

A copy of this preliminary Prospectus has been filed with the securities regulatory authorities in each of British Columbia, Alberta, Manitoba and Ontario but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary Prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the Prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise

PRELIMINARY PROSPECTUS

New Issue

February 28, 2006

SANATANA DIAMONDS INC.

◆ Flow-Through Common Shares (\$◆)

Sanatana Diamonds Inc. (the “Company”) is hereby offering (the “Offering”) to the public through its agent Canaccord Capital Corporation (the “Agent”), on a commercially reasonable efforts basis, up to ◆ flow-through common shares of the Company (“Flow-Through Shares”) for total gross proceeds of up to \$◆. The Offering is subject to a minimum subscription of \$5,000,000. The Agent will hold subscription funds in trust until the Offering is completed. If the minimum subscription is not obtained, the Offering will terminate and all funds received by the Agent will be returned to the subscribers without interest or deduction.

	Price to the Public⁽¹⁾	Agent’s Commission⁽²⁾	Proceeds to Company⁽³⁾
Per Flow-Through Share	\$◆	\$◆	\$◆
Minimum Offering	\$5,000,000	\$300,000	\$5,000,000
Maximum Offering	\$◆	\$◆	\$◆

(1) The offering price of the Flow-Through Shares was determined in the context of the market.

(2) The Company has agreed to pay the Agent a cash commission equal to 6% of the gross proceeds from the sale of the Flow-Through Shares, to be paid from its working capital. In addition, the Agent will be granted agent’s warrants (the “Agent’s Warrants”) to acquire such number of non-flow-through Common Shares of the Company (the “Agent’s Shares”) as is equal to 6% of the number of Flow-Through Shares sold under the Offering. The Agent’s Warrants are exercisable for a period of up to 24 months from the date of Closing at an exercise price of \$◆ per Agent’s Share. In the event that (a) the weighted average trading price of the Company’s common shares on the TSX Venture Exchange and/or the Alternative Investment Market of the London Stock Exchange is, for a period of ten (10) consecutive trading days, greater than 133% of the offering price of the Flow-Through Shares and (b) the total number of common shares traded in such ten (10) day period is

greater than the number of Agent's Warrants issued in connection with the Offering, then the Company shall give written notice to the Agent that the Agent's Warrants must be exercised within 30 days from the date of delivery of the notice, failing which any unexercised Agent's Warrants shall be cancelled.

The Company must also pay the Agent 100,000 non flow-through Common Shares as a corporate finance fee (the "Corporate Finance Fee Shares"). The Agent's Warrants and the Corporate Finance Fee Shares are also qualified by this Prospectus. In addition, the Company must pay the Agent an administration fee of \$7,500 as well as all reasonable expenses of the Agent with respect to the Offering. The Company has paid the Agent \$10,000 as an initial deposit towards these expenses.

- (3) The commission to be paid to the Agent and estimated expenses of the Offering of \$◆, will be paid by the Company from its working capital.

The Agent, as exclusive agent of the Company for the purposes of the Offering, conditionally offers the Flow-Through Shares on a commercially reasonable efforts basis, subject to prior sale, if, as and when issued by the Company and accepted by the Agent in accordance with the Agency Agreement referred to under "Plan of Distribution". Subscriptions for Flow-Through Shares offered hereunder will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Certificates representing the Flow-Through Shares will be available for delivery following closing of the Offering which is anticipated to occur by ◆, 2006 and in any event will occur no later than ◆, 2006.

The Company is a primary diamond exploration issuer with exploration properties in the Northwest Territories and Nunavut, Canada. Exploration activities for mineral resources involves a significant degree of risk. The degree of risk increases substantially where the issuer's properties are in the exploration as opposed to the development stage. All of the properties of the Company are in the exploration stage. Investors should not invest any funds in this Offering unless they can afford to lose their entire investment. See "Risk Factors".

The Company's Common Shares are listed on the Alternative Investment Market of the London Stock Exchange (AIM). The Company has applied to list its Common Shares on the TSX Venture Exchange. The listing is subject to the Company fulfilling all of the listing requirements of the TSX Venture Exchange, including prescribed distribution and financial requirements.

NO PERSON IS AUTHORIZED TO PROVIDE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THIS OFFERING OTHER THAN AS CONTAINED IN THIS PROSPECTUS.

CANACCORD CAPITAL CORPORATION

P.O. Box 10337, Pacific Centre
2200 – 609 Granville Street
Vancouver, BC VTY 1H2

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DEFINITIONS AND SELECTED GEOLOGICAL TERMS

In addition to terms defined elsewhere in this Prospectus, the following terms have the following meanings, respectively:

“2004 Jaeger Permits” means the 420 prospecting permits with a total acreage of 18,220,103 acres located north of Great Bear Lake in the Northwest Territories recorded in the name of Matthew Mason on February 1, 2004 and purchased by the Company from Jaeger Joint Venture on July 29, 2004. See “General Development of the Business – Significant Acquisitions and Significant Dispositions – Jaeger Agreement”. The Company has allowed 88 of the 2004 Jaeger Permits to lapse. See “Definitions and Selected Geological Terms – Lapsed Permits”;

“2005 Jaeger Permits” means the 42 prospecting permits with a total acreage of 1,546,586 acres, 39 of which are located wholly within the Northwest Territories and 3 of which straddle the border between the Northwest Territories and Nunavut, recorded in the name of Matthew Mason on February 1, 2005 and acquired by the Company pursuant to the Jaeger Agreement on May 11, 2005. See “General Development of the Business – Significant Acquisitions and Significant Dispositions – Jaeger Agreement”. The Company has allowed 2 of the 2005 Jaeger Permits to lapse. See “Definitions and Selected Geological Terms – Lapsed Permits”;

“Act” means *Business Corporations Act* (British Columbia) including the regulations promulgated thereunder;

“Agency Agreement” means the agreement dated ♦, 2006 between the Agent and the Company with respect to the Offering;

“Agent” means Canaccord Capital Corporation;

“Agent’s Shares” means the Common Shares issued to the Agent pursuant to the exercise of the Agent’s Warrants;

“Agent’s Warrants” means the warrants to be granted to the Agent entitling the Agent to purchase Agent’s Shares equal to 6% of the number of Flow-Through Shares sold under the Offering, each Agent’s Warrant is exercisable for the purchase of one such Agent’s Share for a period of up to 24 months from the date of Closing at an exercise price of \$♦ per Agent’s Share;

“Archaean” means the period of geological time before 2,500 million years before present;

“Board” or **“Directors”** means the directors of the Company as set out on page 43 of this Prospectus;

“business day” means any day, other than Saturday, Sunday or a statutory holiday in the Province of British Columbia;

“CEE” means Canadian exploration expense as described in paragraph (f) of the definition thereof in subsection 66.1(6) of the Tax Act, but does not include Canadian exploration and development overhead expense as prescribed for purposes of paragraph 66(12.6)(b) of the Tax Act, seismic expenses specified in paragraph 66(12.6)(b.1) of the Tax Act or an amount equal to

the amount of any government assistance received, that the Company is entitled to receive or is reasonably expected to receive that relates to such CEE;

“Closing” means the closing of the Offering;

“Commission” means the cash commission payable to the Agent pursuant to the Agency Agreement, which commission is equal to 6% of the gross proceeds from the sale of the Flow-Through Shares;

“Common Shares” means common shares without par value in the capital of the Company;

“Company” means Sanatana Diamonds Inc.;

“Corporate Finance Fee Shares” means the 100,000 non-flow-through Common Shares payable by the Company to the Agent;

“craton” means a large raft of stable Archaean crust which overlies a deep lithospheric keel;

“Diamonds North Agreement” means the agreement dated January 26, 2006 between the Company, Diamonds North Resources Ltd. and Majescor Resources Inc. See “General Development of Business – Significant Acquisitions and Significant Dispositions – Additional Mineral Rights”;

“Diamonds North Permits” means the 10 prospecting permits with a total acreage of 372,208 acres located within the boundaries of the Mackenzie Diamond Project and purchased by the Company from Diamonds North on January 26, 2006 pursuant to the Diamonds North Agreement. See “General Development of Business – Significant Acquisitions and Significant Dispositions – Additional Mineral Rights”;

“Diamonds North Royalties” means a royalty equal to 1.5% of the appraised value of all gem and industrial diamonds recovered, sorted and graded from the Diamonds North Permits, free and clear of all costs of development and operations, and a royalty equal to 1.5% of the actual proceeds received from the sale of ore, ore concentrates or other products from the Diamonds North Permits to a smelter or other ore buyer, after deduction of all smelter and/or refining charges, ore treatment charges and penalties, less all umpire charges which the purchaser may be required to pay. See “General Development of Business – Significant Acquisitions and Significant Dispositions – Additional Mineral Rights”;

“Escrow Agent” means Computershare Investor Services Inc. in its capacity as escrow agent under the Escrow Agreements;

“Escrow Agreements” means, collectively, an agreement among the Principals, the Escrow Agent and the Company with respect to 13,803,373 Common Shares, all such securities being deposited into escrow in connection with the Offering;

“Flow-Through Shares” means the Common Shares of the Company issued as “flow-through shares”, as that phrase is defined in subsection 66(15) of the Tax Act, being offered at a price of \$◆ per Flow-Through Share and being qualified by the Prospectus;

“Geoinformatics” means Geoinformatics Exploration Limited;

“Geoinformatics Agreement” means the November 25, 2004 letter agreement between Geoinformatics and the Company further details of which can be found under “General Development of the Business – Significant Acquisitions and Significant Dispositions – Geoinformatics Agreement”;

“Geoinformatics Royalty” means a royalty equal to 0.9% of the appraised value of all gem and industrial diamonds recovered, sorted and graded from the Mackenzie Diamond Project, free and clear of all costs of development and operation, and subject only to taxes;

“glacial erratic” means an exotic cobble or boulder deposited far from source by glaciation;

“Jaeger Agreement” means the agreement between the Company and Jaeger Joint Venture dated July 31, 2004, further details of which can be found under “General Development of the Business – Significant Acquisitions and Significant Dispositions – Jaeger Agreement”;

“Jaeger Joint Venture” means the unincorporated joint venture among James Mackie, Matthew Mason and Peter Miles entered into on November 3, 2003;

“Kennecott” means Kennecott Canada Exploration Inc., a subsidiary of Rio Tinto plc.;

“Kennecott Agreement” means the agreement between the Company and Kennecott dated July 19, 2005, as amended November 3, 2005 and January 26, 2006, further details of which can be found under “General Development of the Business – Significant Acquisitions and Significant Dispositions – Kennecott Agreement”;

“kimberlite indicator minerals” means mineral xenocrysts carried from the earth’s lithosphere to the surface by kimberlites. The minerals include typically peridotitic and eclogitic pyrope garnet, chrome diopside, omphacite, orthopyroxene, chrome spinel, picroilmenite and olivine;

“Lapsed Permits” means 88 of the 2004 Jaeger Permits and 2 of the 2005 Jaeger Permits which the Company decided in January 2006 to allow to lapse based on results of 2004 till sampling and preliminary results of 2005 airborne geophysical surveying and till sampling. See “General Development of the Business – Significant Acquisitions and Significant Dispositions – Jaeger Agreement”;

“lithospheric keel” means the lower part of a craton which overlies the earth’s mantle;

“Mackenzie Diamond Project” means the diamond exploration portfolio of the Company consisting a total of 382 prospecting permits over a total of 15,865,171 acres in the Northwest Territories and Nunavut, comprised of the 2004 Jaeger Permits, the 2005 Jaeger Permits, and the Diamonds North Permits but excluding the Lapsed Permits and 52 unpatented claims over a total of 119,811 acres in the Northwest Territories, comprised of the Young Claims. See “General Development of the Business – Significant Acquisitions and Significant Dispositions – Jaeger Agreement” and “General Development of Business – Significant Acquisitions and Significant Dispositions – Additional Mineral Rights”;

“Mason Diamonds North Royalties” means a royalty equal to 0.5% of the appraised value of all gem and industrial diamonds recovered, sorted and graded from the Diamonds North Permits, free and clear of all costs of development and operations, and a royalty equal to 0.5% of the actual proceeds received from the sale of ore, ore concentrates or other products from the Diamonds North Permits to a smelter or other ore buyer, after deduction of all smelter and/or refining charges, ore treatment charges and penalties, less all umpire charges which the purchaser may be required to pay;

“Mason Gross Overriding Royalty” means a royalty equal to 2% of the appraised value of all gem and industrial diamonds recovered, sorted and graded from the Mackenzie Diamond Project, excluding the Diamonds North Permits, free and clear of all costs of development and operations;

“Mason Net Smelter Royalty” means a royalty equal to 2% of the actual proceeds received from the sale of ore, ore concentrates or other products from the Mackenzie Diamond Project, excluding the Diamonds North Permits to a smelter or other ore buyer, after deduction of all smelter and/or refining charges, ore treatment charges and penalties, less all umpire charges which the purchaser may be required to pay;

“Offering” means the offering of up to ♦ Flow-Through Shares at a price of \$♦ per Flow-Through Share;

“Performance Carried Interest” means a 10% undivided interest in the Mackenzie Diamond Project, which interest is carried, non-participating and non-assessable until such time as exploration costs total \$4,000,000, after which time the Performance Carried Interest automatically converts to a 10% full participating interest in the Mackenzie Diamond Project. The Company granted the Performance Carried Interest to Jaeger Joint Venture on July 31, 2004 pursuant to the Jaeger Agreement and repurchased the Performance Carried Interest from Jaeger Joint Venture on March 4, 2005 pursuant to an amendment to the Jaeger Agreement. See “General Development of the Business-Significant Acquisitions and Significant Dispositions-Jaeger Agreement”;

“person” means any individual, partnership, association, body corporate, trustee, executor, administrator, legal representative, government, regulatory authority or other entity;

“Principals” means Buddy Doyle, Harley Hotchkiss, Glenn Laing, Hughnie Laing Trust, Silverbridge Capital Inc., Jamie Mackie, Brenda Mackie, Matthew Mason, and Peter Miles;

“Production Carried Interest” means a 10% undivided interest in the Mackenzie Diamond Project, which interest is carried, non-participating and non-assessable until the date on which it is demonstrated that the preparing and equipping of the mine for commercial production is complete, on which date the Production Carried Interest automatically converts into a 10% full participating interest in the Mackenzie Diamond Project;

“Prospectus” means the preliminary or final prospectus as the case may be;

“Specified Sampling” means specified sampling as defined pursuant to subsection 127(9) of the Tax Act;

“Tax Act” means the *Income Tax Act* (Canada), as amended, and the regulations promulgated thereto;

“Technical Report” means the report prepared by Kevin Kivi P. Geol. pursuant to the requirements of National Instrument 43-101 - *Standards of Disclosure for Mineral Projects*, a copy of which can be found on SEDAR at www.sedar.com;

“Young Claims” means the 52 unpatented claims over 119,811 acres in Northwest Territories staked on behalf of the Company and registered to Tim Young on June 25, 2005; and

“\$” means Canadian dollars and **“£”** and **“p”** mean pounds and pence sterling respectively.

PROSPECTUS SUMMARY

The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in this Prospectus.

Principal Business: The Company is a diamond exploration company currently engaged in primary diamond exploration of the Mackenzie Diamond Project in the Northwest Territories and Nunavut. See “General Development of the Business”.

Offering: Up to ♦ Flow-Through Shares at a price of \$♦ per Flow-Through Share raising gross proceeds of up to \$♦, provided that minimum subscriptions raising gross proceeds of \$5,000,000 are made. See “Plan of Distribution”.

Use of Proceeds: Without giving effect to the exercise of the Agent’s Warrants, the Company will receive aggregate gross proceeds of \$♦ for the sale of Flow-Through Shares if the Offering is fully sold, or \$5,000,000 if the minimum Offering is sold. These funds will be combined with the Company’s working capital of \$2,481,000 as at January 31, 2006 and with expected refunds of approximately \$2,400,000 of bonds posted in respect of the Mackenzie Diamond Project for the 2005 exploration season, for a total of \$♦, or \$9,881,000 if the minimum Offering is sold.

	Funds to be used	
	<u>Maximum Offering</u>	<u>Minimum Offering</u>
To pay the estimated costs of the Offering	♦	♦
To provide necessary funding for exploration programs on the Mackenzie Diamond Project	\$♦	\$5,000,000
To provide a reserve fund for general and administrative expenses for 12 months following the Offering	♦	♦
Additional working capital to fund ongoing operations	♦	♦
Total	♦	♦

All funds raised from the Offering will be used for exploration expenditures that will constitute CEE and will be renounced for the 2006 taxation year by no later than March 31, 2007. See "Use of Proceeds".

Risk Factors:

The Company's securities are highly speculative due to the nature of the Company's business and the present stage of exploration of the Mackenzie Diamond Project. The exploration of natural resources is a highly speculative activity that involves a high degree of financial risk. Investors should not invest funds in this Offering unless they can afford to lose their entire investment. There are a number of risks that should be taken into account and the following is a non-exhaustive list of some of the risks associated with mining minerals:

- exploration, mining and operational risks
- commercial deposits unknown
- short operating history
- limited operating history
- financing risks
- dependence on key personnel
- joint ventures
- conflicts of interest
- assurance of title to properties
- loss of interest in properties
- requirement for permits and licences
- land claims
- environmental factors
- volatility of diamond prices
- taxation
- uninsured risks
- health and safety risks
- competition

The following is a non-exhaustive list of some of the risks relating to the Offering:

- Common Shares could decline in value
- inactive market
- future issuances of Common Shares
- substantial sales of Common Shares
- lack of dividends
- directors resident outside Canada
- tax treatment of flow-through shares

See "Risk Factors".

Financial Information: The following selected financial information is subject to the detailed information contained in the financial statements of the Company and notes thereto appearing elsewhere in the Prospectus. The selected financial information is derived from audited financial statements for the Company as at March 31, 2005, and from the unaudited interim financial statements for the Company for the nine months ended December 31, 2005.

	Nine months ended <u>December 31, 2005</u>	Period from June 25, 2004 (Incorporation) to <u>March 31, 2005</u>
Revenue	Nil	Nil
Net Loss	\$(629,035)	\$(220,851)
Loss per Share	\$(0.02)	\$(0.07)
Total Assets	\$11,257,315	\$6,812,727
Total Liabilities	\$717,962	\$786,975

See “Selected Financial Information and Management’s Discussion and Analysis”

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Prospectus constitute forward-looking statements. These statements include, without limitation, statements concerning the Company's strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "plans", "anticipates", "believes", "estimated", "predicts", "potential", "continue", "intends", "could", or the negative of such terms or other comparable terminology. The reader should not place undue reliance on forward-looking statements. Forward-looking statements, particularly those concerning anticipated events relating to the exploration of the Mackenzie Diamond Project, are inherently risky and uncertain. The factors discussed below and other considerations discussed in the "Risk Factors" section of this Prospectus could cause the Company's actual results to differ significantly from those contained in any forward-looking statements.

Specifically, this Prospectus contains forward-looking statements regarding:

- the Company's future exploration and drilling plans with respect to the Mackenzie Diamond Project;
- the expected final results of airborne geophysical surveying of the Mackenzie Diamond Project;
- the expected final results of till sampling of the Mackenzie Diamond Project;
- the expected correlation between the final results of airborne geophysical surveying and the final results of till sampling of the Mackenzie Diamond Project;
- the Company's intention to maintain all permits required to conduct exploration activities on the Mackenzie Diamond Project; and
- the Company's ability to acquire the necessary access, land use and other permissions required for exploration activities.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause such differences include, among other things, the following:

- the need for additional capital and the effect of capital market conditions and other factors on capital availability;

- the dependence of the Company on its key personnel and the effect of competition from other companies and individuals involved in mineral exploration on the recruitment and retention of such personnel;
- the special risks associated with the Company's interests in joint ventures, including the possibility that joint venture partners may have interests that are inconsistent with those of the Company, may take action contrary to the Company's objectives, may be unwilling or unable to fulfill their obligations under joint venture agreements or other agreements, or may experience financial or other difficulties;
- the potential that land claim settlements or self-government agreements with respect to the Mackenzie Diamond Project area could delay or even prevent the Company's exploration activities; and
- the potential that land use permits required to conduct scheduled drilling programs may not be obtained or may not be obtained in a timely manner.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. The Company is under no duty to update any of the forward-looking statements contained in this Prospectus after the date of this Prospectus to conform such forward-looking statements to its actual results.

CORPORATE STRUCTURE

Name and Incorporation

Sanatana Diamonds Inc. is incorporated under the *Business Corporations Act* (British Columbia). Its registered office is located at Suite 1040, 999 West Hastings Street, Vancouver, British Columbia, V6C 2W2. Its head office is located at Suite 1925, 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2.

Intercompany Relationships

The Company has no subsidiaries.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

The Company is engaged in primary diamond exploration of the Mackenzie Diamond Project in the Northwest Territories and Nunavut. The Company commenced operations in 2004. On July 31, 2004, the Company entered into an agreement with Jaeger Joint Venture (the “Jaeger Agreement”) whereby the Company acquired its interest in the majority of the Permits contained in the Mackenzie Diamond Project. See “General Development of the Business – Significant Acquisitions and Significant Dispositions – Jaeger Agreement”. During 2004 and 2005 the Company carried out extensive exploration programs over the Mackenzie Diamond Project area including an intervention project with respect to the Mackenzie Diamond Project carried out by Geoinformatics pursuant to an agreement formalized on November 25, 2004 (the “Geoinformatics Agreement”). See “General Development of the Business – Significant Acquisitions and Significant Dispositions – Geoinformatics Agreement”. On July 19, 2005, the Company entered an agreement with Kennecott (the “Kennecott Agreement”) whereby Kennecott agreed, subject to certain conditions, to invest in the Company and make contributions to its exploration programs. See “General Development of the Business – Significant Acquisitions and Significant Dispositions – Kennecott Agreement”

On July 28, 2005, the Company’s Common Shares were admitted to the Alternative Investment Market of the London Stock Exchange. On November 30, 2005, a receipt was issued for the Company’s non-offering Prospectus, making the Company a reporting issuer in every province and territory of Canada, except Quebec.

The Company has entered into an access and benefits agreement dated January 18, 2006 with Déline Land Corporation in anticipation of 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. Under the terms of this agreement, the Company has agreed: (i) to pay access fees to Déline Land Corporation at a rate of \$1,200 per hectare for surface right access on the Déline Lands; (ii) to pay a \$6,500 annual administration fee with respect to exploration activities; (iii) to pay Déline Land Corporation a total of \$25,000 for a traditional knowledge study in connection with 2006 winter drilling exploration activities; (iv) to contribute \$30,000 towards a social impact trust, to be created by Déline Land

Corporation to foster the development of community infrastructure and assist with cultural initiatives; (v) to cover all of Déline Land Corporation negotiation costs in connection with this agreement and remit to Déline Land Corporation \$30,000 upon execution of this agreement, and \$30,000 upon receipt of a land use permit from the Sahtu Land and Water board for 2006 exploration activities scheduled to be completed on Déline lands; (vi) to obtain comprehensive general third party liability insurance, the limits of which are no less than \$5 million, and keep such insurance in force throughout the term of this agreement; and (vii) to consult with Déline Land Corporation to address the environmental impact of exploration activities and consequences with respect to wildlife harvesting and migration.

