Sanatana Diamonds Inc.

(An Exploration Stage Company)

Financial Statements

For the years ended March 31, 2007 and 2006

(Stated in Canadian dollars)

CONTENTS

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AUDITORS' REPORT

To the Shareholders of
Sanatana Diamonds Inc.
(An Exploration Stage Company)

We have audited the balance sheets of Sanatana Diamonds Inc. (an exploration stage company) as at March 31, 2007 and 2006 and the statements of shareholders' equity, operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Vancouver, Canada
May 11, 2007

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Balance Sheets

(in Canadian dollars)

As at	March 31 2007 $	March 31 2006 $
Assets		
Current Assets		
Cash and equivalents (Note 6(b))	**5,572,786**	746,637
Amounts receivable	**83,115**	144,171
Prepaid expenses	**64,782**	30,900
	5,720,683	921,708
Deferred Offering Costs	**---**	186,350
Exploration Advances	**5,287**	---
Mineral Properties (Note 4)	**16,019,185**	10,234,133
Property and Equipment (Note 5)	**98,677**	93,432
	21,843,832	11,435,623
Liabilities		
Current Liabilities		
Accounts payable	**284,083**	575,268
Accrued liabilities	**275,469**	151,396
	559,552	726,664
Future income tax liability	**3,002,618**	922,677
	3,562,170	1,649,341
Shareholders' Equity		
Common Shares (Note 6)	**20,041,875**	11,040,831
Share Purchase Warrants (Note 7)	**327,954**	---
Contributed Surplus (Note 9)	**23,146**	---
Deficit Accumulated in the Development Stage	**(2,111,313)**	(1,254,549)
	18,281,662	9,786,282
	21,843,832	11,435,623

Ability to Continue as a Going Concern (Note 2)

Approved on behalf of the Board of Directors

(signed) "Peter Miles"
Peter Miles, Director

(signed) "Edward Marlow"
Edward Marlow, Director

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Statement of Shareholders' Equity

(in Canadian dollars)

	Common Shares	Common Shares	Contributed Surplus	Share Purchase Warrants	Deficit accumulated during the development 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**

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Statements of Operations and Deficit

(in Canadian dollars)

For the	Year ended March 31, 2007 $	Year ended March 31, 2006 $
Expenses		
Amortization	26,122	1,389
Consulting and advisory fees	64,854	151,699
Directors fees	69,917	54,740
Filing fees	38,940	51,244
Investor relations	79,702	124,109
Management fees	209,977	120,000
Office and administration	261,881	57,329
Professional fees	161,984	331,436
Stock-based compensation (Note 8)	23,146	---
Transfer agent fees	33,401	37,103
Travel and accommodation	155,177	162,050
Loss before undernoted	(1,125,101)	(1,091,099)
Interest income	268,337	32,155
Loss before income taxes	(856,764)	(1,058,944)
Provision for income taxes	---	25,246
Net loss for the year	(856,764)	(1,033,698)
Deficit, beginning of year	(1,254,549)	(220,851)
Deficit, end of year	(2,111,313)	(1,254,549)
Loss per share, basic and fully diluted	$(0.02)	$(0.03)
Weighted average common shares outstanding - basic and diluted	39,956,686	32,742,220

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Statements of Cash Flows

(in Canadian dollars)

