

# **SANATANA RESOURCES INC.**

## **Condensed Interim Financial Statements**

**First Quarter Ended June 30, 2014**

Expressed in Canadian Dollars

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

The accompanying unaudited condensed interim financial statements of Sanatana Resources Inc. for the three months ended June 30, 2014 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	June 30, 2014	March 31, 2014
		\$	\$
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	4	190,108	284,063
Receivables	5	7,225	16,184
Prepaid expenses		29,010	24,274
<b>Total current assets</b>		<b>226,343</b>	<b>324,521</b>
Non-current assets			
Prepaid exploration and evaluation advance		16,605	-
Reimbursable bonds and deposits	6	-	193,052
Exploration and evaluation assets	7	4,173,703	4,102,952
Property and equipment	8	149,707	151,960
<b>Total non-current assets</b>		<b>4,340,015</b>	<b>4,447,964</b>
<b>Total assets</b>		<b>4,566,358</b>	<b>4,772,485</b>
<b>LIABILITIES</b>			
Current liabilities			
Payables and accruals	9	451,304	467,129
Provisions	10	334,000	300,000
Liability to renounce exploration expenditures		33,007	50,708
<b>Total liabilities</b>		<b>818,311</b>	<b>817,837</b>
<b>EQUITY</b>			
Share capital	11	42,076,104	42,076,104
Reserves	11	4,717,571	4,673,571
Deficit		(43,045,628)	(42,795,027)
<b>Total equity</b>		<b>3,748,047</b>	<b>3,954,648</b>
<b>Total equity and liabilities</b>		<b>4,566,358</b>	<b>4,772,485</b>

These financial statements are authorized for issue by the audit committee on August 26, 2014. They are signed on the Company's behalf by:

"Peter Miles", Director

Peter Miles

"Barry Fraser", Director

Barry Fraser

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

# Sanatana Resources Inc.

## Condensed Interim Statements of Comprehensive Loss

For the three months ended June 30,	Notes	2014	2013
		\$	\$
<b>Expenses</b>			
Depreciation	8	2,253	2,256
Director fees	13	31,500	12,500
Filing fees		859	-
Investor relations		13,179	2,446
Management fees and salaries	13	86,797	77,104
Office and administration		15,166	7,698
Professional fees		64,124	112,604
Rent		14,887	26,649
Share-based compensation	12	44,000	56,000
Transfer agent fees		1,422	1,469
Travel and accommodation		3,527	7,174
<b>Loss before other income/expenses</b>		(277,714)	(305,900)
Interest and other income		9,412	329
<b>Loss before income taxes</b>		(268,302)	(305,571)
Deferred income tax recovery		17,701	35,375
<b>Loss and total comprehensive loss for the period</b>		(250,601)	(270,196)
<b>Loss per share - basic and diluted</b>	14	(0.00)	(0.00)
<b>Weighted average common shares outstanding - basic and diluted</b>	14	120,973,573	104,811,073

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

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# Sanatana Resources Inc.

## Condensed Interim Statements of Changes in Equity

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	Common Shares \$	Reserves \$	Deficit \$	Equity \$
<b>Balance - March 31, 2013</b>	41,086,459	4,441,641	(35,274,110)	10,253,990
Share-based compensation	-	56,000	-	56,000
Loss for the period	-	-	(270,196)	(270,196)
<b>Balance - June 30, 2013</b>	41,086,459	4,497,641	(35,544,306)	10,039,794

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	Common Shares \$	Reserves \$	Deficit \$	Equity \$
<b>Balance - March 31, 2014</b>	42,076,104	4,673,571	(42,795,027)	3,954,648
Share-based compensation	-	44,000	-	44,000
Loss for the period	-	-	(250,601)	(250,601)
<b>Balance - June 30, 2014</b>	42,076,104	4,717,571	(43,045,628)	3,748,047

