

# **SANATANA RESOURCES INC.**

## **Management's Discussion and Analysis**

**December 31, 2012**



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RESOURCES Inc.**

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**SANATANA RESOURCES INC.**  
**Management's Discussion and Analysis**  
**Nine Months Ended December 31, 2012**

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*This management's discussion and analysis ("MD&A") contains certain forward-looking statements that are prospective and reflect management's expectations regarding Sanatana Resources Inc.'s ("Sanatana" or the "Company") future growth, results of operations, performance and business prospects and opportunities. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. All statements, other than statements of historical fact, included in this MD&A including without limitation, statements regarding potential mineralization and resources or reserves, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, exploration results and future plans and objectives of Sanatana are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from Sanatana's expectations are disclosed in its documents filed from time to time with the TSX Venture Exchange (the "TSX-V") and other regulatory authorities and include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore to be mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors.*

*Shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Sanatana undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.*

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## **Introduction**

This MD&A has been prepared as of February 19, 2013 and should be read in conjunction with the Company's unaudited condensed interim financial statements for the period ended December 31, 2012 and the Company's audited financial statements for the year ended March 31, 2012. This MD&A is intended to provide the reader with a review of the Company's performance for the nine months ended December 31, 2012 and through to the date of this report, and the factors reasonably expected to impact future operations and results. This MD&A contains forward-looking statements that are subject to risk factors set out above.

The Company's condensed financial statements for the period ended December 31, 2012 have been prepared in accordance with *IAS 34 – Interim Financial Reporting* under International Financial Reporting Standards ("IFRS"). All financial statement amounts in this MD&A are in Canadian dollars unless otherwise noted.

## **Incorporation and Listing Information**

Sanatana was incorporated as Sanatana Diamonds Inc. under the British Columbia *Business Companies Act* on June 25, 2004. In November 2005, the Company became a reporting issuer in every province and territory of Canada, except Quebec. The Company's common shares commenced trading on the TSX-V in May 2006 as a mining exploration and development company under the symbol "STA". On April 28, 2011, the Company changed its name to Sanatana Resources Inc. to better reflect the broader nature of its mineral exploration activities.

## **Operating Report**

The Company is an exploration stage company and is engaged in the acquisition, exploration and development of exploration and evaluation assets. The Company's operations are focused on its option to acquire an interest in the Watershed property in Ontario. See *Exploration and Evaluation Assets* below.

Sanatana's exploration programs are carried out under the supervision of the Company's vice president of exploration, Buddy Doyle, and exploration manager, Troy Gill. Mr. Gill meets the qualified person requirements of National Instrument 43-101 ("NI 43-101"). Mr. Gill is responsible for the geoscientific and technical disclosure contained in this document.

## **Corporate Developments**

- In November 2012, the Company earned a 50% interest in the Watershed property after issuing 1,500,000 common shares under its option and joint venture agreement with Trelawney Augen Acquisition Corp. ("TAAC"). See *Watershed Property* below.
- In November 2012, the Company closed a non-brokered private placement of flow-through units for proceeds of \$1,984,455. See *Private Placements* below.

## **Watershed Property**

### ***Option and Joint Venture Agreement***

In February 2011, the Company entered into an option and joint venture agreement with Augen Gold Corp. to acquire up to a 51% undivided interest in 46 mineral concessions (the "Claims") and the right of first refusal to acquire an additional nine mineral concessions (the "ROFR Claims"). Augen Gold Corp. was subsequently acquired by Trelawney Mining and Exploration Inc. ("Trelawney") and renamed Trelawney Augen Acquisition Corp. In June 2012, IAMGOLD Corporation ("Iamgold") then acquired Trelawney with the result that TAAC is now a wholly owned subsidiary of Iamgold. In accordance with the option and joint venture agreement, all mineral claims comprising the Watershed property are registered in Sanatana's name.

In November 2012, the Company earned a 50% undivided interest in the Claims (the "50% interest") having paid \$150,000 in cash, issued 5,000,000 common shares and incurred exploration expenditures of \$5,000,000. The Company has continued exploration of the Claims and, to December 31, 2012, has incurred a further \$2,227,000 in exploration expenditures, including a permitted administrative mark-up, that will be credited to the Company's contribution to the first work program after formation of a joint venture.

The Company has a right to earn a further 1% interest in the Claims for a total undivided interest of 51% by delivering a pre-feasibility study to TAAC on or before March 23, 2016. The parties will enter into a joint venture agreement for the Claims in accordance with the terms of the option and joint venture agreement on the earlier of the date that (i) Sanatana vests the 50% Interest but elects by notice to TAAC not to proceed to earn the 51% Interest; and (ii) Sanatana earns the 51% Interest.

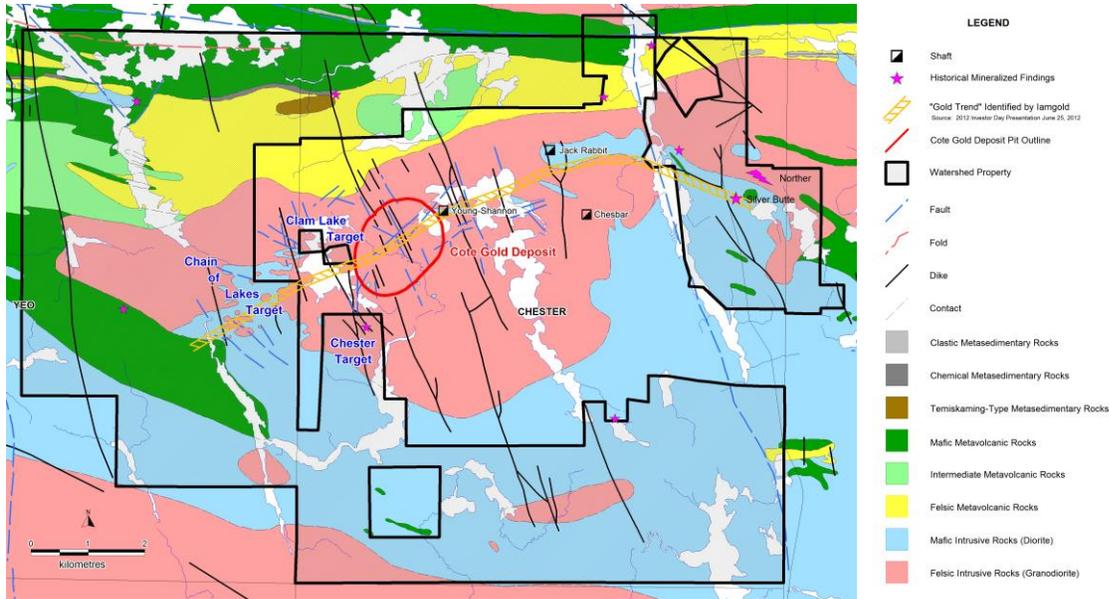
The option and joint venture agreement includes a provision that while the Company and TAAC are parties to an option or joint venture, with respect to the Claims or the ROFR Claims, TAAC has the option to purchase up to 10% of any securities issued in any equity offerings by the Company on the same terms and conditions of such offering.