For the	Year ended March 31 2007 $	Year ended March 31 2006 $
Cash provided by (used in):		
Operating activities:		
Net loss for the year	(856,764)	(1,033,698)
Adjustments for non-cash items:		
Amortization	26,122	1,389
Accrued rent expense	1,037	11,396
Stock based compensation	23,146	-
Decrease in future income tax liability	---	(25,246)
Changes in non-cash working capital items:		
Amounts receivable	61,056	(2,927)
Prepaid expenses	(33,882)	---
Accounts payable	(67,706)	15,650
Accrued liabilities	123,036	---
	(723,955)	(1,033,436)
Investing activities:		
Exploration advances	(5,287)	320,351
Mineral properties	(8,500,683)	(7,395,642)
Property and equipment	(39,215)	(94,821)
Option payment - Kennecott	2,500,000	2,500,000
	(6,045,185)	(4,670,112)
Financing activities:		
Issuance of common shares	12,500,000	5,095,733
Share subscriptions receivable	---	1,175,000
Offering costs	(904,711)	(1,004,239)
	11,595,289	5,266,494
Net increase (decrease) in cash and equivalents	4,826,149	(437,054)
Cash and equivalents, beginning of year	746,637	1,183,691
Cash and equivalents, end of year	5,572,786	746,637
Supplementary information:		
Interest and taxes paid	---	---
Non-cash investing activities:		
Amortization in mineral properties	7,848	1,308
Non-cash financing activities:		
Shares issued as listing costs	175,000	64,026
Warrants issued as listing costs	327,954	---

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 mineral 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 annual 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 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 March 31, 2007 the Company has no source of operating cash flow and has an accumulated deficit of approximately $2.1 million. Operations for the year ended March 31, 2007 have been funded primarily from the issuances of capital stock and net changes in working capital balances.

3. Significant Accounting Policies

The following outlines the significant accounting policies under which these financial statements have been prepared, and to which the Company adhered for the years ended March 31, 2007 and 2006.

(a) Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenditures during the reporting period. The Company regularly reviews these estimates and assumptions that affect the annual financial statements and actual results could differ from those estimates.

Significant areas where management judgement is applied include asset valuations, the recoverability of exploration and development expenditures on mineral properties, asset retirement obligations, stock based compensation, recoverability of future income tax assets, and contingent liabilities. In the opinion of management, all adjustments considered necessary for fair presentation of the results for the periods presented are reflected in these financial statements.

(b) Mineral Properties

Mineral property acquisition costs, holding costs, field exploration and field supervisory costs relating to specific properties are deferred until the property to which they relate is placed into production, at which time they will be amortized on a unit of production basis, or until the properties are abandoned, sold or considered to be impaired in value, at which time an appropriate charge will be made.

3. Significant Accounting Policies (continued)

(b) Mineral Properties (continued)

Costs include the cash consideration paid and the fair market value of the shares as they are issued, if any, on the acquisition of exploration properties. Properties acquired under option agreements whereby payments are made at the sole discretion of the Company are recorded in the accounts at such time as the payments are made. The proceeds from options granted are applied to the cost of the related property and any excess is included in income for the year. Costs incurred for administration and general exploration that are not project specific, are charged to operations.

The recorded amounts for acquisition costs of properties and their related capitalized exploration and development expenses represent actual expenditures incurred and are not intended to reflect present or future values. The Company, however, reviews the capitalized costs on its properties on a periodic, or at least annual, basis and will recognize an impairment in value based upon the stage of exploration and/or development, work programs proposed, current exploration results and upon management's assessment of the future probability of profitable revenues from each property, or from the sale of the relevant property. Management's assessment of a property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review. The recovery of costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and future profitable production or proceeds from disposition of such properties. No such write-downs were recognized during the years ended March 31, 2007 and 2006.

(c) Property and Equipment

Property and equipment is carried at cost less accumulated amortization. Amortization is provided on a straight line basis over their estimated useful lives at the following rates:

Computer Equipment	straight-line basis over 3 years
Office Furniture	straight-line basis over 5 years
Exploration Equipment	straight-line basis over 5 years
Leasehold Improvements	straight-line basis over 3 years

The Company reviews the carrying values on a regular basis and a provision is made against income in the period that an impairment is determined by management. No such write-downs were recognized during the year ended March 31, 2007 and 2006.

(d) Cash and equivalents

Cash and equivalents include cash on deposit with banks and highly liquid short-term interest bearing investments with maturities of 90 days or less from the original date of acquisition.

