Sanatana Diamonds Inc.

(An Exploration Stage Company)

Financial Statements
For the Years Ended March 31, 2010 and 2009
(Stated in Canadian dollars)

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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, 2010 and 2009 and the statements of changes in shareholders' equity, operations and comprehensive loss and cash flow 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, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Canada LLP"

Chartered Accountants

Vancouver, Canada
June 29, 2009

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Balance Sheets
(Expressed in Canadian dollars)

	March 31, 2010	March 31, 2009
Assets		
Current		
Cash and equivalents	$ 2,801,892	$ 4,905,843
Amounts receivable (note 5)	28,081	-
Prepaid expenses	42,462	63,771
	2,872,435	4,969,614
Mineral properties (note 6)	3,377,047	17,670,592
Property and equipment (note 7)	204,902	285,903
	$ 6,454,384	$ 22,926,109
Liabilities		
Current		
Accounts payable (note 11)	$ 88,549	$ 136,427
Accrued liabilities	152,000	165,003
	240,549	301,430
Future income tax liability (note 12)	-	2,740,601
	240,549	3,042,031
Shareholders' Equity		
Common shares (note 8)	30,306,804	30,306,804
Share purchase warrants (note 9)	-	530,263
Contributed surplus	2,783,660	2,031,397
Deficit accumulated in the exploration stage	(26,876,629)	(12,984,386)
	6,213,835	19,884,078
	$ 6,454,384	$ 22,926,109

Ability to continue as a going concern (note 2)
Subsequent event (note 17)

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
(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 10)	-	-	-	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 10)	-	-	-	222,000	-	222,000
Loss for the year	-	-	-	-	(13,892,243)	(13,892,243)
Balance - March 31, 2010	62,762,623	$ 30,306,804	$ -	$ 2,783,660	$ (26,876,629)	$ 6,213,835

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

For the years ended March 31,		2010		2009
Expenses				
Amortization	$	8,305	$	28,187
Consulting and advisory fees (note 11)		-		82,455
Director fees (note 11)		40,000		48,807
Filing fees		16,393		22,795
Investor relations (note 11)		8,578		68,580
Office and administration (note 11)		76,660		105,908
Rent		102,675		73,655
Professional fees		35,085		95,425
Property investigations		8,134		-
Management fees and salaries (note 11)		196,657		207,416
Stock-based compensation (note 10)		222,000		1,320,000
Transfer agent fees		13,183		44,791
Travel and accommodation		38,306		53,064
Loss before undernoted		(765,976)		(2,151,083)
Write-down of bonds (note 6)		(3,561)		(153,775)
Mineral property impairment (note 6)		(15,867,370)		(11,000,000)
Interest income		4,063		103,393
Loss before income taxes		(16,632,844)		(13,201,465)
Future income tax recovery (note 12)		2,740,601		2,860,000
Loss and comprehensive loss for the year	$	(13,892,243)	$	(10,341,465)
Loss per share - basic and diluted	$	(0.22)	$	(0.16)
Weighted average common shares outstanding - basic and diluted		62,762,623		62,716,192

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Statements of Cash Flow
(Expressed in Canadian dollars)

For the years ended March 31,	2010	2009
Cash provided by (used in):		
Operating activities		
Loss for the year	$ (13,892,243)	$ (10,341,465)
Adjustment for non-cash items:		
Amortization of property and equipment	8,305	28,187
Amortization of lease inducement	-	(568)
Stock-based compensation (note 10)	222,000	1,320,000
Mineral property impairment	15,867,370	11,000,000
Bond write-off	3,561	153,775
Future income tax recovery	(2,740,601)	(2,860,000)
Changes in non-cash working capital items:		
Amounts receivable	(28,081)	89,783
Prepaid expenses	21,309	47,733
Accounts payable	(5,277)	(564,508)
Accrued liabilities	(13,003)	(181,542)
	(556,660)	(1,308,605)
Investing activities:		
Mineral properties	(1,511,561)	(6,269,700)
Reimbursable bonds and deposits	(208,039)	-
Property and equipment	-	(4,693)
Kennecott contribution	172,309	2,283,557
	(1,547,291)	(3,990,836)
Financing activities:		
Issuance of common shares	-	147,611
Offering costs	-	(1,203)
	-	146,408
Decrease in cash and equivalents	(2,103,951)	(5,153,033)
Cash and equivalents, beginning of year	4,905,843	10,058,876
Cash and equivalents, end of year	$ 2,801,892	$ 4,905,843
Cash and equivalents comprise:		
Cash	$ 86,767	$ 394,581
Equivalents	2,715,125	4,511,262
	$ 2,801,892	$ 4,905,843

Supplementary cash flow information (note 15)

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 Rio Tinto Exploration Canada Inc. ("Rio Tinto"), formerly Kennecott Canada Exploration Inc., 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, under which material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern must be disclosed. 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 March 31, 2010 the Company has no source of operating cash flow and has an accumulated deficit of $26,876,629. Operations from inception through March 31, 2010 have been funded primarily from issuances of capital stock and from contributions received from Rio Tinto. Should the current weak market for diamond exploration persist, management expects challenges raising further financing.