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

# Sanatana Resources Inc.

## Condensed Interim Statements of Cash Flows

For the three months ended June 30,	Notes	2014	2013
		\$	\$
<b>Cash provided by (used in):</b>			
<b>Operating activities:</b>			
Loss before income taxes		(268,302)	(305,571)
Adjustments for:			
Depreciation of property and equipment	8	2,253	2,256
Interest income		(9,412)	(329)
Bond recovery		(9,322)	-
Share-based compensation	12	44,000	56,000
Changes in non-cash working capital items:			
Receivables		8,959	63,813
Prepaid expenses		(4,736)	4,696
Payables and accruals		(43,627)	115,741
Provisions		34,000	-
		(246,187)	(63,394)
<b>Investing activities:</b>			
Prepaid exploration and evaluation advance		(16,605)	(2,614)
Reimbursable bonds and deposits	6	202,374	70,658
Exploration and evaluation assets	7	(42,949)	(510,681)
Interest received		9,412	329
		152,232	(442,308)
<b>Decrease in cash and cash equivalents</b>		(93,955)	(505,702)
<b>Cash and cash equivalents, beginning of period</b>		284,063	791,267
<b>Cash and cash equivalents, end of period</b>		190,108	285,565
<b>Cash and equivalents comprise:</b>			
Cash		10,079	109,952
Equivalents		180,029	175,613

Supplementary cash flow information (note 15)

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

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# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the three months ended June 30, 2014

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### 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 and Saskatchewan diamond 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 \$250,601 during the three months ended June 30, 2014 and, as of that date the Company's deficit was \$43,045,628. 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 \$190,108 at June 30, 2014 (March 31, 2014 - \$284,063).

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 908 - 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2. These financial statements are authorized for issue by the audit committee on August 26, 2014.

### 2. Basis of Presentation

#### Statement of Compliance

These condensed interim financial statements of the Company for the three months ending June 30, 2014 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, 2014 as filed on SEDAR at [www.sedar.com](http://www.sedar.com). The condensed interim financial statements do not include all of the information required for full annual financial statements.

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# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the three months ended June 30, 2014

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### 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.

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# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the three months ended June 30, 2014

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### 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 12.

### 3. Changes in Accounting Policies

IASB or the IFRS Interpretations Committee have issued certain pronouncements that are mandatory for accounting years beginning on or after April 1, 2015. 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.

#### IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

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# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the three months ended June 30, 2014

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### 3. Changes in Accounting Policies (continued)

#### IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

There are no other IFRSs or IFRIC interpretations that have been announced but are not yet effective that could have a material impact on the Company.

### 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 at 0.35% to maturity.

### 5. Receivables

	June 30, 2014	March 31, 2014
	\$	\$
Related parties	-	7,518
GST - value added tax	7,225	8,666
	<u>7,225</u>	<u>16,184</u>

### 6. Reimbursable Bonds and Deposits

	\$
Balance March 31, 2013	<u>269,651</u>
Bond redemptions	<u>(76,599)</u>
Balance March 31, 2014	193,052
Bond redemptions	<u>(193,052)</u>
Balance June 30, 2014	<u>-</u>

# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the three months ended June 30, 2014

### 7. Exploration and Evaluation Assets

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

	March 31, 2013	Costs Incurred	Impairment	March 31, 2014	Costs Incurred	June 30, 2014
	\$	\$	\$	\$	\$	\$
Watershed Project						
Watershed Property	9,339,616	814,146	(6,066,000)	4,087,762	49,808	4,137,570
Cryderman Property	-	4,536	(4,536)	-	-	-
Green Lake Project	-	15,190	-	15,190	20,943	36,133
	9,339,616	833,872	(6,070,536)	4,102,952	70,751	4,173,703

#### Watershed Property

	March 31, 2013	Costs Incurred	Impairment	March 31, 2014	Costs Incurred	June 30, 2014
	\$	\$	\$	\$	\$	\$
Acquisition costs	1,955,072	143,317	-	2,098,389	-	2,098,389
Contractor and consultant	4,999,614	271,072	-	5,270,686	7,389	5,278,075
Helicopter and fixed wing aircraft costs	13,007	-	-	13,007	-	13,007
Expediting	5,216	-	-	5,216	-	5,216
Project management fees	332,405	159,000	-	491,405	30,750	522,155
Field and camp	229,787	62,449	-	292,236	909	293,145
Sampling and assays	1,146,400	67,278	-	1,213,678	-	1,213,678
Transport and accommodation	558,503	83,260	-	641,763	3,643	645,406
Reclamation provision	30,000	-	-	30,000	-	30,000
Permitting and other	69,612	27,770	-	97,382	7,117	104,499
Impairment	-	-	(6,066,000)	(6,066,000)	-	(6,066,000)
Watershed property	9,339,616	814,146	(6,066,000)	4,087,762	49,808	4,137,570

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"), 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 \$4,124,000 in exploration and related expenditures that will be credited to the Company's contribution to the first work program after formation of a joint venture together with permitted administrative markup on these amounts.

