

SANATANA RESOURCES INC.

Condensed Interim Financial Statements

Second Quarter Ended September 30, 2013

Expressed in Canadian Dollars

CONTENTS

Condensed Interim Statements of Financial Position	1
Condensed Interim Statements of Comprehensive Loss	2
Condensed Interim Statements of Changes in Equity	3
Condensed Interim Statements of Cash Flows	4
Notes to the Condensed Interim Financial Statements	5-18

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED
INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim financial statements of Sanatana Resources Inc. for the six months ended September 30, 2013 have been prepared by the management of the Company and approved by the Company's audit committee.

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

The Company's independent auditor has not performed a review of these condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the condensed interim financial statements by an entity's auditor.

Sanatana Resources Inc.

Condensed Interim Statements of Financial Position

	Notes	September 30, 2013	March 31, 2013
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	4	417,976	791,267
Receivables	5	31,712	118,106
Prepaid expenses		10,819	22,114
Total current assets		460,507	931,487
Non-current assets			
Prepaid exploration and evaluation advance		3,847	4,056
Reimbursable bonds and deposits	6	193,052	269,651
Exploration and evaluation assets	7	10,032,448	9,339,616
Property and equipment	8	156,466	160,975
Total non-current assets		10,385,813	9,774,298
Total assets		10,846,320	10,705,785
LIABILITIES			
Current liabilities			
Payables and accruals		321,351	278,241
Provisions	9	130,000	130,000
Liability to renounce exploration expenditures		-	43,554
Total liabilities		451,351	451,795
EQUITY			
Share capital	10	41,854,261	41,086,459
Share subscription received		50,000	-
Reserves	10	4,536,571	4,441,641
Deficit		(36,045,863)	(35,274,110)
Total equity		10,394,969	10,253,990
Total equity and liabilities		10,846,320	10,705,785

"Peter Miles", Director

Peter Miles

"Edward Marlow", Director

Edward Marlow

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

Sanatana Resources Inc.

Condensed Interim Statements of Comprehensive Loss

	Notes	Three months ended September 30,		Six months ended September 30,	
		2013	2012	2013	2012
		\$	\$	\$	\$
Expenses					
Depreciation	8	2,253	8,766	4,509	17,539
Director fees	12	12,500	12,500	25,000	25,000
Filing fees		6,318	2,108	6,318	11,851
Investor relations		2,358	2,177	4,804	9,008
Management fees and salaries	12	80,135	97,499	157,239	173,846
Office and administration		9,704	14,808	17,402	31,256
Professional fees		330,175	23,106	442,779	71,342
Property investigations		-	-	-	1,000
Rent		26,133	23,705	52,782	52,664
Share-based payments	11	32,000	122,000	88,000	574,000
Transfer agent fees		7,186	6,198	8,655	7,244
Travel and accomodation		1,050	20,910	8,224	26,024
Loss before undernoted		(509,812)	(333,777)	(815,712)	(1,000,774)
Interest income		76	603	405	2,146
Loss before income taxes		(509,736)	(333,174)	(815,307)	(998,628)
Deferred income tax recovery		8,179	142,667	43,554	174,097
Loss and total comprehensive loss for the period		(501,557)	(190,507)	(771,753)	(824,531)
Loss per share - basic and diluted	13	(0.00)	(0.00)	(0.01)	(0.01)
Weighted average common shares outstanding - basic and diluted	13	109,938,926	95,969,521	107,389,010	92,349,627

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

Sanatana Resources Inc.