On January 26, 2006, the Company entered into an amendment to the Kennecott Agreement pursuant to which Kennecott agreed to provide letters of credit to cover annual bonding requirements for the 2006 exploration season in respect of the Mackenzie Diamond Project. See “General Development of the Business – Significant Acquisitions and Significant Dispositions – Kennecott Agreement”. Also on January 26, 2006, the Company entered into an agreement with Diamonds North Resources Ltd and Majescor Resources Inc. (the “Diamonds North Agreement”) whereby the Company acquired 10 additional prospecting permits in the Northwest Territories. See “General Development of the Business – Significant Acquisitions and Significant Dispositions – Additional Mineral Rights”.

Significant Acquisitions and Significant Dispositions

Jaeger Agreement

In December, 2003, Matthew Mason applied on behalf of Jaeger Joint Venture for 420 Prospecting Permits with a total acreage of 18,220,103 acres located north of Great Bear Lake in the Northwest Territories (the “2004 Jaeger Permits”). The 2004 Jaeger Permits were recorded in Matthew Mason’s name on February 1, 2004 and were held by him in trust for Jaeger Joint Venture. On July 31, 2004, the Company acquired from Jaeger Joint Venture, a 100% participating interest in the diamond rights to the 2004 Jaeger Permits. Pursuant to the terms of the Jaeger Agreement, Jaeger Joint Venture retained a 10% Production Carried Interest and a 10% Performance Carried Interest and Matthew Mason retained the Mason Gross Overriding Royalty, a 2% gross overriding royalty on diamonds. As consideration for the diamond rights to the 2004 Jaeger Permits, the Company issued 16,000,000 common shares of the Company, reimbursed \$76,933 of out of pocket costs incurred by Jaeger Joint Venture in managing the acquisition and subsequent administration of these permits, and allowed part of the refund of a deposit lodged by a member of Jaeger Joint Venture as part of the application for these permits to be applied to a subscription for 2,200,000 common shares of the Company at the price of \$0.50 per share.

On March 4, 2005, the Company entered into an amendment to the Jaeger Agreement whereby it acquired the 10% Performance Carried Interest held by the Jaeger Joint Venture in consideration for 3,000,000 common shares of the Company. The Jaeger Joint Venture retains a 10% Production Carried Interest in the Company’s diamond rights.

On May 11, 2005, Jaeger Joint Venture notified the Company that forty-two additional prospecting permits located in the vicinity of the 2004 Jaeger Permits (the “2005 Jaeger

Permits”) were recorded in the name of Matthew Mason on February 1, 2005. Thirty-nine of the 2005 Jaeger Permits are located entirely in the Northwest Territories. Three of the 2005 Jaeger Permits straddle the border between the Northwest Territories and Nunavut. The 2005 Jaeger Permits were held by Matthew Mason in trust for Jaeger Joint Venture.

Also on May 11, 2005, the Company notified Jaeger Joint Venture that it was exercising its right pursuant to the Jaeger Agreement to add the diamond rights to the 2005 Jaeger Permits to the Jaeger Agreement. As consideration for the diamond rights to the 2005 Jaeger Permits, the Company paid the acquisition cost of such permits, being \$60,000.

On June 15, 2005, the Company entered into an amendment to the Jaeger Agreement whereby the Company acquired from Jaeger Joint Venture all other mineral rights, excluding uranium rights, to the 2004 Jaeger Permits and the 2005 Jaeger Permits. As consideration for these additional rights, the Company agreed to pay \$10, Jaeger Joint Venture retained a 10% Production Carried Interest, and Matthew Mason retained the Mason Net Smelter Royalty, a 2% net smelter royalty.

On June 15, 2005, Matthew Mason executed an amended and restated declaration of trust in which he acknowledged that he holds recorded title to a total of 462 prospecting permits with a total acreage of 19,766,689 acres (the 2004 Jaeger Permits and the 2005 Jaeger Permits) as bare trustee and nominee for and on behalf of the Company to the extent of any diamonds or other minerals, excluding uranium, located on, in or under such permits, including the right to explore for and exploit any and all such diamonds or other minerals. The Company has no rights in respect of uranium.

In the June 15, 2005 amended and restated declaration of trust, Matthew Mason confirms that he has not and will not take any action that interferes with the ability of the Company to explore for, develop and mine diamonds or other minerals, excluding uranium, on the Mackenzie Diamond Project. Pursuant to a July 19, 2005 non-disturbance agreement between the Company, Kennecott, and the Jaeger Joint Venture, Jaeger Joint Venture agreed that neither they, nor any other persons acting under or through them shall interfere with the rights of the Company to explore for and exploit diamonds and other minerals on the Mackenzie Diamond Project. Jaeger Joint Venture further agreed that in the event that a conflict arises, the right to explore for and exploit diamonds and other minerals on the Mackenzie Diamond Project shall prevail and Jaeger Joint Venture shall cease and cause any other persons acting under or through them to cease the conflicting activity.

Based on results of 2004 till sampling and preliminary results of 2005 airborne geophysical surveying and till sampling, the Company decided in January 2006 to allow 88 of the 2004 Jaeger Permits and 2 of the 2005 Jaeger Permits (collectively the “Lapsed Permits”) to lapse. The Company will not post a bond for the Lapsed Permits for the 2006 exploration season. The Lapsed Permits will be cancelled effective as of February 1, 2006.

Geoinformatics Agreement

On November 25, 2004, the Company entered into an agreement with respect to an intervention project carried out by Geoinformatics with respect to the Mackenzie Diamond Project between

July 2004 and February 2005. See “Narrative Description of the Business – Exploration – Nature and Extent of Exploration”. As part of the consideration for this intervention project, the Company granted Geoinformatics the Geoinformatics Royalty, a 0.9% gross overriding royalty over the Company’s diamond rights to the Mackenzie Diamond Project.

Kennecott Agreement

On July 19, 2005, the Company entered into the Kennecott Agreement with Kennecott, a subsidiary of the major international mining and resource company Rio Tinto Plc. This agreement has been amended on November 3, 2005 and January 26, 2006. Pursuant to the terms of this agreement, as amended:

- Kennecott invested \$2.5 million in the Company at the time of its admission to the Alternative Investment Market of the London Stock Exchange by way of a purchase by its affiliate Rio Tinto Minerals Development Ltd. of 1,428,572 Common Shares at a price of 82 p (\$1.75 at an exchange rate of £1=\$2.134) per share. Kennecott has the right to participate in further financings in the Company to take its holding up to a maximum of 9.9% of the then issued share capital of the Company;
- Kennecott contributed \$2.5 million towards the Company’s 2005 exploration program and may elect by notice to the Company on or before April 1, 2006 to contribute \$2.5 million on or before July 28, 2006 towards the Company’s 2006 exploration program; and
- The Company will manage and operate its exploration programs.

If it makes the above investments and contributions, Kennecott will earn a 15% interest in the Mackenzie Diamond Project (subject to increase as discussed below) and an exploration joint venture will be formed, pursuant to which exploration will be managed under the direction of a management committee with each of the Company and Kennecott having voting rights in proportion to its respective interest. The Company will continue to principally fund and manage exploration of the area of its mineral rights, but from January 1, 2007, Kennecott will contribute pro-rata to all ongoing exploration expenditures.

The Kennecott Agreement grants Kennecott the right to earn up to a 60% interest in any individual kimberlite or mineral deposit identified by the Company on the following basis:

- 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.

Kennecott may earn a 49% or a 60% interest in respect of a particular kimberlite even if it does not earn a 15% interest in the entire Mackenzie Diamond Project. Upon Kennecott earning this further interest in respect of a particular kimberlite or mineral deposit, the Kennecott Agreement

provides that the area of that particular kimberlite or mineral deposit will be carved out of the Joint Venture (if any) applicable to the entire Mackenzie Diamond Project and a development joint venture will be created in respect of the carved out area.

The development joint venture will be managed by a management committee with each party having votes according to its respective interest. Each party to the development joint venture will fund its own interest. The party with the majority interest will be the manager of the project and will 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 that 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 Diamonds, a subsidiary of Kennecott, will market all diamonds from the development joint venture in exchange for a 3% marketing fee.

Under the terms of the Kennecott Agreement, Kennecott may also elect to purchase \$1 million worth of shares in the Company each January starting in 2008, at a price per share equal to the average closing price of the Company's common shares on the Alternative Investment Market of the London Stock Exchange or, if applicable, the TSX Venture Exchange or the Toronto Stock Exchange until the first time it chooses not to so elect. Kennecott will not have the right to earn a 49% or a 60% interest in any individual kimberlite or mineral deposit identified by the Company after the first time it chooses not to elect to purchase \$1 million worth of shares in the Company in any January starting in 2008. The requirement that Kennecott purchase \$1 million worth of shares in the Company each January starting in 2008 in order to maintain its right to earn a 49% or a 60% interest and its right to continue to purchase shares each January is subject to the proviso that if the Company has not incurred at least \$2.5 million in exploration expenditures in the 12 months prior to the applicable share purchase, Kennecott is not required to purchase \$1 million worth of shares to maintain these rights.

The Kennecott Agreement also grants Kennecott the right to participate in any future financings completed by the Company in order to maintain Kennecott's interest in the Company or increase such interest up to a maximum of 9.9%. Kennecott will not be participating in the Offering.

Also pursuant to the Kennecott Agreement, Kennecott deposited a letter of credit on the Company's behalf to fulfill the bonding requirements of approximately \$5.2 million for the 2006 exploration season in respect of the 2004 Jaeger Permits, the 2005 Jaeger Permits and the Diamonds North Permits, but excluding the Lapsed Permits. The Company has agreed that (1) any amounts drawn on these letters of credit will constitute a debt owing by the Company to Kennecott, (2) Kennecott will have a security interest in all of the Company's present and after acquired property and assets for any such debt owing, and (3) Kennecott will have the right, 90 days after making demand for payment of any such debt owing, to increase the 15% interest it may earn in the Mackenzie Diamond Project by 1% for each \$300,000 or portion thereof owing.

Additional Mineral Rights

The Company also has rights in 52 unpatented mining claims which were staked on the Company's behalf in Spring 2005. These claims were registered to Tim Young in June 2005 and are subject to a 10% Production Carried Interest in favour of Jaeger Joint Venture, the Mason Gross Overriding Royalty, the Mason Net Smelter Royalty and the Geoinformatics Royalty.

In addition, on January 26, 2006, the Company entered into an agreement with Diamonds North Resources Ltd. and Majescor Resources Inc. (the "Diamonds North Agreement") to purchase 10 prospecting permits registered in the name of Diamonds North Resources Ltd. on February 1, 2005 and within the outer boundaries of the Mackenzie Diamond Project area (the "Diamonds North Permits"). As consideration for the Diamonds North Permits, the Company granted Diamonds North Resources Ltd. and Majescor Resources Inc. the Diamonds North Royalties, a 1.5% gross overriding royalty on diamonds and a 1.5% net smelter royalty on other minerals, agreed to file a report of work and, when received, refund the deposit lodged in respect of the Diamonds North Permits for the 2005 exploration season, and agreed to provide information and data with respect to the Diamonds North Permits.

Pursuant to the Jaeger Agreement, Matthew Mason was automatically entitled to receive the Mason Gross Overriding Royalty and the Mason Net Smelter Royalty with respect to the Diamonds North Permits upon the Company acquiring such permits. In the Diamonds North Agreement and an addendum thereto signed by Matthew Mason, however, Matthew Mason agreed that he shall instead be entitled only to the Mason Diamonds North Royalties, a 0.5% gross overriding royalty with respect to diamonds and a 0.5% net smelter royalty with respect to other minerals, with respect to the Diamonds North Permits.

NARRATIVE DESCRIPTION OF THE BUSINESS

Stated Business Objectives

The Company's primary business objective is to explore and develop the Mackenzie Diamond Project. Its strategy to achieve this objective is:

- to apply a focused "value-add" exploration program using an integrated, science and technology driven approach;
- to identify and rank kimberlite targets from the results of this exploration on a timely and efficient basis; and
- to drill and develop these targets whether alone or in joint venture with Kennecott.

The following description of the Mackenzie Diamond Project is based on the September 29, 2005 Technical Report prepared pursuant to the provisions of National Instrument 43-101 by Kevin Kivi P. Geol. The entire Technical Report is available under the Company's profile on SEDAR at www.sedar.com.

Property Description and Location

Area and Location

The Mackenzie Diamond Project consists of 382 prospecting permits and 52 unpatented mining claims located north of Great Bear Lake in Northwest Territories and Nunavut as shown in Figure 1.

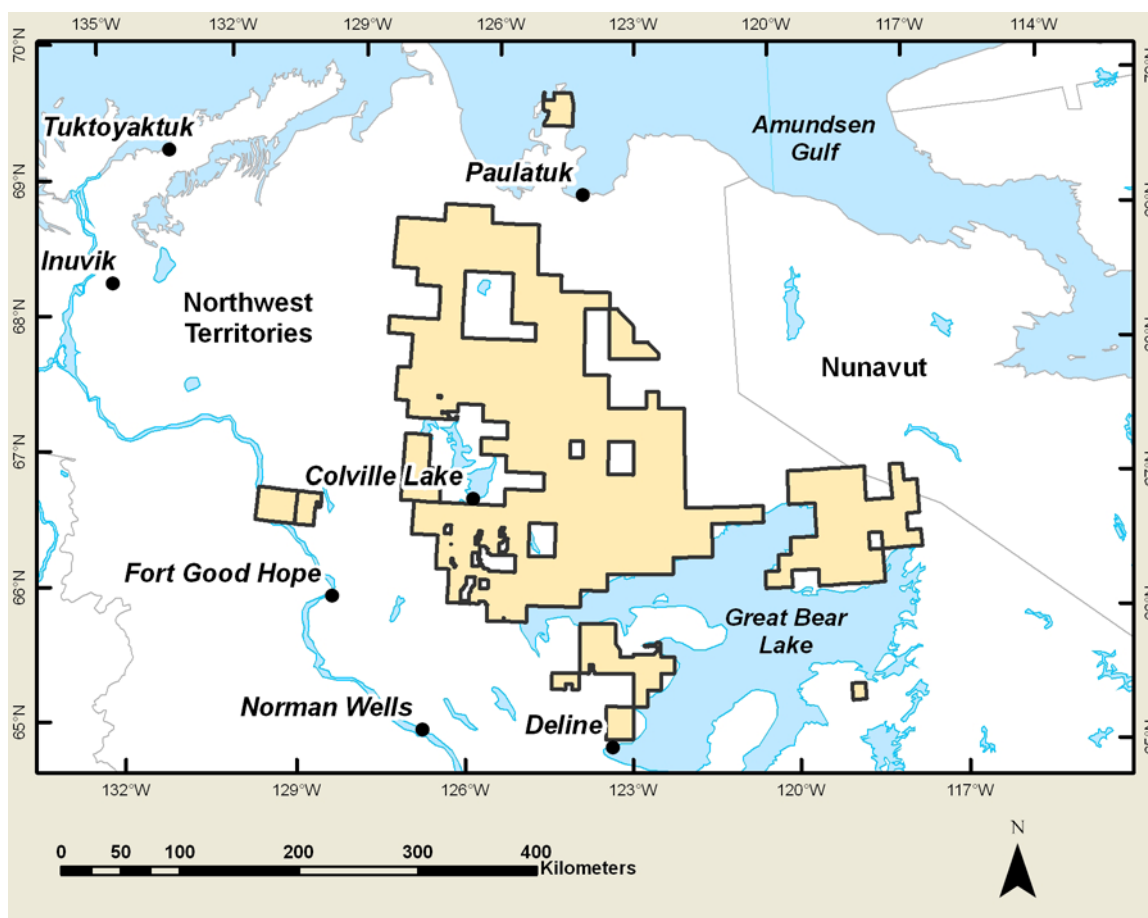


Figure 1 – Mackenzie Diamond Project

Nature and Extent of Company's Title

The Company owns the diamond and other mineral rights, excluding uranium rights, to the prospecting permits that comprise the Mackenzie Diamond Project. Prospecting permits allow the holder the exclusive right to locate mineral claims within the permit area. North of 68 degrees north latitude, prospecting permits may be held for a period of 5 years. South of 68 degrees north latitude, prospecting permits may be held for a period of 3 years. The Mackenzie Diamond Project is comprised of 60 prospecting permits located north of 68 degrees north latitude, and 322 prospecting permits located south of 68 degrees north latitude.

In order to maintain a prospecting permit in good standing, the holder must post a bond at the start of each applicable work period and complete prescribed levels of exploration work within the permit area during each applicable work period. North of 68 degrees north latitude, the

required bond and exploration work is 10 cents per acre during an initial two-year work period, 20 cents per acre during a second two-year work period and 40 cents per acre during a final one-year work period. South of 68 degrees north latitude, the required bond and exploration work is 10 cents per acre during an initial one-year work period, 20 cents per acre during a second one-year work period and 40 cents per acre during a final one-year work period. Provided the required exploration work is completed within the applicable work period, the bond is returned to the holder after submission of a report of the work completed.

In the third term (year 5 north of 68 degrees north latitude, and year 3 south of 68 degrees north latitude), the landholder may elect to convert land within the permit area to unpatented claims by staking. Excess work from previous prospecting permits may be transferred to new claims. Prospecting permits south of 68 degrees north latitude that were acquired by the Company in 2004 have entered the third work term, and thus physical staking is required to retain any land of merit. Pursuant to the Canada Mining Regulations, land not staked in the third term will revert to the Crown on February 1, 2007 and the Company will be prevented from reacquiring mineral rights to this land for a period of one year.

The Company also has rights in 52 unpatented mining claims which were staked on the Company's behalf in Spring 2005. These claims were registered to Tim Young in June 2005.

The landholder can hold an unpatented claim for 10 years from the date the claim is recorded if the landholder completes work valued at \$4 per acre in the first 2 year term, then work valued at \$2 an acre each subsequent year until year 10, when the claim must be taken to lease. Since all of the Company's claims are only in year 2, leasing, the next form of mineral tenure available to the Company in respect of the land, is beyond concern of the Company at this point in time.

Royalties, Agreements and Encumbrances

The Mackenzie Diamond Project is subject to: (a) a 2% gross overriding royalty on diamonds and a 2% net smelter royalty on other minerals (being the Diamonds North Royalties and the Mason Diamonds North Royalties, in the case of the Diamonds North Permits, and the Mason Gross Overriding Royalty and the Mason Net Smelter Royalty in the case of the balance of the Mackenzie Diamond Project), and (b) the Geoinformatics Royalty, a 0.9% gross overriding royalty on diamonds. Jaeger Joint Venture retains a 10% Production Carried Interest in the diamond and other mineral rights, excluding uranium rights, to the Mackenzie Diamond Project. Pursuant to the Kennecott Agreement, Kennecott has the right to earn a 15% interest in the Mackenzie Diamond Project, subject to increase in the event that the Company does not repay to Kennecott any amounts drawn down on the letters of credit posted by Kennecott in satisfaction of the bonding requirements for the 2006 exploration season for the prospecting permits comprised in the Mackenzie Diamond Project. Also pursuant to the Kennecott Agreement, Kennecott has the right to earn either a 49% or 60% interest in any individual Kimberlite or other mineral deposit identified in the Mackenzie Diamond Project. See "General Development of the Business – Significant Acquisitions and Significant Dispositions".

Environmental Liabilities

There are no known environmental liabilities with respect to the Mackenzie Diamond Project.

Location of Mineralization

There are no known mineralized zones, mineral resources, mineral reserves and mine workings, existing tailing ponds, waste deposits and important natural features and improvements on or over the Mackenzie Diamond Project.

Permits

The Company has and intends to acquire and maintain all required permits for exploration activities conducted on the Mackenzie Diamond Project

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Access

The Company accesses the Mackenzie Diamond Project by helicopter and fixed-wing aircraft. Norman Wells has a runway and daily passenger jet service. The smaller communities of Fort Good Hope, Colville Lake and Deline, as well as the Plummers Flying Lodge on Great Bear Lake all have significant airstrips within the Mackenzie Diamond Project area.

Proximity

The largest communities near the Mackenzie Diamond Project are Norman Wells in the south and Inuvik in the north, each of which are located approximately 100 kilometres from the outer borders of the Mackenzie Diamond Project.

Climate

The climate is Canadian Arctic, with ice and snow cover from October to June, and a brief, intense summer in July and August. Daylight varies from 24 hour daylight in summer to virtual darkness in winter. Optimum conditions for till sampling, mapping and prospecting occur in the summer. Diamond drilling can be conducted between March and October.

Surface Rights, Local Resources and Infrastructure

The Company does not currently have any surface rights in the Mackenzie Diamond Project area. Surface rights for mining operations, potential tailings storage areas, potential waste disposal areas, heap leach areas and processing plant areas can be applied for and are available subject to satisfying prevailing permitting requirements. If a mine were to be developed, gravel and water deposits are plentiful, but diesel electric would likely be necessary for power. The local workforce is sophisticated, with large numbers of mining personnel working in diamond mines and oil fields.

Topography, Elevation and Vegetation

The Mackenzie Diamond Project covers a diverse spread of arctic topography, from swamps to mountains. North of the tree line, the Mackenzie Diamond Project is dominated by tundra, lakes,

rivers and swamp. South of the tree-line, the Mackenzie Diamond Project is vegetated with spruce and poplar forest with abundant muskeg, lakes, rivers and swamp.

History

Prior Ownership

The prospecting permits comprising the Mackenzie Diamond Project were issued to Matthew Mason on February 1, 2004 in the case of the 2004 Jaeger Permits, to Matthew Mason on February 1, 2005 in the case of the 2005 Jaeger Permits, and to Diamonds North Resources Ltd. on February 1, 2005 in the case of the Diamonds North Permits. The Company acquired rights to these permits on July 31, 2005, May 11, 2005 and January 26, 2006, respectively. The claims comprising the Mackenzie Diamond Project were staked on the Company's behalf in Spring 2005 and issued to Tim Young in June, 2005. See "General Development of the Business – Significant Acquisitions and Significant Dispositions – Jaeger Agreement" and "General Development of the Business – Significant Acquisitions and Significant Dispositions – Additional Mineral Rights". There are no records of prior diamond exploration or production on the Mackenzie Diamond Project

Acquisition of Property

The Company acquired its diamond and other mineral rights to the prospecting permits and claims which comprise the Mackenzie Diamond Project through the Jaeger Agreement, arrangements with Tim Young, and through the Diamonds North Agreement. See "General Development of the Business – Significant Acquisitions and Significant Dispositions – Jaeger Agreement" and "General Development of the Business – Significant Acquisitions and Significant Dispositions – Additional Mineral Rights". Each of James Mackie, Peter Miles and Mathew Mason has received a greater than 5% interest of the consideration received by the Jaeger Joint Venture.

Geological Setting

Surficial Property Geology

Quaternary geology of the Mackenzie Diamond Project includes extensive thick glacial deposits that suggest a complex and variable glacial history. Formations observed are lacustrine sediments, several thin to thick boulder till sheets (exposed in sink-holes and deep-cut river valleys) and huge moraines (at Lac Maunoir). Drumlins are present in the north, and aligned lakes suggest rapid ice flow in the SW and SE parts of the property. Glaciofluvial deposits include large delta and floodway deposits, as well as prominent esker ridges, and kettle lakes.

