SANATANA DIAMONDS INC.

Management's Discussion and Analysis

For the Nine Months Ended December 31, 2010

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This management's discussion and analysis ("MD&A") contains certain forward-looking statements that are prospective and reflect management's expectations regarding Sanatana Diamonds Inc.'s ("Sanatana" or the "Company") future growth, results of operations, performance and business prospects and opportunities. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. All statements, other than statements of historical fact, included 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 February 21, 2011 and should be read in conjunction with the Company's unaudited interim financial statements and related notes for the nine months ended December 31, 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 nine months ended December 31, 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 three-month period ended December 31, 2010, Sanatana completed work on its summer exploration programs. The exploration results to date do not warrant further work on the Mackenzie property at this time, although the Company is considering further work on the Boulder Claims. Sanatana is actively seeking to acquire interests in other mineral properties and increased property investigation activities in the quarter ended December 31, 2010.

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 who meet the qualified person requirements of National Instrument 43-101. They are responsible for the geoscientific and technical disclosure contained in this document.

Corporate Developments

- In February 2011 the Company entered into a definitive agreement with Augen Gold Corp. ("Augen") to acquire up to 51% of an undivided interest in the rights to 46 mineral concessions in Ontario. See "Augen Gold Corp." below.
- In December 2010 the Company completed a private placement and issued 10,155,883 flow-through shares for gross proceeds of $1,726,500. See "Share Capital" below.
- In January 2011, the Company completed a private placement and issued 6,666,666 common shares for gross proceeds of $1,000,000. See "Share Capital" below.
- In February 2011, the Company announced its intention to seek shareholder approval to change its name to "Sanatana Resources Inc."

Augen Gold Corp.

In February 2011 the Company entered into a definitive agreement with Augen, in which the Company has an option to acquire up to a 51% undivided interest in the rights to 46 mineral concessions (the "Claims") and the first right of refusal to acquire an additional nine mineral concessions (the "ROFR Claims"), all located in Ontario and owned by Augen. The proposed option is an arm's length transaction. The definitive agreement is subject to Exchange approval.

Pursuant to the terms of the definitive agreement, the Company will have an option to earn a 50% undivided interest in the Claims (the "50% Interest") by making the following payments to Augen based upon acceptance of applicable regulatory approval for a definitive agreement (the "Effective Date"):

Date	Cash Payment	Common Shares	Expenditures
Effective Date	$150,000	2,000,000	-
On or before first anniversary of Effective Date	-	1,500,000	$1,000,000
On or before second anniversary of Effective Date	-	1,500,000	$1,500,000
On or before third anniversary of Effective Date	-	-	$2,500,000
	$150,000	5,000,000	$5,000,000

If the Company earns the 50% Interest in accordance with the provisions set forth above the parties will enter into a joint venture agreement with respect to the Claims and the Company will have the right to earn a further 1% interest (for a total interest of 51%) in the Claims by completing and delivering to Augen a pre-feasibility study on or before the fifth anniversary of the Effective Date.

The definitive agreement includes a provision that as the Company and Augen are parties to an option or joint venture, with respect to the Claims or the ROFR Claims, Augen has the option to purchase up to 10% of any securities issued in any future equity offerings by the Company, on the same terms and conditions of such offering. Augen participated in January 2011 private placement (see "Share Capital" below).

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)

