

Exploration Update

Equity Research

20 April 2007

Sanatana Diamonds* (SAN.L)

Metals and Mining

Closing price (p):

33.5

Market cap (£m):

13.68

FTSE index:

AIM

52 week high (p):

79.5

52 week low (p):

33.5

Reason for report

Exploration update

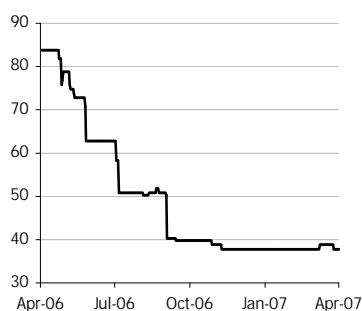
Hot on the indicator trail...

Figure One

Figure One shows the Greenhorn area. The indicator mineral train, formed by ice movement, ends on the far side of the S shaped lake. The direction of ice movement cuts diagonally across the photo, which looks towards the NE.



Share price performance (p):



Event

At the end of March, Sanatana Diamonds announced the start of its 2007 exploration programme at its MacKenzie project, located north of the Great Bear Lake region of Canada's Northwest Territories. The objective of this year's programme is to establish whether one or more clusters of anomalies identified from the company's geochemical sampling programme are, in fact, kimberlite pipes. The most important target is the Greenhorn anomaly where an airborne geophysical survey, the results of which were announced last week, revealed a magnetic 'high' within the area of interest. Furthermore, the position of this magnetic high coincides with the potential head of the most prominent train of indicator minerals, as illustrated in Figure One. Indicator minerals can assist in the discovery of diamondiferous kimberlite pipes, as they provide evidence supporting the existence of favourable conditions inside the earth where diamonds can form. A crew will be mobilised to carry out a focused ground geophysical survey to establish drill targets at Greenhorn, plus two additional anomalies, Simpson and Yeltea, that are part of the same cluster. Drilling is scheduled to start in mid-May, with the results due in September.

Significance

We regard this year's exploration programme as the most promising yet undertaken by Sanatana. The company has learnt from the disappointing results last year, when seemingly prospective anomalies were drilled, only for no kimberlite to be found. The key difference is that further studies have shown the indicator minerals discovered in proximity to this year's Greenhorn target include G9 and G10 pyrope garnets. These types of garnets are strong indicators of kimberlites, particularly the G10s, which are known to form at identical temperatures and pressures as are required to create diamonds. We believe that the combination of indicator mineral trains and geophysical anomalies will provide significant drill targets and has increased the probability of the company finding its first kimberlite pipe.

Analyst

Joe Lunn, +44 (0) 20 7190 7194
research1dn@insinger.com

* Insinger de Beaufort acts as broker and NOMAD to Sanatana Diamonds.

Exploration Update

Equity Research

Sanatana Diamonds

The results from the geochemical sampling programme have enabled Sanatana to reduce its land holding and identify a number of drill targets.

Buddy Doyle, the geologist behind the discovery of Rio Tinto's Diavik Mine is Sanatana's Director of Exploration.

Sanatana's exploration programme will continue to be part-funded by Rio Tinto.

We believe that, compared with other diamond exploration companies operating in Northern Canada, Sanatana is currently undervalued.

The discovery of a kimberlite pipe at Greenhorn could potentially result in a favourable revision in Sanatana's market value.

Background

Sanatana Diamonds was formed in June 2004 to explore for kimberlite pipes in the Nunavut and Northwest Territories in Canada. The company's land package originally consisted of 20 million acres around the Great Bear Lake region that, earlier this year, was reduced to a more-focused 5.9 million acres following the completion of a three-year geochemical sampling programme. This programme identified a number of exploration targets, which the company believes are prospective for kimberlite pipes.

Kimberlite pipes were first discovered in northern Canada in 1990 when Chuck Fipke, now a well-known exploration geologist in mining circles, discovered the Ekati kimberlite pipes, which are now mined by BHP-Billiton. Later, in 1994, Buddy Doyle, Sanatana's Director of Exploration, led the exploration team that discovered the family of kimberlite pipes which subsequently became Rio Tinto's Diavik mine.