The Company paid a finder's fee in connection with the option and joint venture agreement through the issuance of 678,571 common shares.

### ***Property Description***

The Watershed property consists of 46 mining claims covering 7,840 hectares and rights to the nine ROFR Claims that are all located midway along Highway 144 between Sudbury and Timmins near the town of Gogama, Ontario. Major known prospects on the property include the Schist Lake area located in the Yeo township and the Chester Gold area located in the Chester township. The Company believes that this area is prospective based on its review of historical data and the local geology. Other companies have found evidence of gold mineralization in the area.

*Figure 1: Watershed Property Claims*



The geology of the Watershed property is typical of the Swayze Greenstone Belt in this area, comprising a structurally complex mafic to felsic metavolcano-sedimentary supracrustal sequence of rocks intruded in places by diorite to granodiorite rocks of the Chester Granitoid Complex. There are ten historical high-grade gold mineralized showings highlighting the gold-bearing tenor of the property. Access to the property is via paved highway from Sudbury and Timmins, Ontario. A network of dirt roads crosses the property. The infrastructure in the area of the Watershed property, including access to power, water, accommodation and other services, is excellent.

**Exploration Activities**

*Before Sanatana's Involvement*

There was historic exploration on the Watershed property that included grab sampling, geophysical surveys, and diamond drilling. The grab sampling returned gold assays of up to 270 g/t Au from historical gold showings.

In 2007, TAAC (at that time operating as Augen Gold Corp.) completed a DIGHEM (Fugro) airborne magnetic and electromagnetic ("EM") survey on its South Swayze property, which at the time included the Company's current Watershed property. The information was used to produce maps that display magnetic, conductive and radiometric properties of the underlying bedrock. The EM survey identified more than 500 weak to strong bedrock conductors over the survey area. None of these targets were drill tested.

In 2009, TAAC (at that time operating as Augen Gold Corp.) completed diamond drilling on the Chester Gold area and Schist Lake area. Drilling failed to identify significant gold mineralization underlying the historic gold occurrences in either of these areas.

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#### *Geophysical Surveys Completed by Sanatana*

The Company completed an airborne EM survey and received the final report and data in June 2011. Geotech Ltd. flew its proprietary ZTEM system covering the entire Watershed property at 200-metre line spacing for a total of 1,000 line-kilometres. ZTEM is a passive EM system that measures naturally induced variations in the vertical field of the audio frequency range. This system has the advantage over other EM methods in highlighting deep structural zones in poorly conductive rocks without being affected by highly conductive surficial materials (e.g. lake bottom sediments). The data was processed and inversion modelling completed by Geotech Ltd. In-house review by the Company revealed significant large-scale structural features of this part of the Swayze Greenstone Belt that will help the Company to understand mineralization processes of the property area. The data was incorporated into the project 3-D model by Caracle Creek International Consulting Inc. and used along with the TAAC airborne data to complete a bedrock structural interpretation over the property area. The report on the structural interpretation proposes five target areas that present structural settings with potential to host gold mineralization based on generally accepted gold mineralizing processes in this geological terrane.

The Company has completed an induced polarization ("IP") survey on key sections of the Watershed property in an attempt to locate extensions of the Cote Lake mineralization trend. The Company engaged Caracle Creek International Consulting Inc. ("CCIC") to undertake the IP survey using the EarthProbe method. Cut lines were oriented north-south varying from one to four kilometres for a total of approximately 25 line-kilometres. Results show that an east-west trending IP anomaly extends on to the Company's mineral claim #3011820<sup>1</sup> east of the Clam Lake area as well as delineating new anomalous areas around the Chester showing to the south and other ground lying further to the west referred to as the Chain of Lakes area. Inversion modeling of the IP data refined the drill targets for testing by the diamond-drilling programs.

A final report for data processing and interpretation of two ground magnetic surveys conducted by the Company over the Chain of Lakes and Chester areas earlier in 2012 was recently received. The objective of these surveys was to identify diabase dykes in the unexposed subsurface geology to assist with drill collar positioning and avoid intersecting them where possible. Overall, though the ground magnetic was noisy, likely due to tree cover and difficult walking conditions, the study did identify probable diabase dykes in the processed images. Knowledge of the locations and trends will help with planning future drill programs in these areas.

CCIC completed downhole IP using the EarthProbe method on selected drill holes throughout the 2011-12 drill programs, to reconcile the drill hole geology and sample assay results against the original surface IP drill targets to check for possible "near miss" scenarios. The final report on this study is pending.

DGI Geoscience Inc. ("DGI") conducted down hole geophysical data logging of selected drill holes throughout the 2011-12 drill programs. The downhole surveys included Acoustic Televiewer structural measurements and a range of physical rock properties. The resultant data was incorporated into the drill hole database for analysis, but DGI also performed its proprietary 2-4C multivariate cluster analysis using the physical property data, lithological logging and

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<sup>1</sup> The Company's corporate presentation at [www.sanatanaresources.com](http://www.sanatanaresources.com) includes a map showing the location of individual claims.