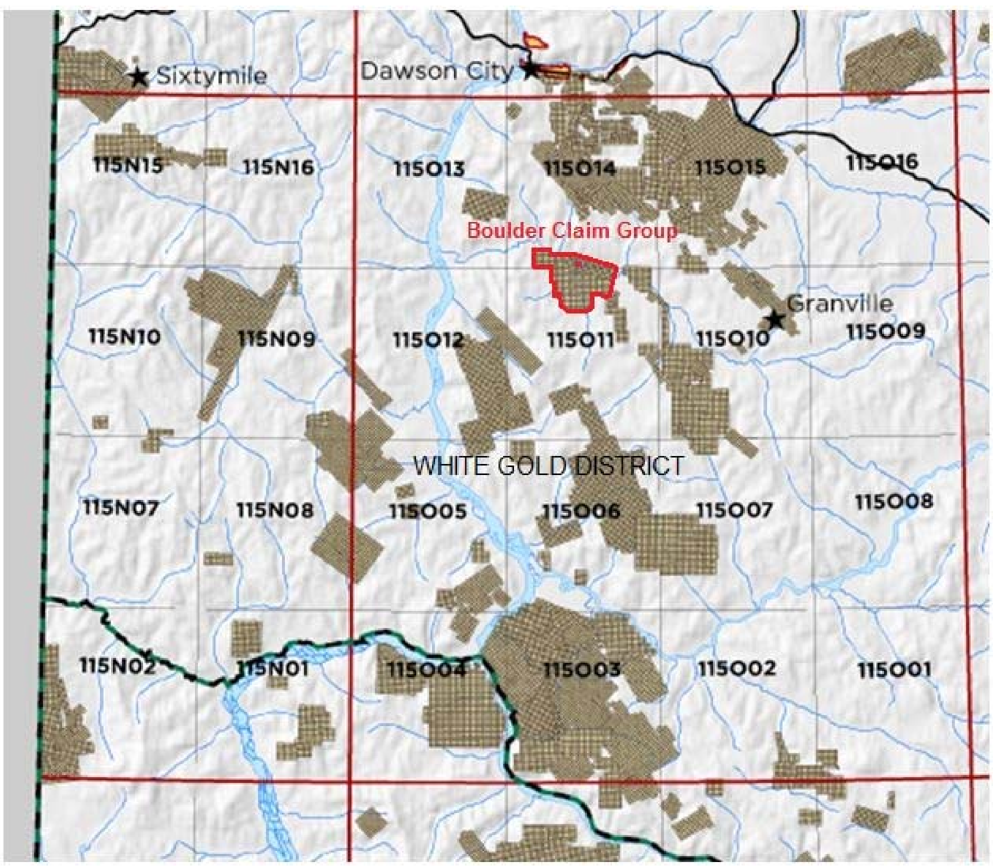
The Company has a joint venture agreement with diamond producer Rio Tinto Exploration Canada Inc. ("Rio Tinto", formerly Kennecott Canada Exploration Inc.), a subsidiary of the Rio Tinto Group. Pursuant to the joint venture, the Company acts as the operator and Rio Tinto has a 15% interest in the Company's 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 summer 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 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.

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. 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. There are no expenditure requirements necessary during the 2012 fiscal year to maintain the Company's Northwest Territories and Yukon claims. The Company is developing an exploration plan for the Augen properties heading in to the 2012 fiscal year.

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:

	Nine months ended December 31, 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	21,238	116,278	322,116
Contractor and consulting	615	345,108	2,097,480
Project management fees	27,821	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	48,066	109,786	293,107
Total exploration costs for the period	124,389	1,374,286	7,228,539
Mineral property impairment	(2,874,849)	(15,700,000)	(11,000,000)
Rio Tinto contribution payments	(111,265)	(172,309)	(1,060,301)
Increase (decrease) in carrying value	(2,861,725)	(14,498,023)	(4,831,762)
Piche Lake property			
Total exploration costs for the period	-	167,370	-
Expensed as abandoned claim costs	-	-	-
Mineral property impairment	-	(167,370)	-
Increase in carrying value	-	-	-
Boulder Claims			
Acquisition costs	38,640	-	-
Helicopter and fixed wind aircraft costs	14,074	-	-
Sampling and assays	10,168	-	-
Contractor and consultant	82,965	-	-
Permitting and other	1,541	-	-
Project management fees	45,125	-	-
Field and camp	4,300	-	-
Transport and accommodation	50,160	-	-
Total exploration costs for the period	246,973	-	-
Expensed as abandoned claims costs			
Mineral property impairment	(246,973)	-	-
Increase in carrying value	-	-	-
All mineral properties			
Increase (decrease) in carrying value	$ (2,861,725)	$ (14,498,023)	$ (4,831,762)

At September 30, 2010 and December 31, 2010, the Company completed reviews of the Mackenzie and Boulder Claims projects, which considered exploration success and market conditions. The Company has recorded a total impairment provision of $3,122,000, representing substantially all of the assets' 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 *	Loss for the Quarter	Loss per Share (Basic and Diluted)
March 31, 2009	$ 4,905,843	$ 17,428,095	$ (264,417)	$ (0.00)
June 30, 2009	3,885,700	17,985,514	(201,493)	(0.00)
September 30, 2009	3,459,028	18,341,668	(224,828)	(0.00)
December 31, 2009	3,063,436	18,658,157	(178,337)	(0.00)
March 31, 2010	2,801,892	2,930,072	(13,287,585)	(0.21)
June 30, 2010	2,478,438	2,979,807	(210,723)	(0.00)
September 30, 2010	2,270,078	100,000	(3,192,586)	(0.05)
December 31, 2010	$ 3,793,021	$ 68,347	$ (256,838)	$ (0.00)

* Certain periods have been restated to reflect the reclassification of refundable deposits as a separate financial statement line item.