Condensed Interim Statements of Changes in Equity

	Common Shares \$	Share Subscriptions Received \$	Reserves \$	Deficit \$	Equity \$
Balance - March 31, 2012	36,900,647	-	3,677,541	(33,971,612)	6,606,576
Private placement	1,328,750	-	-	-	1,328,750
Private placement of flow-through shares	856,000	-	-	-	856,000
Share issuance costs	(129,211)	-	-	-	(129,211)
Fair value of broker warrants	(36,100)	-	36,100	-	-
Shares issued for exploration and evaluation assets	109,822	-	-	-	109,822
Liability to renounce exploration expenditures	(142,667)	-	-	-	(142,667)
Share-based compensation	-	-	574,000	-	574,000
Loss for the period	-	-	-	(824,531)	(824,531)
Balance - September 30, 2012	38,887,241	-	4,287,641	(34,796,143)	8,378,739

	Common Shares \$	Share Subscriptions Received \$	Reserves \$	Deficit \$	Equity \$
Balance - March 31, 2013	41,086,459	-	4,441,641	(35,274,110)	10,253,990
Private placement	803,000	50,000	-	-	853,000
Share issuance costs	(28,268)	-	-	-	(28,268)
Fair value of broker warrants	(6,930)	-	6,930	-	-
Share-based compensation	-	-	88,000	-	88,000
Loss for the period	-	-	-	(771,753)	(771,753)
Balance - September 30, 2013	41,854,261	50,000	4,536,571	(36,045,863)	10,394,969

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

Sanatana Resources Inc.

Condensed Interim Statements of Cash Flows

For the six months ended September 30,	Notes	2013	2012
		\$	\$
Cash provided by (used in):			
Operating activities:			
Loss before income taxes		(815,307)	(998,628)
Adjustments for:			
Depreciation of property and equipment	8	4,509	17,539
Interest income		(405)	(2,146)
Share-based compensation	11	88,000	574,000
Changes in non-cash working capital items:			
Receivables		86,394	(24,173)
Prepaid expenses		11,295	12,078
Payables and accruals		206,811	(66,345)
		(418,703)	(487,675)
Investing activities:			
Prepaid exploration and evaluation advance		209	(2,224)
Reimbursable bonds and deposits	6	76,599	1,837
Exploration and evaluation assets	7	(856,533)	(2,818,298)
Interest received		405	2,146
		(779,320)	(2,816,539)
Financing activities			
Issuance of common shares, net of costs	10	774,732	2,055,539
Share subscription received	17	50,000	-
		824,732	2,055,539
Decrease in cash and cash equivalents		(373,291)	(1,248,675)
Cash and cash equivalents, beginning of period		791,267	2,325,543
Cash and cash equivalents, end of period		417,976	1,076,868
Cash and equivalents comprise:			
Cash		217,487	502,452
Equivalents		200,489	574,416
		417,976	1,076,868

Supplementary cash flow information (note 14)

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

Sanatana Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2013

1. Nature of Operations and Continuance of Operations

Sanatana Resources Inc. ("Sanatana" or the "Company") was incorporated as Sanatana Diamonds Inc. on June 25, 2004 under the British Columbia Business Corporations Act. The Company changed its name to Sanatana Resources Inc. on April 28, 2011. Sanatana is an exploration stage company, and its principal business activity is the acquisition, exploration and development of mineral properties. The Company holds interests in certain Ontario gold exploration claims.

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 has not generated revenue from operations. The Company incurred a loss of \$771,753 during the six months ended September 30, 2013 and, as of that date the Company's deficit was \$36,045,863. As the Company is in the exploration stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. The Company had cash of \$417,976 at September 30, 2013 (March 31, 2013 - \$791,267).

The business of exploring for and mining of minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. Changes in future conditions could require material write-downs of the carrying values of the exploration and evaluation assets.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, and non-compliance with regulatory requirements.

The head office and principal address of the Company are located at Suite 1925 - 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2.

2. Basis of Presentation

Statement of Compliance

These condensed interim financial statements of the Company for the six months ending September 30, 2013 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), on a basis consistent with the significant accounting policies disclosed in note 3 of the most recent annual financial statements as at and for the year ended March 31, 2013 as filed on SEDAR at www.sedar.com. The condensed interim financial statements do not include all of the information required for full annual financial statements and were approved and authorised for issue by the audit committee on November 28, 2013.