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assay data to define correlative units and assist in interpretation of data between drill holes and sections.

*Trenching and Geochemical Sampling Completed by Sanatana*

Sanatana completed a program of outcrop stripping with detailed geological mapping and channel sampling of the exposed bedrock over selected IP anomalies at all three areas to provide surficial control for the geophysical targets and locating of drill hole collars to test them. The maps compiled from this work assisted in refining targets for the drill programs.

At Clam Lake, the Company completed five trenches traversing two separate IP anomalies. Rock grab samples from the newly exposed bedrock returned elevated gold values of up to 3.09 g/t and continuous channel sampling returned elevated gold values of up to 6.18 g/t

The Company completed outcrop stripping at eight locations spread over different IP lines at Chester and the western Chain of Lakes areas in 2011. Channel cutting and sampling of the stripped outcrops had to be postponed due to the onset of winter weather late in the season, but was completed in the spring, 2012.

Results greater than 1 g/t include:

**Table 2: Channel Sample Gold Results**

Sample #	Trench	Length	Au
849816	2	101 cm	6.18 g/t
849949	1	113 cm	4.42 g/t
849609	1	24 cm	3.69 g/t
849660	5	65 cm	3.03 g/t
849637	5	65 cm	2.89 g/t
849947	1	99 cm	2.86 g/t
849808	2	66 cm	2.24 g/t
849862	2	100 cm	1.98 g/t
849671	5	80 cm	1.64 g/t
849911	1	95 cm	1.36 g/t
849553	2	106 cm	1.16 g/t
849896	1	102 cm	1.05 g/t
849617	5	105 cm	1.02 g/t
5279132	Line 2 "Adanac"	Grab	25.3 g/t
62550	Chester	77 cm	2.47 g/t
5279071	Line 2 "Parking Lot"	Grab	1.99 g/t
62546	Chester	69 cm	1.96 g/t
16104	Line 9	Grab	1.93 g/t
62599	Line 9	66 cm	1.87 g/t
62574	L 2 "Candy Cane"	29 cm	1.30 g/t
5279035A	Line 3	Grab	1.11 g/t

The identification of other priority areas on the property brought about new prospecting work programs and prevented the Company from revisiting this work during the 2012 summer field season.

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Prospecting undertaken recently at the existing "Silver Butte" showing, just off Highway 144 near the Mesomikenda Lake turn-off in the eastern part of the property, identified a new area of interest along the "Gold Trend" at the Northern Shear zone Au occurrence where hand stripping, mapping and channel sampling revealed an interval of 8.4 metres at 1.63g/t Au within a 12 metre outcrop. Though this location was previously mapped on a prospect-scale fact map, only a limited number of grab samples were collected. No systematic sampling was undertaken and the prospect was not drilled. Fresh mechanized stripping and washing to enhance pre-existing stripped outcrops and open up new outcrops was completed in the fall of 2012. So far the Northern Shear zone has been traced 100 metres to the northwest and to the southeast along a strike of 120-125° (or 300-305°). The new outcrop areas were washed and mapped and channel samples cut and collected across the width of the shear zone to assess the extent of gold mineralization ahead of possible drill testing. The maps and assay results are currently being compiled for this area.

A regional soil-sampling program was completed across the entire property, comprising 1,042 samples at a staggered grid spacing of 400 metres collecting B horizon soil from till cover to test for gold anomalism by trace level aqua regia ICP-MS method by ALS, Sudbury. Interpretation of geochemical anomalies in soils relies upon statistical analysis of a complete dataset of assay results for the property. Five areas of anomalous gold in soil were selected from the regional dataset for follow up infill sampling at 100-metre grid spacing. A further 412 samples were collected from these areas. The infill sample results did not define a clearly anomalous area of gold geochemistry in soil, however there are two areas of interest in the south and south-eastern parts of the property that warrant further investigation with close scale prospecting planned for the spring of 2013.

#### *Drilling Completed by Sanatana*

The Company completed diamond drilling over five areas on the Watershed property from October 2011 until November 2012, comprising 12 drill holes totalling 12,141 metres.

At Clam Lake mineral claim #3011820 nine drill holes (4,195 metres) were completed (SR-11-01 – SR-12-05, Table 3 and Figure 2) testing subsurface IP anomalies and coincident gold values in surficial geochemical sampling of stripped bedrock outcrops. All the drill holes were inclined at 60° towards 160° except for hole SR-11-02 that was drilled steeper at 70° to horizontal. Several significant gold mineralized down hole intervals were encountered in this drill program (Table 4).

Based on the observations and assay results from the nine drill holes, gold mineralization is present as a lower grade disseminated zone hosted in an intensely silicified breccia. Within and immediately peripheral to these lower grade zones, high grade gold occurs variously associated with quartz veins, structures, and areas of the most intense alteration. Quartz lode vein gold has been mined in the region in the past at underground operations such as Young-Shannon two kilometres northeast of the mineral claim. The wider alteration system exhibits textures and mineralogy similar to that described by Trelawney at the time of the Côté Lake discovery on lamgold's adjacent property).

Based on assay results from the nine-hole drill program on the Clam Lake claim #3011820, the Company has defined a zone of gold mineralization with a lateral extent up to 300 metres wide in the north-south direction. Along strike, the mineralization extends from the lamgold claim boundary in the east to the shores of Clam Lake in the west, a length of 300 metres and is open in both directions. The drilling has shown the mineralization extending to a vertical depth of approximately 400 metres and this also remains open at depth. Geological interpretation of the data indicates it is unlikely that this is a separate zone of gold mineralization confined to the

