

# **SANATANA RESOURCES INC.**

## **Condensed Interim Financial Statements**

**Third Quarter Ended December 31, 2015**

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 nine months ended December 31, 2015 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 Professional 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	December 31, 2015	March 31, 2015
		\$	\$
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	3	2,484	94,403
Receivables	4	-	8,197
Prepaid expenses		3,093	21,453
<b>Total current assets</b>		<b>5,577</b>	<b>124,053</b>
Non-current assets			
Prepaid exploration and evaluation advance		5,000	23,013
Exploration and evaluation assets	5	2,190,954	4,562,595
Property and equipment	6	99,108	175,241
<b>Total non-current assets</b>		<b>2,295,062</b>	<b>4,760,849</b>
<b>Total assets</b>		<b>2,300,639</b>	<b>4,884,902</b>
<b>LIABILITIES</b>			
Current liabilities			
Payables and accruals	7	1,371,896	1,087,088
Advances from related party	8	82,800	-
Provisions	9	30,000	130,000
Liability to renounce exploration expenditures		-	15,183
<b>Total liabilities</b>		<b>1,484,696</b>	<b>1,232,271</b>
<b>EQUITY</b>			
Share capital	10	42,776,892	42,776,892
Reserves	10	4,735,771	4,733,571
Deficit		(46,696,720)	(43,857,832)
<b>Total equity</b>		<b>815,943</b>	<b>3,652,631</b>
<b>Total equity and liabilities</b>		<b>2,300,639</b>	<b>4,884,902</b>

Signed on the Company's behalf by:

"Peter Miles", Director  
Peter Miles

"Darcy Will", Director  
Darcy Will

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

# Sanatana Resources Inc.

## Condensed Interim Statements of Comprehensive Income (Loss)

	Notes	Three months ended December 31,		Nine months ended December 31,	
		2015	2014	2015	2014
		\$	\$	\$	\$
<b>Expenses</b>					
Depreciation	6	3,711	2,697	11,133	7,117
Director fees	12	7,500	34,000	75,310	99,500
Filing fees		969	799	11,185	11,421
Investor relations		2,236	7,649	3,828	34,196
Management fees and salaries	12	63,294	71,626	200,364	216,698
Office and administration		10,328	13,375	29,615	46,605
Professional fees		41,689	180,711	74,492	371,621
Rent		8,271	16,753	37,839	46,996
Share-based payments	11	(7,500)	(7,000)	(10,800)	31,000
Transfer agent fees		3,580	8,253	8,026	11,148
Travel and accomodation		1,923	9,112	11,761	23,837
<b>Loss before other income/expenses</b>		(136,001)	(337,975)	(452,753)	(900,139)
Capital asset impairment	6	(65,000)	-	(65,000)	-
Exploration and evaluation assets impairment	5	(2,541,978)	-	(2,541,978)	-
Reclamation expense	5	(11,548)	-	(150,264)	-
Litigation costs recovery		-	-	355,920	-
Interest and other income		-	36	4	9,496
<b>Loss before income taxes</b>		(2,754,527)	(337,939)	(2,854,071)	(890,643)
Deferred income tax recovery		-	18,468	15,183	66,634
<b>Loss and total comprehensive loss for the period</b>		(2,754,527)	(319,471)	(2,838,888)	(824,009)
<b>Loss per share - basic and diluted</b>	13	(0.02)	(0.00)	(0.02)	(0.01)
<b>Weighted average common shares outstanding - basic and diluted</b>	13	127,761,073	127,733,899	127,761,073	123,744,846

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 \$	Reserves \$	Deficit \$	Equity \$
<b>Balance - March 31, 2014</b>	42,076,104	4,673,571	(42,795,027)	3,954,648
Private placements	575,000	-	-	575,000
Share issuance costs	(8,712)	-	-	(8,712)
Warrant exercise	184,500	-	-	184,500
Liability to renounce exploration expenditures	(50,000)	-	-	(50,000)
Share-based compensation	-	31,000	-	31,000
Loss for the period	-	-	(824,009)	(824,009)
<b>Balance - December 31, 2014</b>	42,776,892	4,704,571	(43,619,036)	3,862,427

  

	Common Shares \$	Reserves \$	Deficit \$	Equity \$
<b>Balance - March 31, 2015</b>	42,776,892	4,733,571	(43,857,832)	3,652,631
Share-based compensation	-	2,200	-	2,200
Loss for the period	-	-	(2,838,888)	(2,838,888)
<b>Balance - December 31, 2015</b>	42,776,892	4,735,771	(46,696,720)	815,943