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# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the three months ended June 30, 2014

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### 7. Exploration and Evaluation Assets (continued)

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, 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 and settled through the issuance of 678,570 common shares with a value for accounting purposes of \$160,072.

The Company assesses its exploration and evaluation assets for impairment at the end of every fiscal quarter. At December 31, 2013, the Company recorded an impairment provision of \$6,066,000 against the Watershed Project. In determining the need for an impairment provision, the Company concluded that the carrying amount of the Watershed Project was unlikely to be recovered in full from successful development or by sale. It based this conclusion on the prevailing price of gold, difficulty in raising project development funds and the likelihood of concluding a satisfactory arrangement with IAMGOLD Corporation and its affiliates. The amount of the impairment provision was determined by reference to the Company's market capitalization at December 31, 2013.

#### Rights Acquired

Trelawney, an affiliate of TAAC, previously acquired a 20% undivided interest in certain unpatented mining claims (the "Clam Lake Property") 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 Clam Lake Property 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 Clam Lake Property 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 Clam Lake Property are subject to the following terms:

- The 20% undivided legal and beneficial interest in the Clam Lake Property 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-feasibly study to Sanatana and TAAC, Trelawney, TAAC and Sanatana will enter into a joint venture agreement for the further exploration and development of the Clam Lake Property on terms to be negotiated in good faith between the parties.
- If Sanatana's and TAAC's interest in the Clam Lake Property 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.

# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the three months ended June 30, 2014

### 7. Exploration and Evaluation Assets (continued)

- So long as Sanatana and TAAC have any interest in the Clam Lake Property, 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 Clam Lake Property.
- The Clam Lake Property 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.

#### Green Lake Project

In February 2014, the Company acquired a 100% interest in four mineral claims covering a combined area of approximately 6,000 hectares near Green Lake, Saskatchewan. The Company plans to undertake kiamondiferous kimberlite exploration on these properties.

	March 31, 2013	Change	March 31, 2014	Change	June 30, 2014
	\$	\$	\$	\$	\$
Acquisition costs	-	3,531	3,531	-	3,531
Sampling and assays	-	146	146	-	146
Contractor and consultant	-	1,480	1,480	8,249	9,729
Project management fees	-	6,500	6,500	9,250	15,750
Field and camp	-	127	127	159	286
Transport and accomodation	-	3,406	3,406	3,285	6,691
Green Lake Project	-	15,190	15,190	20,943	36,133

### 8. Property and Equipment

	Office Furniture	Computer Equipment	Leasehold Improvements	Exploration Equipment	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
At March 31, 2013 and 2014, and June 30, 2014	34,703	29,491	41,357	363,497	469,048
<b>Accumulated Depreciation</b>					
At March 31, 2013	34,703	27,841	41,357	204,172	308,073
Charge for the period	-	1,011	-	8,004	9,015
At March 31, 2014	34,703	28,852	41,357	212,176	317,088
Charge for the period	-	252	-	2,001	2,253
At June 30, 2014	34,703	29,104	41,357	214,177	319,341
<b>Net book value</b>					
At March 31, 2013	-	1,650	-	159,325	160,975
At March 31, 2014	-	639	-	151,321	151,960
At June 30, 2014	-	387	-	149,320	149,707

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# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the three months ended June 30, 2014

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### 9. Payables and Accruals

	June 30, 2014	March 31, 2014
	\$	\$
Trade	262,069	340,711
Exploration expenditures	47,097	19,295
Due to related parties	142,138	107,123
	451,304	467,129

Included in the June 30, 2014 exploration expenditures is \$7,350 due to a related party (March 31, 2014 - \$nil).

### 10. Provisions

Provisions comprise the estimated cost to undertake reclamation work at the Company's exploration properties and the value of professional fees potentially payable under a success-fee arrangement (see note 16).