Sanatana Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2013

2. Basis of Presentation (continued)

Basis of Measurement

The financial statements have been prepared on a historical cost basis.

The financial information is presented in Canadian dollars, which is the functional currency of the Company.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive loss/income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

Rehabilitation Provisions

Rehabilitation provisions have been created based on the Company's internal estimates with future period amounts discounted to reflect the time value of money. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from period to period. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market condition at the time the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

Exploration and Evaluation Expenditures

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after the expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Sanatana Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2013

2. Basis of Presentation (continued)

Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. The Company believes it has adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 11.

3. Changes in Accounting Policies

New Accounting Pronouncements

IASB or the IFRIC have issued certain pronouncements that are mandatory for accounting years beginning on or after April 1, 2014. None of these are expected to be relevant to the Company's financial statements, except for the following:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015 but is not likely to have a material impact on the Company's financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Sanatana Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2013

4. Cash and Cash Equivalents

Cash at banks and on hand earns interest at floating rates based on daily bank deposit rates. Short-term investment deposits included in cash and cash equivalents bear interest rate at 0.35% to maturity.

5. Receivables

	September 30, 2013	March 31, 2013
	\$	\$
Related parties	7,518	7,518
GST - value added tax	24,194	110,588
	<u>31,712</u>	<u>118,106</u>

6. Reimbursable Bonds and Deposits

	\$
Balance March 31, 2012	<u>276,488</u>
Bond redemptions	(1,837)
Bond impairment	<u>(5,000)</u>
Balance March 31, 2013	269,651
Bond redemptions	<u>(76,599)</u>
Balance September 30, 2013	<u>193,052</u>

Sanatana Resources Inc.
Notes to the Condensed Interim Financial Statements
For the six months ended September 30, 2013

7. Exploration and Evaluation Assets

The exploration and evaluation assets of the Company are comprised as follows:

	March 31, 2012	Change	March 31, 2013	Change	September 30, 2013
	\$	\$	\$	\$	\$
Watershed Project					
Watershed Property	4,229,548	5,110,068	9,339,616	688,296	10,027,912
Cryderman Property	-	-	-	4,536	4,536
	4,229,548	5,110,068	9,339,616	692,832	10,032,448

Watershed Property

	March 31, 2012	Change	March 31, 2013	Change	September 30, 2013
	\$	\$	\$	\$	\$
Acquisition costs	1,403,250	551,822	1,955,072	143,317	2,098,389
Contractor and consultant	1,997,321	3,002,293	4,999,614	249,240	5,248,854
Helicopter and fixed wing aircraft costs	13,007	-	13,007	-	13,007
Expediting	5,216	-	5,216	-	5,216
Project management fees	162,405	170,000	332,405	83,000	415,405
Field and camp	88,440	141,347	229,787	57,998	287,785
Sampling and assays	299,612	846,788	1,146,400	67,278	1,213,678
Transport and accomodation	214,940	343,563	558,503	60,607	619,110
Reclamation provision	30,000	-	30,000	-	30,000
Permitting and other	15,357	54,255	69,612	26,856	96,468
Watershed property	4,229,548	5,110,068	9,339,616	688,296	10,027,912

In February 2011, the Company entered into an option and joint venture agreement with Augen Gold Corp., which was subsequently acquired by Trelawney Mining and Exploration Inc. ("Trelawney") and renamed Trelawney Augen Acquisition Corp. ("TAAC"). In turn, Trelawney Mining and Exploration Inc. was purchased by IAMGOLD Corporation. The option and joint venture agreement grants the Company an option to acquire up to a 51% undivided interest in the rights to 46 mineral concessions (the "Claims") and the first right of refusal to acquire an additional nine mineral concessions (the "ROFR Claims"), all located in Ontario and owned by TAAC.