2. Significant Accounting Policies (continued)

(e) Income taxes

Income taxes are calculated using the asset and liability method of accounting. Temporary differences arise from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet. These temporary differences are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using the tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

The Company has issued flow-through shares to finance its exploration activities. Such shares were issued for cash in exchange for the Company transferring tax benefits arising from an equal dollar amount of exploration expenditures to the purchasers of the flow-through shares. To recognize the foregone tax benefits, the Company reduces the carrying value of the shares by the tax effect of the tax benefits renounced to the subscribers.

Furthermore, the Company follows the recommendations of Emerging Issues Committee (EIC) Abstract No 146, "Flow-Through Shares" to account for flow-through share issuances. This abstract requires the recognition of a future income tax liability on the date that exploration expenditures are renounced to investors. This date may be different than the effective date of renunciation. Any offsetting future tax asset is recognized as a recovery of income tax expense.

(f) Loss per common share

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflects the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive. Basic and diluted loss per share are the same for the years presented.

For the year ended March 31, 2007, potentially dilutive common shares, relating to share purchase options and warrants totalled 3,598,571 (2006 – Nil)

(g) Asset retirement obligation

The Company follows the recommendations of CICA Handbook section 3110, "Asset Retirement Obligations" which require companies to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The obligation will be measured initially at fair value using present value methodology and the resulting costs will be capitalized into the carrying amount of the related asset. In subsequent periods, the liability will be adjusted for any changes in the amount or timing of the underlying future cash flows. Capitalized asset retirement costs will be depreciated on the same basis as the related asset and the discounted accretion of the liability is included in determining the results of operations.

3. Significant Accounting Policies (continued)

At March 31, 2007 the Company has only performed preliminary exploratory work on its mineral properties, and has not incurred significant retirement obligations. As such, a provision for the estimated cost of dismantling of the camp, which will occur within the next four years, has been recognized in the financial statements at March 31, 2007 and 2006.

(h) Share capital

Common shares issued for non-monetary consideration are recorded at their fair market value based on the trading price of the Company's shares on the TSX Venture Exchange or London's Alternative Investment Market on the date of the agreement to issue the shares.

(i) Stock based compensation

The Company follows the recommendations of the Canadian Institute of Chartered Accountants Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". Section 3870 establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The standard requires that all stock-based awards be measured and recognized in these financial statements using a fair value based method such as the Black-Scholes option pricing model.

In terms of a stock option plan re-approved by shareholders on August 9, 2006, Sanatana may grant incentive stock options numbering up to 10% of the number of issued and outstanding common shares of the Company to its officers, directors, employees and consultants, for the purchase of common shares of the Company. Stock options are non-transferable. The Board of Directors of the Company determines the exercise price, but it may be no less than the current market price at the time of the grant. Options have a maximum term of five years and terminate 90 days after the termination of employment or other contracting arrangement of the option holder. Vesting of options may be at the time of granting of the option, or over a period as set out in each option agreement. Once approved and vested, options are exercisable at any time until expiry, or ninety days after termination, as per above. The Company records the stock-based compensation expense over the vesting term of the options granted.

(j) Financial Instruments

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments, except as disclosed in Note 13. The fair values of these financial instruments approximate their carrying values due to the short-term or demand nature of these instruments. The carrying value of deposits approximates fair value primarily due to the floating rate nature of the instrument.

3. Significant Accounting Policies (continued)

(k) Flow-through Shares

The Company provided certain share subscribers with a flow-through component for tax incentives available on qualifying Canadian exploration and development expenditures. Where the Company had sufficient available tax loss carry forward balances or other deductible temporary differences to offset future tax liabilities arising from the renunciation of the tax benefits of the expenditures, no future tax assets or liability adjustments were reported.

Effective March 19, 2004, the CICA issued additional guidance on the accounting treatment of Canadian flow-through shares through its Emerging Issues Committee ("EIC") Abstract No. 146. All flow-through shares issued by the Company on or after March 19, 2004 are accounted for in accordance with this Abstract. The Abstract recommends that upon renunciation to the shareholders the Company reduce its share capital and recognize a temporary future income tax liability for the amount of the tax reduction renounced to the shareholders.