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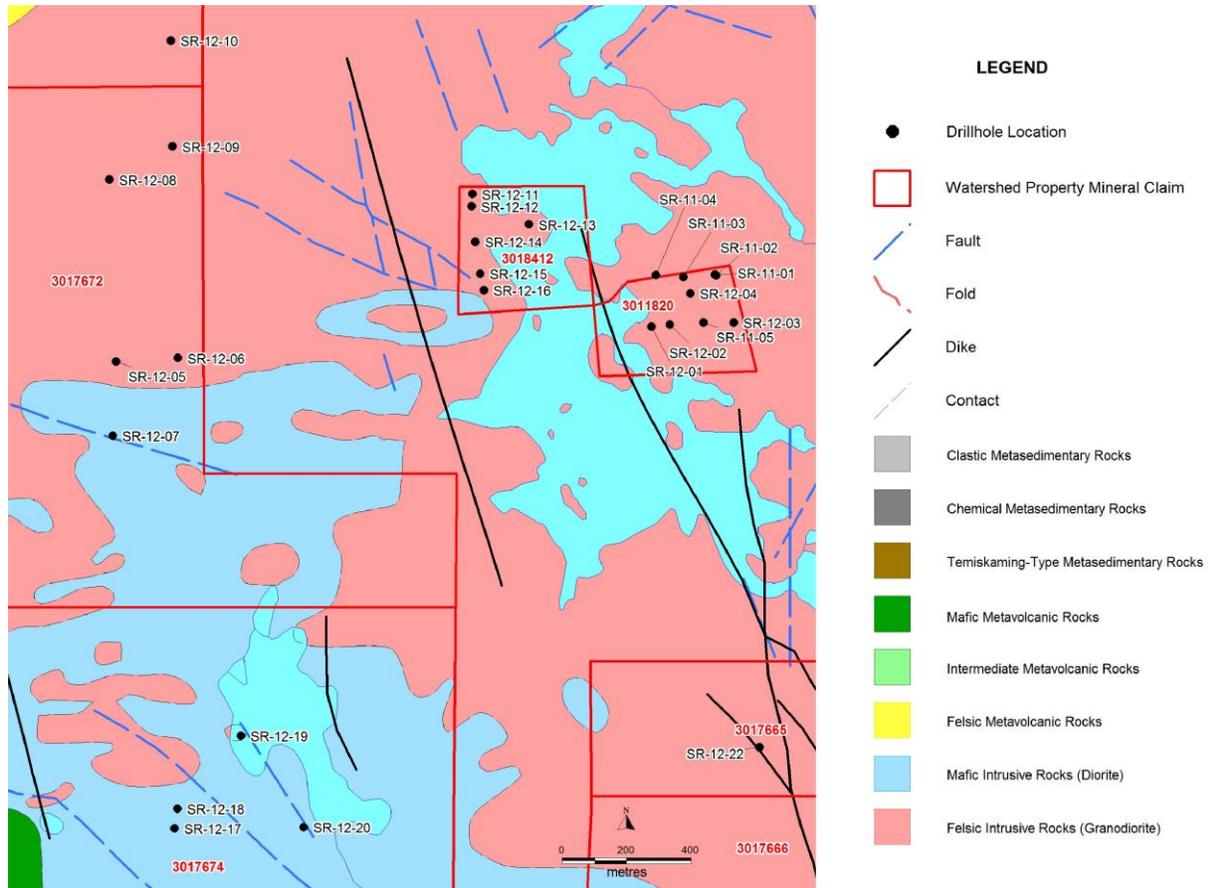
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boundaries of the mineral claim. The most probable conclusion is that this zone of gold mineralization is an extension of the Côté gold deposit, based both on Sanatana's results and observations of the drill core, and the fact lamgold drill hole E11-145 has now been included in the Côté gold deposit NI 43-101 resource estimate update (lamgold news release October 4, 2012 and subsequent SEDAR updates) located on the adjacent property only 125 metres due east of the boundary of the Watershed mineral claim #3011820.

**Table 3: Drill Hole Locations**

Hole	Area	Line	East	North	Projection	Dip	Azimuth	Depth
SR-11-01	Clam Lk E	L16	428,665mE	5,266,760mN	UTM Zone 17	-60°	160°	575m
SR-11-02	Clam Lk E	L16	428,665mE	5,266,760mN	UTM Zone 17	-70°	160°	674m
SR-11-03	Clam Lk E	L15	428,565mE	5,266,750mN	UTM Zone 17	-60°	160°	491m
SR-11-04	Clam Lk E	L14	428,479mE	5,266,762mN	UTM Zone 17	-60°	160°	560m
SR-11-05	Clam Lk E	L15	428,626mE	5,266,615mN	UTM Zone 17	-60°	160°	401m
SR-12-01	Clam Lk E	L13	428,465mE	5,266,602mN	UTM Zone 17	-60°	180°	392m
SR-12-02	Clam Lk E	L14	428,522mE	5,266,608mN	UTM Zone 17	-60°	160°	401m
SR-12-03	Clam Lk E	L16	428,720mE	5,266,615mN	UTM Zone 17	-60°	160°	401m
SR-12-04	Clam Lk E	L15	428,585mE	5,266,705mN	UTM Zone 17	-60°	160°	300m
SR-12-05	Chain Lakes	L2	426,800mE	5,266,500mN	UTM Zone 17	-60°	180°	497m
SR-12-06	Chain Lakes	L3	427,000mE	5,266,500mN	UTM Zone 17	-60°	180°	510m
SR-12-07	Chain Lakes	L2	426,800mE	5,266,250mN	UTM Zone 17	-60°	170°	508m
SR-12-08	Chain Lakes	L2	426,800mE	5,267,050mN	UTM Zone 17	-60°	175°	498m
SR-12-09	Chain Lakes	L3	427,000mE	5,267,150mN	UTM Zone 17	-60°	175°	506m
SR-12-10	Chain Lakes	L3	426,977mE	5,267,488mN	UTM Zone 17	-60°	175°	501m
SR-12-11	Clam Lk W	-	427,910mE	5,267,012mN	UTM Zone 17	-60°	175°	505m
SR-12-12	Clam Lk W	-	427,908mE	5,266,975mN	UTM Zone 17	-50°	000°	110m
SR-12-13	Clam Lk W	-	428,085mE	5,266,919mN	UTM Zone 17	-60°	170°	503m
SR-12-14	Clam Lk W	-	427,919mE	5,266,865mN	UTM Zone 17	-60°	175°	409m
SR-12-15	Clam Lk W	-	427,935mE	5,266,766mN	UTM Zone 17	-60°	180°	200m
SR-12-16	Clam Lk W	-	427,946mE	5,266,715mN	UTM Zone 17	-60°	180°	102m
SR-12-17	Chain Lakes	L3	427,000mE	5,265,050mN	UTM Zone 17	-60°	180°	559m
SR-12-18	Chain Lakes	L3	427,000mE	5,265,110mN	UTM Zone 17	-60°	175°	458m
SR-12-19	Chain Lakes	L4	429,000mE	5,265,335mN	UTM Zone 17	-60°	175°	537m
SR-12-20	Chain Lakes	L5	427,400mE	5,265,050mN	UTM Zone 17	-60°	175°	518m
SR-12-21	Chain Lakes	L7	427,800mE	5,264,700mN	UTM Zone 17	-60°	175°	501m
SR-12-22	Chester W	L10	428,800mE	5,265,300mN	UTM Zone 17	-60°	175°	507m
								12,141m