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, 2010 and 2009.

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 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.

Costs include the cash consideration paid and the fair 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.

3. Significant Accounting Policies (continued)

b) Mineral properties (continued)

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. During the year ended March 31, 2010, the Company evaluated its mineral properties and recorded an impairment of $15,867,370 (2009 - $11,000,000).

c) Property and equipment

Property and equipment is carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the assets' 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 2 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 years ended March 31, 2010 and 2009.

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.

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.

3. Significant Accounting Policies (continued)

e) Income taxes (continued)

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” (“EIC 146”) 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, 2010, the Company has potentially dilutive common shares, relating to share purchase options and warrants totalling 5,220,000 (2009 – 14,877,769).

g) Asset retirement obligations

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 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.

At March 31, 2010 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, 2010 and 2009.

3. Significant Accounting Policies (continued)

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 (the "Exchange") on the on the earliest of (1) the date at which the counterparty's performance is complete; (2) the date at which a commitment for performance by the counterparty to earn the shares is reached; and (3) the date at which the shares are issued, if they are fully vested and non-forfeitable at that date.

i) Stock based compensation

The Company expenses, over the vesting period, the fair value of the options granted to directors and employees at the date of grant. The fair value of options granted to individuals or companies that are not employees or directors are valued at the earliest of the following: the date at which the counterparty's performance is complete, the date at which a performance commitment to earn the options is reached or the date at which the options are granted if they are fully vested and non-forfeitable at that date.

In 2005, the Company's shareholders approved a stock option plan, subsequently amended, which allows Sanatana to 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 no longer than 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.

j) Financial instruments

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other financial liabilities". Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in comprehensive income (loss) until the asset is removed from the balance sheet. Held-to-maturity investments, loans, receivables and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period.

3. Significant Accounting Policies (continued)

j) Financial instruments (continued)

i. 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 16. 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.

The Company classifies its financial instruments as follows:

Held for trading, measured at fair value	Cash and equivalents
Loans and accounts receivable, recorded at amortized cost	Amounts receivable
Financial liabilities, recorded at amortized cost	Accounts payable
	Accrued liabilities

k) Changes in accounting policy

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

i. 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

ii. The Company also adopted CICA Section 3862, Financial Instruments – Disclosures whereby an entity shall classify and disclose fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

3. Significant Accounting Policies (continued)

k) Changes in accounting policy (continued)

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The required disclosures are included in note 16.

iii. In January 2009, the CICA issued EIC Abstract 173 – Credit risk and the fair value of financial assets and liabilities ("EIC-173"). EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 is applicable for the Company's interim and annual consolidated financial instruments for its fiscal year ending March 31, 2010, with retroactive application. The adoption of EIC-173 had no impact on the Company's financial statements.

iv. In March 2009, the CICA issued EIC Abstract 174 – Mining Exploration Costs ("EIC-174") which supersedes EIC Abstract 126 – Accounting by Mining Enterprises for Exploration Costs, to provide additional guidance for mining exploration enterprises on the accounting for capitalization of exploration costs and when an impairment test of these costs is required. EIC-174 is applicable for the Company's interim and annual financial statements for its fiscal year ending March 31, 2010, with retroactive application. The adoption of EIC-174 did not result in a material impact on the Company's financial statements.

4. Recent Accounting Pronouncements

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.

4. Recent Accounting Pronouncements (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

In addition, while IFRS does not prescribe how to account for flow-through shares, common practice may differ from Canadian GAAP and some adjustment to shareholders' equity may be required on the first-time adoption of IFRS.

