

# **SANATANA RESOURCES INC.**

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

**March 31, 2016**



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**Year Ended March 31, 2016**

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

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

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## **Introduction**

This MD&A was prepared as of July 6, 2016 and should be read in conjunction with the Company's audited financial statements and related notes for the year ended March 31, 2016. This MD&A is intended to provide the reader with a review of the Company's performance for the year ended March 31, 2016 and through to the date of this report, and the factors reasonably expected to impact future operations and results. This MD&A contains forward-looking statements that are subject to risk factors set out above.

The Company's financial statements for the year ended March 31, 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee.

All financial statement amounts in this MD&A are in Canadian dollars unless otherwise noted.

## **Incorporation and Listing Information**

Sanatana was incorporated under the British Columbia *Business Companies Act* on June 25, 2004. In November 2005, the Company became a reporting issuer in every province and territory of Canada, except Quebec. The Company's common shares trade on the TSX-V as a mining exploration and development company under the symbol STA. In March 2016, the Company completed the divestiture of its Watershed Property (see *Watershed Property* below); as a result, the Company no longer meets the listing requirements of the TSX-V and the Company's listing may be transferred to the NEX board.

## **Operating Report**

The Company is an exploration stage company and is engaged in the acquisition, exploration and development of exploration and evaluation assets. During fiscal 2016, most of the Company's operations were focused on the Watershed Property in Ontario, see *Watershed Property* below, but Sanatana also has a diamond exploration property in Saskatchewan. After disposing of its interest in the Watershed Property, the Company has been evaluating other mineral exploration opportunities.

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

## **Corporate Developments**

- In March 2016, the Company completed the sale of its 50% interest in the Watershed Property to Trelawney Augen Acquisition Corp. ("TAAC") for total cash consideration of up to \$5,000,000. See *Watershed Property* below.

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### Watershed Property

The Watershed Property was a gold exploration property that comprised a 50% interest in 46 mining claims and a 10% interest in three further mining claims covering a total of 7,904 hectares. The project area was located near the town of Gogama, Ontario. In March 2016, Sanatana completed the sale to TAAC of its 50% interest in the Watershed Property and all of Sanatana's related information, data and drill core. The aggregate purchase price paid by TAAC was:

- \$200,000 on execution of the definitive asset purchase agreement, voting support agreements by Sanatana's directors and officers, and an agreement that provided TAAC and TAAC's affiliates with immediate access to the surface rights of the Watershed Property;
- \$1,800,000 upon closing; and
- return of 6,987,239 common shares of Sanatana held by TAAC and its affiliates.

In addition, TAAC committed to certain post-closing contingent payments:

- \$1,500,000 on a decision to put all or a part of the Watershed Property into commercial production;
- \$1,500,000 on commencement of commercial production of all or a part of the Watershed Property; and
- 1% net smelter returns royalty ("NSR") on the Watershed Property subject to a buy-out right to TAAC at any time of 0.5% of the NSR for a further cash payment to Sanatana of \$2,000,000. TAAC also has a right of first refusal on any sale of the NSR.

For the purposes of the post-closing contingent payments, the Watershed Property is defined to include only the original 46 mining claims (the "Original Mining Claims") referenced in the option and joint venture agreement dated February 14, 2011 between Sanatana and TAAC and the contingent payments will not be based on the 20% carried interest in the three mining claims that Sanatana acquired for the benefit of Sanatana and TAAC in 2013 (the "Clam Lake Claims"). Notwithstanding the foregoing, the transaction required Sanatana to sell to TAAC all of the mineral claims comprising the Watershed Property and such mineral claims included the Original Mining Claims and the Clam Lake Claims.

### Green Lake Property

The Company acquired its rights to the Green Lake Property, which the Company believes are prospective for diamondiferous kimberlite exploration, in two stages:

- 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 rights acquired in February 2014 expired in May 2016.
- In January 2015, the Company acquired additional mineral tenure to increase its land position to 85,000 hectares. The Company acquired this tenure after a geochemical sampling program completed in 2014 confirmed the presence of kimberlitic indicator minerals in the surface sediments. These exploration rights will expire in December 2016.