The Company has earned a 50% undivided interest in the Claims (the "50% Interest") by paying \$150,000 in cash, issuing 5,000,000 common shares of which 1,500,000 were issued in prior fiscal year at a fair value of \$510,000, and incurring exploration expenditures of \$5,000,000. The Company has continued exploration of the Claims and incurred a further \$3,625,000 in exploration and related 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.

Sanatana Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2013

7. Exploration and Evaluation Assets (continued)

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 equity offerings by the Company.

The Company agreed to pay a finders' fee in connection with the Watershed property that was payable in the Company's common shares. The amount of the finders' fee was based on the transaction value, as defined in the finder's fee agreement. The maximum value of the finders' fee determined in accordance with applicable regulatory policies was \$142,500, which was settled through the issuance of 678,570 common shares. In fiscal 2012, the Company issued 239,283 common shares with a value for accounting purposes of \$50,250. In August 2012, the Company issued 439,287 common shares with a value for accounting purposes of \$109,822.

Rights Acquired

Trelawney, an affiliate of TAAC, previously acquired a 20% undivided interest in certain unpatented mining claims (the "AOI Mining Claims") situated in the Yeo and Chester townships, that are within the area of interest under the Company's option and joint venture agreement with TAAC. Concurrently, TAAC took an assignment of Crown Gold Corporation's ("Crown Gold") rights under an amendment and assignment of mining claim acquisition agreement (the "Acquisition Agreement").

In July 2013, Sanatana elected to (1) have the interest in the AOI Mining Claims be included and form part of the Watershed Property for the benefit of Sanatana and TAAC and (2) acquire the rights under the Acquisition Agreement. The acquisition costs for the interest in the AOI Mining Claims and the assignment of the Acquisition Agreement totalled \$143,317 and the Company has reimbursed TAAC for this amount.

Under the terms of the underlying Acquisition Agreement, the AOI Mining Claims are subject to the following terms:

- The 20% undivided legal and beneficial interest in the AOI Mining Claims is identified as a "carried interest" under the Acquisition Agreement and is defined to mean that, until completion of a positive pre-feasibility study, all costs and expenses of the exploration programs, preparation and filing of assessment reports and other obligations relating to the Mining Claims are the sole obligation of Trelawney and Sanatana will not have any obligation in that regard.
- Upon completion and delivery of a positive pre-feasibility study to Sanatana and TAAC, Trelawney, TAAC and Sanatana will enter into a joint venture agreement for the further exploration and development of the AOI Mining Claims on terms to be negotiated in good faith between the parties.
- If Sanatana's and TAAC's interest in the AOI Mining Claims is diluted to an amount less than 10% then such interest which is less than 10% will be converted into a 2% net smelter returns royalty.
- So long as Sanatana and TAAC have any interest in the AOI Mining Claims, Trelawney is required to deliver to Sanatana no less than quarter-yearly, complete copies of all reports, files, maps, core, samples, data and other information regarding the AOI Mining Claims.
- The AOI Mining Claims are subject to 2% net smelter return royalty, which can be reduced to 1% by paying the royalty holders \$1,000,000 at any time.

Sanatana Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2013

7. Exploration and Evaluation Assets (continued)

Cryderman Property

In the quarter ended June 30, 2013, the Company staked a mining claim, the "Cryderman Property", that is within the area of interest under the option and joint venture agreement with TAAC. In accordance with the option and joint venture agreement, the Company has elected to keep the claim for its own benefit and so it will not form a part of the Watershed Property. In October 2013, the Company lost its rights to the Cryderman property.

8. Property and Equipment

	Office Furniture	Computer Equipment	Leasehold Improvements	Exploration Equipment	Total
	\$	\$	\$	\$	\$
Cost					
At March 31, 2012	34,703	29,491	41,357	363,497	469,048
Additions	-	-	-	-	-
At March 31, 2013 and September 30, 2013	34,703	29,491	41,357	363,497	469,048
Accumulated Depreciation					
At March 31, 2012	33,761	26,569	41,357	173,792	275,479
Charge for the year	942	1,272	-	30,380	32,594
At March 31, 2013	34,703	27,841	41,357	204,172	308,073
Charge for the year	-	507	-	4,002	4,509
At September 30, 2013	34,703	28,348	41,357	208,174	312,582
Net book value					
At March 31, 2012	942	2,922	-	189,705	193,569
At March 31, 2013	-	1,650	-	159,325	160,975
At September 30, 2013	-	1,143	-	155,323	156,466

9. Provisions

Provisions comprise the estimated cost to undertake reclamation work at the Company's exploration properties.