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

5. Amounts Receivable

	March 31, 2010	March 31, 2009
GST receivable	$ 6,814	$ -
Due from employees (note 11)	21,267	-
	$ 28,081	$ -

6. 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 March 31, 2010
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	480,051	15,924,019
Sampling and assays	3,924,630	322,116	4,246,746	116,278	4,363,024
Contractor and consultant	7,002,524	2,097,480	9,100,004	345,108	9,445,112
Project management fees	661,997	170,968	832,965	135,500	968,465
Field and camp	1,492,053	493,793	1,985,846	46,350	2,032,196
Transport and accomodation	2,303,247	469,619	2,772,866	141,213	2,914,079
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	109,786	825,544
Total costs incurred	28,930,202	7,228,539	36,158,741	1,374,286	37,533,027
Mineral property impairment	-	(11,000,000)	(11,000,000)	(15,700,000)	(26,700,000)
Reimursable bonds and deposits (*)	1,397,958	(1,155,461)	242,497	204,478	446,975
Options and contribution payments - Rio Tinto	(6,670,345)	(1,060,301)	(7,730,646)	(172,309)	(7,902,955)
MacKenzie property, net	23,657,815	(5,987,223)	17,670,592	(14,293,545)	3,377,047
Marmac property					
Acquisition costs	-	-	-	52,565	52,565
Contractor and consultant	-	-	-	64,220	64,220
Project management fees	-	-	-	39,500	39,500
Field and camp				2,387	2,387
Transport and accomodation	-	-	-	8,036	8,036
Permitting and other	-	-	-	662	662
Total costs incurred	-	-	-	167,370	167,370
Mineral property impairment	-	-	-	(167,370)	(167,370)
Marmac property, net	-	-	-	-	-
Total expenditures	$ 23,657,815	$ (5,987,223)	$ 17,670,592	$ (14,293,545)	$ 3,377,047

6. Mineral Properties (Continued)

The Company is required to make deposits against its Northwest Territories mineral permits to guarantee its performance and has $446,975 on deposit as at March 31, 2010 (March 31, 2009 - $242,497). The fiscal change in reimbursable bonds and deposits includes $3,561 (2009 - $153,775) of bonds written-off.

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 Rio Tinto, under the terms of which Rio Tinto earned a 15% undivided contributory interest in the MacKenzie Diamond Project property by paying the Company $5 million. Rio Tinto has maintained this interest by reimbursing 15% of the Company's exploration expenditures. The agreement also grants Rio Tinto 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.

• Rio Tinto will earn a 49% interest in each individual project by completing, at its sole expense, a bulk sample and a positive feasibility study within four years; and

• Rio Tinto 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 Rio Tinto earning the initial 49% interest in the individual project.

Upon Rio Tinto earning this further interest in respect of a particular kimberlite or mineral deposit, the Rio Tinto 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.

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. Rio Tinto, a subsidiary of Rio Tinto plc, will market all diamonds from the development joint venture in exchange for a 3% marketing fee.

6. Mineral Properties (Continued)

At March 31, 2010 the Company held 1.8 million acres (2008 - 4.8 million acres) of permits and unpatented mining claims.

During the year ended March 31, 2010, the Company evaluated the MacKenzie property and recorded an impairment of $15,700,000 (2009 - $11,000,000). This impairment reflects lack of discovery success, a weak market for junior diamond exploration properties and consequently a weaker outlook for the Company's mineral properties.

Reimbursable bonds

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.

Marmac Project

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 has decided not to continue with exploration of this property and as such has written off all expenditures incurred.

7. 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
At March 31, 2010	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
At March 31, 2009	18,392	24,060	41,357	95,508	179,317
Charge for the year	6,936	1,369	-	72,696	81,001
At March 31, 2010	25,328	25,429	41,357	168,204	260,318
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 March 31, 2010	$ 9,375	$ 234	$ -	$ 195,293	$ 204,902

8. 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 March 31, 2010 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 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 March 31, 2010, no common shares (March 31, 2009 – 2,070,506 common shares) remained in escrow.

9. Share Purchase Warrants

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

	March 31, 2010		March 31, 2009	
	Number Of Warrants	Weighted Average Exercise Price	Number Of Warrants	Weighted Average Exercise Price
Balance, beginning of year	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 year	-	-	9,657,769	$0.61

10. 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 year ended March 31, 2010 (2009 - $1,320,000).

For the years ended March 31,	2010		2009	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance, beginning of year	5,220,000	$1.16	3,420,000	$1.13
Granted	-	-	2,050,000	1.15
Forfeited	-	-	(250,000)	(0.75)
Balance, end of year	5,220,000	$1.16	5,220,000	$1.16

Summary of outstanding options at March 31, 2010:

	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	2.52 years	2,020,000	$0.80
$1.01-$1.40	3,200,000	$1.38	2.39 years	3,200,000	$1.38
	5,220,000	$1.16	2.44 years	5,220,000	$1.16

10. Stock Options (continued)

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

For the years ended March 31,	2010	2009
Expected dividend yield	0%	0%
Expected volatility	86.9%	86.9%
Risk-free interest rate	2.8%	3.4%
Expected life	5.0 years	5.0 years

11. Related Party Transactions

At March 31, 2010, 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:

Year Ended March 31, 2010	Director Fees	Management Fees and Salaries	Capitalized Technical Services Fees (note 6)	Exploration Expense Contribution (note 6)
Edward Marlow	$ 20,000	$ -	$ -	$ -
Harley Hotchkiss	10,000	-	-	-
Nick Archibald	10,000	-	-	-
Peter Miles (a)	-	66,000	-	-
Lithosphere Services Inc. (c)	-	-	25,000	-
S2 Management Inc. (d)	-	13,840	-	-
Kennecott (e)	-	-	-	172,309
	$ 40,000	$ 79,840	$ 25,000	$ 172,309

11. Related Party Transactions (Continued)

Year Ended March 31, 2009	Director Fees	Management Fees and Salaries	Capitalized Technical Services Fees (note 6)	Exploration Expense Contribution (note 6)
Edward Marlow	$ 19,268	$ -	$ -	$ -
Harley Hotchkiss	9,634	-	-	-
Nick Archibald	9,634	-	-	-
Peter Miles (a)	5,136	66,000	-	-
Buddy Doyle (b)	5,135	-	-	-
Lithosphere Services Inc. (c)	-	-	54,000	-
S2 Management Inc. (d)	-	20,204	-	-
MCSI Consulting Services Inc. (d)	-	2,972	-	-
Kennecott (e)	-	-	-	1,060,301
	$ 48,807	$ 89,176	$ 54,000	$ 1,060,301

a) Mr. Miles is the Company's President and CEO, and a director.
b) Mr. Doyle is the Company's VP Exploration and a director.
c) Lithosphere Servies Inc. is controlled by Mr. Doyle.
d) S2 Management Inc. and MCSI ConsutIng Services Inc. are controlled by the Company's CFO
e) Kennecott is a shareholder of the Company (note 6).

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 5).

Balances included in accounts payable and accrued liabilities are as follows:

	March 31, 2010	March 31, 2009
Directors and insiders (b)	$ 10,085	$ 9,133
Lithosphere Services Inc. (c)	-	5,250
S2 Management Inc. (d)	-	540

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

12. Income and Resource Taxes

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:

For the years ended March 31,	2010	2009
Loss for the year before taxes	$ (16,632,844)	$ (13,201,465)
Statutory tax rate	29.63%	30.63%
Expected income tax recovery	$ (4,928,300)	$ (4,043,600)
Non-deductible stock-based compensation	67,900	408,400
Effect of reduction in tax rates	742,299	549,500
Adjustment for over provision in previous years	(222,500)	-
Financing costs	-	(300)
Increase in valuation allowance	1,600,000	226,000
Actual tax expense (recovery)	$ (2,740,601)	$ (2,860,000)

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

For the years ended March 31,	2010	2009
Non-capital loss carry forwards	$ 1,759,000	$ 1,525,000
Property, plant and equipment	65,000	47,000
Financing costs	191,000	399,000
Asset retirement obligation	30,000	-
Mineral properties	1,526,000	(2,740,601)
Valuation allowance	(3,571,000)	(1,971,000)
Future income tax liability	$ -	$ (2,740,601)

The Company's future tax assets include $763,196 (2009 - $1,534,925) 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 $7,038,000 (2009 - $5,767,000) which expire in various amounts from 2015 to 2030.

13. Commitments

a) Under the terms of an agreement dated November 25, 2004 with Kiska Metals Corporation, formerly Geoinformatics Explorations Inc. ("Kiska"), 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 is contractually committed under a lease agreement to make payments as follows:

Year ending March 31,	
2011	$ 90,084
2012	78,950
	$169,034

14. Capital Management

The Company considers items included in its shareholders' equity as capital. 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 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 year.

15. Supplementary Cash Flow Information

For the years ended March 31,	2010	2009
Interest and taxes paid	$ -	$ -
Non-cash investing activities:		
Amortization in mineral properties	72,696	72,696
Non-cash financing activities:		
Tax value of assets renounced to flow-through share investors	-	1,230,000

16. 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 March 31, 2010, the Company was not subject 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 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.

The following table presents the financial instruments recorded at fair value in the balance sheet, classified using the fair value hierarchy described in note 3:

	Level 1	Level 2	Level 3	Total financial assets at fair value
Financial assets				
Cash	$ 2,801,892	$ -	$ -	$ 2,801,892
Total financial assets	$ 2,801,892	$ -	$ -	$ 2,801,892

17. Subsequent Event

In June 2010, the Company entered into a non-binding letter of intent to form a joint venture to explore for bedrock gold mineralization on the Boulder Claim Group. As consideration, Sanatana has paid $38,640 to maintain the Boulder Claim Group in good standing until June 2011.