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

# Sanatana Resources Inc.

## Condensed Interim Statements of Cash Flows

For the nine months ended December 31,	Notes	2015	2014
		\$	\$
<b>Cash provided by (used in):</b>			
<b>Operating activities:</b>			
Loss before income taxes		(2,854,071)	(890,643)
Adjustments for:			
Depreciation of property and equipment	6	11,133	7,117
Interest income		(4)	(9,496)
Bond recovery		-	(9,322)
Share-based compensation	11	10,800	31,000
Capital asset impairment	6	65,000	-
Exploration and evaluation assets impairment	5	2,541,978	-
Changes in non-cash working capital items:			
Receivables		8,197	(14,906)
Prepaid expenses		18,360	17,497
Payables and accruals		276,208	404,012
Provisions	9	(100,000)	(131,000)
		(22,399)	(595,741)
<b>Investing activities:</b>			
Prepaid exploration and evaluation advance		18,013	(11,673)
Reimbursable bonds and deposits		-	202,374
Exploration and evaluation assets	5	(170,337)	(351,552)
Property and equipment purchases		-	(34,204)
Interest received		4	9,496
		(152,320)	(185,559)
<b>Financing activities</b>			
Issuance of common shares, net of costs		-	750,788
Advance from related party		82,800	-
		82,800	750,788
<b>Decrease in cash and cash equivalents</b>		(91,919)	(30,512)
<b>Cash and cash equivalents, beginning of period</b>		94,403	284,063
<b>Cash and cash equivalents, end of period</b>		2,484	253,551
<b>Cash and equivalents comprise:</b>			
Cash		2,484	187,254
Equivalents		-	66,297
		2,484	253,551

Supplementary cash flow information (note 14)

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 nine months ended December 31, 2015

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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 \$2,838,888 during the nine months ended December 31, 2015 and, as of that date the Company's deficit was \$46,696,720. 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 \$2,484 at December 31, 2015 (March 31, 2015 - \$94,403).

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 1908 - 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2. These financial statements are authorized for issue by the audit committee on February 25, 2016.

### 2. Basis of Presentation

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

#### Statement of Compliance

These condensed interim financial statements of the Company for the nine months ended December 31, 2015 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, 2015 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 nine months ended December 31, 2015

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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 nine months ended December 31, 2015

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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 11.

### 3. 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.

### 4. Receivables

	December 31, 2015	March 31, 2015
	\$	\$
GST - value added tax	-	8,197

# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the nine months ended December 31, 2015

### 5. Exploration and Evaluation Assets

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

	March 31, 2014	Costs Incurred	March 31, 2015	Costs Incurred	Impairment	December 31, 2015
	\$	\$	\$	\$	\$	\$
Watershed Property	4,087,762	323,082	4,410,844	131,134	(2,541,978)	2,000,000
Green Lake Project	15,190	136,561	151,751	39,203	-	190,954
	4,102,952	459,643	4,562,595	170,337	(2,541,978)	2,190,954

#### Watershed Property

	March 31, 2014	Costs Incurred	March 31, 2015	Costs Incurred	December 31, 2015
	\$	\$	\$	\$	\$
Acquisition costs	2,098,389	-	2,098,389	-	2,098,389
Contractor and consultant	5,270,686	119,465	5,390,151	48,037	5,438,188
Helicopter and fixed wing aircraft costs	13,007	-	13,007	-	13,007
Expediting	5,216	-	5,216	-	5,216
Project management fees	491,405	112,250	603,655	72,000	675,655
Field and camp	292,236	13,504	305,740	1,507	307,247
Sampling and assays	1,213,678	25,129	1,238,807	266	1,239,073
Transport and accomodation	641,763	25,742	667,505	7,005	674,510
Reclamation provision	30,000	-	30,000	-	30,000
Permitting and other	97,382	26,992	124,374	2,319	126,693
Impairment	(6,066,000)	-	(6,066,000)	(2,541,978)	(8,607,978)
Watershed property	4,087,762	323,082	4,410,844	(2,410,844)	2,000,000

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.

In November 2015, the Company gave notice to TAAC to form a 50:50 joint venture to manage the Watershed property.