Glaciofluvial deposits are more dominant in the northern and north-eastern parts of the property. Government Quaternary mapping shows that most of the Mackenzie Diamond Project area is covered in a till veneer and a till blanket, with areas influenced by glacial fluvial processes. The project area is dominated by till veneer of less than three meters, which mimics bedrock topography, and till blankets of between three and ten meters, which masks, but is still influenced by, bedrock topography. These deposits are thought to be lodgement tills and are considered excellent for sampling.

Regional and Local Geology

To the east of the Mackenzie Diamond Project is the Proterozoic Bear structural sub-province, which sits between the (proposed) Mackenzie craton and Slave craton. The Bear Sub-province is dominated by the Wopmay Orogen, which records mid-Proterozoic rifting and subduction. The Wopmay is divided into tectonic belts including the sedimentary Hepburn Asiatic and Tree River belts. The Great Bear Zone is Andean-type magmatic arc volcanism. Post collisional sedimentation is represented by the mid-Proterozoic to early Cambrian Coppermine and Rae Groups of the Coppermine Homocline.

In the eastern part of the Mackenzie Diamond Project, near Dease Arm of Great Bear Lake, are gently-dipping clean-white sandstones and orthoquartzite, which are the basal unit of the Hornby Bay Group. Minor extension is represented by a large layered ultramafic body known as the Muskox Intrusion, and north-south Franklin diabase sills and dikes form prominent ridges north of the Dease Arm of Great Bear Lake.

Paleozoic and Mesozoic Mackenzie Platform sediments occur along the Western Inland Seaway (Mackenzie River) east of the Mackenzie Mountains, and have been of great interest to oil and gas exploration companies. Large formations of Paleozoic shales, organic-rich shales, reef and platform carbonates are present. Rocks exposed on the property include Canol Formation organic shale, which overlies Kee Scarp Formation Devonian Limestone Reef deposits, from which much of the MacKenzie oil is derived. The Kee Scarp Limestones overly the 350 million year old Hare Indian Formation (shales) known from deep oil drilling.

Basement Geology

The existence of an underlying Archaean craton in the Mackenzie Diamond Project is theorized based on circumstantial evidence in the form of kimberlite indicator minerals and Archaean gneisses and granitic glacial erratics in the western but not the eastern part of the property.

Kimberlites are sourced from lithospheric roots of Archaean cratons. Kimberlites have not yet been discovered in the Mackenzie Diamond Project area, however, the discovery of kimberlite indicator minerals (pyrope, chromite and ilmenite) with fragile surface textures such as leucoxene alteration on ilmenite, and kelyphite coronas on pyrope garnet, suggests the existence of undiscovered kimberlites. Kimberlites, if discovered, will likely penetrate platform sediments to the paleosurface present at the time of emplacement.

There are no known Archaean outcrop exposures in the Mackenzie Diamond Project, however, there are half-meter sized gneiss boulders near the western part of the property but not in the eastern part of the property. Government glaciologists have predicted that these Archaean erratics were carried by the Laurentide ice sheet from exposed Archaean rocks some 350 kilometers to the east. The presence of boulders near the western part of the Mackenzie Diamond Project but not on the eastern part of the property suggests that glaciers may have sampled a local, buried source.

Exploration

Nature and Extent of Exploration

Since acquiring rights to the Mackenzie Diamond Project in 2004, the Company has adopted a three fold preliminary exploration strategy aimed at identifying areas with high potential for discovery of kimberlites during subsequent detailed follow up exploration. Follow-up exploration would include but is not limited to detailed airborne geophysics, ground geophysics, infill till sampling, prospecting and diamond drilling.

The first element of the Company's exploration strategy was an intervention which consisted of collecting and validating all available geological data over the Mackenzie Diamond Project, compiling this data into three dimensional databases and generating three dimensional models and target areas that are prospective for kimberlite exploration.

The second element of the Company's exploration strategy was a program of till sampling aimed at identifying patterns of kimberlite indicator minerals in glacial deposits covering the Mackenzie Diamond Project. Over 1300 till samples were collected from the Mackenzie Diamond Project in 2004 and 2135 till samples were collected from the property in 2005. Diamond laboratories returned anomalous kimberlite indicator mineral counts from many of the till samples collected in 2004 and 2005. Processing of the till samples collected in 2005 is currently in process at the Kennecott Diamond Laboratory in Thunder Bay, Ontario and the Vancouver Indicator Processing Laboratory in Vancouver, British Columbia. Results from approximately 75% of the 2005 till samples were received by the end of January, 2006. The balance of the analysis will be delivered to the Company in due course.

The third element of the Company's exploration strategy is a program of airborne magnetic geophysical surveys aimed at identifying magnetic kimberlite clusters directly among non-magnetic platform sediments. Airborne surveying of the Mackenzie Diamond Project at 400 meter line spacing commenced in May, 2005 with a total of approximately 160,000 kilometres completed by the end of November, 2005 when activities were halted due to bad weather. Airborne surveying is expected to continue in Spring 2006, to complete the portions of this survey plan that were not completed in the 2005 season and to survey the Diamonds North Permits area.

The Company intends to develop a definitive exploration budget for the 2006 field season after the results of 2005 till sampling and airborne surveys have been analyzed and negotiations for exploration related contracts, including drilling and helicopters, have been finalized. The Company has estimated the following preliminary exploration expenditures for 2006:

Salaries	\$210,000
Staking costs	\$3,600,000
Winter Data Processing and Planning	\$165,000
Spring 2006 Drill Program	\$3,519,600

Spring 2006 Airborne Surveying	\$575,000
Summer/Fall 2006 Sampling	\$2,147,062
Summer 2006 Drilling and Support	\$1,759,600
TOTAL	\$11,976,262

Results and Interpretation

The results of the 2004 till sampling program are presented in detail in the Technical Report. By way of overview, all kimberlite indicator mineral counts from the 2004 samples were probe confirmed, combined and processed using geographic information system software to produce the following thematic map. Areas of anomalous kimberlite indicator minerals are displayed as larger graduated symbols with the highest counts being the largest circles. Zero values are represented as a small dot.

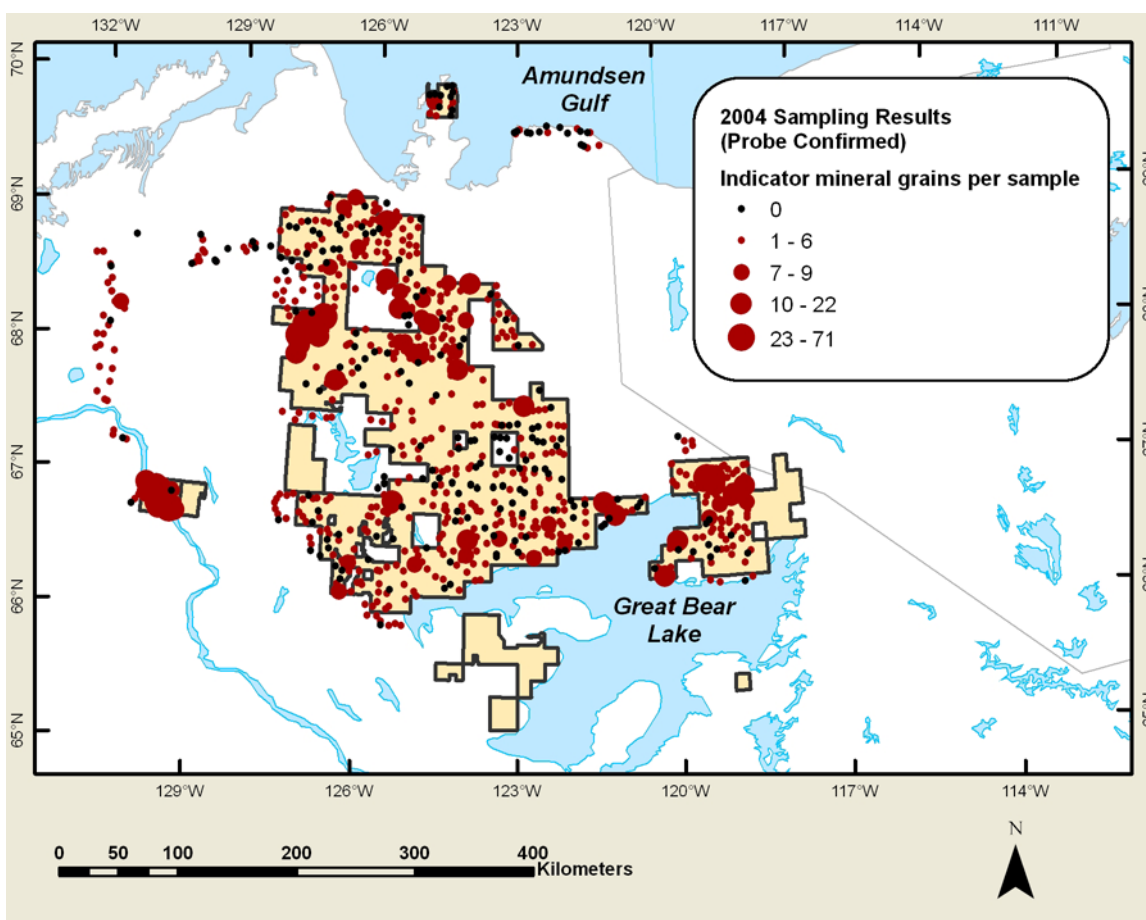


Figure 2 – Graduated Counts of EMP confirmed kimberlite indicator minerals (Maximum 71 grains)

As shown on the thematic map, prominent kimberlite indicator anomalies were identified in numerous locations in the Mackenzie Diamond Project area.

Airborne surveying of the Mackenzie Diamond Project is not yet complete, however, preliminary indications from the portion of the survey completed during 2005 and the results to date from the 2005 till sampling suggest that there will be a positive correlation between magnetic geophysical anomalies and kimberlite indicator minerals collected from till samples.

Independent Contractors

The Company subcontracted project management of all of its exploration activities to Geoinformatics. Additional subcontractors who have participated in exploration of the Mackenzie Diamond Project include Minconsult Exploration Services Ltd. (logistical planning, field supervision, field staff, and hiring and training first nations workers), Nugget Expediting Ltd. (logistical services, expediting services and cost management), Goldak Airborne Surveys (geophysical surveying), Firefly Airborne Surveys, (geophysical surveying), and Kevin Kivi, P.Geo.(geological consulting services).

Mineralization

Kimberlites or other primary diamond hosting rocks are not known on the property and therefore no diamond mineral reserves or resources have been identified.

Drilling

The Company has not undertaken diamond drilling on the Mackenzie Diamond Project to date, but has identified and continues to define a number of drill targets that it plans to drill in April and May, 2006.

Sampling and Analysis

The 2004 till sampling program was based on a nominal 10 by 10 km sample density over the entire Mackenzie Diamond Project. In 2005, till sampling was conducted at closer intervals in locations identified from the 2004 results.

Samplers traveled to each sample site by helicopter, recorded their location with a global positioning system waypoint feature, and dug a half meter deep hole, using a shovel, from active frost boils or suitable till. Till is considered a more local sampling medium than stream or glaciofluvial deposits, which may have undergone a complicated transportation history. A 12 litre sample was collected from each sample site and poured into a pre-numbered polypropylene liner sample bag containing a sample tag.

The need to get the samples processed in the time required for assessment created the necessity to use multiple processing laboratories and observation facilities, leading to variance in results between laboratories. Three different laboratories were used to observe grains of kimberlite indicator minerals from the Company's 2004 till sampling program: the Kennecott diamond laboratory in Thunder Bay, Ontario; the KIMDynamics laboratory in Vancouver, British Columbia; and the Diatech laboratory in Perth, Western Australia. The Kennecott laboratory reported lower overall counts of oxide minerals than the other laboratories. Oxide minerals are harder to recognize during the observation process and it is possible that Kennecott is more selective in reporting oxides than the other laboratories. Pyrope and chrome diopside are the

easiest grains to recognize during the observation process. The Diotech laboratory returned fewer of these grains than the other laboratories, despite obtaining similar maximum counts of these minerals.

The geographic distribution of samples processed at each of these laboratories is mixed. Despite differences in sample results, when laboratories processed samples from adjacent anomalous areas, they reported similar results. This suggests that although grain counts differ from laboratory to laboratory, anomalous samples cluster to form discrete kimberlite indicator mineral anomalies that are surrounded by a low mineral-count background. In other words, the quality assurance and quality controls implemented during exploration has identified a real and significant bias between laboratories, but this bias is not to the extent that areas of anomalous kimberlite indicator minerals would be missed. Generation of false anomalies by laboratories is unlikely because a false positive count from a laboratory would return to zero after electron microprobe analysis identifies each grain as something other than a kimberlite indicator mineral.

In order to assess whether the results of the Company's till sampling program are repeatable, duplicate samples were taken from several sample locations. Analysis of duplicate samples has shown that the results of the Company's 2004 till sampling program are quite noisy. There is some variation between laboratories, however repeatability between samples is poor, regardless of the laboratory used, suggesting that the lack of repeatability is due more to sample site variations than which laboratory is used. The implication of the duplicate sampling analysis is that there is no certainty that a sample with a negative result actually depicts an area where there are no kimberlite indicator minerals. Sample repeatability can be reduced by increasing sample size, but since larger samples cost more money and take longer to process a decision must be made to balance sample quality and cost. The sample size used by the company is deemed adequate to locate areas of anomalous kimberlite indicator minerals, even though it is known that duplicate samples may not be repeatable.

Despite the apparent low precision, the results of the Company's 2004 and 2005 till sampling program cluster into geographic areas, with low count results around highly anomalous kimberlite indicator mineral results. These results therefore appear useful to the Company's aim of identifying kimberlites within the Mackenzie Diamond Project area. Formation of discrete kimberlite indicator mineral anomalies suggest that the precision and accuracy of the company's sampling program is adequate to identify localities where kimberlites may occur within the Mackenzie Diamond Project area.

Security of Samples

In order to ensure the validity and integrity of samples taken, all sample bags were packaged in sealed plastic pails and organized into sealed and numbered pallets for secure shipment to laboratories for analysis. Chain of custody forms were completed at the time of packaging and faxed to the laboratories for inventory control when samples were received. All processing in 2004 and 2005 has been completed by independent laboratories under direction and supervision of Kevin Kivi P. Geol., an independent consulting geologist and "qualified person" as defined in National Instrument 43-101.

Mining Operations

There are no mining operations on the Mackenzie Diamond Project other than exploration activities.

USE OF PROCEEDS

Without giving effect to the exercise of the Agent's Warrants, the Company will receive aggregate gross proceeds of \$◆ for the sale of Flow-Through Shares, or \$5,000,000 if the minimum Offering is sold. All funds raised from the Offering will be used for exploration expenditures that will constitute CEE and will be renounced for the 2006 taxation year.

The gross proceeds of the sale of Flow-Through Shares will be combined with the Company's working capital of \$2,481,000 as at January 31, 2006 and with an expected refund of approximately \$2,400,000 for bonds posted in respect of the Mackenzie Diamond Project for the 2005 exploration season, for total available funds of \$◆, or \$9,881,000 if the minimum Offering is sold. The Company plans to use these funds as follows:

	Funds to be used	
	<u>Maximum Offering</u>	<u>Minimum Offering</u>
To pay the estimated costs of the Offering	◆	◆
To provide necessary funding for exploration programs on the Mackenzie Diamond Project	\$◆	\$5,000,000
To provide a reserve fund for general and administrative expenses for 12 months following the Offering	◆	◆
Additional working capital to fund ongoing operations	◆	◆
Total	◆	◆

All funds raised from the Offering will be used for exploration expenditures that will constitute CEE and will be renounced for the 2006 taxation year no later than March 31, 2007.

SELECTED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

Annual Information

The following table sets forth summary financial information for the Company as at and for the periods ended March 31, 2005 and December 31, 2005. This information has been summarized from the Company's audited financial statements for the period from June 25, 2004 (incorporation) to March 31, 2005, and unaudited interim financial statements for the nine months ended December 31, 2005. This summary financial information should only be read in conjunction with the Company's financial statements, including the notes thereto, included elsewhere in this Prospectus.

	Nine Months Ended December 31, 2005 (unaudited)	Period From June 25, 2004 (incorporation) to March 31, 2005
Revenues	Nil	Nil
Consulting fees	\$79,103	\$6,515
Filing Fees	\$38,313	—
Investor relations	\$54,303	\$2,000
Management fees	\$84,000	—
Office and administration (net of interest income)	\$32,087	\$29,558
Professional fees	\$249,284	\$114,069
Transfer Agent fees	\$27,061	—
Travel and accommodation	\$90,130	\$68,709
Decrease in future income tax liability	\$25,246	—
Net loss for the period	\$(629,035)	\$(220,851)
Accumulated deficit (end of period)	\$(849,886)	\$(220,851)
Loss per share	\$(0.02)	\$(0.07)

	As at December 31, 2005 (unaudited)	As at March 31, 2005
Assets:		
Current Assets	\$3,013,002	\$1,355,835
Interest in Mineral Properties	\$8,198,669	\$4,947,130
Deferred costs and advances	\$45,644	\$509,762
Total Assets	\$11,257,315	\$6,812,727
Liabilities	\$717,962	\$786,975
Shareholders' Equity	\$10,593,353	\$6,025,752

Quarterly Information

The following table sets forth summary financial information for the quarters of the Company completed December 31, 2005, September 30, 2005, June 30, 2005, March 31, 2005, December 31, 2004 and September 30, 2004:

(Unaudited)	Net Loss		
	Net Sales or Total Revenues	Total	Per Share Basic and diluted
Quarter ending December 31, 2005	—	\$(298,795)	\$(0.01)
Quarter ending September 30, 2005	—	\$(190,069)	\$(0.01)
Quarter ending June 30, 2005	—	\$(140,171)	\$(0.00)
Quarter ending March 31, 2005	—	\$(145,002)	\$(0.05)
Quarter ending December 31, 2004	—	\$(23,192)	\$(0.00)
Quarter ending September 30, 2004	—	\$(52,657)	\$(0.18)

Dividends

The Company has never paid dividends on its Common Shares and does not anticipate paying dividends in the foreseeable future. The Company intends to retain its future earnings, if any, for development of its business.

Management's Discussion and Analysis

The following Management's Discussion and Analysis should be read in conjunction with the Company's financial statements for the period from June 25, 2004 (incorporation) to March 31, 2005 and the Company's unaudited financial statements for the interim nine month period ending December 31, 2005 and is intended to provide the reader with a review of the factors that affected the Company's performance during such periods and the factors reasonably expected to impact future operations and results.

Overview

The Company's exploration activities are carried out solely in Canada in the Northwest Territories and in Nunavut. The Company has carried out prospecting and exploration for diamonds at the Mackenzie Diamond Project since its incorporation in June 2004. As at December 31, 2005, the Company held rights to approximately 20 million acres comprising the Mackenzie Diamond Project. In order to reduce its bonding obligations for the 2006 exploration season, the Company has subsequently allowed its rights over approximately 4 million acres of the Mackenzie Diamond Project, selected based on current exploration results, to lapse.

In the nine-month period ended December 31, 2005 the Company has carried out a two pronged exploration program consisting of an airborne geophysical survey that covered most of the Mackenzie Diamond Project and a field exploration program consisting of till sampling, with closer density spacing than that of 2004. The processing of the 2,135 till samples collected during the summer 2005 exploration program continues. The processing of these samples has been completed and 75% of the samples have been observed as of the end of January, 2006.

The majority of the 160,000 line kilometer airborne magnetic survey has been interpreted. Preliminary indications are that there is an increasing correlation between kimberlite indicator minerals collected from the till samples and magnetic geophysical anomalies

Exploration expenditures, particularly in relation to the airborne geophysics surveys and the field exploration programs, have been in line with predictions and budgets

On July 28, 2005, the Company was admitted to AIM, raising approximately \$5 million to fund its proposed exploration programs over the Mackenzie Diamond Project and general corporate expenses.

An access and benefits agreement to all Deline surface lands within the Company's Mackenzie Diamond Project area has been signed with the Deline Land Corporation. This provides access to the Kilekale Lake area, where at least 12 targets are scheduled to be subjected to detailed geophysical surveys and drilling for potential kimberlites during the proposed spring 2006 exploration program. Negotiations are still continuing for land use permits in respect of the drill target areas.

Kennecott Exploration Canada Inc ("Kennecott") has agreed to provide the necessary Letters of Credit to cover the Annual Bonding Requirements for exploration activities at the Company's Mackenzie Diamond Project.

The Company has entered into an engagement agreement with the Agent with respect to the Offering. The proceeds of the Offering will be used for exploration expenditures.

The Company has applied to list its Common Shares on the TSX Venture Exchange. The listing is subject to the Company fulfilling all of the listing requirements of the TSX Venture Exchange, including prescribed distribution and financial requirements.

At December 31, 2005 the Company held cash of \$2.9 million for use in exploration programs and working capital needs.

Results of operations

Mineral exploration costs form the bulk of the Company's expenditures for the period from June 25, 2004 (incorporation) to March 31, 2005 and for the nine months ending December 31, 2005. These costs are set out in the following table:

	<u>Cumulative as at December 31, 2005</u>	<u>June 2004 to March 31, 2005</u>
Helicopter and fixed wing aircraft costs	4,637,488	911,433
Sampling and assays	1,421,773	438,410
Labour	180,344	127,449
Reimbursable bonds and deposits	2,487,186	2,368,584
Geological services	1,397,940	524,840
Project management fees	497,000	—
Other expenses	283,727	576,414
Recoveries	(206,789)	—
Kennecott option payment	<u>(2,500,000)</u>	<u>—</u>
Total costs for the period	8,198,669	4,947,130

In the period ended March 31, 2005, the Company sourced legacy data and created a multi-dimensional, single data base using the Geoinformatics intervention process. In addition a summer field program was carried out in 2004 and over 1300 till samples were collected. Based on kimberlite indicator minerals recovered from these till samples at least 7 separate potential diamondiferous kimberlite clusters were identified.

From April to December 2005, the Company carried out a two pronged exploration program consisting of a 160,000 line kilometre airborne geophysical survey (principally magnetics) over the majority of the Mackenzie Diamond Project area and a till sampling program at much closer density than last year over the potential kimberlite cluster target areas. A total of 2135 till

samples weighing approximately 80 tonnes were collected in the period between July and September 2005. From September to December, 2005 processing of these till samples was undertaken. See “Narrative Description of the Business – Exploration”.

Transactions with Related Parties

For the 9 month period to Dec 31, 2005:

\$	Misape Mgt Inc.	Peter Miles	St George Minerals Ltd.	Hermes Mgt	Totals
Administration fees	—	—	—	9,000	9,000
Consulting fees	—	—	32,169	—	32,169
Management Services	45,500	38,500	—	—	84,000
Totals:	45,500	38,500	32,169	9,000	125,169
Notes:	(1)	(2)	(3)	(4)	(5)

- (1) Fees paid or accrued to a management company controlled by the Hughnie Laing Trust, whose sole beneficiary is Hughnie Laing, wife of Glenn Laing, a director of the Company. Mr. Laing provides management and technical services
- (2) Mr. Peter Miles provides financial and management services
- (3) Fees paid or accrued for financial and administrative services, including the services of Gary Leonard, by a company controlled by the Hughnie Laing Trust
- (4) Fees paid or accrued for secretarial services by a company controlled by Mathew Mason, a member of the Jaeger Joint Venture
- (5) In addition to the above, fees for directors totaled \$36,625

Critical accounting estimates

Critical accounting estimates represent estimates that are highly uncertain and for which changes in those estimates could materially impact our financial statements. Costs relating to the acquisition, exploration and development of non-producing resource properties are capitalised until such time as either economically recoverable reserves are established or the properties are sold or abandoned. Based on the results at the conclusion of each phase of an exploration program, management re-evaluates properties that are not suitable as prospects to determine if future exploration is warranted, and that carrying values are appropriate. The decision to capitalise exploration expenditures and the timing of the recognition that the capitalised exploration is unlikely to have future economic benefits, can materially affect the reported earnings of the Company.