*Figure 2: Drill Hole Locations*



The Company was sufficiently encouraged from observations of the drill core from Clam Lake to continue with drilling of IP anomalies in other areas.

The Company completed a 12-hole (6,100 metre) drill program to test the existence of gold mineralization on IP anomaly trends around the Chain of Lakes area 1.5 kilometres along strike to the west of Clam Lake (Table 3 and Figure 2, holes SR-12-05 to SR-12-10 and SR-12-17 to SR-12-22). All the drilling was angled at 60 degrees to horizontal towards the south, allowing for some slight drift to the west at times. Observations from the first three drill holes of the program indicated a more mafic rock sequence of monotonous repetitive shear zones and very little alteration. Hole SR-12-08 provided the first indications of the same host rock type and alteration as was seen at Clam Lake. More substantial gold mineralization was first encountered in hole SR-12-09 (Table 4) and the style and consistency of this mineralization is encouraging and reinforces the concept of the Côté Lake - Clam Lake trend extending well beyond the currently defined boundaries. Interpretation of the data implies that these narrow zones of gold mineralization may represent stringers peripheral to the main lode.

Holes SR-12-17 – 21 were drilled in the southern part of the Chain of Lakes area on mineral claim #3017674 (Figure 2) targeting parallel IP anomaly trends 2.0 kilometres southwest of the Clam Lake claim #301820. Hole SR-12-22 tested an isolated IP anomaly oriented southeast – northwest in the Chester area within mineral claim #3017665.

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Six drill holes (1,829 metres) were drilled on mineral claim #3018412 testing for extensions of the gold mineralization from mineral claim #3011820 across to the western shore of Clam Lake. Again, the drilling was angled at 60 degrees to horizontal towards the south, allowing for some slight drift to the west at times, except for hole SR-12-12 which was drilled due north at 50 degrees as a scissor hole testing gold mineralization encountered in hole SR-12-11. The details of collar locations can be seen in Table 3 (Holes SR-12-11 to SR-11-16) and on Figure 2.

Sporadic narrow intercepts of gold were encountered in most of the drill holes (Table 4) except for the two holes located well to the south (SR-12-21 and 22). The gold results were attributed to quartz veins along strike or parallel to the Côte gold deposit - Clam Lake trend. Interpretation of the data implies that these narrow zones of gold mineralization may represent stringers peripheral to the main lode.

**Table 4: Drill Hole Gold Mineralized Interval Highlights**

Hole	From (m)	To (m)	Length (m)	Au (g/t)	Au Cut (25g/t)
SR-11-01	238.5	257.0	18.5	1.16	
SR-11-02	110.0	124.0	14.0	0.67	
<b>SR-11-02</b>	<b>401.0</b>	<b>446.0</b>	<b>45.0</b>	<b>0.48</b>	
SR-11-02	472.0	480.0	8.0	1.21	
SR-11-03	404.0	421.0	17.0	0.39	
SR-11-04	114.5	129.5	15.0	0.42	
<b>SR-11-04</b>	<b>153.0</b>	<b>203.0</b>	<b>50.0</b>	<b>1.33</b>	<b>1.23</b>
SR-11-04	252.5	273.0	20.5	0.87	
<b>SR-11-04</b>	<b>451.0</b>	<b>454.9</b>	<b>3.9</b>	<b>16.23</b>	<b>10.35</b>
<b>SR-11-05</b>	<b>166.0</b>	<b>225.0</b>	<b>59.0</b>	<b>0.30</b>	
SR-11-05	259.0	274.0	15.0	0.48	
SR-11-05	321.0	359.0	38.0	0.48	
<b>SR-12-01</b>	<b>24.8</b>	<b>27.0</b>	<b>2.2</b>	<b>11.67</b>	
<b>SR-12-01</b>	<b>265.0</b>	<b>321.6</b>	<b>56.6</b>	<b>0.43</b>	
SR-12-02	198.8	217.1	18.3	1.25	1.14
SR-12-03	185.0	214.0	29.0	0.36	
SR-12-03	236.5	259.5	23.0	0.42	
<b>SR-12-03</b>	<b>281.9</b>	<b>308.0</b>	<b>26.1</b>	<b>3.96</b>	<b>0.76</b>
SR-12-04	62.0	83.0	21.0	1.10	
SR-12-05	167.0	170.0	3.0	0.32	
SR-12-05	241.0	242.0	1.0	0.96	
SR-12-09	21.5	22.5	1.0	1.08	
SR-12-09	257.0	258.0	1.0	2.20	
SR-12-09	331.0	334.0	3.0	0.39	
SR-12-09	415.5	416.5	1.0	1.30	
SR-12-09	433.0	434.0	1.0	2.83	
SR-12-09	500.1	500.5	0.4	1.78	
<b>SR-12-11</b>	<b>11.0</b>	<b>29.7</b>	<b>18.7</b>	<b>1.2</b>	<b>1.0</b>

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Hole	From (m)	To (m)	Length (m)	Au (g/t)	Au Cut (25g/t)
SR-12-12	108.7	109.4	0.7	4.5	
SR-12-13	139.8	140.6	0.8	14.5	
SR-12-14	149.0	153.0	4.0	0.6	
SR-12-15	102.0	113.0	11.0	0.3	
SR-12-18	307.0	311.8	4.8	1.0	
SR-12-19	476.0	477.0	1.0	0.4	

Notes:

- True widths of intersections are unknown at this time.
- Mineralized intervals are calculated using the weighted Au average based on length of sample, a lower cut-off of 0.3 g/t Au and an upper cut-off of 25.0 g/t Au, including low grade zones no greater than 20 metres in length.