	September 30, 2013	March 31, 2013
	\$	\$
Mackenzie Diamond Project	100,000	100,000
Watershed Property	30,000	30,000
	130,000	130,000

The Company expects to complete the reclamation work by March 31, 2014 and accordingly has not applied any discount to reflect the time value of money.

Sanatana Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2013

10. Share Capital and Reserves

Authorized share capital

Authorized share capital comprises an unlimited number of common shares with no par value.

Common Shares

Fiscal 2014

In August 2013, the Company closed a non-brokered private placement of units for gross proceeds of \$803,000, representing 10,037,500 units at a price of \$0.08 per unit. Each unit consists of one common share and one warrant to purchase a common share at a price of \$0.12 until August 14, 2015. In connection with the offering, the Company paid a cash commission of \$19,800, being 6% of the aggregate proceeds from the sale of units to purchasers introduced by a finder. The Company also issued warrants with the same terms as the financing warrants to acquire up to 330,000 shares, being 8% of the number of units sold under the offering to purchasers introduced by a finder. All securities issued under the Offering are subject to a statutory hold period ending on December 15, 2013. The finder's warrants have a fair value of \$6,930, which was determined using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.22%
Estimated volatility	82%
Expected life	2 years

Fiscal 2013

In November 2012, the Company closed a non-brokered private placement consisting of 6,013,500 flow-through units priced at \$0.33 per unit for gross proceeds of \$1,984,455. Each unit consisted of one flow-through common share and one-half of one share purchase warrant where each whole warrant will entitle the holder to purchase one additional non-flow-through common share of the Company at a price of \$0.40 per warrant share until November 9, 2014. The Company paid a finder's fee of \$103,158.

The Company renounced the full \$1,984,455 to investors in February 2013, and has incurred sufficient exploration expenditures to satisfy its flow-through expenditure obligation.

In July 2012, the Company closed a non-brokered private placement of 5,315,000 non-flow-through units priced at \$0.25 per unit and 2,853,333 flow-through units priced at \$0.30 per unit for aggregate gross proceeds of \$2,184,750. The non-flow-through units consisted of one common share and a half-warrant, with each full warrant exercisable at \$0.35 until July 12, 2013. The flow-through units consisted of 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 until July 12, 2013. The Company paid cash commissions of \$116,148 to certain finders (equal to 7% of proceeds raised by such finders) and issued 429,800 finder warrants to certain finders. The finders' warrants have a fair value of \$36,100, which was determined using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.0%
Estimated volatility	101%
Expected life	1 year

Sanatana Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2013

10. Share Capital and Reserves (continued)

Each finder's warrant had the same terms as the non-flow-through warrants in the offering. The Company renounced an amount equal to 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).

On closing the July 2012 flow-through financing, the Company recognized a \$142,667 liability representing its obligation to renounce flow-through expenditures to investors. The Company incurred sufficient exploration expenditures to satisfy this obligation by September 30, 2012 and renounced the full \$856,000 to investors in February 2013.