Sanatana's exploration programme is being assisted by Kennecott, a wholly owned subsidiary of Rio Tinto. Kennecott subscribed for CN\$2.5 million in shares in Sanatana at the London IPO and has made two additional payments of the same amount to earn its current 15 per cent interest in the MacKenzie project. In the event of a significant discovery, the terms of the JV agreement allow Kennecott to earn a 60 per cent interest in each project by completing a bankable feasibility study (BFS). However, the JV limits Kennecott to a 10 kilometre square area around any such discovery. This means that, if a further discovery was subsequently made outside the aforementioned area, it would be classified as a new project and Kennecott would need to undertake a separate earn in. Sanatana has seven potential projects, each of which will be free-carried by Kennecott until the BFS is complete.

Valuation

Over the past year, Sanatana's market value has fallen, which we attribute to a lack of newsflow and the generally disappointing exploration results of diamond exploration companies operating in northern Canada. However, Sanatana's decline in market value is in line with its peer group and a kimberlite discovery, we believe, could reverse this trend. While diamond exploration is a high-risk business, the reward of such a discovery has the potential to be substantial.

Table One: Canadian peer group to Sanatana Diamonds

Company	Exchange	Main Project	Stage of Advancement	Market Cap* (€m)
Sanatana Diamonds (STA/SAN)	TSX-V/AIM	Greenhorn	Exploration	13.7
Diamondex (DSP)	TSX-V	Warman	Exploration	19.2
Superior Diamonds (SUP)	TSX-V	Ville Marie	Target drilling	12.7
Mountain Province Diamonds (MPV/MDM)	TSX/AMEX	Gahcho Kué	Bulk Sampling	120.7
Tehera Diamond Corp (TAH)	TSX	Jericho	Production	80.7
Aber Diamonds (ABZ)	TSX/NASDAQ	Diavik	Production	1077.4

*€1 = \$CN2.26

Table One shows some of the diamond exploration and mining companies currently operating in Canada. Of these, we believe that Diamondex is the closest peer, as it holds exploration ground adjacent to Sanatana's and is at a similar stage of advancement. It is also worth noting that the recent progress made by Superior Diamonds in advancing its Ville Marie project in Quebec to the drilling stage, has had a significant effect on its share price. Should one or more of Sanatana's anomalies prove to be a kimberlite pipe, we would expect market interest in the company to increase, with a correspondingly favourable impact on the market valuation.

Exploration Update

Equity Research

Sanatana Diamonds

Sanatana Diamonds

Sanatana Diamonds began trading on AIM in London in July 2005 and obtained a secondary listing on the TSX-Venture exchange in May 2006. The Company explores for kimberlite pipes in Canada's Northwest Territories, with the objective being an economic diamond discovery.

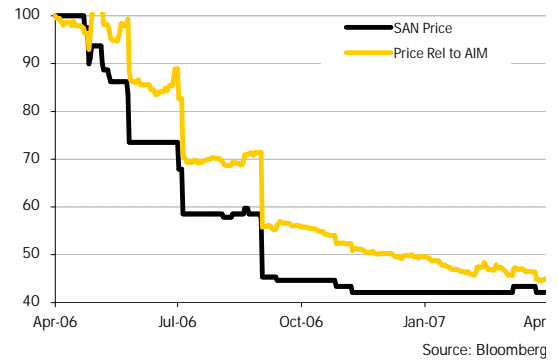
Profit & Loss (year end 31 March)	3 Months ended Dec 31 2006	9 Months ended Dec 31 2006	12 Months ended Mar 31 2006
(£ 000s)			
Revenue	-	-	-
Expenses			
Fees	59.1	189.9	330.2
Operating costs	63.8	168.9	152.6
Loss before undernoted items	(122.8)	(358.8)	(482.8)
Interest income	33.8	91.3	14.2
Loss before income taxes	(89.1)	(267.5)	(468.6)
Net loss for the period	(89.1)	(267.5)	(457.4)

Cash flow statement	3 Months ended Dec 31 2006	9 Months ended Dec 31 2006	12 Months ended Mar 31 2006
(£ 000s)			
Cash flows from operating activities			
Net loss for the period	(89.1)	(267.5)	(457.4)
<i>Items not effecting cash</i>			
Decrease in income tax liability	-	-	(11.2)
Other	3.1	9.7	5.7
Change in working capital	(399.7)	(155.2)	5.6
	(485.7)	(413.0)	(457.3)
Cash flows from investing activities			
Exploration advances	(17.0)	(36.6)	141.7
Mineral properties & equipment	(926.8)	(2,897.6)	(3,314.4)
Kennecott option payment	-	1,106.2	1,106.2
	(943.82)	(1,827.97)	(2,066.42)
Cash flows from financing activities			
Issuance of common shares	-	5,531.0	2,254.7
Share issue costs & subscriptions	(28.9)	(400.3)	75.6
	(28.9)	5,130.7	2,330.3
Net increase (decrease) in cash	(1,458.5)	2,889.7	(193.4)
Cash, end of period	3,220.2	3,220.2	330.4