*Current Field Programs*

The current winter drill program is focused on infill drilling on mineral claim #3011820 at a spacing of 100 x 50 metres to better define the extent of mineralization identified in the earlier drill program, potentially leading to an NI 43-101 resource estimate. Drilling commenced in late December 2012 and so far eight drill holes (2,578 metres) have been completed. No results from this program have been released to the date of this MD&A and it is expected that information will be made available throughout the first and second calendar quarters of 2013 after sufficient drill results are returned to form reasonable interpretations.

The Company plans to spend about \$1,400,000 on the Watershed property from January 2013 to December 2013, depending on exploration results.

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**Financial**

***Exploration and Evaluation Expenditures***

Exploration and evaluation asset costs formed the bulk of the Company's expenditures in the period. These costs and related impairment provisions and reimbursements, are set out in the following table:

	Nine Months Ended December 31 2012 \$	Year Ended March 31 2012 \$
<b>Watershed property</b>		
Acquisition costs	551,822	553,250
Contractor and consultant	2,391,275	1,974,759
Helicopter and fixed wing aircraft	-	13,007
Expediting	-	5,216
Project management fees	125,500	135,405
Field and camp	118,805	86,440
Sampling and assays	682,060	299,612
Transport and accommodation	241,525	214,940
Reclamation provision	-	30,000
Permitting and other	45,676	15,357
Increase in carrying value	<u>4,156,663</u>	<u>3,327,986</u>
<b>Mackenzie property</b>		
Total exploration costs for the period	-	-
Impairment	-	(68,347)
Decrease in carrying value	<u>-</u>	<u>(68,347)</u>
<b>All exploration and evaluation assets</b>		
Net change in carrying value	<u>4,156,663</u>	<u>3,259,639</u>

# SANATANA RESOURCES INC.

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### Selected Quarterly Financial Data

The Company did not have any sales, discontinued operations, extraordinary items, cash dividends or long-term liabilities in the period under review. Material factors affecting operations and exploration and evaluation asset expenditures are described elsewhere in this MD&A.

Quarter Ended	Cash and Equivalents	Exploration and Evaluation Assets	Income (Loss) for the Quarter <sup>1</sup>	Income (Loss) per Share <sup>1,2</sup> (Basic and Diluted)
	\$	\$	\$	\$
March 31, 2011	4,210,157	969,909	(833,380)	(0.01)
June 30, 2011	3,718,811	1,408,905	(356,920)	(0.00)
September 30, 2011	3,200,426	1,785,009	(350,399)	(0.00)
December 31, 2011	3,215,878	2,823,608	(592,684)	(0.01)
March 31, 2012	2,325,543	4,229,548	337,490	0.00
June 30, 2012	788,019	5,463,428	(634,024)	(0.01)
September 30, 2012	1,076,868	6,998,006	(190,507)	(0.00)
December 31, 2012	1,862,167	8,386,211	(226,130)	(0.00)

<sup>1</sup> The quarters ended March 31, 2011 to December 31, 2011 have been restated from amounts previously disclosed to adjust for the recognition of deferred income taxes resulting from flow-through offerings.

<sup>2</sup> Sum of quarterly loss per share may not equal year-to-date amounts due to rounding.

The Company is an exploration stage company and has not generated any sales or revenues, nor has it had any extraordinary items or discontinued operations in the most recent eight fiscal quarters. As the Company is still in the exploration stage, variances in its quarterly losses are not affected by sales or production-related factors. Variances by quarter reflect overall exploration and corporate activity and certain factors that may not recur each quarter.

Variations from the normal level of operating loss include:

- March 31, 2011 – The Company awarded compensatory share options with a fair value of \$502,000 and incurred higher costs due to expanded operations on the Watershed property.
- June 30, 2011 – The Company recognized share-based compensation expense of \$103,000 and incurred a deferred income tax expense.
- December 31, 2011 – The Company recognized share-based compensation expense of \$91,000, expended additional costs associated with exploration on its Watershed property and incurred a deferred income tax expense.
- March 31, 2012 – The Company recorded a \$68,000 impairment of its Mackenzie project and a \$272,000 deferred income tax benefit relating to a reversal of the flow-through shares premium liability. It also reversed a \$38,000 over-accrual of Part XII.6 tax.
- June 30, 2012 - The Company recorded share-based compensation of \$452,000.
- September 30, 2012 - The Company recorded share-based compensation of \$122,000 and a deferred income tax recovery of \$143,000.

# SANATANA RESOURCES INC.

## Management's Discussion and Analysis Nine Months Ended December 31, 2012

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- December 31, 2012 - The Company recorded share-based compensation of \$106,000 and a deferred income tax recovery of \$126,000.