The following is a summary of changes in common share capital from March 31, 2012 to September 30, 2013:

	Notes	Number of Shares	Issue Price \$	Common Shares \$
Balance - March 31, 2012		88,689,953		36,900,647
Private placement		5,315,000	0.25	1,328,750
Private placement of flow-through shares		2,853,333	0.30	856,000
Fair value of broker warrants		-	-	(36,100)
Private placement of flow-through shares		6,013,500	0.33	1,984,455
Shares issued for exploration and evaluation assets	7	439,287	0.25	109,822
Shares issued for exploration and evaluation assets	7	1,500,000	0.34	510,000
Liability to renounce exploration expenditures		-	-	(323,072)
Less share issue costs		-	-	(244,043)
Balance - March 31, 2013		104,811,073		41,086,459
Private placement		10,037,500	0.08	803,000
Fair value of broker warrants		-	-	(6,930)
Less share issue costs		-	-	(28,268)
Balance - September 30, 2013		114,848,573		41,854,261

Reserves

Reserves comprise the fair value of stock option grants and warrants prior to exercise. The following is a summary of changes in reserves from March 31, 2012 to September 30, 2013:

	\$
Balance, March 31, 2012	3,677,541
Fair value of broker warrants	36,100
Share-based compensation	728,000
Balance, March 31, 2013	4,441,641
Fair value of broker warrants	6,930
Share-based compensation	88,000
Balance September 30, 2013	4,536,571

Sanatana Resources Inc.
Notes to the Condensed Interim Financial Statements
For the six months ended September 30, 2013

10. Share Capital and Reserves (continued)

Warrants

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

	September 30, 2013		March 31, 2013	
	Number Of Warrants	Weighted Average Exercise Price	Number Of Warrants	Weighted Average Exercise Price
Balance, beginning of period	7,520,716	\$0.38	212,121	\$0.40
Granted	10,367,500	0.12	7,520,716	0.38
Forfeited	(4,513,966)	0.37	(212,121)	0.40
Balance, end of period	13,374,250	0.18	7,520,716	\$0.38

Summary of outstanding warrants is as follows:

Expiry Date	Exercise Price	Financing Warrants	Broker Warrants
November 9, 2014	\$ 0.40	3,006,750	-
August 14, 2015	\$ 0.12	10,037,500	330,000
		13,044,250	330,000

Nature and Purpose of Reserves and Deficit

The reserves recorded in equity on the Company's statement of financial position comprise contributed surplus and deficit. Reserves are used to recognize the fair value of share option grants and agent warrants prior to exercise. Deficit records the Company's cumulative earnings or loss.

11. Share-Based Payments

The Company has a rolling stock option plan that allows the Company's board of directors to issue options to purchase up to 10% of the common shares outstanding at the grant date. Directors, officers, consultants and employees of the Company are eligible to receive stock options, subject to the policies of the Exchange. The directors may set option terms, but options granted under the plan typically have a life of five years and vest over an 18-month period. Share-based payments expense is amortized over the vesting period. The Company's shareholders confirmed the option plan in October 2012.

In June 2012, the Company issued 3,350,000 options exercisable at \$0.35 per share and then cancelled options to purchase 1,400,000 common shares, of which 600,000 options were exercisable at \$0.75 per share and 800,000 options were exercisable at \$1.35 per share.

In September 2012 the Company issued options to purchase 500,000 common shares at \$0.40 for a period of one year to an investor relations provider and options to purchase 100,000 common shares at \$0.40 per share for a period of five years to a consultant.

Sanatana Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2013

11. Share-Based Payments (continued)

	September 30, 2013		March 31, 2013	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance, beginning of period	8,175,000	\$0.34	6,225,000	\$0.53
Granted	-	-	3,950,000	0.36
Expired	(125,000)	0.75	(600,000)	0.65
Forfeited	(500,000)	0.40	(1,400,000)	1.09
Balance, end of period	7,550,000	\$0.33	8,175,000	\$0.34

Summary of outstanding options at September 30, 2013:

Exercise Price Range	Outstanding Options			Exercisable Options	
	Number	Weighted Average Exercise Price	Weighted Average Remaining Life	Number	Weighted Average Exercise Price
\$0.30-\$0.35	7,050,000	\$0.32	3.03 years	6,212,500	\$0.32
\$0.40-\$0.50	500,000	0.48	3.24 years	475,000	0.48
	7,550,000	\$0.33	3.04 years	6,687,500	\$0.33

The Company incurred a charge of \$88,000 (2012 - \$574,000) for share-based payments for the six months ended September 30, 2013.