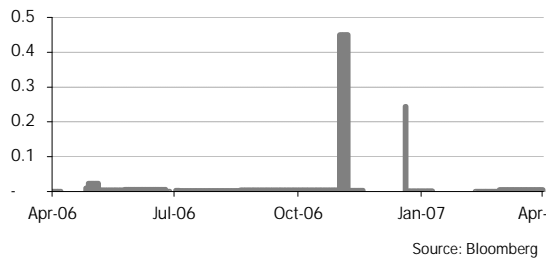
Balance Sheet (£ 000s)	Dec 31 2006	Mar 31 2006
Current assets	3,294.2	407.8
Non-current assets	6,389.2	4,652.2
Total assets	9,683.4	5,060.0
Current Liabilities	164.2	321.5
Non-current liabilities	408.3	408.3
Total liabilities	572.5	729.8

Shareholders equity 9,110.9 4,330.2

Relative share price performance



Trading Volume (m)



Other information

Current price (p)	33.5
12 month high (p)	79.5
12 month low (p)	33.5
12m average volume	12967
Shares outstanding (m)	40.850
Warrants (m)	0.43

Major shareholders

Major shareholders	%
Mackie family	10.4
Matthew Mason	9.6
Peter Miles	9.2
Rio Tinto plc	3.5
Total	32.7

Previous results

Preliminary results 8 Feb 2007

Next results

Interim results 1 Jul 2007

Exchange rate: £1 = CN\$2.26

Contacts & Disclaimer

To receive this research

IF YOU WOULD LIKE TO RECEIVE THIS REPORT DIRECT IN YOUR EMAIL INBOX PLEASE SEND AN EMAIL TO ResearchLDN@insinger.com WITH "SUBSCRIBE" WRITTEN IN THE SUBJECT LINE ENCLOSING DETAILS OF YOUR NAME, POSITION AND COMPANY.

Insinger de Beaufort is an Anglo Dutch banking Group with origins dating back to 1779. The Group operates through three main business lines focussing on Private Banking, Asset Management, both centred mainly in Amsterdam and also Institutional & Corporate Clients, centred in London which offers a range of advisory services such as M&A and IPOs focused on AIM and mid caps. Insinger de Beaufort also has offices in Eindhoven, The Hague, Geneva, Luxembourg, Jersey, Isle of Man, Rome and Johannesburg. Insinger de Beaufort, as an independent Group, offers their private clients a broad range of products and services from integrated private banking, private equity and stock broking to a full range of manager selection funds. The offering to institutional clients varies from asset management, equity and bond broking and research to mid market corporate finance services. To find out more about Insinger de Beaufort, visit our website www.insinger.com.

■ Disclaimer

Issued in accordance with Insinger de Beaufort's ("IdB") Research Policy (www.insinger.com) for UK clients' information only. This report is not intended and should not be construed as an offer, solicitation or recommendation to buy or sell investments or a guarantee of any particular result of an investment. Recipients should consult their own investment adviser before following any recommendation, which may not be suitable for their particular circumstances. Past performance is not a guide to future performance. The value of investments, as well as the income from them, can go down as well as up and investors may get back less than the sum invested. Some investments may require you to pay more money than the cost of the investment. Tax rates may change and have an effect on returns. Information and opinions expressed herein are based on sources believed to be reliable, but we do not represent that they are accurate or complete. Subject to change without notice. No liability is accepted by IdB, employees or associated companies for any loss howsoever arising from this document. Where IdB is broker and/or nominated advisor to a company ("House Stock") this is clearly stated above. IdB does not make explicit recommendations for "House Stocks" and such research is considered "non-objective". Research is usually distributed by e-mail and hard copies may be received later. Such delay may affect the relevance of the research. Issue of research does not imply continuing coverage of a stock and updates may not be issued. Not to be reproduced, copied or made available to others. Insinger de Beaufort is a subsidiary of Bank Insinger de Beaufort and a Member of the London Stock Exchange, OFEX and ICMA. Authorised and regulated by the Financial Services Authority. ©2007 Insinger de Beaufort.