### **Results of Operations for the Period**

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

- Directors, including executive directors, are paid \$10,000 annually; the chairman of the board is paid \$20,000 annually. The current period expense includes a bonus of \$20,000 paid to directors and additional fees paid for board-related work.
- Investor relations expenses relate to investor communications, including maintaining and updating the website and disseminating news releases.
- Management fees and salaries represent amounts paid to officers, employees and contractors and related benefits, net of amounts capitalized to exploration and evaluation assets or allocated to property investigation costs. The increase in this expense compared to the comparative period is primarily due to an increase in the CEO's salary approved by the board in June 2012. The current quarter expense also includes bonuses of \$15,000 paid to employees.
- Professional fees were paid to lawyers and auditors. Legal fees in the current period were higher than in the comparative period due to there being more Watershed property-related legal work.
- Property investigation costs represent travel, direct geological labour and consulting costs to assess prospective acquisitions.
- Rent relates to the Company's office premises and a storage locker.
- Share-based payments represents the fair value of stock options that recognized over their vesting term, calculated using the Black-Scholes option-pricing model. See note 12 of the Company's December 31, 2012 financial statements for further particulars. The Company treated the awarding of certain options in June 2012 as a modification of an existing grant and so recognized the incremental fair value of those options at the issue date rather than recognizing the fair value of new options over their vesting period.
- Travel and accommodation represents the cost for management travel to Sanatana's exploration and evaluation assets and for corporate development activities, but does not include the travel costs to inspect prospective acquisitions. Travel and accommodation expense fluctuates significantly from period to period depending on the initiatives under way.
- Deferred income tax recovery represents the value of losses carried forward for tax purposes that have been applied to offset the value of tax benefits forfeited to flow-through investors. This amount does not represent a cash flow to the Company.

### **Changes in Financial Position**

Changes in the Company's financial position since its March 31, 2012 year end primarily relate to \$3,925,000 raised through share issuances (net of offering costs) offset by expenditures of cash on ordinary-course administration and exploration activities.

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***Liquidity***

At December 31, 2012, the Company had cash and cash equivalents of \$1,862,000. The commitment to spend proceeds of the November 2012 offering on exploration means that the Company does not have sufficient cash to fund operations for at least 12 months, but expects to collect cash from performance bonds and recoverable sales taxes that will provide the necessary liquidity to support 12 months' operations. Other specific factors affecting the Company's liquidity are:

- The Company has an obligation to spend funds raised in the November 2012 flow-through offering on exploration activities in Canada. Of the Company's cash at December 31, 2012, all but \$245,000 was committed to flow-through expenditures and settling accounts payable.
- The Company has submitted documents to secure the release of \$275,000 of reimbursable bonds but does not have control over the timing of any receipt, if approved.
- Office premises lease payments total \$109,000 through to January 2014.
- The Company has signed vehicle lease contracts that commit it to monthly payments of \$2,190 until May 2014.
- An employment contract with the Company's CEO includes a six-month termination provision that could cost \$90,000.

The Company's recent activities have been funded through equity financings. The Company expects that it will continue to be able to obtain funds from equity financing but there can be no assurance that the Company will be successful in its efforts. If such funds are not available or other sources of financing cannot be obtained, then the Company will be forced to curtail its activities.

***Related Party Transactions***

At December 31, 2012, the Company had three employees and arrangements with contractors to provide certain administrative, accounting and management services. In addition, certain directors, officers and significant shareholders provide management and consulting services to the Company. The Company had a contract with its chief executive officer that provided for monthly compensation of \$15,000 with six months notice or payment in lieu of notice. Particulars of related party transactions are disclosed in note 13 of the December 31, 2012 financial statements.

In August 2012, the Company entered into change of control agreements with its directors, officers and employees. These agreements provide that in the event of a change of control, as defined, directors and officers of the company may be eligible to receive termination payments within 12 months of the change of control if they resign or are terminated. The amounts potentially payable are: Edward Marlow \$100,000; Nick Archibald \$75,000; Peter Miles \$540,000; Buddy Doyle \$144,000; and Simon Anderson \$135,000. In addition, other employees would be eligible to receive up to an aggregate of \$537,600. The change of control agreements confirm that unvested stock options would vest immediately on a change of control.

***Contractual Obligations and Commitments***

Particulars of the Company's contractual obligations and commitments at September 30, 2012 are disclosed in note 16 to the December 31, 2012 financial statements and *Liquidity* above. Additional information regarding payments in the event of a change of control is disclosed in *Related Party Transactions* above.

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Subsequent to the reporting period, the Company agreed to extend its office lease until January 2014 at a monthly cost of approximately \$8,400.

As a result of its November 2012 flow-through equity financing, the Company must spend \$1,984,000 on qualifying exploration expenditures by December 31, 2013 to avoid penalties. At December 31, 2012, the remaining spending commitment was \$1,432,000. The Company will be subject to Part XII.6 tax, essentially a financing charge, on amounts not spent by January 31, 2013.

## **Share Capital**

The Company had 88,689,953 common shares issued and outstanding at March 31, 2012 and 104,811,073 common shares outstanding at December 31, 2012.

### ***Share Issuances***

#### *November 2012 Private Placement*

In November 2012, the Company closed a non-brokered private placement of 6,013,500 flow-through units priced at \$0.33 per unit for proceeds of \$1,984,455. Each flow-through unit consists of one flow-through common share in the capital of the Company and one-half of one share purchase warrant. Each flow-through warrant will entitles the holder to purchase one additional non-flow-through common share in the capital of the Company at a price of \$0.40 per flow-through warrant share until November 9, 2014. The Company paid a cash finder's fee of \$103,158 representing 6% of the gross proceeds placed by the finders. The Company has renounced the gross proceeds of the offering to purchasers under the provisions of the *Income Tax Act* (Canada).

Proceeds from the private placement will be used for mineral exploration and development for the Company's Watershed property in Ontario.

#### *November 2012 Option Payment*

In November 2012, the Company issued 1,500,000 common shares to TAAC in order to fulfil the last requirement to earn the 50% Interest in the Watershed property. See *Watershed Property* above.

#### *July 2012 Private Placement*

In July 2012, the Company completed a non-brokered private placement of 2,853,333 flow-through units priced at \$0.30 per unit and 5,315,000 non-flow-through units priced at \$0.25 per unit for aggregate gross proceeds of \$2,184,750. The flow-through units comprise one flow-through common share and a half-warrant, with each whole warrant exercisable into non-flow-through common shares at \$0.40 per share for two years. The non-flow-through units comprise one common share and a half-warrant, with each full warrant exercisable at \$0.35 for two years. The Company paid a finder's fee of \$116,148, representing 7% of gross cash proceeds sourced by finders and 429,800 finder warrants equity representing to 7% of the units issued to certain parties. The Company has enounced \$856,000, being the gross proceeds derived from the sale of the flow-through units, to purchasers in accordance with the provisions of the *Income Tax Act* (Canada).