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# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the nine months ended December 31, 2015

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### 5. 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. The Company's impairment evaluation at December 31, 2015 reflected discussions with TAAC regarding the possible divestiture of the Watershed Property. While the transactions terms had not been finalized at the fiscal period end, the Company concluded that it should provide a further impairment provision of \$2,541,978 to bring the carrying value of the Watershed Property to \$2,000,000, being the expected short-term cash proceeds from the sale.

#### 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.

# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the nine months ended December 31, 2015

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

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-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 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.
- 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.

In April 2015, the Ontario Mining and Lands Commissioner ordered Trelawney to pay Sanatana \$402,000 for the Company's costs of defending Trelawney's failed easement application. Sanatana received these monies in May 2015.

Subsequent to quarter-end, the Company entered into a suite of agreements with TAAC to divest the Company’s 50% interest in the Watershed property. See note 17 Events after the reporting period.

#### 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. In December 2014, the Company purchased additional mineral tenure bringing its land position to 85,000 hectares. The Company plans to undertake diamondiferous kimberlite exploration on these properties.

	March 31, 2014	Change	March 31, 2015	Change	December 31, 2015
	\$	\$	\$	\$	\$
Acquisition costs	3,531	48,061	51,592	-	51,592
Sampling and assays	146	-	146	-	146
Contractor and consultant	1,480	8,476	9,956	790	10,746
Project management fees	6,500	51,250	57,750	34,500	92,250
Field and camp	127	11,084	11,211	297	11,508
Transport and accommodation	3,406	17,690	21,096	1,480	22,576
Permitting and other	-	-	-	2,136	2,136
<b>Green Lake Project</b>	<b>15,190</b>	<b>136,561</b>	<b>151,751</b>	<b>39,203</b>	<b>190,954</b>

# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the nine months ended December 31, 2015

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

#### Mackenzie Diamond Property

From the Company's formation until fiscal 2011, it undertook exploration on the Mackenzie diamond property and recorded a provision of \$100,000 for reclamation work. In the current period, the Company undertook reclamation procedures at a cost of \$250,264. The costs incurred in excess of the provision were expensed in the current period resulting in a net charge of \$150,264. The Company believes it has fully satisfied its reclamation obligation but has not yet received approval from the relevant regulatory agencies.

### 6. Property and Equipment

	Office Furniture	Computer Equipment	Exploration Equipment	Trucks	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
At March 31, 2014	34,703	29,491	363,497	-	427,691
Additions	-	-	-	34,204	34,204
Disposals	-	(20,416)	-	-	(20,416)
At March 31, 2015 and December 31, 2015	34,703	9,075	363,497	34,204	441,479
<b>Accumulated Depreciation</b>					
At March 31, 2014	34,703	28,852	212,176	-	275,731
Charge for the period	-	639	8,004	2,280	10,923
Disposals	-	(20,416)	-	-	(20,416)
At March 31, 2015	34,703	9,075	220,180	2,280	266,238
Charge for the period	-	-	6,003	5,130	11,133
At December 31, 2015	34,703	9,075	226,183	7,410	277,371
<b>Impairment</b>					
At December 31, 2015	-	-	65,000	-	65,000
<b>Net book value</b>					
At March 31, 2014	-	639	151,321	-	151,960
At March 31, 2015	-	-	143,317	31,924	175,241
At December 31, 2015	-	-	72,314	26,794	99,108

At December 31, 2015, the Company concluded that changes in the exploration sector had resulted in a permanent impairment of the carrying value of its drill. Accordingly, the Company recorded a \$65,000 impairment provision to adjust the carrying value of the drill to its expected fair value less costs of disposal.

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# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the nine months ended December 31, 2015

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### 7. Payables and Accruals

	December 31, 2015	March 31, 2015
	\$	\$
Trade payables	726,916	633,679
Accrued liabilities	176,587	176,698
GST/HST payable	26,665	-
Exploration expenditures	14,526	45,457
Due to related parties	427,202	231,254
	<u>1,371,896</u>	<u>1,087,088</u>

### 8. Advances from related party

Advances from related party do not bear interest and have no fixed terms of repayment.

### 9. Provisions

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

During the current period, the Company completed reclamation on the Mackenzie diamond project (see note 5). The Company expects to complete restoration work on the Watershed property within the next 12 months, unless it divests the property in the interim (see note 17), and accordingly has not applied any discount to reflect the time value of money.

