise of warrants	421,999	141,200	-	-	-	141,200
Exercise of agent warrants	21,370	19,292	(12,881)	-	-	6,411
Agent warrants expired	-	-	(212,000)	212,000		-
Stock-based compensation (note 9)	-	-	-	1,320,000	-	1,320,000
Tax value of assets renounced to flow-through share investors		(1,230,000)	-	-	-	(1,230,000)
Loss for the year	-	-	-	-	(10,341,465)	(10,341,465)
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 (note 9)	-	-	-	222,000	-	222,000
Loss for the period	-	-	-	-	(604,658)	(604,658)
Balance - December 31, 2009	62,762,623	$ 30,306,804	$ -	$ 2,783,660	$ (13,589,044)	$ 19,501,420

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)

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
Expenses				
Amortization	$ 1,812	$ 7,317	$ 6,493	$ 21,795
Consulting and advisory fees	19,200	-	57,600	82,455
Director fees	10,000	8,861	30,000	39,674
Filing fees	470	354	11,118	17,620
Investor relations	5,260	280	5,789	62,702
Office and administration	25,426	42,094	61,093	151,916
Rent	27,140	17,380	78,749	49,978
Professional fees	3,187	1,670	3,647	50,003
Management fees and salaries	34,380	21,780	93,124	99,129
Stock-based compensation (note 9)	38,000	72,000	222,000	1,230,000
Transfer agent fees	1,410	20,806	12,306	39,672
Travel and accomodation	12,842	4,000	26,089	35,609
Loss before undernoted	(179,127)	(196,542)	(608,008)	(1,880,553)
Write-down of bonds	-	(153,775)	-	(153,775)
Mineral property write-down	-	(11,000,000)	-	(11,000,000)
Interest income	790	12,822	3,350	97,280
Loss before income taxes	(178,337)	(11,337,495)	(604,658)	(12,937,048)
Future income tax recovery	-	(2,860,000)	-	(2,860,000)
Loss and comprehensive loss for the period	$ (178,337)	$ (8,477,495)	$ (604,658)	$ (10,077,048)
Loss per share - basic and diluted	$ (0.00)	$ (0.18)	$ (0.01)	$ (0.21)
Weighted average common shares outstanding - basic and diluted	62,762,623	62,753,873	62,762,623	62,702,396

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)

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
Cash provided by (used in):				
Operating activities:				
Loss for the period	$ (178,337)	$ (8,477,495)	$ (604,658)	$ (10,077,048)
Adjustment for non-cash items:				
Amortization of property and equipment	1,812	7,317	6,493	21,795
Amortization of lease inducement	-	5,653	-	(568)
Stock-based compensation (note 9)	38,000	72,000	222,000	1,230,000
Mineral property write-down	-	11,000,000	-	11,000,000
Bond write-off	-	153,775	-	153,775
Future income tax recovery	-	(2,860,000)	-	(2,860,000)
Change in non-cash working capital items				
Amounts receivable	(17,520)	130,306	(30,298)	70,687
Prepaid expenses	14,068	12,378	45,128	107,345
Accounts payable	54,059	(896,007)	54,396	(728,409)
Accrued liabilities	(15,000)	(97,587)	(45,003)	(210,977)
	(102,918)	(949,660)	(351,942)	(1,293,400)
Investing activities:				
Mineral properties	(292,674)	(284,028)	(1,454,735)	(5,816,948)
Reimbursable bonds and deposits	-	-	(208,039)	-
Property and equipment	-	-	-	(4,692)
Kennecott contribution	-	-	172,309	1,691,349
	(292,674)	(284,028)	(1,490,465)	(4,130,291)
Financing activities:				
Issuance of common shares	-	-	-	144,985
Offering costs	-	-	-	(1,202)
	-	-	-	143,783
Decrease in cash and equivalents	(395,592)	(1,233,688)	(1,842,407)	(5,279,908)
Cash and equivalents, beginning of period	3,459,028	6,012,656	4,905,843	10,058,876
Cash and equivalents, end of period	$ 3,063,436	$ 4,778,968	$ 3,063,436	$ 4,778,968
Cash and equivalents comprise:				
Cash	$ 49,024	$ 73,820	$ 49,024	$ 73,820
Equivalents	3,014,412	4,705,148	3,014,412	4,705,148
	$ 3,063,436	$ 4,778,968	$ 3,063,436	$ 4,778,968

Supplementary cash flow information (note 13)

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 mineral property rights in the Northwest Territories which it is exploring and developing in a joint venture with Kennecott Canada Exploration Inc. (“Kennecott”) and has entered into an option agreement to acquire an exploration property in Alberta.