(l) Recent Pronouncements and Accounting Changes

(i) On January 27, 2005, the CICA ("Canadian Institute of Chartered Accountants") issued three new accounting standards: Handbook Section 1530, "Comprehensive Income", Handbook Section 3855, "Financial Instruments – Recognition and Measurement", and Handbook Section 3865, "Hedges". These standards will be effective for years commencing after November 1, 2006. The impact of implementing these new standards on the Company's financial statements is not yet determinable and is dependent upon the outstanding positions and related fair values at the time of transition.

Other Comprehensive Income

As a result of adopting these standards, a new category, Other Comprehensive Income, will be added to shareholders' equity on the Company's balance sheet. 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

Under the new standard, all financial instruments will 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.

3. Significant Accounting Policies (continued)

Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be 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.

Hedges

This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recognized in net income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in other comprehensive income. The ineffective portion will be recognized in net income. The amounts recognized in other comprehensive income will be reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, foreign exchange gains and losses on the hedging instruments will be recognized in other comprehensive income.

(ii) In June 2005, the CICA issued Handbook section 3831 “Non Monetary Transactions” to revise and replace Handbook Section 3830 “Non Monetary Transactions”. Section 3831 requires all non-monetary transactions to be measured at fair value, subject to certain exceptions. The standard also requires that commercial substance will replace the culmination of the earnings process as the test for fair value measurement. The standard defines commercial substance as a function of the cash flows expected from the assets. This revised standard is effective for non-monetary transactions initiated in fiscal periods beginning on or after January 1, 2006 and early adoption is permitted for fiscal periods beginning on or after July 1, 2005. There was no effect to the Company from the adoption of this new standard.

(iii) In October 2005, the Emerging Issues Committee issued the CICA Abstract No. 157, “Implicit Variable Interests under AcG-15” (“EIC-157). This EIC clarifies that implicit variable interests are implied financial interests in an entity that change with the changes in the fair value of the entity’s net assets exclusive of variable interests. An implicit variable interest is similar to an explicit variable interest except that it involves absorbing and/or receiving variability indirectly from the entity. The identification of an implicit variable interest is a matter of judgement that depends on the relevant facts and circumstances. EIC-157 is effective in the current fiscal period. There was no effect to the Company from the adoption of this new standard.

3. Significant Accounting Policies (continued

(iv) In March 2006, the CICA issued EIC-160, "Stripping Costs Incurred in the Production Phase of a Mining Operation". The EIC clarifies that stripping costs should be accounted for according to the benefit received by the entity. Generally, stripping costs should be accounted for a variable production costs that should be included in the costs of the inventory produced (that is, extracted) during the period that stripping costs are incurred. However, stripping costs should be capitalized if the stripping activity can be shown to represent a betterment to the mineral property. Capitalized stripping costs should be amortized in a rational and systematic manner over the reserves that directly benefit from the specific stripping activity, such as the unit-of-production method. The reserves used to amortize capitalized stripping costs will normally differ from those used to amortize the mineral property and related life-of-mine assets as the stripping costs may only relate to a portion of the total reserves. EIC-160 should be applied to stripping costs incurred in fiscal years beginning on or after July 1, 2006, and may be applied retroactively. The Company is currently in the exploration stage, management anticipates that this EIC may only affect potential prospective results of the Company and, accordingly, has not yet assured the potential impact of the adoption of this new standard.