Additional information

Additional information relating to the Company is available on the Internet at the SEDAR website located at www.sedar.com

Disclosure of outstanding share data

The Company's shares trade on the London Stock Exchange Alternative Investment Market ("AIM") under the symbol SAN. The Company is authorised to issue shares without par value and the Company had 30,679,810 issued and outstanding common shares at April 1, 2005. On July 28, 2005, the Company issued 2,926,984 fully paid common shares in respect of the financing of \$5,159,759. Of these, 36,586 shares were issued as listing costs of \$64,026. At the end of the period ended December 31, 2005, there were 33,606,794 common shares issued and outstanding and no share options or warrants outstanding.

DESCRIPTION OF SECURITIES OFFERED

The securities being offered hereby consist of up to ♦ Flow-Through Shares at a price of \$♦ per Flow-Through Share. The Company has only one class and kind of shares, being Common Shares, and there are no special rights or restrictions of any nature attached thereto. The Flow-Through Shares are Common Shares in all respects, save that Flow-Through Shares give rise to certain unique income tax consequences, summarized below.

Canadian Federal Income Tax Considerations

In the opinion of Lang Michener LLP, counsel to the Company, the following is, as of the date hereof, a fair and adequate summary of the principal Canadian federal income tax consequences generally applicable to persons who have acquired Flow-Through Shares pursuant to this Offering and who, for the purposes of the Tax Act, are resident in Canada, hold such Flow-Through Shares as capital property and deal at arm's length and are not affiliated with the Company ("holders"). The Flow-Through Shares will generally be considered capital property to a holder thereof unless either the holder holds Flow-Through Shares in the course of carrying on a business or the holder has acquired the Flow-Through Shares in a transaction or transactions considered to be an adventure or concern in the nature of trade. All investors are advised to consult their own tax advisors. This summary is based upon the current provisions of the Tax Act, counsel's understanding of the current published administrative practices of the Canada Revenue Agency (the "CRA") and proposed amendments to the Tax Act publicly announced by the Minister of Finance (Canada) prior to the date hereof (the "Proposed Amendments"). This summary assumes that the Proposed Amendments will be enacted as proposed but does not take into account or anticipate any other changes in law, whether by way of judicial, legislative or governmental decision or action, nor does it take into account provincial, territorial or foreign income tax considerations. No assurances can be given that the Proposed Amendments will be enacted as proposed, if at all, or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

This summary does not apply to the Agent nor to holders: (i) that are "principal-business corporations" within the meaning of the Tax Act; (ii) whose business includes trading or dealing

in rights, licenses or privileges to explore for, drill for or take minerals, oil, natural gas or other related hydrocarbons; (iii) that are “financial institutions” within the meaning of the “mark-to-market” rules contained in the Tax Act; (iv) who, at any time, are subject to the “Tax Shelter Investment” rules in the Tax Act; or (v) that are partnerships in trusts.

This summary assumes that the Company will make all tax filings in respect of the Flow-Through Shares and the renunciation of CEE in the manner and within the time required by the Tax Act and that all renunciations will be validly made. While the Company has agreed to furnish each holder of Flow-Through Shares with information relevant to the holder’s Canadian federal and provincial income tax returns, the preparation and filing of those returns will remain the responsibility of each holder. This summary further assumes that the Company will incur (or will be deemed to have incurred) sufficient CEE to enable it to renounce to holders of Flow-Through Shares all of the expenses covenanted to be renounced by the Company pursuant to subscription agreements in substantially the form of Schedule A attached to this prospectus (the “Subscription Agreement”) effective on or before the dates set out therein. This summary is based on the Company being, and maintaining its status as a “principal-business corporation”, for the purposes of the Tax Act, at all material times, and assumes that any Flow-Through Shares will not be “prescribed shares” within the meaning of the relevant provisions of the Tax Act when they are issued and that there are and will be no “prescribed rights” in existence with respect to the Flow-Through Shares.

The Canadian federal income tax consequences to a particular holder will vary depending on a number of factors, including the province where a particular holder resides, carries on business or has a permanent establishment and the amount that would be the holder’s taxable income but for the subscription for Flow-Through Shares. The following discussion of the income tax consequences is, therefore, of a general nature only and is not exhaustive of all the income tax consequences and is not intended to constitute income tax advice to any particular holder. Accordingly, holders should consult their own income tax advisors with respect to the income tax consequences which will result from acquiring, holding and disposing of the Flow-Through Shares.

Renunciation of Qualifying Expenditures in Respect of Flow-Through Shares

Subject to certain limitations and restrictions, a principal business corporation that incurs CEE (other than certain “off the shelf” seismic data or expenses related thereto) with funds received from a holder pursuant to an agreement for the issue of its “flow-through shares” within the meaning of the Tax Act will be entitled to renounce the CEE to such holder and the CEE so renounced will be deemed to have been CEE incurred by such holder on the effective date of the renunciation.

A principal business corporation is entitled to renounce to holders of flow-through shares CEE incurred by it during the period ending 24 months after the end of the month in which the subscription agreements pertaining to such shares are entered into by the holders and the corporation less: (i) any previous renunciations with respect to such CEE; (ii) any portion of such CEE which is prescribed under the Tax Act as relating to Canadian exploration and development overhead expenses of the Company; and (iii) any assistance that the Company has received, is entitled to receive, or can reasonably be expected to receive at any time and that can reasonably

be related to such CEE. CEE incurred within a particular calendar year and renounced to holders effective on or before December 31 of that calendar year will be deemed to have been CEE incurred by such holders on the effective date in that particular calendar year. Certain CEE which a principal business corporation incurs or plans to incur in the year following a particular calendar year may be renounced effective December 31 of the particular calendar year, provided that: (i) the subscription agreement is entered into in the particular year; (ii) the proceeds from the subscription are received in cash by the corporation before the end of the particular calendar year; (iii) such expenses are renounced in January, February or March of the following calendar year; and (iv) the holder to which such CEE are renounced deals at arm's length with such corporation throughout the following calendar year (the "12 month look-back rule").

If CEE renounced pursuant to the 12 month look-back rule are not actually incurred by the Company by the end of the year following the particular calendar year, the amount of CEE renounced to holders must be reduced by the amount not actually incurred by the Company. A holder will not be liable for any penalty and will not be required to pay interest on any resulting increase in income tax payable in a particular calendar year as a result of such a reduction in CEE until after the month of April in the second calendar year following the particular calendar year. Where a corporation renounces CEE pursuant to the 12 month look-back rule, the corporation will be liable to pay a deductible charge each month (other than January) in the year during which the CEE must be incurred equal to the amount of renounced expenses which have not been incurred by the end of the particular month multiplied by 1/12 of the prescribed interest rate at that time for refund interest purposes under the Tax Act. In addition, the corporation must pay a charge under the Tax Act of 10% of the balance of any renounced but unexpended CEE not incurred by the end of the year following the particular year.

CEE deemed to have been incurred by a holder will be added to the cumulative CEE account of such holder. A holder may deduct in computing income from all sources for a taxation year such amount as may be claimed not exceeding 100% of the holder's cumulative CEE account at the end of a taxation year. To the extent that a holder does not deduct the balance of the holder's cumulative CEE account at the end of a taxation year, the balance will be carried forward and the holder will be entitled to claim deductions in respect thereof in subsequent taxation years, subject to the rules regarding an acquisition of control of a corporate holder. If the balance of the holder's cumulative CEE account is "negative" at the end of a taxation year, which may occur if the holder receives or becomes entitled to receive assistance payments which relate to CEE incurred in a prior year or if there are other adjustments to that cumulative CEE account, the "negative" amount must be included in the holder's income for that taxation year, and the balance of the holder's cumulative CEE account then becomes nil. A holder who disposes of Flow-Through Shares will retain the entitlement to receive renunciations of CEE from the corporation as described above as well as the ability to deduct any CEE previously deemed to have been incurred by the holder, and a purchaser of such Flow-Through Shares from such holder will not be entitled to any renunciation of CEE.

Disposition of Flow-Through Shares

The initial cost of a Flow-Through Share for the purposes of the Tax Act is deemed to be nil. In computing the adjusted cost base of a holder's Flow-Through Shares the cost of such shares must

be averaged with the cost of any other shares of the Company of the same class held by the holder as capital property at that time.

Any disposition or deemed disposition (other than to the Company) by a holder of Flow-Through Shares will result in the realization of a capital gain (or capital loss) in the taxation year of the disposition to the extent the proceeds of disposition, net of any reasonable disposition costs, exceed (or are exceeded by) the holder's adjusted cost base of such Flow-Through Shares.

A holder will generally be required to include one-half of the amount of any capital gain (a "taxable capital gain") in income and will be required to deduct one-half of the amount of any resulting capital loss (an "allowable capital loss") against taxable capital gains. Allowable capital losses not deducted in the taxation year in which they are realized may ordinarily be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any following taxation year against taxable capital gains realized in such years, to the extent and under the circumstances specified in the Tax Act.

A holder that is a Canadian-controlled private corporation (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 2/3% on its "aggregate investment income" for the year, which is defined to include an amount in respect of taxable capital gains.

Alternative Minimum Tax

Under the Tax Act, taxes payable by an individual and by most trusts will be the greater of the taxes otherwise determined and an alternative minimum tax computed by reference to such individual's adjusted taxable income for the taxation year in excess of a \$40,000 exemption and reduced by certain tax credits. In calculating adjusted taxable income for the purpose of computing the minimum tax, certain deductions and credits otherwise available are disallowed and certain amounts not otherwise included in income are included. The disallowed items include deductions claimed by the individual in respect of CEE in a particular taxation year to the extent such deductions exceed the individual's resource income (including income attributable to a disposition of Canadian resource properties) in that year and four-fifths of any capital gain realized by the individual is included in calculating the individual's adjusted taxable income rather than one-half. The federal rate of minimum tax is 15%. Whether and to what extent the tax liability of a particular holder will be increased by the alternative minimum tax will depend on the amount of such holder's income, the sources from which it is derived, and the nature and amounts of any deductions such holder claims.

Any additional tax payable by an individual for the taxation year resulting from the application of the alternative minimum tax will be deductible in any of the seven immediately following taxation years in computing the amount that would, but for the alternative minimum tax, be such individual's tax otherwise payable for any such year to the extent that such tax payable exceeds the individual's alternative minimum tax calculation for that particular year.

Cumulative Net Investment Loss

One-half of the amount of the CEE renounced to a holder will be added to the holder's cumulative net investment loss ("CNIL") account, within the meaning of the Tax Act. A holder's CNIL account may impact a holder's ability to access the \$500,000 lifetime capital gains

exemption available on the disposition of certain qualified small business corporation shares and farm property.

Eligibility of Shares and Flow-Through Shares for Deferred Plans

Provided the Flow-Through Shares are listed on a prescribed stock exchange and provided the Company deals at arm's length with the annuitant, beneficiary, employer or subscriber under the registered retirement savings plan, registered retirement income fund, registered education savings plan and deferred profit sharing plan as the case may be (collectively referred to as "Deferred Income Plans"), the Flow-Through Shares will be qualified investments, within the meaning of the Tax Act, for Deferred Income Plans. The TSX Venture Exchange (Tiers 1 and 2) is a prescribed stock exchange in Canada. Any individual who proposes to transfer Flow-Through Shares to his or her Deferred Income Plan or arrange for the Deferred Income Plan to subscribe for Flow-Through Shares should consult his or her tax advisors. Normally, Flow-Through Shares are not suitable investment vehicles for Deferred Income Plans.

CAPITALIZATION

The authorized share capital of the Company consists of an unlimited number of Common Shares without par value. The Company does not have any outstanding loan capital. As of March 31, 2005, the end of the Company's first completed financial year, 30,679,810 Common Shares were issued and outstanding. The Company issued 2,926,984 shares in a private placement transaction on July 28, 2005. See "Prior Sales". As of the date of this Prospectus, 33,606,794 Common Shares are issued and outstanding.

OPTIONS TO PURCHASE SECURITIES

The Company has adopted an incentive stock option plan for directors, officers, consultants and employees of the Company and any other company which is controlled by the Company. This plan provides for the issuance of options to purchase in aggregate up to 10% of the Common Shares issued and outstanding at the date of the stock option grant. As of the date of this Prospectus, the Company has not granted any options under its stock option plan.

PRIOR SALES

The following table summarizes the sales of securities of the Company within the 12 months prior to the date of this Prospectus.

Date	Price per Security	Number of Securities	Reason For Issuance
February 18, 2005	\$1.35	297,000	Private Placement
March 23, 2005	\$0.60	791,666	Private Placement ⁽¹⁾
March 31, 2005	\$1.50	714,148	Private Placement

Date	Price per Security	Number of Securities	Reason For Issuance
March 31, 2005	\$1.35	1,263,000	Private Placement
March 31, 2005	\$1.35	3,000,000	Performance Agreement ⁽²⁾
March 31, 2005	\$0.50	2,200,000	Sale and Purchase Agreement ⁽³⁾
March 31, 2005	\$0.25	16,000,000	Sale and Purchase Agreement ⁽³⁾
July 28, 2005	0.82 p / \$1.75 ⁽⁵⁾	2,926,984	Private Placement ⁽⁴⁾

Notes:

(1) These Common Shares were issued pursuant to an option agreement dated July 31, 2004 whereby the Company granted Glencairn Gold Corporation (a) an option to acquire up to a 3.8% undivided interest in the Company's diamond rights by contributing to the Company's exploration expenses and (b) an option to require the Company to repurchase this interest in consideration for the issuance of 791,666 Common Shares at a price of \$0.60 per share. Both of these options have been exercised.

(2) These Common Shares were issued pursuant to the March 4, 2005 amendment to the Jaeger Agreement See "General Development of the Business – Significant Acquisitions and Significant Dispositions – Jaeger Agreement".

(3) These Common Shares were issued pursuant to the July 31, 2004 Jaeger Agreement See "General Development of the Business – Significant Acquisitions and Significant Dispositions – Jaeger Agreement".

(4) 36,586 of these 2,926,984 common shares were issued in settlement of £30,000 owing to Insinger de Beaufort the Company's Nominated Adviser for the purpose of its admission to the Alternative Investment Market of the London Stock Exchange pursuant to a July 22, 2005 placing agreement in connection with this private placement.

(5) The rate of exchange used for the private placement was £1.00=\$2.134.

ESCROWED SECURITIES

Alternative Investment Market Resale Restrictions

In accordance with the rules for Alternative Investment Market companies and their nominated advisers as issued by the London Stock Exchange from time to time, the Company's directors, related parties and certain significant shareholders have agreed that they will not (save in limited circumstances) dispose of any of their respective interests in Common Shares held at the time of the Company's admission to the Alternative Investment Market of the London Stock Exchange

on July 28, 2005 for a period of 12 months after admission, and have agreed to certain restrictions on disposal for the following year so as to ensure an orderly market for the share capital of the Company:

Number of Common Shares Subject to Resale Restrictions	Percentage of Outstanding Common Shares
14,386,373	43%

Certain other shareholders have agreed not to dispose of any of their respective interests in Common Shares without the prior written consent of the Company and Insinger de Beaufort for a period of one year following the Company's admission to the Alternative Investment Market of the London Stock Exchange on July 28, 2005.

Number of Common Shares Subject to Resale Restrictions	Percentage of Outstanding Common Shares
9,185,967	27.3%

Canadian Escrow Arrangements

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") (NP 46-201 and Policy 5.4 are collectively referred to herein as the "Escrow Regulations") and pursuant to the Escrow Agreements, the following Common Shares (the "Escrowed Securities") will be deposited into escrow with the Escrow Agent on closing of the Offering:

Number of Common Shares Subject to Escrow	Percentage of Outstanding Common Shares
13,803,373	41.1%

Under the Escrow Regulations, the Company is an "emerging issuer". An emerging issuer is an issuer that does not meet the "established issuer" criteria, i.e. an issuer listed on The Toronto Stock Exchange in its non-exempt category or that meets Tier 1 listing requirements of the TSX Venture Exchange. Based on the Company being an emerging issuer, the Escrowed Securities will be subject to a three year automatic time release escrow in equal tranches at six-month intervals (i.e., 15% of each Principal's holding released in each tranche) with 10% of each Principal's holding being exempt from escrow effective on the date the Company's Common Shares were listed on the Alternative Investment Market of the London Stock Exchange.

If, within 18 months of the date the Company's Common Shares were listed on the Alternative Investment Market of the London Stock Exchange, the Company meets the established issuer criteria, as set out in the Escrow Regulations, that number of Escrowed Securities that would to that date have been eligible for release from escrow if the Company had been an established issuer on such date will be immediately released from escrow. After 18 months of the date the Company's Common Shares were listed on the Alternative Investment Market of the London

Stock Exchange, if the Company meets the established issuer criteria, all the Escrowed Securities will be immediately released from escrow.

The Escrowed Securities can generally not be transferred or otherwise dealt with while in escrow. Permitted transfers or dealings within escrow would include: (i) transfers to continuing or, upon their appointment, incoming directors and senior officers of the Company or of a material operating subsidiary, with approval of the Company's board of directors; (ii) transfers to an RRSP or similar trustee plan provided that the only beneficiaries are the transferor or the transferor's spouse or children; (iii) transfers upon bankruptcy to the trustee in bankruptcy; and (iv) pledges to a financial institution as collateral for a bona fide loan, provided that upon a realization the securities remain subject to escrow.

Tenders of Escrowed Securities to a take-over bid would be permitted provided that, if the tenderer is a principal of the successor issuer upon completion of the take-over bid, securities received in exchange for tendered Escrowed Securities are substituted in escrow on the basis of the successor issuer's escrow classification.

PRINCIPAL SHAREHOLDERS

To the knowledge of the Directors and officers of the Company, as of the date of this Prospectus, no person beneficially owns or exercises control or direction over common shares carrying more than 10% of the votes attached to the Common Shares except for the following:

Name	Number of Common Shares Beneficially Owned Directly or Indirectly at the date of this Prospectus	Percentage of Common Shares Held
Jamie Mackie ⁽¹⁾	4,082,086 ⁽²⁾	12.1%
Matthew Mason ⁽¹⁾	3,925,000	11.7%
Peter Miles ⁽¹⁾	3,739,001	11.1%

(1) Jamie Mackie, Matthew Mason and Peter Miles are members of the Jaeger Joint Venture, an unincorporated joint venture from whom the Company acquired its diamond and other mineral rights and which retains a 10% Production Carried Interest in the Mackenzie Diamond Project.

(2) Includes 2,299,250 Common Shares held by Brenda Mackie, Jamie Mackie's wife.

DIRECTORS AND OFFICERS

Name, Address, Occupation and Security Holding

The following table provides the names, municipalities of residence, positions and principal occupations of each of the Company's directors and executive officers:

Name, and Municipality of Residence	Position with the Company	Director / Officer Since	Principal Occupation Within Preceding Five Years
Richard Prickett Ledbury, Herefordshire	Director, Chairman	July 2005	Chartered Accountant and Business Executive
Edward Marlow London, England	Director	July 2005	Business Executive
J. Merfyn Roberts Montreal, Quebec	Director	July 2005	Chartered Accountant and Business Executive
Harley Hotchkiss Calgary, Alberta	Director	July 2005	Business Executive
Glenn Laing Oakville, Ontario	Director, Chief Executive Officer	May 2005, July 2004,	Business Executive
Peter Miles Vancouver, British Columbia	Director, Executive Vice President	June 2004	Business Executive
Gary Leonard Mississauga, Ontario	Chief Financial Officer	August 2005	Chartered Accountant

The term of office of the directors expires immediately before the election of directors at the next annual general meeting of the Company. The term of office of the officers expires at the discretion of the Company's directors.

As of the date of this Prospectus, the directors and officers of the Company as a group beneficially owned or exercised control or direction over an aggregate of 5,979,287 Common Shares, which is equal to 17.8% of the issued and outstanding Common Shares.

The board of Directors has an audit committee and a remuneration committee. The audit committee consists of Richard Öther Prickett (chairman), Edward Hammond Rivers Marlow, and Harley Hotchkiss. The remuneration committee consists of Richard Prickett (chairman) and Merfyn Roberts. All members of the Company's audit committee and remuneration committee are independent directors.

Corporate Cease Trade Orders or Bankruptcies

Other than as disclosed below, to the best of the Company's knowledge, no existing director, officer, promoter or other member of management of the Company is, or within the ten years prior to the date hereof has been, a director, officer, promoter or other member of management of any other corporation that, while that person was acting in the capacity of a director, officer, promoter or other member of management of that corporation, was the subject of a cease trade order or similar order or an order that denied the corporation access to any statutory exemptions

for a period of more than 30 consecutive days, was declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or has been subject to or appointed to hold the assets of that director, officer or promoter.

Richard Prickett was a director of London Securities Plc which agreed to a corporate voluntary arrangement with its creditors and shareholders on October 16, 1992. The corporate voluntary arrangement was completed in October 1994 as agreed. Richard Prickett resigned as a director in July 1994. Mr. Prickett was also a non-executive director of Cloud Cover Limited from June 1996 to November 1996. On June 12, 1997, Cloud Cover Limited went into liquidation. There is no outstanding deficit to creditors. Mr. Prickett was also a director of Brancote Holdings NL when it was placed into voluntary administration on March 3, 2000. The company was subsequently placed in creditors liquidation. The sole creditor was Brancote Holdings plc, the holding company, who wrote off all outstanding debt. The liquidation has been finalized and Brancote Holdings NL struck off.

Merfyn Roberts was a non-executive director of Ivernia West Inc. (now Ivernia Inc.). On May 22, 2003, the Ontario Securities Commission issued a temporary cease trade order as a result of Ivernia's failure to file financial statements. This cease trade order was lifted on July 23, 2003 upon the filing default being remedied.

Penalties or Sanctions

Other than as disclosed below, to the Company's knowledge, no director or officer of the Company, nor any shareholder holding sufficient securities of the Company to materially affect control of the Company has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Peter Miles has been censured by the Investment Dealers Association, Canada for failing to learn the essential facts of one order in a client account.

Personal Bankruptcies

To the Company's knowledge, no director or officer of the Company, nor any shareholder holding sufficient securities of the Company to affect materially the control of the Company, nor any personal holding company of any such person has, within the ten years before the date of this Prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangements or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

Conflicts of Interest

The Directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interests which they may have in any

project or opportunity of the Company. If a conflict of interest arises at a meeting of the Board, any Director in a conflict is required to disclose his interest and abstain from voting on such matter.