	June 30, 2014	March 31, 2014
	\$	\$
Mackenzie Diamond Project	100,000	100,000
Watershed Property	30,000	30,000
Professional fees	204,000	17,000
	334,000	147,000

The Company expects to complete the reclamation work within the next 12 months and accordingly has not applied any discount to reflect the time value of money.

### 11. 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 December 2013, the Company closed a non-brokered private placement of 5,500,000 flow-through units at a price of \$0.05 per unit for gross proceeds of \$275,000. Each flow-through unit consisted of one flow-through common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional non-flow-through common share at a price of \$0.10 until December 20, 2015. The Company paid an aggregate cash commission of \$22,000 representing 8% of the gross proceeds from the sale of units to purchasers. All securities issued under the offering were subject to a statutory hold period that ended on April 21, 2014.

On closing the December 2013 flow-through financing, the Company recognized a \$68,800 liability representing its obligation to renounce flow-through expenditures to investors.

# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the three months ended June 30, 2014

### 11. Share Capital and Reserves (continued)

In October 2013, the Company closed a non-brokered private placement of units for gross proceeds of \$50,000 representing 625,000 units at a price of \$0.08 per unit. Each unit consisted 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 were subject to a statutory hold period that ended on February 17, 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 were subject to a statutory hold period that ended 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

The Company renounced the \$275,000 to investors in February 2014, and has incurred sufficient exploration expenditures to satisfy its flow-through expenditure obligation.

The following is a summary of changes in common share capital from March 31, 2013 to June 30, 2014:

	Notes	Number of Shares	Issue Price \$	Common Shares \$
Balance - March 31, 2013		104,811,073		41,086,459
Private placements		10,662,500	0.08	853,000
Private placement of flow-through shares		5,500,000	0.05	275,000
Fair value of broker warrants		-	-	(6,930)
Liability to renounce exploration expenditures		-	-	(68,800)
Less share issue costs		-	-	(62,625)
Balance - March 31, 2014 and June 30, 2014		120,973,573		42,076,104

# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the three months ended June 30, 2014

### 11. Share Capital and Reserves (continued)

#### 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, 2013 to June 30, 2014:

	\$
Balance, March 31, 2013	4,441,641
Fair value of broker warrants	6,930
Share-based compensation	225,000
Balance March 31, 2014	4,673,571
Share-based compensation	44,000
Balance June 30, 2014	4,717,571

#### Warrants

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

	June 30, 2014		March 31, 2014	
	Number Of Warrants	Weighted Average Exercise Price	Number Of Warrants	Weighted Average Exercise Price
Balance, beginning of period	16,749,250	\$0.17	7,520,716	\$0.38
Granted	-	-	13,742,500	0.12
Forfeited	-	-	(4,513,966)	0.37
Balance, end of period	16,749,250	\$0.17	16,749,250	\$0.17

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
October 16, 2015	\$ 0.12	625,000	-
December 20, 2015	\$ 0.10	2,750,000	-
		16,419,250	330,000

Subsequent to quarter-end, 1,537,500 warrants were exercised for gross proceeds of \$184,500.

#### 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.

# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the three months ended June 30, 2014

### 12. 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 reconfirmed the option plan in December 2013.

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.

In February 2014, the Company awarded options to purchase up to 3,000,000 common shares at a price of \$0.10 per share to directors, officers, employees and contractors of the Company.

In March 2014, the Company awarded options to purchase up to 1,500,000 common shares of the Company at a price of \$0.10 per share to the Company's board chairman. The Company committed to grant options to purchase a further 500,000 common shares, see note 16.

	June 30, 2014		March 31, 2014	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance, beginning of period	12,050,000	\$0.25	8,175,000	\$0.34
Granted	-	-	4,500,000	0.10
Expired	-	-	(625,000)	0.47
Balance, end of period	12,050,000	\$0.25	12,050,000	\$0.25

Summary of outstanding options at June 30, 2014:

Exercise Price Range	Outstanding Options			Exercisable Options	
	Number	Weighted Average Exercise Price	Weighted Average Remaining Life	Number	Weighted Average Exercise Price
\$0.10	4,500,000	\$0.10	4.09 years	2,250,000	\$0.10
\$0.30-\$0.35	7,050,000	0.32	2.12 years	7,050,000	0.32
\$0.40-\$0.50	500,000	0.48	2.49 years	500,000	0.48
	12,050,000	\$0.25	2.87 years	9,800,000	\$0.28

The Company incurred a charge of \$44,000 (2013 - \$56,000) for share-based payments for the three months ended June 30, 2014.