(in Canadian dollars)

4. Mineral Properties

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

	Year ended March 31 2007 $	Year ended March 31 2006 $
Acquisition costs		
Opening balance	**188,970**	---
Incurred in the year	**232,830**	188,970
Closing balance	**421,800**	188,970
Helicopter and fixed wing aircraft costs		
Opening balance	**4,491,768**	911,433
Incurred in the year	**3,978,563**	3,580,335
Closing balance	**8,470,768**	4,491,768
Sampling and assays		
Opening balance	**1,975,735**	438,410
Incurred in the year	**1,383,889**	1,537,325
Closing balance	**3,359,624**	1,975,735
Labour		
Opening balance	**283,088**	127,449
Incurred in the year	**1,307,662**	155,639
Closing balance	**1,590,750**	283,088
Geological services		
Opening balance	**1,507,599**	670,396
Incurred in the year	**1,256,014**	837,203
Closing balance	**2,763,613**	1,507,599
Project management fees		
Opening balance	**499,997**	195,565
Incurred in the year	**76,000**	304,432
Closing balance	**575,997**	499,997
Field and camp		
Opening balance	**196,037**	---
Incurred in the year	**646,045**	196,037
Closing balance	**842,082**	196,037
Transport and accommodation		
Opening balance	**734,339**	---
Incurred in the year	**895,568**	734,339
Closing balance	**1,629,907**	734,339
Expediting		
Opening balance	**116,110**	---
Incurred in the year	**327,412**	116,110
Closing balance	**443,522**	116,110
Reclamation provision		
Opening balance	**120,000**	---
Provided in the year	**---**	120,000
Closing balance	**120,000**	120,000
Other		
Opening balance	**307,579**	235,293
Incurred in the year	**35,007**	72,286
Closing balance	**342,586**	307,579

(in Canadian dollars)

4. Mineral Properties (continued)

Total costs incurred on mineral properties	**20,560,212**	**10,421,222**
Adjusted for:		
Reimbursable bonds and deposits		
Opening balance	**2,312,911**	2,368,584
Recovered in the year	**(2,327,884)**	(234,289)
Incurred in the year	**473,946**	178,616
Closing balance	**458,973**	2,312,911
Option Payment- Kennecott		
Opening balance	**(2,500,000)**	---
Received in the year	**(2,500,000)**	(2,500,000)
Closing balance	**(5,000,000)**	(2,500,000)
Total cash outlay, net of funding received from Kennecott and reimbursable bonds	**16,019,185**	**10,234,133**

MacKenzie Diamond Project

On July 31, 2004, and March 4, 2005, the Company entered into a series of agreements with the Jaeger Joint Venture ("Jaeger"), an entity partially-owned by a director of the Company, to purchase the rights to any diamonds located on a series of properties (the MacKenzie Diamond Project) in the Inuvialuit, Gwich'in and Sahtu mining districts in the Northwest Territories, Canada. In June 2005, the Company acquired from Jaeger all other mineral rights, excluding uranium rights, to the prospecting permits to which it already owned diamond rights. Jaeger retains a 10% production carried interest and a member of Jaeger retains a 2% net smelter returns royalty (NSR). In addition, in terms of the agreements, the Company has agreed to pay 100% of the exploration and mine construction costs.

In July 2005, the Company signed an agreement with Kennecott Canada Exploration Inc. (Kennecott), in terms of which Kennecott has earned a 15% undivided contributory interest in the MacKenzie Diamond Project property by paying the Company $5 million. The agreement also grants Kennecott the option to earn up to a 60% interest in any identified kimberlite or deposit ("Development Area") by solely funding the activities on the Development Area until a decision to mine is made.

- Kennecott will earn a 49% interest in each individual project by completing, at its sole expense, a bulk sample and a positive feasibility study within 4 years; and
- Kennecott will earn a further 11% interest in each individual project by solely funding and managing all future evaluation through to such time as a decision to mine is made, provided that a decision to mine is made within twenty years of Kennecott earning the initial 49% interest in the individual project.

Upon Kennecott earning this further interest in respect of a particular kimberlite or mineral deposit, the Kennecott Agreement provides that the Development Area will be carved out of the entire Mackenzie Diamond Project area and a development joint venture will be created, which will be jointly managed with each party funding its own interest and each party having votes according to its respective interest.

4. Mineral Properties (continued)

MacKenzie Diamond Project (continued)

The party with the majority interest will be project manager and be entitled to an annual management fee of 1% of operating expenses. Either party's failure to contribute will lead to dilution of that party's interest in the development joint venture.