Management

Glenn Laing (Chief Executive Officer and Director), aged 54, holds a BSc Eng (Mining Geology) degree from the University of Witwatersand, Johannesburg and an MSc (Mining Engineering) degree from Colorado School of Mines, USA. Mr. Laing has been involved in the natural resources and financial sectors for over 30 years. He is currently president and chief executive officer of St. Andrew Goldfields Ltd., Jumbo Development Corporation, Glass Earth Limited and president of Silverbridge Capital Inc. He has extensive experience in the diamond mining and exploration industry which began in 1981 with over 10 years of alluvial, marine and underground diamond mining and exploration experience in South Africa. In the 1990s his experience extended to Canadian diamond exploration as president and chief executive officer of Lytton Minerals Limited and Tahera Diamond Corporation. 20% of Mr. Laing's time will be devoted to the Company.

Mr. Laing provides his services pursuant to an agreement between the Company and Misape Management Inc. Mr. Laing has signed an undertaking containing restrictive covenants including a non-competition clause and a non-disclosure clause with respect to the Company's confidential information.

Peter Miles (Executive Vice President and Director) aged 46, holds a B.Comm. in accounting and management information systems from the University of British Columbia. He has over 20 years of experience in investment banking and retail stock brokerage and was a Vice President of Midland Doherty Inc., Dean Witter Reynolds, and CIBC World Markets. Over the past several years Mr. Miles has arranged more than \$30,000,000 in financings for a number of public and private companies, primarily in the natural resource sector. Mr. Miles is a co-founder of the Company. 100% of Mr. Miles' time will be devoted to the Company.

Mr. Miles provides his services pursuant to a letter of appointment which contains a non-competition clause and a non disclosure clause with respect to the Company's confidential information.

Buddy Doyle (Vice-President Exploration), aged 44, has extensive diamond exploration and development experience. Most recently Mr. Doyle was vice-president – diamonds for Kennecott Canada Exploration Inc where, for the last ten years, he has managed a successful exploration team which discovered and then brought the Diavik diamond project in the Northwest Territories to pre-feasibility project handover. He also played a key role on the Lihir gold project, with involvement in the discovery and definition of the Minifie ore body. He has had a successful history of discovery in multi-commodity types, including over 100 kimberlites in Canada. 20% of Mr. Doyle's time will be devoted to the Company.

Mr. Doyle provides his services pursuant to a consulting agreement between the Company and Lithosphere Services Inc which includes a non-competition clause and a non disclosure clause with respect to the Company's confidential information.

Gary Leonard (Chief Financial Officer), aged 58, is a Chartered Accountant with thirty years experience in the private and public sectors, resource industry, mining and manufacturing. From 2003 to 2005, Mr. Leonard acted as a consultant and public Chartered Accountant. From 1998 to 2003, Mr. Leonard was Director of Finance at World Vision Canada. 40% of Mr. Leonard's time will be devoted to the Company.

Mr. Leonard's services are provided pursuant to an agreement between the Company and St. George Minerals Limited.

Richard Prickett (Director and Chairman), aged 54, is a Fellow of the Institute of Chartered Accountants and has 30 years experience in the corporate finance sector specializing in natural resources. He was appointed as finance director of Brancote Holdings plc in 1992 and became executive chairman from 1994. Brancote Holding plc. was an AIM listed mineral exploration group which, from 1996, focused its activities in Argentina and developed the Esquel Gold Project which culminated in a takeover of the company by Meridian Gold Inc. for US\$368 million in July 2002. Richard is currently a director of Landore Resources Ltd (mining exploration), The Capital Pub Company plc (hotels and hospitality) and Patagonia Gold plc (gold exploration), and Asian Growth Properties Limited (property development).

Mr. Prickett provides his services as non-executive director and chairman of the Company pursuant to a letter of appointment between the Company and European Sales Company Limited which includes a non-competition clause and a non disclosure clause with respect to the Company's confidential information.

Edward Marlow (Director), aged 42, holds an MBA degree from Cranfield University, a post graduate certificate in Law and is a graduate of Manchester University, RMA Sandhurst and of the US Army Command and General Staff College. He is currently the Director of UK Private Banking at Insinger de Beaufort and a non-executive director of ESO Uranium Corp. (uranium exploration). Prior to that he held similar banking positions at UBS and Citigroup and before this he was an officer in the British Army.

Mr. Marlow provides his services as a director pursuant to a letter of appointment which contains a non-competition clause and a non disclosure clause with respect to the Company's confidential information.

Merfyn Roberts (Director), aged 55, has a BSc in geology from Liverpool University, a MSc degree in Geochemistry from Oxford University and is an Associate of the Institute of Chartered Accountants. He has extensive experience in the financial and investment sectors. He is currently a director of Ocean Resources Capital Holding plc (financial services) and investment director of Arc Advisers Limited (investment management). He was formerly an investment director of Endeavour Securities Limited and was investment manager with Minorco Services (UK) Limited.

Mr. Roberts provides his services as a director pursuant to a letter of appointment which contains a non-competition clause and a non disclosure clause with respect to the Company's confidential information.

Harley Hotchkiss (Director), aged 78, is a business and community leader who has made great contributions to health and sports development in Canada. After World War II service in the Canadian Merchant Marine he graduated in geology and worked as a geologist, manager and president of a number of petroleum companies. He is now self-employed with business interests in oil and gas, real estate, agriculture and professional sports. He is a member of several professional societies relating to petroleum and mineral exploration and has served on a number of corporate boards. He was previously a director of Alberta Energy Company, Landin Resources, Jascan Resources, TransCanada Pipelines and Telus Corporation in Canada. He is Chairman of the Alberta Heritage Foundation for Medical Research, part owner and Governor of the Calgary Flames Hockey Club and Chairman of the Board of Governors of the National Hockey League. He is an Officer of the Order of Canada, a member of the Alberta Order of Excellence and holds an Honourary Doctor of Laws Degree from the University of Calgary and an Honourary Doctor of Science Degree from Michigan State University.

Mr. Hotchkiss provides his services as a director pursuant to a letter of appointment which contains a non-competition clause and a non disclosure clause with respect to the Company's confidential information.

EXECUTIVE COMPENSATION

There are presently three named executive officers ("NEOs") of the Company, being Glenn Laing, Chief Executive Officer, Peter Miles, Executive Vice President and Gary Leonard, Chief Financial Officer.

Except as set out below, during the financial period ending March 31, 2005, no payments were made, directly or indirectly, by the Company to the Directors and officers of the Company or any parties related to them.

Summary Compensation Table

NEO, Name and Principal Position	Year ⁽¹⁾	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards Securities Under Options/ SARs Granted (#)	Shares or Units Subject to Resale Restrictions (\$)	Payouts LTIP Payouts (\$)	
Glenn Laing, Chief Executive Officer ^{(2) (3)}	2005	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Peter Miles, Executive Vice President ⁽⁴⁾ ⁽⁵⁾	2005	Nil	Nil	Nil	Nil	Nil	Nil	Nil

NEO, Name and Principal Position	Year ⁽¹⁾	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards Securities Under Options/ SARs Granted (#)	Shares or Units Subject to Resale Restrictions (\$)	Payouts LTIP Payouts (\$)	
Gary Leonard, Chief Financial Officer ⁽⁶⁾	2005	Nil	Nil	Nil	Nil	Nil	Nil	Nil

- (1) The Company was incorporated on June 25, 2004.
- (2) The Company and Mr. Laing entered into an agreement dated July 21, 2005 pursuant to which Mr. Laing will receive £5,000 (\$10,070 at the rate of exchange of £1=\$2.014) annually for his services as a director of the Company.
- (3) The Company and Misape Management Inc. entered into an agreement dated July 21, 2005, pursuant to which the Company will pay US \$5,000 monthly for Mr. Laing's management and administrative services to the Company.
- (4) The Company and Mr. Miles entered into an agreement dated July 21, 2005 pursuant to which Mr. Miles will receive £5,000 (\$10,070 at the rate of exchange of £1=\$2.014) annually for his services as a director of the Company.
- (5) Effective as of July 21, 2005, the Company and Mr. Miles entered into a verbal agreement pursuant to which Mr. Miles receives \$5,500 per month for his services as Executive Vice President.
- (6) Effective as of August 15, 2005, the Company and St. George Minerals Limited entered into a verbal agreement pursuant to which the Company procures the services of Gary Leonard and St. George Minerals recovers fees of \$4,000 per month in respect of Mr. Leonard's services to the Company.

Long-Term Incentive Plan Awards in the Most Recently Completed Financial Year

The Company did not have any long-term incentive plans during the most recently completed financial year.

Aggregated Options/SAR Exercises During the Most Recently Completed Financial Year and Financial Year-End Option/SAR Values

None of the named executive officers, Directors or officers of the Company exercised any options in respect of the Company's common shares during the most recently completed financial year.

Termination of Employment, Changes in Responsibilities and Employment Contracts

The Company is not a party to any contracts, and has not entered into any plans or arrangements which require compensation to be paid to any of its directors, officers or employees in the event of: (a) resignation, retirement or any other termination of employment with the Company; (b) a change of control of the Company; or (c) a change in the director, officer or employee's responsibilities following a change of control.

Remuneration of Directors

The Company pays £5,000 (\$10,070 at the rate of exchange of £1=\$2.014) annually for the services of each director of the Company, except Richard Prickett, for whose services the Company pays £10,000 (\$20,140 at the rate of exchange of £1=\$2.014) annually.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No director or executive officer of the Company or any of his associates was indebted to the Company as at March 31, 2005, or is currently indebted to the Company.

PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement, the Agent has agreed to act as sole and exclusive agent of the Company to offer a minimum of ♦ and a maximum of ♦ Flow-Through Shares for sale on a "commercially reasonable efforts" basis, to the public resident in the Provinces of British Columbia, Alberta, Manitoba, and Ontario at a price of \$♦ per Flow-Through Share. The subscription price for each Flow-Through Share was established in the context of the market.

The Agent has agreed to use commercially reasonable efforts to secure subscriptions for all of the Flow-Through Shares offered hereunder on behalf of the Company. The obligations of the Agent under the Agency Agreement may be terminated at its discretion on the basis of its assessment of the state of the financial markets or upon the occurrence of certain stated events.

Pursuant to the Agency Agreement, the Company has agreed to pay the Agent a commission of 6% of the gross subscription proceeds from the sale of Flow-Through Shares under the Offering plus a corporate finance fee of 100,000 non-flow-through Common Shares (the "Corporate Finance Fee Shares"). The Corporate Finance Fee Shares are being qualified pursuant to this prospectus. In addition, the Company will pay the Agent an administration fee of \$7,500 and will reimburse the Agent for all reasonable expenses incurred in connection with the Offering.

In addition, the Company has agreed to grant to the Agent on the date of Closing the Agent's Warrants that will entitle the Agent to acquire that number of Common Shares equal to 6% of the Flow-Through Shares sold pursuant to the Offering. The exercise price at which Common Shares may be acquired pursuant to the Agent's Warrants will be \$♦ per Common Share and such Agent's Warrants will be exercisable up to 24 months following the date of issuance. In the event that (a) the weighted average trading price of the Company's common shares on the TSX Venture Exchange and/or the Alternative Investment Market of the London Stock Exchange is, for a period of ten (10) consecutive trading days, greater than 133% of the offering price of the

Flow-Through Shares and (b) the total number of common shares traded in such ten (10) day period is greater than the number of Agent's Warrants issued in connection with the Offering, then the Company shall give written notice to the Agent that the Agent's Warrants must be exercised within 30 days from the date of delivery of the notice, failing which any unexercised Agent's Warrants shall be cancelled. The Agent's Warrants are being qualified pursuant to this prospectus.

The Flow-Through Shares have not been and will not be registered under the United States Securities Act of 1933 (the "1933 Act"). Accordingly, the Flow Through Shares may not be offered, sold or delivered in the United States. The Company has applied to list its Common Shares on the TSX Venture Exchange. Listing of the Company's Common Shares on the TSX Venture Exchange will be subject to the Company fulfilling all minimum listing requirements for a Tier 2 mining issuer on the TSX Venture Exchange.

Subscriptions for the Flow-Through Shares will be received subject to rejection or allotment in whole or in part by the Company. The Company reserves the right to close the subscription books at any time without notice. The funds received from the sale of the Flow-Through Shares offered hereunder will be deposited with the Agent and will not be released until a minimum of \$5,000,000 has been deposited. The Offering is not underwritten. The minimum subscription of \$5,000,000 must be raised within ninety (90) days of the issuance of a receipt for the filing of a final prospectus or such other time as may be authorized by the securities commissions in each of the Provinces of British Columbia, Alberta, Manitoba or Ontario and agreed to by the Agent and each of the persons or companies who subscribed within that period, failing which the Agent will remit the funds collected to the original subscribers without interest or deduction unless the subscribers have otherwise instructed the Agent. It is expected that Closing of the Offering will take place on or about ♦, 2006 or such other date as may be mutually agreed upon by the Company and the Agent.

Provided that this Offering is completed, the Agent shall be granted the right of first refusal to participate in any brokered equity financing (or securities convertible into equity) that the Company proposes to conduct for a period of twelve (12) months from the date of Closing of this Offering.

The Company has agreed not to issue any further securities except (i) as contemplated by this Offering, (ii) pursuant to presently outstanding rights or agreements, (iii) pursuant to the Company's stock option plan, or (iv) subject to a limit of 5% of the Common Shares outstanding immediately following the Offering, pursuant to the acquisition of a company involving the issuance of securities, without the prior written consent of the Agent, for a period of 120 days from the date of Closing of this Offering.

There is no minimum individual subscription amount for Subscribers.

All monies received by the Agent (or such other investment dealer as is authorized by the Agent) prior to the Closing will be held in trust by the Agent pursuant to the Agency Agreement pending the Closing.

RISK FACTORS

Investments in the Flow-Through Shares involves a high degree of risk. Purchasers should carefully consider the risks described below before making an investment decision. Purchasers should also refer to the other information in this Prospectus including the Company's financial statements and related notes, and the Technical Report. The risks and uncertainties described below are those that the Company currently believes will materially affect it. Additional risks and uncertainties that the Company is unaware of or that the Company currently deems immaterial may also become important factors that affect the Company. If any of the following risks actually occurs, the Company's business, operating results or financial condition could be materially adversely affected.

Risks Relating to the Company's Business

Exploration, Mining and Operational Risks

The business of exploring for minerals involves a high degree of risk. Few properties that are explored are ultimately developed into mines. At present none of the Company's properties have a known diamond deposit and the proposed exploration programs are an exploratory search for such a deposit.

The Company's operations are subject to all the hazards and risks normally associated with the exploration of diamonds, any of which could result in damage to life, or property or the environment. The Company's operations may be subject to disruptions caused by unusual or unexpected formations, formation pressures, fires, power failures and labour disputes, flooding, explosions, cave-ins, landslides, the inability to obtain suitable or adequate equipment, machinery, labour or adverse weather conditions. The availability of insurance for such hazards and risks is extremely limited or uneconomical at this time.

The Company's operations are also subject to the additional risks associated with the short exploration season in the Northwest Territories and Nunavut. With ice and snow cover in the remote Mackenzie Diamond Project area from October to June, the Company's exploration program is dependent upon sufficient logistical support, including camps and fuel caches, to allow productive exploration activities during the brief arctic summer. A breakdown in logistical support could severely curtail the Company's planned exploration program.

In the event the Company is fortunate enough to discover a diamond deposit, the economics of commercial production depend on many factors, including the cost of operations, the size and quality of the diamonds, proximity to infrastructure, financing costs and Government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting diamonds and environmental protection. The effects of these factors cannot be accurately predicted, but any combination of these factors could adversely affect the economics of commencement or continuation of commercial diamond production.

The profitability of the Company's operations will be dependent, inter alia, on the market price of diamonds. Diamond prices are affected by numerous factors beyond the control of the Company, including international economic and political conditions, levels of supply and

demand, the policies of the Diamond Trading Company and international currency exchange rates.

Commercial Deposits Unknown

The Company has no known commercial deposits or production as its current activities are directed towards the search for diamond deposits. The exploration for diamond deposits is highly speculative. While the rewards can be substantial, there is no guarantee that exploration on the Company's properties will lead to a discovery of commercial quantities of diamonds and commercial production.

Short Operating History

The Company's business operations are at an early stage of development and its success will be largely depend on the outcome of the exploration programs that the Company proposes to undertake.

Limited Operating History

The Company has no properties producing positive cash flow and its ultimate success will depend on its ability to generate cash flow from producing properties in the future. The Company has not earned profits to date and there is no assurance that it will do so in the future. Significant capital investment will be required to achieve commercial production from the Company's existing projects. There is no assurance that the Company will be able to raise the required funds to continue these activities.

Financing Risks

The Company has limited financial resources. Continued exploration of one or more of the Company's properties will be dependent on the Company's ability to find additional funding through the joint venturing of the properties, public financing or other means. There can be no assurance that such funding required by the Company will be available to it, and, if such funding is available, that it will be offered on reasonable terms, or that the Company will be able to secure such funding through third party financing or cost sharing arrangements.

Dependence on Key Personnel

As with any company the Company's performance is dependent upon the performance and continued services of its current key management. While it has entered into contracts and adopted a stock option plan with the aim of securing the services of the existing management, the retention of their services cannot be guaranteed. Accordingly, the loss of any key management of the Company may have an adverse effect on the future of the Company's business. The Company competes with numerous other companies and individuals in the search for and acquisition of mineral claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and contractors.

Joint Ventures

The Company holds, and expects to hold in the future, interests in joint ventures. Joint ventures may involve special risks associated with the possibility that the joint venture partners may:

- have economic or business interests or targets that are inconsistent with those of the Company;
- take action contrary to the Company's policies or objectives;
- be unwilling or unable to fulfill their obligations under the joint venture or other agreements; or
- experience financial or other difficulties.

Any of the foregoing may have a material adverse effect on the results of operations or financial condition of the Company.

Conflicts of Interest

Certain of the Company's shareholders and Directors are or may become shareholders and/or directors of other natural resource companies, and, to the extent that such other companies may participate in ventures with the Company, the Directors may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Directors, a Director who has such a conflict will abstain from voting for or against the approval of such participation or of its terms. In appropriate cases the Company will establish a special committee of independent Directors to review a matter in which one or more Directors or management may have a conflict. From time to time, the Company, together with several other companies, may be involved in a joint venture opportunity where several companies participate in the acquisition, exploration and development of natural resource properties, thereby permitting the Company to be involved in a greater number of larger projects with an associated reduction of financial exposure in any given project. The Company may also assign all or a portion of its interest in a particular project to any of these companies due to the financial position of the other company or companies. In accordance with the laws of the province of British Columbia, the Directors are required to act honestly and in good faith with a view to furthering the best interest of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the Directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time. Other than as indicated, the Company has no procedures or mechanisms to deal with conflicts of interest.

Assurance of Title to Properties

The Company has taken all reasonable steps to attempt to ensure that proper title to the Mackenzie Diamond Project has been obtained. Despite the due diligence conducted by the Company, there is no guarantee that title to such properties, or that the prospecting permits and claims that comprise the Mackenzie Diamond Project will not be challenged or impugned. Surveys have not been conducted on all of the permits held by the Company. The Company's

mineral property interests may be subject to prior unregistered agreements or transfers or aboriginal land claims and title may be affected by undetected defects.

Loss of Interest in Properties

Failure by the Company to meet applicable payment, work and expenditure commitments on its properties may result in forfeiture of the Company's interest in these properties.

Requirement for Permits and Licences

The operations of the Company require licences, permits and in some cases renewals of existing licences and permits from various governmental authorities. The Directors believe that the Company has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations in respect of its properties, and also believes that the Company is complying in all material respects with the terms of such licences and permits. However, the Company's ability to obtain, sustain or renew such licences and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable governmental authorities.

Land Claims

Aboriginal rights may be claimed on Crown properties or other types of tenure with respect to which mining rights have been conferred. Aboriginal land claim settlements are more advanced in the Northwest Territories than they are in most other areas of Canada. The Mackenzie Diamond Project area is located in the Gwich'in, Sahtu and Inuvialuit settlement regions. With the exception of the Gwich'in Comprehensive Land Claim Agreement, Sahtu Dene and Metis Comprehensive Land Claim Agreement, and the Inuvialuit Final Agreement pertaining to certain areas in the Northwest Territories, the Company is not aware of any aboriginal land claims having been asserted or any legal actions relating to aboriginal issues having been instituted with respect to any of the Mackenzie Diamond Project area.

The legal basis of a land claim is a matter of considerable legal complexity and the impact of a land claim settlement and self-government agreements cannot be predicted with certainty. In addition, no assurance can be given that a broad recognition of aboriginal rights by way of a negotiated settlement or judicial pronouncement would not have an adverse effect on the Company's activities. Such impact could be marked and in certain circumstances, could delay or even prevent the Company's exploration or mining activities.

Environmental Factors

Mining operations are subject to various environmental laws and regulations including, for example, those relating to waste treatment, emissions and disposal, and companies must generally comply with permits or standards governing, among other things, tailing dams and waste disposal areas, water consumption, air emissions and water discharges. Existing and possible future environmental legislation, regulations and actions could cause significant expense, capital expenditures, restrictions and delays in the Company's activities, the extent of which cannot be predicted and which may well be beyond the capacity of the Company to fund. The Company's right to exploit any minerals it discovers is subject to various reporting

requirements and to acquiring certain Government approvals and there is no assurance that such approvals, including environmental approvals, will be granted without inordinate delays or at all.

Volatility of Diamond Prices

The availability of a ready market for diamonds to be sold by the Company depends upon numerous factors beyond the Company's control, the exact effects of which cannot be accurately predicted. The factors (the list of which is not exhaustive) include general economic activity, world diamond prices, action taken by other producing nations, the availability and pricing of other substitute minerals, and the effect of government regulation and taxation. Historically, diamond prices have fluctuated and are affected by numerous factors including world production levels, international economic trends, currency exchange fluctuations or regional political events, over all of which the Company has no control. The aggregate effect of these factors is impossible to predict. Consequently, as a result of the above factors, price forecasting can be difficult to predict. If the price of certain stones should drop significantly, the economic prospect of operations in which the Company has an interest could be significantly reduced or rendered uneconomic. In addition, De Beers and the Diamond Trading Company, which is owned by De Beers, retain substantial influence, controlling approximately 50% of the world production of diamonds.

Taxation

Existing and future tax regimes, legislation and regulations, including royalty structures in Canada could cause diamond deposits to be uncommercial.

Uninsured Risks

The Company, as a participant in exploration and mining programs, may become subject to liability for hazards such as unusual geological or unexpected operating conditions that cannot be insured against or against which it may elect not to be so insured because of high premium costs or other reasons. The Company is currently uninsured against all such risks, as such insurance is either unavailable or uneconomic at this time. The Company is also not currently able to obtain keyman insurance or property insurance as such insurance is uneconomical at this time. The Company may incur a liability to third parties (in excess of any insurance cover) arising from pollution or other damage or injury.

Health and Safety Risks

A violation of health and safety laws or the failure to comply with the instructions of relevant health and safety authorities could lead to, among other things, a temporary shut down of all or a portion of the Company's operations, a loss of the right to prospect for diamonds or the imposition of costly compliance procedures. This could have a material adverse effect on the Company's operations and/or financial condition.

Competition

The Company competes with numerous other companies and individuals possessing greater financial resources and technical facilities than itself in the search for and acquisition of mineral

claims, leases, and other mineral interests as well as the recruitment for and retention of qualified employees.

Risks Relating to the Offering

The Flow-Through Shares offered hereby are Common Shares in all respects, save that Flow-Through Shares give rise to certain unique income tax consequences. See “Description of Securities Offered – Canadian Federal Income Tax Considerations”.