	December 31, 2015	March 31, 2015
	\$	\$
Mackenzie Diamond Project reclamation	-	100,000
Watershed Property reclamation	30,000	30,000
	<u>30,000</u>	<u>130,000</u>

### 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 2015

In October 2014, the Company closed a non-brokered private placement of units for gross proceeds of \$300,000 representing 2,500,000 units at a price of \$0.12 per unit. Each unit consisted of one flow-through common share and one-half of one share purchase warrant. One whole warrant entitles the holder to purchase a common share at a price of \$0.15 until October 1, 2016. All securities issued under the offering were subject to a statutory hold period that ended on February 2, 2015.

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# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the nine months ended December 31, 2015

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

In September 2014, the Company closed a non-brokered private placement of 2,750,000 units at \$0.10 per unit for gross proceeds of \$275,000. Each unit consisted of one common share and one share purchase warrant. Each warrant was exercisable into one common share at a price of \$0.12 per share on or before September 17, 2015.

Concurrent with the closing of this offering, the Company cancelled 2,750,000 warrants issued on December 20, 2013. The cancelled warrants were exercisable until December 20, 2015 for the purchase of 2,750,000 shares at an exercise price of \$0.10 per share.

In the year ended March 31, 2015, 1,537,500 warrants were exercised for gross proceeds of \$184,500.

The following is a summary of changes in common share capital from March 31, 2014 to December 31, 2015:

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	Notes	Number of Shares	Issue Price \$	Common Shares \$
Balance - March 31, 2014		120,973,573		42,076,104
Private placement		2,750,000	0.10	275,000
Private placement of flow-through shares		2,500,000	0.12	300,000
Exercise of warrants		1,537,500	0.12	184,500
Liability to renounce exploration expenditures		-	-	(50,000)
Less share issue costs		-	-	(8,712)
Balance - March 31, 2015 and December 31, 2015		127,761,073		42,776,892

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### Reserves

Reserves comprise the fair value of stock option grants and agent warrants prior to exercise. The following is a summary of changes in reserves from March 31, 2014 to December 31, 2015:

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	\$
Balance March 31, 2014	4,673,571
Share-based compensation	60,000
Balance March 31, 2015	4,733,571
Share-based compensation	2,200
Balance December 31, 2015	4,735,771

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**Sanatana Resources Inc.**  
**Notes to the Condensed Interim Financial Statements**  
For the nine months ended December 31, 2015

**10. Share Capital and Reserves (continued)**

**Warrants**

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

	December 31, 2015		March 31, 2015	
	Number Of Warrants	Weighted Average Exercise Price	Number Of Warrants	Weighted Average Exercise Price
Balance, beginning of period	13,455,000	\$0.12	16,749,250	\$0.17
Granted	-	-	4,000,000	0.13
Exercised	-	-	(1,537,500)	0.12
Cancelled	(12,205,000)	0.12	(5,756,750)	0.26
Balance, end of period	1,250,000	0.15	13,455,000	0.12

Summary of outstanding warrants is as follows:

Expiry Date	Exercise Price	Financing Warrants	Broker Warrants
October 1, 2016	\$ 0.15	1,250,000	
		1,250,000	-

**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 TSX Venture 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 2015.



# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the nine months ended December 31, 2015

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

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 and in fiscal 2015 accrued a value for those options of \$13,000. The Company has reduced the value of that accrual to \$7,500 reflecting the adjusted value of options at September 30, 2015. In December 2015, the Company's board chairman resigned as a director and so the Company reversed the remaining accrual, resulting in a \$7,500 expense recovery in the December 31, 2015 quarter.

	December 31, 2015		March 31, 2015	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance, beginning of period	11,825,000	\$0.25	12,050,000	\$0.25
Granted	-	-	-	-
Expired	-	-	-	-
Forfeited	(1,975,000)	0.28	(225,000)	0.10
Balance, end of period	9,850,000	\$0.24	11,825,000	\$0.25

Summary of outstanding options at December 31, 2015:

Exercise Price Range	Outstanding Options			Exercisable Options	
	Number	Weighted Average Exercise Price	Weighted Average Remaining Life	Number	Weighted Average Exercise Price
\$0.10	3,900,000	\$0.10	1.62 years	3,900,000	\$0.10
\$0.30-\$0.35	5,450,000	0.32	0.77 years	5,450,000	0.32
\$0.40-\$0.50	500,000	0.48	0.99 years	500,000	0.48
	9,850,000	\$0.24	1.11 years	9,850,000	\$0.25

The Company generated a recovery of \$10,800 (2014 - expense of \$31,000) for share-based payments for the nine months ended December 31, 2015 representing a charge of \$2,200 for options vesting in the period offset by an adjustment to accrued share-based compensation of \$13,600 as described above.