In the event of production of diamonds from any particular development joint venture, the entire Mackenzie Diamond project will become the property of that development joint venture and all subsequent exploration, evaluation and development will be carried out by the development joint venture. Kennecott, a subsidiary of Rio Tinto plc, will market all diamonds from the development joint venture in exchange for a 3% marketing fee.

The Company has entered into an access and benefits agreement dated January 18, 2006 with Déline Land Corporation with respect to the drilling for potential kimberlites in the Kilekale Lake area. The term of this agreement commenced effective as of August 15, 2005 and, subject to the renewal or termination, will end on December 31, 2007.

The Company currently holds 5.9 million acres (2006-16.5 million acres) of permits and unpatented mining claims, which cover a total area of approximately 15.86 million acres.

Reimbursable bond

The reimbursable bond consists of amounts held on deposit by the Northwest Territories government to ensure that the required minimum levels of exploration and reporting are met. Exploration activity must be conducted on the property in the amount of the deposit during the period to which the deposit relates in order for the deposit to qualify for refund. These deposits must accompany the application for permit that must be filed in the month of December previous to the calendar year to which the application pertains. The permits for properties located above the 68th parallel and below the 68th parallel are for five years and three years respectively. Subsequent to these periods, claims are staked for the properties to be retained for further exploration work. In order to maintain the claims in good standing, the Company must complete minimum exploration expenditures as required.

In January 2005, the Company paid deposits of $2,368,584 to the Northwest Territories government for the following year's exploration permits. Deposits in the amount of $234,289 had been refunded as of March 31, 2006, and a further $2,327,884 had been refunded in fiscal 2007.

The bond for 2006/2007, in the amount of $5,177,123, was partially funded by a letter of credit for $4,998,724 that was provided by Kennecott. The balance of $178,399 was paid by the Company in May 2006. Under the terms of the agreement, in the event that the Company should fail to carry out sufficient exploration work, it will have to reimburse Kennecott for any shortfall. Following the completion of the season's exploration work, the Company recorded a liability of $80,816 for settlement of this obligation.

In January 2007 the Company paid $214,731 towards bonding for the upcoming season.

(in Canadian dollars)

5. Property and Equipment

	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**

	March 31, 2006 Cost $	Accumulated Amortization $	Net Book Value $
Computer equipment	21,522	407	21,115
Leasehold improvements	35,357	982	34,375
Exploration equipment	39,250	1,308	37,942
	96,129	2,697	93,432

6. Common Shares

Authorized:

Unlimited number of common shares with no par value.

Issued and outstanding:

Common Shares	Number of Shares #	Amount $
Balance, March 31, 2005	30,679,810	7,421,603
Public offering (c)	2,890,398	5,095,733
Offering costs	--	(1,192,123)
Shares issued as listing costs (c)	36,586	64,026
Tax value of assets renounced to flow-through share investors (b)	---	(348,408)
Balance, March 31, 2006	33,606,794	11,040,831
Public offering (a)	7,142,857	12,500,000
Offering costs (a)	---	(1,266,061)
Warrants issued as listing costs (a)	---	(327,954)
Shares issued as listing costs (a)	100,000	175,000
Tax value of assets renounced to flow-through Share investors (b)	---	(2,079,941)
Balance, March 31, 2007	**40,849,651**	**20,041,875**

6. Common Shares (continued)

(a) Public offering

On May 16, 2006, the Company completed a public offering of 7,142,857 flow-through common shares at a price of $1.75 per common share, for gross proceeds of $12.5 million. Sanatana incurred offering costs of $1,266,061, including a cash commission equal to 6% of the gross proceeds paid to Canaccord Capital Corporation ("Canaccord"), an administration fee of $7,500 paid to Canaccord and $50,166 of legal and administrative expenses incurred by Canaccord. Sanatana has also granted Canaccord agent's warrants to acquire up to 428,571 non-flow-through common shares at an exercise price of $1.75 per share for a period of up to 24 months, and has issued 100,000 non flow-through common shares to Canaccord at an issue price of $1.75 per share.