Common Shares Could Decline in Value

The trading price of Common Shares could be subject to wide fluctuations in price in response to various factors, many of which are beyond the Company’s control.

Inactive Market

There is no guarantee that an active trading market for Common Shares will be maintained on the Alternative Investment Market of the London Stock Exchange. Investors may not be able to sell their shares quickly or at the latest market price if trading in Common Shares is not active.

Future Issuances of Common Shares

Future issuances of Common Shares could result in substantial dilution to existing shareholders. The Company expects to issue substantial amounts of Common Shares in the future.

Substantial Sales of Common Shares

Sales of substantial numbers of Common Shares could cause a decline in the market price of the Common Shares. Any sales by existing shareholders may have an adverse effect on the Company’s ability to raise capital and may adversely affect the market price of Common Shares.

Lack of Dividends

All the Company’s funds will be invested to finance the growth in the Company’s business, and, therefore investors cannot expect to receive dividends on the Common Shares in the foreseeable future.

Directors Resident Outside Canada

Certain directors of the Company reside outside of Canada. Although these directors have appointed Peter Miles as their agent for service of process in British Columbia, it may not be possible for investors to collect from the directors judgments obtained in courts in British Columbia predicated on the civil liability provisions of securities legislation.

Tax Treatment of Flow-Through Shares

The tax treatment applicable with respect mining activities and flow-through shares should constitute a major factor when considering an investment in the Offering. There is no guarantee that the taxation laws and regulations and the current administrative practices of both the federal

and provincial tax authorities will not be amended or construed in such a way that the tax considerations for a Purchaser of Flow-Through Shares will not be altered, and moreover there is no guarantee that there will not be any differences of opinion between the federal and provincial tax authorities with respect to the tax treatment of the Flow-Through Shares, the status of the Flow-Through Shares as such and the qualification as CEE of activities contemplated by the Company's exploration programs. See "Description of the Securities Offered – Canadian Federal Income Tax Considerations".

The tax deductions associated with Flow-Through Shares are most beneficial for investors whose income is subject to the highest marginal tax rate. No guarantee can be given that Canadian tax laws will not be amended, that the amendments announced with respect to such laws will be adopted or that the current administrative practices of the tax authorities will not be modified. In addition, there is no guarantee that the tax deductions for holders of Flow-Through Shares will be accepted by the Canada Revenue Agency. Consequently, the tax considerations for subscribers acquiring, holding or selling Flow-Through Shares may be fundamentally altered. See "Description of the Securities Offered – Canadian Federal Income Tax Considerations".

Provincial laws relating to the deduction of expenses renounced to subscribers for Flow-Through Shares may differ in some provinces from federal laws and may provide less favourable tax treatment in recognizing amounts renounced on flow-through shares in calculating income for provincial tax purposes.

There is no guarantee that an amount equal to the total proceeds from the subscriptions of the Flow-Through Shares offered hereunder will be expended on or prior to December 31, 2006 as CEE resulting in the deductions described under "Description of Securities Offered – Canadian Federal Income Tax Considerations". If the Company does not expend an amount equal to the proceeds from the subscriptions of the Flow-Through Shares so as to renounce CEE to holders effective on or before December 31, 2006, the Company will be required to restate the amount of expenses that it has renounced in favour of the Subscribers for Flow-through Shares and such Subscribers will be reassessed and will be required to defer or reverse the tax benefits arising from all or part of the renounced expenses. Although the Company will agree to a limited indemnity for such Subscribers in such event, there is no guarantee that the Company will have the financial resources to fund such obligation.

LEGAL PROCEEDINGS

The Company is not a party to any arbitration or legal proceedings which may have or have had, since incorporation, a significant effect on the Company's financial position and, to the best of the Company's knowledge, there are no such proceedings pending or threatened against the Company.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed in this Prospectus, no director, executive officer or principal shareholder of the Company, or an associate or affiliate of a director, executive officer or principal shareholder of the Company has any material interest, direct or indirect, in any transaction which has occurred within the period from the Company's incorporation on June 25, 2004 to the date of

this Prospectus, or in any proposed transaction that has materially affected or will materially affect the Company.

Jamie Mackie and Matthew Mason, principal shareholders of the Company, and Peter Miles, a principal shareholder, director and executive vice president of the Company, are members of Jaeger Joint Venture the entity from whom the Company acquired the diamond and other mineral rights to the prospecting permits which comprise the Mackenzie Diamond Project. See “General Development of the Business – Significant Acquisitions and Significant Dispositions – Jaeger Agreement”.

Glenn Laing, a director and officer of the Company, was a director of Geoinformatics at the time of the Geoinformatics Agreement. See “General Development of the Business – Significant Acquisitions and Significant Dispositions – Geoinformatics Agreement”. He is also a director of St. George Minerals Limited, a private company which provides financial and administrative services to the Company. St. George Minerals Limited is owned by the Hughnie Laing Trust, whose sole beneficiary is Hughnie Laing, wife of Glenn Laing.

AUDITORS TRANSFER AGENTS AND REGISTRARS

The auditors of the Company are BDO Dunwoody LLP of 600 Cathedral Place, 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2.

Computershare Investor Services Inc., 510 Burrard Street, 2nd Floor, Vancouver, British Columbia, Canada V6C 3B9, acts as the Company’s registrar and transfer agent. Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgewater Road, Bristol BS99 7NH maintains a branch register in the United Kingdom.

MATERIAL CONTRACTS

The Company has not entered into any contracts other than in the ordinary course of business during the period from incorporation to the date hereof.

EXPERTS

The following persons or companies whose profession or business gives authority to a statement made by the person or company are named in this Prospectus as having prepared or certified a part of this Prospectus or a report of valuation described in this Prospectus:

1. Kevin Kivi P. Geol., an independent consulting geologist and “qualified person” as defined in National Instrument 43-101 - Standards of Disclosure for Mineral Projects, is the author responsible for the preparation of the Technical Report entitled “Technical Report for the MacKenzie Diamond Project, Northwest Territories, Canada” dated September 29, 2005;
2. The audited financial statements of the Company for the period from June 25, 2004 (Incorporation) to March 31, 2005 included in this Prospectus have been audited by BDO Dunwoody LLP, Chartered Accountants to the extent and for the period set forth in their

report and are included in reliance upon such report given upon the authority of said firm as experts in accounting and auditing; and

3. The matters referred to under “Description of Securities Offered – Canadian Federal Income Tax Considerations” and certain other matters relating to the Flow-Through Shares offered hereby has been reviewed by Lang Michener LLP on behalf of the Company.

Prospective purchasers should consult their own tax advisors for advice with respect to the income tax consequences associated with their proposed acquisition of Flow-Through Shares under this prospectus.

Based on information provided by the relevant persons, none of such persons or companies or any director, officer, employee or partner thereof have received or will receive a direct or indirect interest in the property of the Company or of any associate or affiliate of the Company or have any beneficial ownership, direct or indirect, of securities of the Company. None of such persons is or is expected to be elected, appointed or employed as a director or employee of the Company.

PURCHASERS’ STATUTORY RIGHTS

Securities legislation in certain provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the Prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal adviser.

FINANCIAL STATEMENTS

Audited financial statements for the Company for the period from June 25, 2004 (incorporation) to March 31, 2005 and unaudited financial statements for Company the nine-month interim period ended December 31, 2005 are included in this Prospectus.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Financial Statements

For the period from June 25, 2004 (Incorporation) to March 31, 2005

(expressed in Canadian dollars)

BDO Dunwoody LLP
Chartered Accountants

600 Cathedral Place
925 West Georgia Street
Vancouver, BC, Canada V6C 3L2
Telephone: (604) 688-5421
Telefax: (604) 688-5132
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www.bdo.ca

AUDITORS' REPORT

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

We have audited the balance sheet of **Sanatana Diamonds Inc. (an exploration stage company)** as at March 31, 2005 and the statements of loss and accumulated deficit and cash flows for the period from June 25, 2004 (Incorporation) to March 31, 2005. 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 audit.

We conducted our audit 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, 2005 and the results of its operations and its cash flows for the period from June 25, 2004 (Incorporation) to March 31, 2005 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

April 12, 2005 (except for Notes 8(a) and (b), as of July 28, 2005 and Note 8(c) as of ●, 2006)

Sanatana Diamonds Inc.
(An Exploration Stage Company)
Balance Sheet
As at March 31, 2005

(expressed in Canadian dollars)

	2005
Assets	
Current assets	
Cash and cash equivalents (note 4(c))	\$ 1,183,691
Receivables	172,144
	1,355,835
Deferred offering costs (Note 4(b))	189,411
Exploration advances (Note 2(c))	320,351
Mineral properties and deferred exploration costs (Note 3)	4,947,130
	\$ 6,812,727
Liabilities and Shareholders' Equity	
Current liabilities	
Accounts payable and accrued liabilities	\$ 187,460
Future income tax liability (Note 5)	599,515
	786,975
Shareholders' equity	
Share capital (Note 4)	7,421,603
Subscriptions receivable (Note 4)	(1,175,000)
Accumulated deficit	(220,851)
	6,025,752
	\$ 6,812,727

Approved by the Board of Directors

"Peter Miles"

Peter Miles, Director

"Glenn Laing"

Glenn Laing, Director

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Loss and Accumulated Deficit

for the period from June 25, 2004 (Incorporation) to March 31, 2005

(expressed in Canadian dollars)

	2005
Expenses	
Legal, accounting and audit	\$ 114,069
Consulting fees	6,515
Office and administration	30,286
Investor communications	2,000
Travel	68,709
	(221,579)
Other income	
Interest income	728
Net loss for the period and accumulated deficit, end of period	\$ (220,851)
Loss per share	\$ (0.07)
Weighted average common shares outstanding	2,965,153

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Statement of Cash Flows

for the period from June 25, 2004 (Incorporation) to March 31, 2005

(expressed in Canadian dollars)

	2005
Cash provided by (used in):	
Operating activities:	
Net loss for the period	\$ (220,851)
Changes in non-cash working capital balances	
Receivables	(172,144)
Accounts payable and accrued liabilities	112,923
	<u>(280,072)</u>
Investing activities:	
Exploration advances	(320,351)
Mineral properties and deferred exploration costs, net of amounts unpaid	(4,872,593)
	<u>(5,192,944)</u>
Financing activities:	
Common share proceeds	6,846,118
Deferred offering costs	(189,411)
	<u>6,656,707</u>
Increase in cash and cash equivalents and balance, end of period	\$ 1,183,691
Supplementary information:	
Interest and taxes paid	-
Non-cash financing and investing activities	
Shares issued to acquire mineral properties (Note 4)	-
Shares issued for finder's fee (Note 4)	\$ 5,000

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Financial Statements

for the period from June 25, 2004 (Incorporation) to March 31, 2005

(expressed in Canadian dollars)

1. Nature of Business and Ability to Continue as a Going Concern

Sanatana Diamonds Inc. ("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 and exploration of mineral properties. The Company has entered into an agreement in respect to properties in the Northwest Territories and Nunavut in Canada.

These financial statements are prepared on a going-concern basis, which contemplates that the Company will continue realizing its assets and discharging its liabilities and commitments in the normal course of business. As at March 31, 2005, the Company was only recently incorporated and has no source of operating cash flow. The Company selected March 31 as its fiscal year end.

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 carrying value and recoverability of the amounts shown for deferred exploration costs 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 the mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Although there are no assurances that management's plan will be realized, management believes the Company will be able to continue operations into the future. The financial statements do not include any adjustments to the recoverability and classification of recorded assets, or the amounts of, and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

The Company is considered to be an exploration stage company as it has yet to generate revenue from operations.

Subsequent to March 31, 2005, the Company has commenced a listing process through which the Company could become a listed company on the AIM market of the London Stock Exchange (Note 8).

2. Significant Accounting Policies

The financial statements have been presented in accordance with accounting principles generally accepted in Canada. A summary of the Company's significant accounting policies are as follows:

(a) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Financial Statements

for the period from June 25, 2004 (Incorporation) to March 31, 2005

(expressed in Canadian dollars)

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimated.

(b) Cash and cash equivalents

Cash and cash equivalents include cash and short-term money market instruments that are readily convertible to cash with an original term of less than 90 days.

(c) Mineral properties and deferred exploration costs

Exploration costs are deferred until the property to which they relate is placed into production, sold, abandoned or allowed to lapse. These costs will be amortized over the estimated life of the property following commencement of commercial production or will be written off if the property is impaired, sold, allowed to lapse or abandoned.

Deferred exploration costs consist of costs for mineral property interests pursuant to the terms of the related property agreement. Unspent advances in respect of future exploration to a company performing exploration work on the Company's behalf are presented separately and are non-interest bearing.

Payments relating to a property acquired under an option or joint venture agreement are recorded as mineral property costs upon payment.

Although the Company has taken steps to verify title to mineral properties 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 and regulatory requirements.

The amount shown for mineral property interests represents acquisition and exploration costs incurred to date and does not necessarily reflect present or future value. Management reviews the carrying value of mineral properties periodically and whenever events or changes in circumstances indicate that the carrying value may not be recoverable, reductions in the carrying value of the property are recorded to the extent that the carrying value exceeds the estimated fair value. No writedowns were recognized during the period ended March 31, 2005.

(d) Income taxes

Income taxes are calculated using the 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.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Financial Statements

for the period from June 25, 2004 (Incorporation) to March 31, 2005

(expressed in Canadian dollars)

The Company has issued flow-through shares to finance its exploration activities. Such shares were issued for cash in exchange for the Company giving up tax benefits arising from an equal dollar amount of exploration expenditures. The Company records such share issuances by crediting share capital for the full value of cash consideration received. The Company follows the recommendations of Emerging Issues Committee (EIC) Abstract No. 146, "Flow-Through Shares" to account for expenditures related to 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.

(e) Loss per common share

Loss per common share is computed using the weighted average number of common shares outstanding during the period. The Company has not granted or issued stock options or warrants during the period from June 25, 2004 to March 31, 2005.

(f) Asset retirement obligation

The Company follows the recommendations of CICA Handbook section 3110, "Asset Retirement Obligations" which requires 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.

At March 31, 2005 the Company has only performed preliminary exploratory work on its mineral properties, and has not incurred significant reclamation obligations. As such, no asset retirement obligation accrual was made in these financial statements.

3. Mineral Properties and Deferred Exploration Costs

The cumulative costs of the Company's interest in its Northwest Territories mineral properties are as follows:

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Financial Statements

for the period from June 25, 2004 (Incorporation) to March 31, 2005

(expressed in Canadian dollars)

	2005
Helicopter and fixed wing aircraft costs	\$ 911,433
Sampling and geologist fees	438,410
Labour	127,449
Reimbursable bond	2,368,584
Geological services	524,840
Other	576,414
	<u>\$ 4,947,130</u>

On July 31, 2004, the Company entered into an agreement with the Jaeger Joint Venture ("Jaeger"), an entity partially-owned by a director of the Company, to purchase the right to any diamonds located on a series of properties (the MacKenzie Diamond Project). The MacKenzie Diamond Project covers approximately 20 million acres in the Inuvialuit, Gwich'in and Sahtu mining districts in the Northwest Territories, Canada. Jaeger initially retained a 20% carried interest in the properties. The agreement required the Company to issue 16,000,000 common shares to Jaeger and to reimburse costs incurred by Jaeger. In addition, the Company agreed to pay 100% of the first \$4,000,000 in exploration costs, after which Jaeger was to contribute 11.12% of exploration costs above \$4,000,000. At March 31, 2005, 16,000,000 shares had been issued, and \$76,933 had been reimbursed under this agreement.

On March 4, 2005, the Company entered into another agreement with Jaeger to purchase for 3,000,000 common shares (based on a valuation report obtained by management) an additional 10% carried interest in the property discussed above, increasing the Company's interest to 90%. The purchase of this additional 10% carried interest requires that the Company now pay all exploration and mine construction costs, relieving Jaeger of any responsibility for costs toward the property. At March 31, 2005, 3,000,000 shares had been issued.

At March 31, 2005, the property is subject to a 2.9% gross overriding royalty on diamond production, consisting of a 2% overriding royalty to a member of the Jaeger Joint Venture and 1% of the Company's 90% interest in the MacKenzie property to a company with a common director.

The reimbursable bond consists of amounts paid to the Northwest Territories government on deposit to ensure required exploration and reporting is done. Exploration activity must be performed 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. Future exploration deposits required on a calendar year basis are as follows:

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Financial Statements

for the period from June 25, 2004 (Incorporation) to March 31, 2005

(expressed in Canadian dollars)

Property located above the 68th parallel	
2006/2007	\$ 1,275,437
2008	2,550,874
Property located below the 68th parallel	
2005	154,649
2006	5,046,464
2007	618,594
Total for entire property	\$ 9, 646,018

In December 2003, deposits were paid to the Northwest Territories government of approximately \$1,822,000 by Jaeger for 2004 exploration permits, which have not yet been refunded to Jaeger as of the date of these financial statements. In the event that the deposits are not refunded in full to Jaeger due to insufficient exploration expenditures being incurred by the Company on the property in 2004, the Company may be liable to Jaeger for the shortfall. Management believes such amounts will be fully refunded to Jaeger. Any shortfall in amounts refunded will be recorded in the period it becomes likely.

4. Share capital

Authorized:

Unlimited common shares without par value

Issued:

Common Shares	Number of Shares	Amount
On incorporation	1	\$__
Shares issued for property acquisition (Note 3)	19,000,000	—
Shares issued in private placements:		
Flow-through private placements (a)	2,644,159	2,229,228
Private placements (a)	9,025,650	5,917,990
Finders' fees (shares and cash)	10,000	(126,100)
Tax value of assets renounced to flow-through share investors	—	(599,515)
Balance, March 31, 2005	30,679,810	\$ 7,421,603

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Financial Statements

for the period from June 25, 2004 (Incorporation) to March 31, 2005

(expressed in Canadian dollars)

(a) Private placements

On September 22, 2004, 996,667 flow-through common shares were issued at \$0.60 per share and 4,274,000 non flow-through common shares were issued at \$0.50 per share for gross proceeds of \$2,735,000.

10,000 non flow-through common shares were issued and \$126,100 was paid as finders' fees.

On December 24, 2004, 933,328 flow-through common shares were issued at \$0.60 per share and 200,000 non flow-through common shares were issued at \$0.50 per share for gross proceeds of \$659,997.

On Feb 18, 2005, 297,000 non flow-through common shares were issued at \$1.35 per share for gross proceeds of \$400,950.

On March 23, 2005 791,666 flow-through common shares were issued at \$0.60 per share as part of a private placement for gross proceeds of \$475,000.

On March 31, 2005, 2,200,000 non flow-through common shares were issued at \$0.50 per share for gross proceeds of \$1,100,000. These shares were issued pursuant to the Jaeger agreement signed July 31, 2004 (Note 3).

On March 31, 2005, 714,148 flow-through common shares were issued at \$1.50, and 1,263,000 non flow-through common shares were issued at \$1.35 per share for gross proceeds of \$2,776,272.

Cash for private placements of \$1,175,000 received subsequent to March 31, 2005 has been classified as subscriptions receivable.

(b) Deferred offering costs

Costs incurred during the period ended March 31, 2005 in respect of the Company's proposed AIM registration have been deferred and will be recorded as a reduction to proceeds received from associated common shares to be issued upon registration.

(c) Flow-through shares

The flow-through shares issued effectively pass on tax deductions associated with Canadian exploration expenditures (as defined in the Canadian Income Tax Act) funded by the proceeds of the shares. \$1,683,086 of the proceeds were renounced to the subscribers as tax benefits during the period ended March 31, 2005. As of March 31, 2005, the Company was committed to spend

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Financial Statements

for the period from June 25, 2004 (Incorporation) to March 31, 2005

(expressed in Canadian dollars)

unused proceeds from flowthrough share issuances of \$1,021,133 on qualifying Canadian exploration activities.

(d) Stock options and warrants

The Company did not issue stock options or warrants during the period from June 25, 2004 (Incorporation) to March 31, 2005.

5. Income and resource taxes

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

	2005
Statutory tax rate	35.62%
Loss for the period	\$ (220,851)
Expected tax (recovery) expense	(78,667)
Valuation allowance	78,667
Actual tax expense	\$__

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

	2005
Non capital losses	\$ 78,667
Valuation allowance	(78,667)
Deferred exploration costs	(599,515)
Future income tax liability	\$ (599,515)

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 (expiring in 2015) of \$220,851.

6. Financial Instruments

The Company's financial assets and liabilities are comprised of cash and cash equivalents, receivables, reimbursable bonds (Note 3), and accounts payable and accrued liabilities. The fair

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Financial Statements

for the period from June 25, 2004 (Incorporation) to March 31, 2005

(expressed in Canadian dollars)

value of these financial instruments approximates their carrying values due to the immediate or short-term maturity of the financial instruments, with the exception of reimbursable bonds, for which it is not practical to assess the fair value.

7. Related Party Transaction

Related party transactions not disclosed elsewhere in these financial statements includes exploration costs of \$466,217 to a company in which the Company's chief executive officer was formerly a director.

8. Subsequent Events

(a) On July 28, 2005, the Company completed a listing and placement on the AIM Market of the London Stock Exchange. In conjunction with the placement, 2,890,398 shares were issued at 82 pence, for gross proceeds of approximately £2.4 million Great Britain Pounds (GBP). An additional 36,586 shares were issued to Insinger de Beaufort as payment for fees. Net proceeds of \$4,351,719 CAD were received, after costs of issuance incurred in the UK. Costs of issuance to date are shown as Deferred offering costs on the Company's balance sheet.

(b) As of July 19, 2005, the Company has signed an agreement with Kennecott Canada Exploration Inc (Kennecott) which contains the following options and requirements:

i) The first option grants Kennecott a 15% undivided interest in the MacKenzie Diamond Project property in exchange for assuming proportionate responsibility for both a 2% gross overriding royalty and a 2% net smelter returns royalty and for paying \$2.5 million (received) to the Company to fund the 2005 exploration program, as well as paying an additional \$2.5 million to the Company on or before the first anniversary of the first closing date of the agreement. the Company will be responsible for maintaining the exploration area tenures during this time, while Kennecott will supply a geophysicist to assist with data analysis on a part time basis. If Kennecott exercises the first option, a joint venture will be formed pursuant to which Kennecott will be required to contribute 15% of ongoing exploration costs beginning in 2007 in order to maintain its interest.

ii) The second option grants Kennecott the option to fund the development of any identified kimberlite or deposit ("Development Area"). If Kennecott wishes to completely fund the activities on the Development Area, it will be granted a total 49% interest in the Development Area, regardless of whether the first option has been exercised. This interest will expire in 48 months, or will vest on Kennecott's completion of a bulk sample and a positive feasibility study.

iii) The third option grants Kennecott the option to obtain an additional 11% interest in the Development Area. This option vests if Kennecott solely funds and manages further evaluation of the Development Area until such time as a decision to mine is made.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Financial Statements

for the period from June 25, 2004 (Incorporation) to March 31, 2005

(expressed in Canadian dollars)

iv) The agreement requires Kennecott to subscribe for a minimum of \$2.5 million or 9.9% of the outstanding shares in the capital of the Company on the completion of the initial public offering and grants Kennecott the option to subscribe for an additional \$2.5 million or the equivalent number of shares to bring Kennecott's ownership of the Company up to 9.9% of the issued and outstanding shares in the capital of the Company as at the end of the second closing date. Also, Kennecott may elect to purchase \$1M worth of shares on each anniversary closing date until the first time it chooses not to so elect.