Funds raised from the flow-through offering were used for mineral exploration at the Company's Watershed project and for general corporate purposes.

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***Share Option Plan***

In April 2011, the Company's shareholders approved a new rolling share option plan, to replace its previously adopted plan. The intent was to increase the Company's ability to offer incentives to directors, officers, employees, management and others who provide services to the Company and align the option plan with current regulatory requirements. Under the option plan, a maximum of 10% of the issued and outstanding common shares at the time an option is granted, less common shares reserved for issuance on exercise of options then outstanding under the option plan, are reserved for options to be granted at the discretion of the board to eligible optionees. All outstanding options continue under the new option plan.

Options granted under the option plan are non-assignable and non-transferable and are issuable for a period of up to ten years. In the case employment or other contracting arrangement of a director, officer, employee or consultant of the Company of an optionee being terminated, the options will immediately terminate without right to exercise. The board of directors of the Company determines the exercise price, which may be no less than the discounted market price, as defined in the option plan, at the day of grant. The Company's shareholders re-approved the plan in October 2012.

***Option Grants***

In June 2012, the Company awarded options to purchase up to 3,350,000 common shares at an exercise price of \$0.35 per share to directors, officers, employees and contractors.

In September 2012, the Company awarded options to purchase up to 500,000 common shares at an exercise price of \$0.40 per share to investor relations providers.

In September 2012, the Company awarded options to purchase up to 100,000 common shares at an exercise price of \$0.40 per share to a consultant.

***Option Forfeitures and Cancellations***

In June 2012, the Company cancelled options to purchase up to 1,400,000 common shares at between \$0.75 and \$1.35 per share and options to purchase up to 600,000 common shares exercisable at between \$0.30 and \$1.35 expired unexercised.

***Share Purchase Warrants***

As described above, in connection with the July 2012 private placement, the Company issued warrants to purchase up to 4,084,166 common shares and finder's warrants to purchase up to 429,800 common shares at a price of \$0.30 until July 12, 2013.

In connection with the November 2012 private placement, the Company issued warrants to purchase up to 3,006,750 common shares at a price of \$0.30 until November 9, 2014.

***Dividends***

The Company has not paid any dividends in the past and does not expect to pay any dividends in the near future.

### ***Outstanding Share Information***

As of the date of this MD&A, the Company had the following securities issued and outstanding:

- 104,811,073 common shares;
- 7,520,716 share purchase warrants; and
- 8,175,000 stock options.

Fully diluted share capital is therefore 120,506,789 common shares.

### **Risks and Uncertainties**

Sanatana's business of mineral resource exploration involves a variety of operational, financial and regulatory risks that are typical in the natural resource industry. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future; Sanatana's common shares should therefore be considered speculative.

#### *Capital Markets and Economic Uncertainty*

Sanatana does not have sufficient cash or access to capital to complete the development of its exploration and evaluation assets, even if it were to find an economic mineral resource. The Company's business plan currently relies on obtaining funding through offerings of its equity.

#### *Nature of Mineral Exploration and Development Projects*

The business of mineral exploration involves a high degree of risk. Few of the properties that are explored are ultimately developed into mines. Sanatana's property is in the exploration stage. Proposed exploration programs are exploratory searches for such a deposit. The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors that are beyond the control of the Company.

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

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

The profitability of the Company's operations will be dependent on the market price of the resources it is seeking, currently gold. Resource prices are affected by factors beyond the

# SANATANA RESOURCES INC.

## Management's Discussion and Analysis Nine Months Ended December 31, 2012

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control of the Company, including international economic and political conditions, levels of supply and demand and international currency exchange rates.

Success in establishing reserves is the result of a number of factors, including the quality of management, the Company's level of geological and technical expertise, the quality of land available for exploration, the availability of suitable contractors and other factors. If mineralization is discovered, the initial phases of drilling may take several years until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish reserves through drilling, to determine the optimal metallurgical process and to construct mining and processing facilities. Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of resources or reserves.

### *Licenses and Permits, Laws and Regulations*

Sanatana's exploration activities require permits from various government authorities and are subject to extensive federal, provincial and local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly. Sanatana draws on the expertise and commitment of its management team, directors, advisors and contractors to ensure compliance with current laws and fosters a climate of open communication and cooperation with regulatory bodies.

The Company believes that it holds all necessary licenses, and will receive all necessary permits under applicable laws and regulations, and believes it is presently complying in all material respects with the terms of such licenses and permits. There is no assurance that future changes in applicable regulations, if any, will not adversely affect the Company's operations. Government approvals and permits are required in connection with the exploration activities proposed for the Company's properties. To the extent such approvals are required and not obtained, the Company's planned exploration and development activities may be delayed, curtailed, or cancelled entirely.

### *Claim Titles and Aboriginal Rights*

Aboriginal rights may be claimed on Crown properties or other types of tenure with respect to which mining rights have been conferred. 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 the Watershed property.

### *Conflicts of Interest*

Certain of the Company's directors, officers and significant shareholders are or may become shareholders, directors or officers of other natural resource companies, and, to the extent that such other companies may participate in ventures with the Company, these individuals may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or of its terms. In appropriate cases the Company will establish a special committee of independent directors to review a matter in which one or more directors or officers may have a conflict.

From time to time, the Company, together with several other companies, may be involved in a joint venture opportunity where several companies participate in the acquisition, exploration and development of natural resource properties, thereby permitting the Company to be involved in a

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greater number of larger projects with an associated reduction of financial exposure in any given project. The Company may also assign all or a portion of its interest in a particular project to any of these companies due to the financial position of the other company or companies.

In accordance with the laws of the province of British Columbia, the directors are required to act honestly and in good faith with a view to furthering the best interest of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed, and the financial position of the Company at that time.

For additional information, please refer to the Company's website at [www.sanatanaresources.com](http://www.sanatanaresources.com). For all regulatory filings including news releases, please refer to the Company's profile on [www.sedar.com](http://www.sedar.com).