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 as the Company scaled back its operations to reflect the weak market for diamonds. Variations from the normal level of operating loss include:

- 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.
- December 31, 2010 – The Company incurred property investigation costs of $123,000 and costs associated with abandoned claims of $35,000 as it moved forward to consider new projects.

Results of Operations

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

- Amortization was previously allocated between operations (which was expensed) and exploration activities (which was capitalized). Following the decision to suspend exploration on the Mackenzie project, the Company has expensed all amortization of equipment.

- 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 agreed to forgo their director fees while the Company's financial future was uncertain, but the Company expects to reinstate these fees in future quarters. If the executive directors had not agreed to forgo their fees, director fees for the year to date would have been $45,000.
- 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.
- Property investigation costs represents travel, direct geological labour and consulting costs to assess prospective acquisitions. Since the outlook for the Company's existing properties is uncertain, the Company has directed more time and effort to assessing properties in Canada and Asia with a commensurate increase in the expense.
- 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 or allocated to property investigation costs. Overall management compensation has not changed materially in the last year, but the amount charged to management fees and salaries has fluctuated depending on exploration and property investigation activities under way from time to time.
- 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, but does not include the travel costs to inspect prospective acquisitions. 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 $2,875,000 impairment of the Mackenzie property and $247,000 impairment of the Boulder Claims property.

Liquidity

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

As at		**December 31, 2010**		**March 31, 2010**
Cash and equivalents	$	3,793,021	$	2,801,892
Working capital	$	3,669,785	$	2,631,886

For the nine months ended		**December 31, 2010**		**December 31, 2009**
Cash used in operating activities	$	(470,251)	$	(351,942)
Cash used in investing activities		(315,639)		(1,490,465)
Cash provided by financing activities		1,777,019		-
Change in cash	$	991,129	$	(1,842,407)

In the period ended December 31, 2010, cash used in operating activities was largely accounted for by the loss for the period net of amortization and mineral property impairment.

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 $111,000 from Rio Tinto in the current period relating to exploration expenditures incurred in fiscal 2010. The Company does not expect to receive any further payments from Rio Tinto in the foreseeable future.

Cash flows from financing activities relate to Company's flow-through private placement, which generated gross proceeds of $1,726,500, and non flow-through private placement for which the Company received share subscriptions of $161,000 before December 31 2010. Subsequent to December 31, 2010, the Company generated an additional $1,000,000 from closing its non flow-through private placement. These private placements are described in more detail below under "Share Capital".

In fiscal 2010 and into fiscal 2011, the Company reduced its ongoing cash requirements. With the expected work on the Augen properties, the Company expects that operating expenses will increase in the coming months. Following the recently completed private placements, which raised gross proceeds of $2,727,000, the Company projects it has sufficient cash and equivalents at the date of this MD&A to last at least 12 months. Favourable exploration results could lead to an accelerated exploration program, but the Company would first seek additional financing before significantly expanding the scope of its exploration programs.

At the date of this MD&A, the Company has 4,034,018 share purchase warrants outstanding that are exercisable at $0.25 per share through to December 31, 2011, but the Company cannot count on these warrants being exercised before they expire. 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 contributions from Rio Tinto. The Company expects that it will continue to be able to continue with obtaining funds from equity financing but there can be no assurance, 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 the Company'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 has modeled the impact of individual IFRS standards and related interpretations on our financial statements. 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
- IAS 36 – Impairment of Assets

In addition, while IFRS does not prescribe how to account for flow-through shares, common practice differs from Canadian GAAP and an adjustment to shareholders' equity will be required on the first-time adoption of IFRS. As part of its IFRS analysis, the Company decided to continue capitalizing exploration expenses.

The Company is currently designing an IFRS framework, which includes formulating policy positions and a communications strategy. The Company has prepared an IFRS opening balance sheet and is compiling comparative data including that required for quarterly financial statements and disclosures and annual financial statements and disclosures. The Company is monitoring IFRS development to ensure that its IFRS Plan is still appropriate.

Related Party Transactions

At December 31, 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 December 31, 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 improved but following the recent private placements, the Company expects to reinstate director fees to these individuals, which will increase aggregate annual director fees to $60,000.

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 December 31, 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 December 31, 2010 financial statements.

Contractual Obligations and Commitments

Particulars of the Company's contractual obligations and commitments are disclosed in note 11 to the December 31, 2010 financial statements.