(b) Flow-through shares

The flow-through shares issued effectively pass on to subscribers the tax credits associated with Canadian exploration expenditures (as defined in the Canadian Income Tax Act) funded by the proceeds of the shares. Sanatana has renounced as tax benefits to subscribers $1,021,125 for the year ended March 31, 2006, and $6,095,958 for the period ended December 31, 2006. During the three month period from January 1 2007 to March 31, 2007 Sanatana spent an additional $1,390,899 on eligible exploration expenditures. As at March 31, 2007, the remaining balance available for eligible expenditures was $5,013,143 (2006 - $Nil).

(c) Escrowed shares

In accordance with the Canadian Securities Administrators National Policy 46-201 entitled "Escrow for Initial Public Offerings" ("NP 46-201") and the TSX Venture Exchange's Policy 5.4 Escrow, -Vendor Consideration and Resale Restrictions ("Policy 5.4"), commonly referred to as the "Escrow Regulations", and pursuant to the Escrow agreements, 13,803,373 of the Company's common shares were subject to escrow at the time the shares were first listed on the TSX Venture Exchange. Under the Escrow Regulations the escrowed shares are 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 March 31, 2007, 10,352,530 shares remained in escrow.

(d) AIM listing

On July 28, 2005, the Company completed a listing and placement on the AIM Market of the London Stock Exchange of 2,890,398 shares at 82 pence (approximately $1.75) for gross proceeds of approximately £2.4 million Great Britain Pounds (approximately $5.1 million). An additional 36,586 shares were issued to Insinger de Beaufort, the Company's Nominated Advisor and Broker, as payment for fees.

(in Canadian dollars)

7. Share Purchase Warrants

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

	2007 Number of Warrants #	**2007 Weighted Average Price $**	2006 Number of Warrants #	2006 Weighted Average Price $
Balance, beginning of period	**-**	**-**	-	-
Granted, agents' Warrants	**428,571**	**1.75**	-	-
Exercised	**-**	**-**	-	-
Expired or cancelled	**-**	**-**	-	-
Balance, end of period	**428,571**	**1.75**	-	-

Summary of outstanding warrants at March 31, 2007:

Expiry Date	Exercise Price $	Warrants Outstanding #	Value $
May 15, 2008	$1.75	428,571	327,954
		428,571	327,954

The fair value of each warrant granted was estimated 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

On March 26, 2007 the Company granted stock options to its directors, officers, employees and consultants to acquire up to 3,170,000 common shares, exercisable for a period of five years at a price of $1.40 and $0.75 per common share. These options will vest three years from the date of grant. For the year ended March 31, 2007, $23,146 was recorded as stock-based compensation expense and added to Contributed Surplus in Shareholders' Equity on the Company's Balance Sheet.

The fair values of the options granted to employees, officers and directors of the Company were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility 86.93%; risk-free interest rate 3.90% and expected life of 5 years.

(in Canadian dollars)

8. Stock Options (continued)

The options granted to consultants of the Company were re-valued as of March 31, 2007, using the Black-Scholes options pricing model with the following assumptions: expected dividend yield 0%; expected volatility 86.93%, risk-free interest rate of 4.01%. and expected life of 5 years.

Summary of outstanding options at March 31, 2007:

Expiry Date	Options # outstanding	Exercise Price $	Options # exercisable
March 26, 2012	1,170,000	$0.75	---
March 26, 2012	2,000,000	$1.40	---
	3,170,000		

No stock options were granted prior to March 26, 2007

9. Contributed Surplus

The following summarized the contributed surplus activity during the year:

	March 31, 2007	March 31, 2006
Opening balance	**---**	---
Value of stock options granted/vested	**23,146**	---
Closing balance	**23,146**	---

10. Related Party Transactions

At March 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.

Pursuant to agreements with the Company's directors, the Company has agreed to pay its directors fees totalling £35,000 GBP (approximately $75,000) per annum.