The fair value of the share-based payments was estimated using the Black-Scholes option pricing model with the following assumptions:

For the six months ended September 30,	2013	2012
Dividend yield	0%	0%
Risk-free interest rate	1.2%	1.3%
Estimated volatility	109%	124%
Expected life in years	4.2	5

Sanatana Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2013

12. Related Party Transactions and Balances

The Company incurred key management and board of directors' compensation as follows:

	Three months ended		Six months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
Key management personnel compensation				
Salary	50,000	45,000	90,000	82,000
Director fees	12,500	12,500	25,000	25,000
Short-term benefits	1,081	2,382	2,163	4,763
Management fees - expensed	10,390	13,080	28,780	27,250
Technical fees - capitalized	4,000	3,500	8,000	5,500
Share-based payments	22,000	142,000	71,000	375,000
Total	99,971	218,462	224,943	519,513

Included in the above is compensation paid through companies:

Lithosphere Services Inc.	4,000	8,000	16,000	13,000
S2 Management Inc.	10,390	8,580	20,780	19,750

Lithosphere Services Inc. is controlled by Mr. Doyle the Company's VP Exploration and a director.

S2 Management Inc. is controlled by the Company's CFO.

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

	September 30, 2013	March 31, 2013
	\$	\$
Directors and insiders	45,000	-
Lithosphere Services Inc.	-	25,000
S2 Management Inc.	1,586	28,420
	46,586	53,420

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

13. Loss per Share

The calculation of the basic and diluted loss per share for the periods presented is based on the following data:

	Three months ended		Six months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
Loss for the period	(501,557)	(190,507)	(771,753)	(824,531)
Weighted average number of common shares outstanding	109,938,926	95,969,521	107,389,010	92,349,627
	(0.00)	(0.00)	(0.01)	(0.01)

Sanatana Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2013

13. Loss per Share (continued)

Diluted loss per share for the six months ended September 30, 2013 and 2012 is the same as basic loss per share as the impact of the exercise of the share options and warrants is anti-dilutive.

14. Supplemental Cash Flow Information

Non-cash financing and investing activities included the following:

For the six months ended September 30,	2013	2012
	\$	\$
Non-cash investing activities:		
Accounts payable included in exploration and evaluation assets	(163,701)	(91,662)
Shares issued for exploration and evaluation assets	-	109,822
Non-cash financing activities:		
Tax value of assets forfeited to flow-through share investors	43,554	174,097
Fair value of broker warrants granted	6,930	36,100

15. Commitments

- a) The Company is contractually committed to make payments regarding premises lease and employment as follows:

Year ending March 31, 2014	\$ 123,652
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- b) In May 2012, the Company entered into lease agreements for two trucks with a combined value of \$89,602. The leases, which require aggregate monthly payments of \$2,190 over the lease term, expire in May 2014 and include option to purchase the trucks for \$45,000 at the end of the term.
- c) In the event of a change of control of the Company, the Company may be required to pay up to \$1,531,600 to directors, officers, employees and a contractor.
- d) The Company has agreed to pay certain professional fees on a success basis that could result in a payment of 1% of the value of a sale transaction involving the Company if certain conditions are met. To date, the Company has accrued professional fees of \$106,000 to this party; the value of a success fine in excess of this amount is a contingent liability but cannot be quantified at this time.

16. Segmented Information

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties.

Sanatana Resources Inc.

Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2013

17. Events after the Reporting Period

Private Placement

In October 2013, the Company closed a non-brokered private placement of units for gross proceeds of \$50,000 (received in current period), representing 625,000 units at a price of \$0.08 per unit. Each unit consists of one common share and one warrant to purchase a common share at a price of \$0.12 until October 16, 2015. All securities issued under the offering are subject to a statutory hold period ending on February 17, 2014.