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# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the three months ended June 30, 2014

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### 12. Share-Based Payments (continued)

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

For the three months ended June 30,	2014	2013
Dividend yield	0%	0%
Risk-free interest rate	1.2%	1.2%
Estimated volatility	117%	132%
Expected life in years	4.1	5

### 13. Related Party Transactions and Balances

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

For the three months ended June 30,	2014	2013
	\$	\$
Salary	58,601	40,000
Director fees	31,500	12,500
Short-term benefits	1,095	1,082
Management fees - expensed	5,140	18,390
Technical fees - capitalized	7,000	4,000
Share-based payments	11,000	49,000
<b>Total</b>	<b>114,336</b>	<b>124,972</b>

Included in the above is compensation paid through companies:

Lithosphere Services Inc.	7,000	8,000
S2 Management Inc.	5,140	10,390

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:

	June 30, 2014	March 31, 2014
	\$	\$
Directors and insiders	140,227	106,000
Lithosphere Services Inc.	7,350	-
S2 Management Inc.	1,911	1,123
	<b>149,488</b>	<b>107,123</b>

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

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# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the three months ended June 30, 2014

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### 14. Loss per Share

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

For the three months ended June 30,	2014	2013
Loss for the period	(\$250,601)	(\$270,196)
Weighted average number of common shares outstanding	120,973,573	104,811,073
Loss per share	(\$0.00)	(\$0.00)

Diluted loss per share for three months ended June 30, 2014 and 2013 is the same as basic loss per share as the impact of the exercise of the share options and warrants is anti-dilutive.

### 15. Supplemental Cash Flow Information

Non-cash financing and investing activities included the following:

For the three months ended June 30,	2014	2013
	\$	\$
Non-cash investing activities:		
Accounts payable included in exploration and evaluation assets	27,802	(119,720)
Non-cash financing activities:		
Tax value of assets forfeited to flow-through share investors	-	35,375
Liability to renounce exploration expenditures	17,701	-

### 16. Commitments and Contingent Liabilities

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

Year ending March 31, 2015	\$ 196,832
Year ending March 31, 2016	96,000
	<u>\$ 292,832</u>

- b) The Company is committed to a truck lease which require monthly payments of \$1,095 over the lease term which expires in November 2014.
- c) In the event of a change of control of the Company, the Company may be required to pay up to \$1,456,000 to directors, officers, employees and a contractor.

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# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the three months ended June 30, 2014

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### 16. Commitments and Contingent Liabilities (continued)

- d) The Company's Watershed Property is subject to an easement claim by Trelawney. In the event that the Company reaches a settlement with Trelawney, IAMGOLD Corporation, or any of their affiliates regarding the Company's interests in the vicinity of the Côté gold deposit, the Company will pay a bonus to Barry Fraser, its board chairman. The bonus amount shall be determined as (a) 5% of the amount of any settlement or transaction up to \$10,000,000; and (b) 2.5% of the balance of such amount.
- e) Sanatana has committed to award options to purchase 500,000 common shares to its board chairman when there is sufficient grant headroom to do so. The Company's option plan provides that the number of options outstanding cannot exceed 10% of the issued and outstanding common shares. At June 30, 2014, the maximum available option grant was to acquire 47,357 common shares. The options will be awarded at an exercise price no less than the grant date-prevailing market price of the Company's shares; the grant is subject to the rules of the TSX Venture Exchange.
- f) 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 recorded a provision for professional fees of \$204,000 to this party (see note 10); the value of a success fee in excess of this amount is a contingent liability and cannot be quantified at this time.
- g) At June 30, 2014, the Company was committed to spending \$131,933 before December 31, 2014 under the conditions of its December 2013 flow-through financing and related income tax law.

### 17. Segmented Information

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

### 18. Events after the Reporting Period

In July 2014, warrant holders exercised warrants to purchase 1,537,500 common shares exercisable at \$0.12 per shares for gross proceeds of \$184,500.