Services provided by:	**Year ended March 31 2007 $**	Year ended March 31 2006 $
Directors and insiders (a)	**302,473**	174,740
Hermes Management (b)	**---**	11,000
St. George Minerals Limited (c)	**76,043**	75,492

(in Canadian dollars)

10. Related Party Transactions (continued)

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 secretarial services performed by a company controlled by a member of the Jaeger Joint Venture.

c) Fees paid or accrued for financial and administrative services performed by a company, which has a common director 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	**March 31, 2007 $**	March 31, 2006 $
St. George Minerals Limited	**6,969**	31,995

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

11. Income and Resource Taxes

(a) The provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial tax rates to the loss before tax provisions due to the following:

	March 31, 2007	**March 31, 2006**
Statutory tax rate before taxes	34.12%	34.50%*
Loss for the period	$ (856,764)	$ (1,058,944)
Expected tax recovery	(292,328)	(365,283)
Non-deductible stock based compensation	7,897	-
Effect of reduction in tax rates	6,623	(22,770)
Financing costs	(431,890)	(82,245)
Non-deductible expenses	-	482
Increase in valuation allowance	709,698	445,570**
Actual tax expense	$ -	$ (25,246)

*****The rate used to March 31, 2006 was pro-rated due to a 1.5% reduction in the provincial tax rate effective July 1, 2005

**The increase in the valuation allowance included approximately $329,000 related to the tax basis of share issue costs to be deducted in future periods.

(in Canadian dollars)

11. Income and resource taxes (continued)

(b) The significant components of the Company's future tax liability are as follows:

	2007	2006
Non-capital loss carry forwards	$ 960,042	$ 522,533
Property, plant and equipment	12,510	930
Financing costs	589,635	329,026
Mineral properties	(3,002,618)	(922,677)
Valuation allowance	(1,562,187)	(852,489)
Future income tax liability	$ (3,002,618)	$ (922,677)

The Company's future tax assets include $1,266,061 (2006 - $1,192,123) related to deductions for share issue costs in excess of amounts deducted for financial reporting purposes. If and when the valuation allowance related to these amounts is reversed, the Company will recognize this benefit as an adjustment to share capital as opposed to income tax expense in the Statement of Operations.

The realization of benefits relating to the operating losses carried forward is uncertain and cannot be viewed as more likely than not. Accordingly no future income tax asset has been recognized for accounting purposes.

The Company has Canadian non-capital losses carried forward of approximately $2,800,000 which expire in various amounts from 2015 to 2027.

12. Commitments

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

	$
2008	454,000
2009	62,000
2010	-
2011	-
2012	-
	516,000

a) Sanatana has signed a contract with Aeroquest for airborne surveying in the North West Territories for a total contract fee of $524,000. Under the terms of contract payments are due as follows: 30% upon crew arrival at base of operation; 40% upon completion of data acquisition, and 30% upon delivery of data reports. As at March 31, 2007, Sanatana has a remaining commitment of $380,000 on the contract.

b) Under the terms of an agreement 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) dated November 25, 2004, the Company acknowledges that Geoinformatics is entitled to a 0.9% gross overriding royalty.

A member of Jaeger is entitled to a 2% gross overriding royalty.

12. Commitments (continued)

c) Sanatana 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(b)), the Company is committed to spending $5,013,143 on future eligible exploration expenditures before December 31, 2009..

13. Financial Instruments

The Company is exposed to interest rate risk on its term deposits, and has not engaged in any interest rate hedging activity during the years ended March 31, 2007 and 2006.

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.

14. Off-Balance Sheet Arrangements and Contingent Liabilities

Kennecott had deposited a letter of credit in the amount of $4,998,724 on the Company's behalf to fulfill bonding requirements for the 2006 exploration season (see Note 4). Upon completion of the full season, the Company recorded a liability of $80,816 to satisfy the obligation created by the actual level of exploration expenditures incurred.

15. Comparative Figures

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