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 Canadian generally accepted accounting principles (“GAAP”) 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 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 December 31, 2009 the Company has no source of operating cash flow and has an accumulated deficit of $13,589,044. Operations for the period ended December 31, 2009 have been funded primarily from issuances of capital stock and from contributions received from Kennecott. Should the current weak market for diamond exploration persist, management expects challenges raising further financing.

3. Basis of Presentation and Adoption of Accounting Policies

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian 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, 2009.

Presentation

Where applicable, comparative figures have been reclassified to conform with presentation used in the current year.

The financial statements follow the same accounting policies and methods of their application as the annual financial statements except as described below.

Effective April 1, 2009, the Company adopted the following accounting pronouncements:

Section 3064, “Goodwill and Intangible Assets”. This section replaces Section 3062, “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs”. Various changes have been made to other sections of the Canadian Institute of Chartered Accountants (“CICA”) Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this section has had no significant impact on the Company’s financial statements

The Company plans to adopt accounting pronouncements as follows:

a) 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.

(Expressed in Canadian dollars)

3. Basis of Presentation and Adoption of Accounting Policies (Continued)

b) 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

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

4. Accounts Receivable

	December 31, 2009	March 31, 2008
GST receivable	$ 9,031	$ -
Due from employees (note 10)	21,267	-
	$ 30,298	$ -

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Notes to the Financial Statements
Unaudited – Prepared by Management
(Expressed in Canadian dollars)
For the nine months ended December 31, 2009

5. Mineral Properties

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

	Balance March 31, 2008	Change	Balance March 31, 2009	Change	Balance December 31, 2009
MacKenzie property					
Acquisition costs	$ 426,076	$ -	$ 426,076	$ -	$ 426,076
Helicopter and fixed wing aircraft costs	12,068,360	3,375,608	15,443,968	480,050	15,924,018
Sampling and assays	3,924,630	322,116	4,246,746	114,269	4,361,015
Contractor and consultant	7,002,524	2,097,480	9,100,004	343,308	9,443,312
Project management fees	661,997	170,968	832,965	121,000	953,965
Field and camp	1,492,053	493,793	1,985,846	45,149	2,030,995
Transport and accomodation	2,303,247	469,619	2,772,866	139,765	2,912,631
Expediting	508,664	5,848	514,512	-	514,512
Reclamation provision	120,000	-	120,000	-	120,000
Permitting and other	422,651	293,107	715,758	89,612	805,370
Total costs incurred	28,930,202	7,228,539	36,158,741	1,333,153	37,491,894
Mineral property impairment	-	(11,000,000)	(11,000,000)	-	(11,000,000)
Reimursable bonds and deposits (*)	1,397,958	(1,155,461)	242,497	208,039	450,536
Options and contribution payments - Kennecott	(6,670,345)	(1,060,301)	(7,730,646)	(172,309)	(7,902,955)
Total outlay, net of funding from Kennecott and reimburseable bonds	23,657,815	(5,987,223)	17,670,592	1,368,883	19,039,475
Marmac property					
Acquisition costs	-	-	-	52,565	52,565
Contractor and consultant	-	-	-	1,246	1,246
Project management fees	-	-	-	14,500	14,500
Transport and accomodation	-	-	-	907	907
Total costs incurred	-	-	-	69,218	69,218
Total expenditures	$ 23,657,815	$ (5,987,223)	$ 17,670,592	$ 1,438,101	$ 19,108,693

5. Mineral Properties (Continued)

(*) The Company is required to make deposits against its NWT mineral permits to guarantee its performance and has $450,536 on deposit as at December 31, 2009 (March 31, 2009 - $242,497).

On October 5, 2009, the Company entered into an option agreement with Marmac Mines Ltd. ("Marmac") to acquire a 50% interest in four mineral concessions located in the Piche Lake area of Alberta. The Company will earn 10% interest in the property by paying to Marmac $52,500 (paid) upon receipt of the TSX Venture Exchange approval (received), drilling a minimum of two test holes on or before April 10, 2010, and incurring a minimum of $100,000 of exploration expenditures on or before June 30, 2010.

After earning the 10% interest in the property the Company will have the right to earn a further 40% interest by incurring $1,000,000 in exploration expenditures on or before April 1, 2012.

After earning its 50% interest, the Company may enter into a joint venture agreement with Marmac.