(c) On January 6, 2006 the Company entered into a financial arrangement with Canaccord Capital Corporation ("Canaccord") pursuant to which Canaccord will act as the Company's agent in connection with a public offering by way of long form prospectus in the provinces of British Columbia, Alberta, Manitoba and Ontario, for up to ♦ flow through common shares at an issue price of \$♦ per share for gross proceeds of \$♦. Offering size will be a minimum of \$5,000,000 and a maximum of \$♦

A cash commission of 6% will be paid to Canaccord on proceeds raised. In addition Canaccord will be granted warrants to acquire Common shares of the Company equal to 6% of the number of Flow-Through Shares sold under the offering. A corporate finance fee of 100,000 common shares (the "Corporate Finance Fee Shares") shall be paid to Canaccord upon the completion of the Offering. Canaccord will also be paid an administration fee of \$7,500, payable as to 50% at the commencement of the engagement and 50% upon closing.

Completion of the financing is subject to regulatory approval. It is anticipated that Directors and management of the company will participate in the public offering.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Financial Statements

**For the three and nine months ended December 31, 2005, the three
months ended December 31, 2004, and the period
from June 25, 2004 (Incorporation) to December 31, 2004
(expressed in Canadian dollars)**

(UNAUDITED)

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

Sanatana Diamonds Inc.
(An Exploration Stage Company)
Balance Sheets

(expressed in Canadian dollars)

As at	December 31, 2005 (Unaudited)	March 31, 2005 (Audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 2,883,207	\$ 1,183,691
Receivables	129,795	172,144
	3,013,002	1,355,835
Deferred offering costs (Note 3(b))	—	189,411
Exploration advances	45,644	320,351
Mineral properties and deferred exploration costs (Note 2)	8,198,669	4,947,130
	\$ 11,257,315	\$ 6,812,727
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 143,693	\$ 187,460
Future income tax liability	574,269	599,515
	717,962	786,975
Shareholders' equity		
Share capital (Note 3)	11,389,239	7,421,603
Subscriptions receivable	—	(1,175,000)
Accumulated deficit	(849,886)	(220,851)
	10,593,353	6,025,752
	\$ 11,257,315	\$ 6,812,727

Going Concern Assumption (Note 1)

Approved by the Board of Directors

"Peter Miles"

Peter Miles, Director

"Glenn Laing"

Glenn Laing, Director

(Unaudited)

The accompanying notes are an integral part of these interim financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Interim Statements of Loss and Accumulated Deficit

for the three and nine months ended December 31, 2005, the three months ended December 31, 2004, and the period from June 25, 2004 (Incorporation) to December 31, 2004

(expressed in Canadian dollars)

	Three Months Ended December 31, 2005		Nine Months Ended December 31, 2005	Period from June 25, 2004 to Dec 31, 2004
Expenses				
Consulting fees	\$ 53,479	\$ —	\$ 79,103	\$ —
Filing fees	21,442	—	38,313	592
Investor relations	13,494	—	54,303	—
Management fees	36,000	—	84,000	—
Office and administration	28,986	1,250	53,047	4,010
Professional fees	137,964	10,952	249,284	38,737
Transfer agent fees	2,751	350	27,061	350
Travel and accommodation	23,716	10,640	90,130	32,160
	317,832	23,192	675,241	75,849
Other Income				
Interest income	(19,037)	—	(20,960)	—
Loss before income taxes	(298,795)	(23,192)	(654,281)	(75,849)
Decrease in future income tax liability (Note 4(b))	—	—	25,246	—
Loss for the period	(298,795)	(23,192)	(629,035)	(75,849)
Accumulated deficit, beginning of period	(551,091)	(52,657)	(220,851)	—
Accumulated deficit, end of period	\$ (849,886)	\$ (75,849)	\$ (849,886)	\$ (75,849)
Loss per share, basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.02)
Weighted average number of common shares outstanding – basic and diluted	33,606,794	6,148,546	32,346,267	3,484,112

The accompanying notes are an integral part of these interim financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Interim Statements of Cash Flows

for the three and nine months ended December 31, 2005, the three months ended December 31, 2004, and the period from June 25, 2004 (Incorporation) to December 31, 2004

(expressed in Canadian dollars)
(Unaudited)

	Three Months Ended December 31, 2005		Nine Months Ended Dec 31, 2005	Period from June 25, 2004 to Dec 31, 2004
Cash provided by (used in):				
Operating activities:				
Net loss for the period	\$ (298,795)	\$ (23,192)	\$ (629,035)	\$ (75,849)
Items not involving cash:				
Decrease in				
Future income tax liability	—	—	(25,246)	—
Changes in non-cash				
working capital balances:				
Receivables	111,317	(145,145)	42,349	(145,145)
Accounts payable and				
Accrued liabilities	84,699	—	(67,355)	—
	(102,779)	(168,337)	(544,577)	(220,994)
Investing activities:				
Increase (decrease) in				
exploration advances	(45,644)	—	274,707	—
Mineral properties and				
deferred exploration costs	(1,860,048)	(2,811,898)	(5,780,511)	(2,811,898)
Option payment				
Kennecott	—	—	2,500,000	—
	(1,905,692)	(2,811,898)	(3,005,804)	(2,811,898)
Financing activities:				
Common share proceeds	—	2,314,986	5,095,733	3,874,986
Share subscriptions receivable	—	(1,175,000)	1,175,000	—
Offering costs	—	(131,100)	(1,020,836)	(131,100)
	—	1,008,886	5,249,897	3,743,886
Increase (decrease) in cash and cash equivalents	(2,008,471)	(1,971,349)	1,699,516	710,994
Cash and cash equivalents, beginning of period	4,891,678	2,682,343	1,183,691	—
Cash and cash equivalents, end of period	\$ 2,883,207	\$ 710,994	\$ 2,883,207	\$ 710,994
Supplementary Non-Cash Information				
Shares issued as listing costs	\$ —	\$ —	\$ 64,026	\$ 5,000

The accompanying notes are an integral part of these interim financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Interim Financial Statements

for the three and nine months ended December 31, 2005, the three months ended December 31, 2004 and the period from June 25, 2004 (Incorporation) to December 31, 2004

(expressed in Canadian dollars)
(Unaudited)

The accompanying financial statements for the interim period ended December 31, 2005 are prepared on the basis of accounting principles generally accepted ("GAAP") in Canada. These financial statements are unaudited, but in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for fair presentation of the financial position, operations and cash flows for the interim period presented. The financial statements for the interim period are not necessarily indicative of the results to be expected for the full year. These financial statements do not contain the detail or footnote disclosure concerning accounting policies and other matters, which would be included in full year financial statements, and therefore should be read in conjunction with the Company's audited financial statements for the period from June 25, 2004 (Incorporation) to March 31, 2005.

1. Nature of Business and Ability to Continue as a Going Concern

Sanatana Diamonds Inc. ("the Company") was incorporated on June 25, 2004 in the Province of British Columbia under the British Columbia Business Corporations Act, and selected March 31 as its fiscal year end. The Company is an exploration stage company. Its principal business activities are the acquisition and exploration of mineral properties. The Company has entered into agreements regarding properties in the Northwest Territories and Nunavut in Canada.

These financial statements are prepared on a going-concern basis, which contemplates that the Company will continue realizing its assets and discharging its liabilities and commitments in the normal course of business. As at December 31, 2005, the Company has been operating for just over one year, has no source of operating cash flow, and has an accumulated deficit of \$849,886.

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 carrying value and recoverability of the amounts shown for deferred exploration costs 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 the mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests. The Company is considered to be an exploration stage company as it has yet to generate revenue from operations.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. Although there are no assurances that management's plan will be realized, management believes the Company will be able to continue operations into the future.

The financial statements do not include any adjustments to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Interim Financial Statements

for the three and nine months ended December 31, 2005, the three months ended December 31, 2004 and the period from June 25, 2004 (Incorporation) to December 31, 2004

(expressed in Canadian dollars)

(Unaudited)

2. Mineral Properties and Deferred Exploration Costs

The cumulative costs of the Company's interest in its Northwest Territories mineral properties are as follows:

	Three Months ended Dec 31, 2005	Nine Months ended Dec 31, 2005
Helicopter and fixed wing aircraft costs:		
Opening balance	\$ 3,475,750	\$ 911,433
Incurred in the period	1,161,738	3,726,055
Closing balance	4,637,488	4,637,488
Sampling and assays		
Opening balance	1,070,652	438,410
Incurred in the period	351,121	983,363
Closing balance	1,421,773	1,421,773
Labour		
Opening balance	180,344	127,449
Incurred in the period	—	52,895
Closing balance	180,344	180,344
Reimbursable bonds and deposits		
Opening balance	2,485,198	2,368,584
Incurred in the period	1,988	118,602
Closing balance	2,487,186	2,487,186
Geological services		
Opening balance	1,415,647	524,840
Incurred / (refunded) in the period	(17,707)	873,100
Closing balance	1,397,940	1,397,940
Project management fees		
Opening balance	448,810	—
Incurred in the period	48,190	497,000
Closing balance	497,000	497,000
Other		
Opening balance	235,293	576,414
Reclassified to above categories	—	(341,121)
Incurred in the period	48,434	(48,434)
Closing balance	283,727	283,727
Recoveries		
Opening balance	(185,717)	—
Received in the period	(21,072)	(206,789)
Closing balance	(206,789)	(206,789)

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Interim Financial Statements

for the three and nine months ended December 31, 2005, the three months ended December 31, 2004 and the period from June 25, 2004 (Incorporation) to December 31, 2004

(expressed in Canadian dollars)
(Unaudited)

2. Mineral Properties and Deferred Exploration Costs (continued)

Cumulative costs (continued):

	Three Months ended Dec 31, 2005	Nine Months ended Dec 31, 2005
Option payment – Kennecott		
Opening balance	(2,500,000)	—
Received in the period	—	(2,500,000)
Closing balance	(2,500,000)	(2,500,000)
	\$ 8,198,669	\$ 8,198,669

Recoveries are amounts from “Reimbursable bonds and deposits” that have been refunded to the Company.

On July 31, 2004, the Company entered into a sale and purchase agreement with the Jaeger Joint Venture (the “Jaeger Diamond Property Sale and Purchase Agreement”) to purchase the right to any diamonds located on a series of properties (the MacKenzie Diamond Project). The MacKenzie Diamond Project covers approximately 20 million acres in the Inuvialuit, Gwich’in and Sahtu mining districts in the Northwest Territories, Canada. The Jaeger Joint Venture (“Jaeger”) initially retained a 20% carried interest in the properties. Pursuant to the agreement the Company issued 16,000,000 common shares to Jaeger and reimbursed costs incurred by Jaeger totalling \$76,933. In addition, the Company agreed to pay 100% of the first \$4,000,000 in exploration costs, after which Jaeger was to contribute 11.12% of exploration costs above \$4,000,000. Under the terms of the November 25, 2004 Geoinformatics Agreement (“Geoinformatics” – a company with a director in common), the Company acknowledges that Geoinformatics is entitled to a 0.9% gross overriding royalty and a member of the Jaeger Joint Venture is entitled to a 2% gross overriding royalty. Jaeger is an entity partially owned by a director of the Company.

On January 27, 2005, the Company entered into an agreement with the Jaeger Joint Venture, pursuant to which the parties agreed to amend the Jaeger Diamond Property Sale and Purchase Agreement to include a geographical area of common interest within which either party may require that any mineral interests acquired by either party be added to the property to which that agreement applies. The geographical area of interest includes that part of the NWT bounded by the line of latitude 65°North; bounded on the west by meridian 135°West; bounded on the east by meridian 115°West; and bounded on the north by the coastline of the Arctic Ocean.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Interim Financial Statements

for the three and nine months ended December 31, 2005, the three months ended December 31, 2004 and the period from June 25, 2004 (Incorporation) to December 31, 2004

(expressed in Canadian dollars)

(Unaudited)

2. Mineral Properties and Deferred Exploration Costs (continued)

On March 4, 2005, the Company entered into another agreement with Jaeger whereby it issued 3,000,000 common shares (based on a valuation report obtained by management) for an additional 10% carried interest in the property discussed above, increasing the Company's interest to 90%.

The purchase of this additional 10% carried interest requires that the Company now pay all exploration and mine construction costs, relieving Jaeger of any responsibility for costs toward the property.

The property is subject to a 2.9% gross overriding royalty on diamond production, consisting of a 2% overriding royalty to a member of the Jaeger Joint Venture and 1% of the Company's 90% interest in the MacKenzie property to Geoinformatics.

In May 2005, the Company acquired the diamond rights to an additional 42 prospecting permits from a member of the Jaeger Joint Venture for \$60,000.

In June 2005, the Company acquired from Jaeger Joint Venture all other mineral rights, excluding uranium rights, to the prospecting permits to which it owns diamond rights, subject to the Jaeger Joint Venture retaining a 10% production carried interest and subject to a member of the Jaeger Joint Venture retaining a 2% net smelter returns royalty (NSR).

In June 2005, a member of the Jaeger Joint Venture executed an amended and restated declaration of trust in which he acknowledges that he holds recorded title to a total of 462 prospecting permits with a total acreage of 19,766,689 acres as bare trustee and nominee for and on behalf of the Company to the extent of any diamonds or other minerals, excluding uranium, located on, in or under such permits, including the right to explore for and exploit any and all such diamonds or other minerals. The Company has no rights in respect of uranium.

The Company also has rights in 52 unpatented mining claims which were staked on the Company's behalf in spring, 2005. These claims were registered to an outside party in June 2005 and are subject to the Company's agreement with the Jaeger Joint Venture by virtue of an area of interest provision contained therein.

In July 2005, the Company signed an agreement with Kennecott Canada Exploration Inc (Kennecott) which contains the following options and requirements:

- i) The agreement grants Kennecott a 15% undivided interest in the MacKenzie Diamond Project property in exchange for assuming proportionate responsibility for both a 2% gross overriding royalty and a 2% NSR royalty and for paying \$2.5 million (received) to the Company to fund the 2005 exploration program, as well as paying an additional \$2.5 million to the Company on or before the first anniversary of the first closing date of the agreement. If Kennecott exercises the first option, a joint venture will be formed pursuant to which Kennecott will be required to contribute 15% of ongoing exploration costs beginning in 2007 in order to maintain its interest.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Interim Financial Statements

for the three and nine months ended December 31, 2005, the three months ended December 31, 2004 and the period from June 25, 2004 (Incorporation) to December 31, 2004

(expressed in Canadian dollars)

(Unaudited)

2. Mineral Properties and Deferred Exploration Costs (continued)

- ii) 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. 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 in respect of the carved out area.

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

- iii) The agreement requires Kennecott to subscribe for a minimum of \$2.5 million or 9.9% of the outstanding shares in the capital of the Company on the completion of the initial public offering and grants Kennecott the option to subscribe for an additional \$2.5 million or the equivalent number of shares to bring Kennecott's ownership of the Company up to 9.9% of the issued and outstanding shares in the capital of the Company as at the end of the second closing date. Also, Kennecott may elect to purchase \$1M worth of shares on each anniversary closing date until the first time it chooses not to so elect. Kennecott subscribed for \$2.5 million of shares in the capital of the Company on the completion of the initial public offering on the Alternative Investment Market of the London Stock Exchange, but has not exercised its option to subscribe for additional shares on the second closing date. Kennecott has provided access to a letter of credit to fulfill the bonding requirements of approximately \$5.2 million for the 2006 exploration season.

The reimbursable bond consists of an exploration deposit paid to the Northwest Territories government to ensure required exploration and reporting is done. In order for the deposit to be refunded, exploration activity must be performed on the property in the amount of the deposit during the period to which the deposit relates. These deposits must accompany the applications for permits. Permit applications must be filed in the month of December previous to the calendar year to which the application pertains.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Interim Financial Statements

for the three and nine months ended December 31, 2005, the three months ended December 31, 2004 and the period from June 25, 2004 (Incorporation) to December 31, 2004

(expressed in Canadian dollars)

(Unaudited)

2. Mineral Properties and Deferred Exploration Costs (continued)

Future exploration deposits will be required as summarized in the table below. However it should be noted that these amounts are based on the current area of exploration, and are likely the maximum amounts that will be paid. Since deposits are calculated on a per acre basis, should the company decide to reduce the area of exploration; the required deposits will also be reduced.

Exploration Deposits

Property located above the 68th parallel

Jan 2004 – Jan 2006	Paid by Jaeger
Jan 2006 – Jan 2008	\$ 1,275,437
Jan 2008 – Jan 2009	2,550,874

Property located below the 68th parallel

2004 permits:

Feb 2004 – Feb 2005	Paid by Jaeger
---------------------	----------------

2005 permits:

Feb 2005 – Feb 2006	\$ 2,368,584*	(* - Paid Jan 2005)
Feb 2006 – Feb 2007	5,020,600	
Feb 2007 – Feb 2008	618,594	

In December 2003, exploration deposits of \$1,815,544 were paid by Jaeger to the Northwest Territories government for 2004 exploration permits. \$1,265,001 of these deposits has been refunded to Jaeger as of the date of these financial statements.

In the event that insufficient exploration expenditures are incurred by the Company on the properties above the 68th parallel, the balance of the deposits, \$550,543, may not be fully refunded to Jaeger, and the Company may be liable to Jaeger for the shortfall. Any shortfall in amounts refunded will be recorded in the period the shortfall becomes likely to occur. Management believes these amounts will be fully refunded to Jaeger.

3. Share capital

Authorized:

Unlimited common shares without par value

Issued:

Common Shares	Number of Shares	Amount
Balance, March 31, 2005	30,679,810	\$ 7,421,603
Public offering	2,890,398	5,095,733
Offering costs	--	(1,192,123)
Shares issued as listing costs	36,586	64,026
Balance, December 31, 2005	33,606,794	\$ 11,389,239

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Interim Financial Statements

for the three and nine months ended December 31, 2005, the three months ended December 31, 2004 and the period from June 25, 2004 (Incorporation) to December 31, 2004

(expressed in Canadian dollars)

(Unaudited)

3. Share capital (continued)

(a) Flow-through shares

As of December 31, 2005, the Company had satisfied its outstanding obligations to spend unused proceeds from previous flow-through share issuances on qualifying Canadian exploration activities. These additional expenditures have not yet been renounced to shareholders. At March 31, 2005, the unused proceeds were \$1,021,133.

(b) Deferred offering costs

Legal, brokerage and accounting costs incurred in respect of the Company's AIM registration were deferred until the registration was completed on July 28, 2005. After the AIM registration, the costs previously deferred were recorded as a reduction to proceeds received from the associated common shares issued upon registration. See also Note 3(d).

(c) Stock options and warrants

The Company did not issue stock options or warrants during the period from June 25, 2004 (Incorporation) to December 31, 2005. As of May 11, 2005, the Company has adopted a stock option plan for the Company's employees and directors. The plan allows for the issuance of options numbering up to 10% of the outstanding number of common shares of the Company.

(d) AIM listing

The Company completed a listing and placement on the AIM Market of the London Stock Exchange. In conjunction with the placement, 2,890,398 shares were issued at 82 pence (\$1.75), for gross proceeds of approximately £2.4 million Great Britain Pounds (GBP) (approximately \$5.0 million). An additional 36,586 shares were issued to Insinger de Beaufort as payment for fees.

4. Related Party Transactions and Balances

At December 31, 2005, 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.

St. George Minerals Limited, a private company owned by the Hughnie Laing Trust, whose sole beneficiary is Hughnie Laing, wife of Glenn Laing, a director of the Company, provided management and consulting services to the Company.

Pursuant to agreements with the Company's directors, the Company has agreed to pay its directors a fee totalling £35,000 GBP (\$74,690) per annum.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Interim Financial Statements

for the three and nine months ended December 31, 2005, the three months ended December 31, 2004 and the period from June 25, 2004 (Incorporation) to December 31, 2004

(expressed in Canadian dollars)

(Unaudited)

4. Related Party Transactions and Balances (continued)

Services provided by:	Three months ended December 31, 2005	Nine months ended December 31, 2005	Period from June 25, 2004 to December 31, 2004
Directors and significant shareholders	\$ 57,000	\$ 129,625	\$ —
St. George Minerals Limited	28,545	32,169	—
Balances included in accounts payable and accrued liabilities:	December 31, 2005		March 31, 2005
Directors	\$ 18,000		\$ —

5. Subsequent Events

- (a) On January 6, 2006 the Company entered into a financial arrangement with Canaccord Capital Corporation (“Canaccord”) pursuant to which Canaccord will act as the Company’s agent in connection with a public offering by way of long form prospectus in the provinces of British Columbia, Alberta, Manitoba and Ontario, for up to ◆ flow through common shares at an issue price of \$◆ per share for gross proceeds of \$◆. Offering size will be a minimum of \$5,000,000 and a maximum of \$◆

A cash commission of 6% will be paid to Canaccord on proceeds raised. In addition Canaccord will be granted warrants to acquire Common shares of the Company equal to 6% of the number of Flow-Through Shares sold under the offering. A corporate finance fee of 100,000 common shares (the “Corporate Finance Fee Shares”) shall be paid to Canaccord upon the completion of the Offering. Canaccord will also be paid an administration fee of \$7,500, payable as to 50% at the commencement of the engagement and 50% upon closing.

Completion of the financing is subject to regulatory approval. It is anticipated that Directors and management of the company will participate in the public offering.

- (b) On January 26, 2006 Kennecott agreed to provide the necessary Letters of Credit to cover the bonding requirements of approximately \$5.2 million for the 2006 exploration season in respect of the 2004 Jaeger Permits, the 2005 Jaeger Permits and the Diamonds North Permits, but excluding the Lapsed Permits. The Company has agreed that (1) any amounts drawn on these letters of credit will constitute a debt owing by the Company to Kennecott, (2) Kennecott will have a security interest in all of the Company’s present and after acquired property and assets for any such debt owing, and (3) Kennecott will have the right, 90 days after making demand for any such debt owing, to increase the 15% interest it may earn in the Mackenzie Diamond Project by 1% for each \$ 300,000 or portion thereof owing.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Interim Financial Statements

for the three and nine months ended December 31, 2005, the three months ended December 31, 2004 and the period from June 25, 2004 (Incorporation) to December 31, 2004

(expressed in Canadian dollars)

(Unaudited)

5. Subsequent Events (continued)

- (c) On January 30, 2006 the Company reached an Access Agreement to all Deline surface lands within the Company's Mackenzie Diamond Project area with the Deline Land Corporation ("DLC"). This access agreement is key for the Company's proposed spring 2006 Exploration program in the Kilekale Lake area, where at minimum 12 targets will be subjected to detailed geophysical surveys and drilling for potential kimberlites. Subject to the renewal or termination, this Agreement commences on August 15, 2005 and will end December 31, 2007. Under the terms of the Agreement the Company will:
- i) Pay Access Fees to DLC at a rate of \$ 1,200/ha. for surface right access on the Deline Lands.
 - ii) A \$6,500 Annual Administration Fee with respect to the Exploration Activities.
 - iii) For the 2006 Winter Drilling Exploration Activities the Company agrees that it will pay DLC a total of \$ 25,000 for the completion of a traditional knowledge study.
 - iv) the Company will contribute \$ 30,000 towards a Social Impact trust, to be created by DLC, which function will be to foster the development of community infrastructure, as well as assist with cultural initiatives.
 - v) the Company agrees to cover all of DLC negotiation costs in connection with this Agreement and will remit \$ 30,000 upon execution of this Agreement, and \$ 30,000 upon receipt by the Company of the land use permit applied for in December 2005, and to be issued by the Sahtu land and water board for the 2006 Exploration activities.
 - vi) the Company agrees to obtain and keep in force throughout the term of this Agreement, comprehensive general third party liability insurance, the limits of which will be no less than \$ 5 million, and
 - vii) Consult with DLC to address the Environmental impact of the Exploration Activities and its consequences with respect to wildlife harvesting and migration.
- (d) On January 26, 2006 the Company entered into agreement with Diamonds North and Majescor to purchase 10 prospecting permits registered in the name of Diamonds North Resources Ltd., and covering approximately 372,208 acres which are strategically located within the outer boundaries of the Mackenzie Diamond Project area.