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

For the nine months ended December 31,	2015	2014
Dividend yield	0%	0%
Risk-free interest rate	1.1%	1.5%
Estimated volatility	99%	105%
Expected life in years	5.0	4.1

# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the nine months ended December 31, 2015

### 12. Related Party Transactions and Balances

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

	Three months ended		Nine months ended	
	December 31,		December 31,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Key management personnel compensation				
Salary	45,000	45,000	135,000	135,000
Director fees	7,500	34,000	75,310	99,500
Short-term benefits	1,098	1,090	3,294	3,275
Management fees - expensed	4,630	4,930	12,740	16,760
Technical fees - capitalized	-	-	-	11,000
Share-based payments	(7,500)	5,000	(12,000)	24,000
Total	50,728	90,020	214,344	289,535

Included in the above is compensation paid through companies:

Lithosphere Services Inc.	-	-	-	11,000
S2 Management Inc.	4,630	4,930	12,740	16,760

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 due to related parties that are included in accounts payable and accrued liabilities comprise:

	December 31, 2015	March 31, 2015
	\$	\$
Directors and officers	416,209	221,899
Lithosphere Services Inc.	-	7,350
S2 Management Inc.	10,993	2,005
	427,202	231,254

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		Nine months ended	
	December 31,		December 31,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Loss for the period	(2,754,527)	(319,471)	(2,838,888)	(824,009)
Weighted average number of common shares outstanding	127,761,073	127,733,899	127,761,073	123,744,846
	(0.02)	(0.00)	(0.02)	(0.01)

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# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the nine months ended December 31, 2015

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### 13. Loss per Share (continued)

Diluted loss per share for three and nine months ended December 31, 2015 and 2014 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 nine months ended December 31,	2015	2014
	\$	\$
Non-cash investing activities:		
Accounts payable included in exploration and evaluation assets	14,526	10,068
Non-cash financing activities:		
Liability to renounce exploration expenditures	15,183	16,634

### 15. Commitments and Contingent Liabilities

- In the event of a change of control of the Company, the Company may be required to pay up to \$1,365,600 to directors, officers, employees and a contractor.
- The Company's Watershed Property is subject to a dispute with 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 is obliged to pay a bonus to its former board chairman. The bonus amount will 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.

### 16. Segmented Information

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

### 17. Events After the Reporting Period

#### Agreement to Divest Interest in Watershed Property

On January 12, 2016, the Company entered into a suite of definitive agreements with TAAC to divest Sanatana's 50% interest in the Watershed Property (along with all related information, data and drill core) for total cash consideration of up to \$5,000,000. The cash consideration comprises: (i) \$200,000 paid on execution of the suite of definitive agreements, (ii) \$1,800,000 paid upon closing, and (iii) contingent payments of up to \$3,000,000 upon satisfaction of certain milestones. In addition to the cash consideration, upon closing TAAC will return 6,987,239 Sanatana common shares to Sanatana for cancellation and grant to Sanatana a 1% net smelter returns royalty.

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# Sanatana Resources Inc.

## Notes to the Condensed Interim Financial Statements

For the nine months ended December 31, 2015

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### 17. Events After the Reporting Period (continued)

In consideration for the initial \$200,000 payment, the Company provided certain surface rights in favour of TAAC. On March 4, 2016, Sanatana will hold a shareholders' meeting to consider and approve the transaction. The terms of the transaction, and the related risk factors, are described in further detail in Sanatana's management information circular dated February 1, 2016, which is available at [www.sedar.com](http://www.sedar.com).

The closing of the transaction is subject to conditions, including: (i) approval of the transaction by two-thirds of the votes cast in person or by proxy at the Sanatana shareholder meeting, (ii) approval of the TSX Venture Exchange, (iii) that the representations and warranties given by Sanatana are true and correct in all material respects on the closing date, (iv) that Sanatana has performed and complied in all material respects with all the terms and conditions of the asset purchase agreement, (v) compliance with the Bulk Sales Act (Ontario), (vi) that there are no material adverse changes since the date of the asset purchase agreement, and (vii) that the voting and support agreements are complied with.

#### Debt Settlement

In February 2016, the Company reached agreements with suppliers, employees and directors to settle amounts due at less than their face value. The Company paid cash of \$86,000 to settle obligations of \$124,593 resulting in a gain on settlement, net of sales taxes, of \$37,000.