Share Capital

The Company had 72,918,506 common shares issued and outstanding at December 31, 2010, and 62,762,623 common shares issued and outstanding at March 31, 2010.

Private Placements

December 2010 Flow-Through

In December 2010, the Company completed a private placement in two tranches, issuing 10,155,883 flow-through shares pursuant to the *Income Tax Act* (Canada) at a price of $0.17 per flow-through share for gross proceeds of $1,726,500. The Company will renounce an amount equal to the gross proceeds derived from the sale of the flow-through shares to purchasers in accordance with the provisions of the *Income Tax Act* (Canada). All securities issued in the closing of the private placement are subject to a hold period expiring May 1, 2011.

Upon closing of the first tranche of the private placement, MineralFields Group, a mining fund that offers tax-advantaged flowthrough limited partnerships to investors, purchased 2,352,941 flow-through shares and the Company also paid Limited Market Dealer Inc. ("LMD") a cash commission equal to 6% of certain of the subscriptions placed by LMD (being $18,000) and issued to LMD broker's warrants equal to 7% of certain of the flow-through shares sold by LMD (being 123,529 broker's warrants).

In connection with the private placement, the Company paid an aggregate cash commission of $71,490 to certain arm's length finders (equal to 6% of the subscriptions placed by the respective finders) and issued 413,823 broker's warrants to certain arm's length finders (equal to 7% of the flow-through shares placed by the respective finders). Each broker's warrant

entitles the holder to purchase one additional non flow-through common share in the capital of the Company at an exercise price of $0.25 per common share until December 30, 2011.
In aggregate, the Company incurred cash costs comprising finder's and professional fees of $110,000 and issued broker warrants with a fair value of $39,238.

The net proceeds from the flow-through shares will be used by the Company for exploration work on its properties in the Northwest Territories or Yukon and for general corporate purposes and a reserve for asset acquisition investigations. If the proposed transaction with Augen closes, the Company reserves the right to use the net proceeds from the flow-through shares for exploration work on the mineral concessions contemplated in the proposed transaction.

January 2011 Non Flow-Through

In January 2011, the Company completed a private placement issuing 6,666,666 units at a price of $0.5 per unit for gross proceeds of $1,000,000. Each unit consists of one non flow-through common share in the capital of the Company and one half of a share purchase warrant. Each whole warrant entitles the holder to purchase one share at a price of $0.25 per share until January 14, 2012. All securities issued in connection with this closing are subject to a hold period expiring on May 15, 2011.

In connection with the private placement, the Company also paid an aggregate cash commission of $47,160 to certain arm's length finders (equal to 6% of the subscriptions placed by the finders) and issued 163,333 non-transferable broker's warrants to an arm's length finder (equal to 7% of the units placed by the finder). Each broker's warrant entitles the holder to purchase one additional common share of the Company at an exercise price of $0.25 per share until January 14, 2012.

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 nine months ended December 31, 2010. Earlier in the current fiscal year, the Company suspended exploration activities on the Mackenzie property. As a result, stock options awarded to contractors working on the Mackenzie property to purchase a total of 410,000 common shares expired in the quarter ended December 31, 2010. In February 2011, the Company granted 2,950,000 stock options to directors, officers and an employee. The options are exercisable at $0.30 per share for five years and vest in four equal tranches over an 18-month period.

Share Purchase Warrants

In December 2010, the Company issued 537,352 broker warrants in connection with the flow-through financing described above.

In January 2011, the Company issued 163,333 broker's warrants in connection with the $1,000,000 private placement described above. The Company also issued 3,333,333 share purchase warrants as part of the January private placement.

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:

- 79,585,172 common shares;
- financing warrants to purchase 3,333,333 common shares;
- broker's warrants to purchase 700,685 common shares; and
- 7,760,000 stock options.

Fully-diluted share capital is therefore 88,429,190 common shares.

Changes to the Board of Directors and Management

There were no changes to the board of directors or management during the nine months ended December 31, 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; 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 adversely affected the Company's ability to raise money. Accordingly, the Company is looking 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 diamond properties, it is unlikely that such an offering could be done on anything other than very dilutive terms. As it is impractical to raise funds, the Company has deferred further exploration and development of its diamond properties until economic conditions improve.

*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 certain parts of Canada The Company's Mackenzie property 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 an sizable deposit, the economics of commercial production depend on many factors, including the cost of operations, the size, quantity and quality of the diamonds or ore concentration of gold, proximity to infrastructure, financing costs and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use 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 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 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.