Sanatana Diamonds Inc.

(An Exploration Stage Company)

Notes to Interim Financial Statements

for the three and nine months ended December 31, 2005, the three months ended December 31, 2004 and the period from June 25, 2004 (Incorporation) to December 31, 2004

(expressed in Canadian dollars)

(Unaudited)

5. Subsequent Events (continued)

As consideration for the Diamonds North permits, the Company granted Diamonds North and Majescor a 1.5% gross overriding royalty on diamonds and a 1.5% net smelter royalty on other minerals, agreed to file a report of work and, when received, refund the deposit lodged in respect of the Diamonds North Permits for the 2005 exploration season, and agreed to provide information and data with respect to the Diamonds North Permits. A member of the Jaeger Joint Venture has retained a 0.5% gross overriding royalty on diamonds and a 0.5% net smelter royalty on other minerals with respect to the Diamonds North Permits.

- (e) The Company has entered into an agreement, effective September 15, 2005, with St. George Minerals Ltd., a company controlled by the Hughnie Laing Trust, whose sole beneficiary is Hughnie Laing, wife of Glenn Laing, a director of the Company, to provide financial and administrative management services. The agreement is for an initial term of three years and thereafter renewable on an annual basis. Under the terms of the Agreement the Company will contribute 40% of the gross rental paid by St. George Minerals Ltd for the office space occupied by the Company plus actual staff hours incurred at a set hourly rate.
- (f) In January 2006, based on results of 2004 till sampling and preliminary results of 2005 airborne geophysical surveying and till sampling, the Company decided to allow 88 of the 2004 Jaeger permits and 2 of the 2005 Jaeger permits (covering a combined total area of approximately 4 million acres) to lapse. The Company will not post bonds for these lapsed permits for the 2006 exploration season.

BDO DUNWOODY LLP - Chartered Accountants

AUDITORS' CONSENT

We have read the Prospectus of Sanatana Diamonds Inc. (the "Company") dated ◆, 2006. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned Prospectus of our report to the directors of the Company on the balance sheet of the Company as at March 31, 2005 and the statements of loss and accumulated deficit and cash flows for the period from June 25, 2004 (Incorporation) to March 31, 2005. Our report is dated April 12, 2005, except for notes 8(a) and (b), which are dated July 28, 2005 and note 8(c), which is dated ◆, 2006.

Chartered Accountants

Vancouver, Canada
◆, 2006

CERTIFICATE OF SANATANA DIAMONDS INC.

Dated: February 28, 2006

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part VII of the *Securities Act* (Manitoba), Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

“Glenn Laing”

GLENN LAING
Chief Executive Officer

“Gary Leonard”

GARY LEONARD
Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS

“Peter Miles”

PETER MILES
Director

“Richard Prickett”

RICHARD PRICKETT
Director

CERTIFICATE OF THE AGENT

DATE: February 28, 2006

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part VII of the *Securities Act*, (Manitoba), Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

CANNACORD CAPITAL CORPORATION

“James M. Brown”

Per:

Name: James M. Brown

Title: Managing Director

SCHEDULE "A"
TO THE
PROSPECTUS OF
SANATANA DIAMONDS INC.
DATED FEBRUARY ●, 2006

FLOW-THROUGH SHARE AGREEMENT

THIS AGREEMENT dated ●, 2006.

BETWEEN

THE PERSONS LISTED AS PURCHASERS IN APPENDIX I TO THIS AGREEMENT

(the "Purchasers");

AND

SANATANA DIAMONDS INC., a British Columbia corporation, having an office at Suite 1910, 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2

(the "Issuer").

WHEREAS each of the Purchasers has agreed to purchase, and the Issuer has agreed to sell, the number of flow-through shares (the "Flow-Through Shares") set forth across from the Purchaser's name on Appendix I to this Agreement;

THEREFORE, upon payment for the Flow-Through Shares by the Purchasers, and execution of this agreement by Canaccord Capital Corporation, as agent for the Purchasers and by the Issuer, the Purchasers and the Issuer hereby irrevocably agree to be bound by the terms and conditions set forth in Appendix II to this Agreement with respect to the Flow-Through Shares.

EXECUTED by Canaccord Capital Corporation, as agent for the Purchasers, this _____ day of _____, 2006.

CANACCORD CAPITAL CORPORATION

Per: _____
Authorized Signatory

EXECUTED by the Issuer this _____ day of _____, 2006

SANATANA DIAMONDS INC.

Per: _____
Authorized Signatory

**APPENDIX I
TO THE FLOW-THROUGH
SHARE AGREEMENT**

[illegible]

**APPENDIX II
TO THE FLOW-THROUGH
SHARE AGREEMENT**

**TERMS AND CONDITIONS GOVERNING
FLOW-THROUGH SHARES**

WHEREAS:

- A. Sanatana Diamonds Inc. (the “Issuer”) has certain interests in mineral resource properties situated in Canada (collectively, the “Property”);
- B. The Issuer is a “principal-business corporation” as that phrase is defined in subsection 66(15) of the *Income Tax Act* of Canada (the “ITA”);
- C. It is the intention of the Issuer, either alone or in conjunction with others, to carry out or participate in an exploration program on the Property for the purpose of determining the existence, location, extent and quality of the mineral resources located thereon (the “Exploration Program”);
- D. The expenses incurred in performing the Exploration Program will qualify as “Canadian exploration expense” as described in paragraph (f) of the definition thereof in subsection 66.1(6) of the ITA (other than expenditures which constitute “Canadian exploration and development overhead expense” (“CEDOE”) as prescribed for the purposes of paragraph 66(12.6)(b) of the ITA and seismic expenses specified in paragraph 66(12.6)(b.1) of the ITA) (collectively, the “Qualifying Expenses”);
- E. Certain persons (individually, the “Purchaser”) have agreed to fund, in part, the Exploration Program by purchasing Flow-Through Shares in accordance with the terms of this Agreement; and
- F. The Issuer has agreed to apply the Flow-Through Funds to carry out the Exploration Program and to renounce the Qualifying Expenses associated therewith to the Purchaser in accordance with the terms of this Appendix.

1. DEFINITIONS

In this Appendix, the following words have the following meanings unless otherwise indicated:

- (a) “Agent” means Canaccord Capital Corporation or one of its sub-agents;
- (b) “Agreement” means the agreement between the Issuer and the Purchaser dated for reference ●, 2006 pursuant to which they irrevocably agreed to be bound by the terms and conditions set forth in this Appendix and, for greater certainty, includes this Appendix;
- (c) “Appendix” means this Appendix II;
- (d) “CRA” means the Canada Revenue Agency;

- (e) “CEDOE” has the meaning set forth in recital D above;
- (f) “Closing” means the completion of the sale and purchase of the Flow-Through Shares;
- (g) “Closing Year” means the calendar year in which the Closing takes place;
- (h) “Exploration Account” has the meaning set out in the provisions under the heading FLOW-THROUGH SHARES below;
- (i) “Exploration Program” has the meaning set forth in recital C above;
- (j) “Flow-Through Funds” means \$● per Flow-Through Share;
- (k) “Flow-Through Shares” means the previously unissued common shares of the Issuer that constitute “flow-through shares” as defined in subsection 66(15) of the ITA and having the special “flow-through” features described in this Appendix and in the Prospectus;
- (l) “ITA” has the meaning set forth in recital B above;
- (m) “Notice Requirement” has the meaning set out in the provisions under the heading SCHEDULE FOR INCURRING QUALIFYING EXPENSES below;
- (n) “Property” has the meaning set forth in recital A above;
- (o) “Purchaser” has the meaning set forth in recital E above;
- (p) “Qualifying Expenses” has the meaning set forth in recital D above; and
- (q) “Prospectus” means the prospectus of the Issuer dated February ●, 2006.

2. FLOW-THROUGH SHARES

Following receipt by the Issuer of the Flow-Through Funds from the Purchaser and on acceptance of this Agreement by the Issuer, the Issuer will:

- (a) deposit the Flow-Through Funds in a bank account (the “Exploration Account”) established by the Issuer for the purpose of financing the Exploration Program; and
- (b) issue to the Purchaser the number of Flow-Through Shares subscribed and paid for by the Purchaser.

3. ADDITIONAL PURCHASERS TO PARTICIPATE IN THE PROGRAM

The Purchaser acknowledges that the Issuer has entered into and will be entering into agreements similar to the Agreement with other persons in respect of Flow-Through Shares. Such agreements will be made and be dated for reference the same date as the Agreement. Any Flow-Through Funds paid to the Issuer pursuant to the terms of such agreements will also be deposited

in the Exploration Account. If the Issuer, however, sells rights to acquire, or issues, “flow-through” common shares pursuant to private placements or pursuant to other public offerings, any subscription funds received from such private placements or public offerings will be deposited into a bank account separate from the Exploration Account and will not be commingled with the funds deposited in the Exploration Account, it being the intention of the Issuer that a separate subscriber’s Exploration Account be established for each such private placement or public offering. The Issuer will expend each subscriber’s Exploration Account in the order of:

- (a) the reference date of any private placement “flow-through” subscription agreements entered into for such private placements; and
- (b) the date of closing of such public offerings,

such that the subscription funds from the oldest “flow-through” financing will always be spent first and renunciation made in respect of such expenditures before any renunciations are made in respect of any Qualifying Expenses that are financed from subsequent “flow-through” financings.

4. APPLICATION OF EXPLORATION ACCOUNT

Subject to the Issuer’s right to revise the Exploration Program as provided in the provisions under the heading REVISION OF EXPLORATION PROGRAM below, the Issuer will apply the Flow-Through Funds deposited in the Exploration Account exclusively for the purpose of performing the Exploration Program and the Issuer will only apply such funds to incur expenditures which are Qualifying Expenses.

5. ACCRUED INTEREST ON EXPLORATION ACCOUNT

The Purchaser acknowledges that any interest accruing on Flow-Through Funds in the Exploration Account will accrue to the sole benefit of the Issuer and may be applied by the Issuer for general corporate purposes.

6. SCHEDULE FOR INCURRING QUALIFYING EXPENSES

6.1 Unless the Purchaser gives notice to the Issuer or the Issuer gives notice to the Purchaser to the contrary (the “Notice Requirement”) during the period of time described in the second and third sections under this heading SCHEDULE FOR INCURRING QUALIFYING EXPENSES, for the purposes of this Agreement the Purchaser will be deemed to be dealing with the Issuer at “arm’s length”, as that term is used in the ITA.

6.2 If the Notice Requirement has not been fulfilled prior to December 31 of the Closing Year, the Issuer will expend the Flow-Through Funds in the Exploration Account between the date the Subscription Agreement is entered into and the end of the year after the Closing Year.

6.3 If the Notice Requirement has been fulfilled prior to December 31 of the Closing Year, the Issuer will expend as much of the Flow-Through Funds in the Exploration Account as is commercially reasonable between the date the Subscription Agreement is entered into and the

end of the Closing Year and, thereafter, will expend the balance of the Flow-Through Funds in the Exploration Account before the end of the year after the Closing Year.

7. ISSUER TO RENOUNCE QUALIFYING EXPENSES IN FAVOUR OF PURCHASER

7.1 Subject to the provisions of the second section under this heading ISSUER TO RENOUNCE QUALIFYING EXPENSES IN FAVOUR OF PURCHASER, the Issuer will, within the times set out below and in accordance with the provisions of subsections 66(12.6) and 66(12.66) of the ITA, take all necessary steps to renounce in favour of the Purchaser, the amount of Qualifying Expenses incurred by it using the Flow-Through Funds in the Exploration Account under the Exploration Program during the periods specified below less the amount, if any, of the assistance, as that latter term is defined in subsection 66(15) of the ITA, that the Issuer received, is entitled to receive or can reasonably be expected to receive at any time, and that can reasonably be related to such Qualifying Expenses:

- (a) if the Notice Requirement has not been fulfilled prior to March 15 of the year following the Closing Year, the Issuer will renounce, on or after March 15 and before March 31 of the year following the Closing Year, effective December 31 of the Closing Year:
 - (i) the Qualifying Expenses it has incurred between the date of Closing and the end of February of the year following the Closing Year, and
 - (ii) the Qualifying Expenses it has incurred or plans to incur between March 1 and December 31 of the year following the Closing Year; or
- (b) if the Notice Requirement has been fulfilled prior to March 15 of the year following the Closing Year, the Issuer will renounce:
 - (i) on or after March 15 and before March 31 of the calendar year following the Closing Year, effective December 31 of the Closing Year, Qualifying Expenses it has incurred between the date of Closing and the end of the Closing Year, and
 - (ii) before March of the second calendar year following the Closing Year, the Qualifying Expenses it has incurred in the calendar year following the Closing Year.

7.2 The aggregate Qualifying Expenses renounced to the Purchaser will not be less than nor greater than the aggregate consideration paid by the Purchaser for Flow-Through Shares.

8. ISSUER TO FILE PRESCRIBED FORM IN RESPECT OF RENUNCIATIONS WITH THE CANADA REVENUE AGENCY

The Issuer will file, in respect of each renunciation made pursuant to this Agreement, before the last day of the month following the date of making such renunciation, such information returns with the CRA as are prescribed by subsection 66(12.7) of the ITA and will send concurrently a copy of such information returns to the Purchaser.

9. ISSUER TO FILE COPY OF AGREEMENT OR PROSPECTUS WITH CANADA REVENUE AGENCY

The Issuer will file, together with a copy of the Prospectus (or other selling instrument) or the Agreement, the prescribed form referred to in subsection 66(12.68) of the ITA with the CRA on or before the last day of the month following the earlier of:

- (a) the month in which the Issuer's acceptance under the provisions under the heading ISSUER'S ACCEPTANCE below occurs; and
- (b) the month in which the Prospectus (or other selling instrument) is first delivered to a potential investor.

10. WARRANTIES

10.1 The Purchaser acknowledges, represents, warrants and covenants to and with the Issuer that, as at the effective date of the Prospectus and at the Closing:

- (a) the Purchaser is at arm's length (as that term is used in the ITA) with the Issuer and, notwithstanding the fulfilment or non-fulfilment of the Notice Requirement, the Purchaser acknowledges that if at any time during the year following the Closing Year, the Purchaser is not at arm's length with the Issuer and the Issuer renounces Qualifying Expenses it incurs or plans to incur pursuant to paragraph (a) of the first section under the heading ISSUER TO RENOUNCE QUALIFYING EXPENSES IN FAVOUR OF PURCHASER above, notwithstanding the provisions of that paragraph, the renunciation in relation to any Qualifying Expenses incurred in the year following the Closing Year will not be effective December 31 of the Closing Year and, as a result, the Purchaser:
 - (i) may be subject to increased income tax liabilities for the Closing Year; and
 - (ii) may be required to file appropriate amendments to the Purchaser's income tax return for the Closing Year and other years; and
- (b) if:
 - (i) the Issuer has not accepted the subscription by the Purchaser for Flow-Through Shares pursuant to the provisions under the heading ISSUER'S ACCEPTANCE below, or
 - (ii) the Purchaser has not paid in money the Flow-Through Funds to the Issuer,

on or before December 31 of a particular year, the Purchaser will not be entitled to have any Qualifying Expenses which are incurred after the particular year renounced to the Purchaser effective December 31 of the particular year, pursuant to the first section under the heading ISSUER TO RENOUNCE QUALIFYING EXPENSES IN FAVOUR OF PURCHASER above and, as a result, the Purchaser:

- (iii) may be subject to increased tax liabilities for the particular year; and
- (iv) may be required to file appropriate amendments to the Purchaser's income tax return for the particular year and other years,

and the Purchaser agrees that the above acknowledgements, representations, warranties and covenants in this subsection will be true and correct both as of the Purchaser's execution of the Agreement and as of the Closing.

10.2 The Issuer represents, warrants and covenants that, as of the effective date of the Prospectus and at the Closing:

- (a) the Issuer is, and at all material times will remain, a "principal-business corporation" within the meaning prescribed by subsection 66(15) of the ITA;
- (b) the Flow-Through Shares will qualify as "flow-through shares" as defined in subsection 66(15) of the ITA and in particular will not be prescribed shares as defined in section 6202.1 of the regulations to the ITA;
- (c) if the Issuer amalgamates or otherwise merges with any one or more companies, any shares issued to or held by the Purchaser as a replacement for Flow-Through Shares as a result of such amalgamation or merger will qualify, whether by virtue of subsection 87(4.4) of the ITA or otherwise, as "flow-through" shares as described in subsection 66(15) of the ITA and in particular will not be prescribed shares as defined in section 6202.1 of the regulations to the ITA; and
- (d) the Issuer will incur expenses which are Qualifying Expenses in an amount which equals the gross proceeds derived from the sale of Flow-Through Shares to the Purchaser, renounce that amount to the Purchaser and otherwise comply with its obligations as set forth in this Appendix,

and the Issuer agrees that the above representations, warranties and covenants in this subsection will be true and correct both as of the Issuer's execution of the Agreement and as of the Effective Date.

11. NO RENUNCIATION TO THIRD PARTIES, AND ALLOCATION OF RENOUNCED AMOUNTS

The Issuer will not renounce any Qualifying Expenses in respect of its Exploration Program in favour of any person other than the Purchaser and the other purchasers who purchase Flow-Through Shares. For the purpose of determining the extent to which the Flow-Through Funds received by the Issuer from the Purchaser have been the subject of renunciation under the ITA, the total amount expended from the Exploration Account on Qualifying Expenses will be allocated among the Purchaser and the other purchasers who purchase Flow-Through Shares, on a basis *pro rata* to the relative amounts of their respective contributions of flow-through funds.

12. ISSUER NOT TO CLAIM A DEDUCTION OR CREDIT IN RESPECT OF RENOUNCED QUALIFYING EXPENSES

The Issuer acknowledges that it has no right to claim any deduction or credit for Canadian exploration expense, or depletion of any sort, in respect of any Qualifying Expenses that the Issuer renounces in favour of the Purchaser pursuant to this Agreement and covenants not to claim any such deduction or credit when preparing its tax returns from time to time.

13. ISSUER'S ACCOUNTS AND INCOME TAX FILINGS

The Issuer will maintain proper accounting books and records, and will make all income tax filings as and when required under the ITA, relating to the Qualifying Expenses it incurs and renounces pursuant to this Agreement.

14. NO DISSEMINATION OF CONFIDENTIAL INFORMATION

The Issuer will be entitled to hold confidential all exploration information relating to any program on which any portion of the Flow-Through Funds is expended pursuant to this Agreement and it will not be obligated to make such information available to the Purchaser except in the manner and at such time as it makes any such information available to its shareholders or to the public pursuant to the rules and policies of any stock exchange or laws, regulations or policies of any province.

15. REVISION OF EXPLORATION PROGRAM

While it is the present intention of the Issuer to undertake the Exploration Program, it is the nature of mining exploration that data and information acquired during the conduct of an exploration program may alter the initially proposed Exploration Program and the Issuer expressly reserves the right to alter the Exploration Program on the advice of its technical staff or consultants and further reserves the right to substitute other exploration programs on which to expend part of the Flow-Through Funds, provided such programs entail the incurrence of exploration expenses which are described in paragraph 66(12.66)(b) of the ITA and are otherwise capable of renunciation by the Issuer to the Purchaser pursuant to this Agreement.

16. INDEMNITY BY ISSUER

The Issuer will indemnify the Purchaser against any loss or damages incurred by the Purchaser in an amount up to but not exceeding any amount of tax payable by the Purchaser under the ITA or the laws of a province as a consequence of the failure of the Issuer to renounce Qualifying Expenses to the Purchaser within the time and otherwise as required by the ITA, or as a consequence of a reduction, pursuant to subsection 66(12.73) of the ITA, by the tax authorities of an amount purported to be renounced to the Purchaser in respect of the Flow-Through Shares.

17. OTHER FLOW-THROUGH SHARE SALES

The Purchaser acknowledges that there may be other sales of Flow-Through Shares, some or all of which may occur after the acquisition of Flow-Through Shares by the Purchaser. The Purchaser further acknowledges that there is a risk that insufficient funds may be raised from the sale of Flow-Through Shares to fund the Issuer's objectives described in the Prospectus, if any,

and that it is possible that no Flow-Through Shares may be purchased after the Purchaser has done so.

18. ISSUER'S ACCEPTANCE

The Agreement, when executed by the Agent on the Purchaser's behalf and delivered to the Issuer, will constitute a subscription for Flow-Through Shares which will not be binding on the Issuer until accepted by the Issuer by executing this Agreement in the space provided on the first page of the Agreement and, notwithstanding the reference date on that page, if the Issuer accepts the subscription by the Purchaser, the Agreement will be entered into on the date of such execution by the Issuer.

19. MISCELLANEOUS

19.1 The Purchaser hereby irrevocably authorizes the Agent, in its sole discretion:

- (a) to act as the Purchaser's representative to receive certificates for Flow-Through Shares subscribed for and to execute in his, her or its name and on his, her or its behalf all closing receipts and documents required; and
- (b) to waive, in whole or in part, any representations, warranties, covenants or conditions for the benefit of the Purchaser contained herein or in any agreement or document ancillary or related thereto.

19.2 The Agreement is not assignable or transferable by either of the parties hereto without the express written consent of the other party hereto.

19.3 Time is of the essence of this Appendix and will be calculated in accordance with the provisions of the *Interpretation Act* (British Columbia).

19.4 Except as expressly provided in this Appendix and in the Prospectus, agreements, instruments and other documents contemplated or provided for herein, the Agreement contains the entire agreement between the parties with respect to Flow-Through Shares and there are no other terms, conditions, representations or warranties whether expressed, implied, oral or written, by statute, by common law, by the Issuer, by the Agent, or by anyone else.

19.5 The parties to the Agreement may amend the Agreement only in writing.

19.6 The Agreement enures to the benefit of and is binding upon the parties to the Agreement and their successors and permitted assigns.

19.7 A party to the Agreement will give all notices to or other written communications with the other party to the Agreement concerning the Agreement by hand or by registered mail addressed to such party, in the case of the Issuer to the address given on the Prospectus and in the case of the Purchaser, c/o the Agent at its address given on the Prospectus.

19.8 This Appendix is to be read with all changes in gender or number as required by the context.

19.9 The Agreement will be governed by and construed in accordance with the laws of British Columbia, and the parties hereto irrevocably attorn and submit to the jurisdiction of the courts of British Columbia with respect to any dispute related to the Agreement.

END OF APPENDIX II