(Expressed in Canadian dollars)

6. Property and Equipment

	Office Furniture	Computer Equipment	Leasehold Improvements	Exploration Equipment	Total
Cost					
At March 31, 2008	$ 30,010	$ 25,663	$ 41,357	$ 363,497	$ 460,527
Additions	4,693	-	-	-	4,693
At March 31, 2009	34,703	25,663	41,357	363,497	465,220
Additions	-	-	-	-	-
At December 31, 2009	34,703	25,663	41,357	363,497	465,220
Accumulated Amortization					
At March 31, 2008	11,456	15,786	28,379	22,812	78,433
Charge for the year	6,936	8,274	12,978	72,696	100,884
Disposals	-	-	-	-	-
At March 31, 2009	18,392	24,060	41,357	95,508	179,317
Charge for the period	5,202	1,291	-	54,522	61,015
Disposals	-	-	-	-	-
At December 31, 2009	23,594	25,351	41,357	150,030	240,332
Net book value					
At March 31, 2008	18,554	9,877	12,978	340,685	382,094
At March 31, 2009	16,311	1,603	-	267,989	285,903
At December 31, 2009	$ 11,109	$ 312	$ -	$ 213,467	$ 224,888

(Expressed in Canadian dollars)

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 December 31, 2009 there were 62,762,623 common shares issued and outstanding (March 31, 2009 - 62,762,623 common shares).

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 ("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, 2009, no common shares (March 31, 2009 – 2,070,506 common shares) remained in escrow.

8. Share Purchase Warrants

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

	December 31, 2009		March 31, 2009	
	Number Of Warrants	Weighted Average Exercise Price	Number Of Warrants	Weighted Average Exercise Price
Balance, beginning of period	9,657,769	$0.61	10,807,797	$0.65
Granted	-	-	-	-
Exercised	-	-	(443,369)	0.33
Expired	(9,657,769)	0.61	(706,659)	1.47
Balance, end of period	-	-	9,657,769	$0.61

There are no outstanding warrants at December 31, 2009.

(Expressed in Canadian dollars)

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 2009. 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 the stock-based compensation expense over the respective vesting period of the options granted and recorded $222,000 of stock-based compensation in the nine months ended December 31, 2009 (2008 - $1,230,000).

For the nine months ended December 31,	2009		2008	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance, beginning of period	5,220,000	$1.16	3,420,000	$1.13
Granted	-	-	2,050,000	1.15
Expired or cancelled	-	-	(250,000)	(0.75)
Balance, end of period	5,220,000	$1.16	5,220,000	$1.16

Summary of outstanding options at December 31, 2009:

	Outstanding Options			Exercisable Options	
Exercise Price Range	Number	Weighted Average Exercise Price	Weighted Average Remaining Life	Number	Weighted Average Exercise Price
$0.75-$1.00	2,020,000	$0.80	2.77 years	1,807,500	$0.80
$1.01-$1.40	3,200,000	$1.38	2.64 years	2,900,000	$1.38
	5,220,000	$1.16	2.69 years	4,707,500	$1.16

(Expressed in Canadian dollars)

9. Stock Options (continued)

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

For the nine months ended December 31,	2009	2008
Expected dividend yield	0%	0%
Expected volatility	86.9%	86.9%
Risk-free interest rate	2.8%	3.3%
Expected life	5.0 years	5.0 years

10. Related Party Transactions

At December 31, 2009, 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:

For the nine months ended December 31,	2009	2008
Services provided by:		
Directors and insiders (a)	$ 79,500	$ 39,674
Lithosphere Services Inc. (b)	23,000	46,000
S2 Management Inc. (c)	10,660	16,624
MCSI Consulting Services Inc. (c)	-	2,972
Reimbursement of exploration expenses by Kennecott (note 5)	172,309	-

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 for technical services performed by a company controlled by a director of the Company.

c) Fees 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.

(Expressed in Canadian dollars)

10. Related Party Transactions (Continued)

During the period, 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 certain amounts 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:

	December 31, 2009	March 31, 2009
Directors and insiders (a)	$ 10,085	$ 9,133
Lithosphere Services Inc. (b)	7,350	5,250
S2 Management Inc. (c)	819	540

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 ("Kiska", formerly Geoinformatics Explorations Inc.), 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.

c) The Company's lease for office space expired January 31, 2010 and so the Company signed a new lease expiring January 30, 2012. The Company is committed to monthly premises lease payments of $7,429 during 2010 increasing slightly in 2012 to $7,898 monthly.

12. Capital Management

The Company considers that its capital comprises shareholders' equity. 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 or internally 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 period.

(Expressed in Canadian dollars)

13. Supplementary Cash Flow Information

For the nine months ended December 31,	2009	2008
Interest and taxes paid	$ -	$ -
Non-cash investing activities:		
Amortization in mineral properties	54,522	54,522

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 December 31, 2009, the Company was not subject to or exposed 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 our 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.

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.