At March 31, 2016, the Company completed a review of the Green Lake property. Due to a combination of the large budget required to complete a thorough exploration program, the difficulty of raising capital to support such a program and concerns about land access rights, the

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Company concluded that it was not able to continue exploration and that the project's carrying value should be fully impaired.

**Financial**

Financial amounts in the narrative have been rounded to the nearest thousand dollars.

***Exploration and Evaluation Expenditures***

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

	Year Ended March 31 2016 \$	Year Ended March 31 2015 \$
<b>Watershed Property</b>		
Acquisition costs	-	-
Contractor and consultant	53,454	119,465
Field and camp	13,178	13,504
Permitting and other	2,373	26,992
Project management fees	72,000	112,250
Sampling and assays	266	25,129
Transport and accommodation	11,407	25,742
	<u>152,678</u>	<u>323,082</u>
<b>Green Lake Property</b>		
Acquisition costs	-	48,061
Contractor and consultant	790	8,476
Field and camp	297	11,084
Permitting and other	2,136	-
Project management fees	34,500	51,250
Transport and accommodation	1,480	17,690
	<u>39,203</u>	<u>136,561</u>
<b>All exploration and evaluation expenditures</b>	<u>191,881</u>	<u>459,643</u>

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**Selected Annual and Quarterly Financial Data**

Year Ended	March 31 2016 \$	March 31 2015 \$	March 31 2014 \$
<b>Results of operations:</b>			
Loss for the year	(3,099,074)	(1,062,805)	(7,520,917)
Basic and diluted loss per share	(0.02)	(0.01)	(0.07)
<b>Financial condition:</b>			
Cash and cash equivalents	1,160,283	94,403	284,063
Exploration and evaluation assets	-	4,562,595	4,102,952
Total assets	1,212,530	4,884,902	4,772,485
Shareholders' equity	485,885	3,652,631	3,954,648
<b>Cash flow:</b>			
Exploration expenditures	244,688	426,131	987,939
Proceeds from the sale of exploration and evaluation assets	1,981,000	-	-
Common share proceeds (gross)	-	759,500	1,128,000

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

Quarter Ended	Cash and Equivalents \$	Exploration and Evaluation Assets \$	Income (loss) for the Quarter \$	Income (loss) per Share <sup>1</sup> (Basic and Diluted) \$
June 30, 2014	190,108	4,173,703	(250,601)	(0.00)
September 2014	635,384	4,295,474	(253,937)	(0.00)
December 31, 2014	253,551	4,454,504	(319,471)	(0.00)
March 31, 2015	94,403	4,562,595	(238,796)	(0.00)
June 30, 2015	23,407	4,627,814	205,265	0.00
September 30, 2015	8,391	4,686,683	(289,626)	(0.00)
December 31, 2015	2,484	2,190,954	(2,754,527)	(0.02)
March 31, 2016	1,160,283	-	(260,186)	(0.00)

<sup>1</sup> Sum of quarterly loss per share may not equal year-to-date amounts due to rounding.

The Company is an exploration stage company and has not generated any sales or revenues, nor has it had any extraordinary items or discontinued operations in the most recent eight fiscal quarters. As the Company is still in the exploration stage, variances in its quarterly losses are

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not affected by sales or production-related factors. Variances by quarter reflect overall exploration and corporate activity and certain factors that may not recur each quarter. Significant variations from the normal level of operating loss include:

- December 31, 2014 – The Company incurred abnormally high legal costs regarding the Watershed Property.
- June 30, 2015 – The Company recovered costs of \$356,000 plus HST (total \$402,000) that were incurred to defend Trelawney's easement application claim.
- September 30, 2015 – The Company incurred \$138,000 in reclamation costs on a former exploration property in excess of the reclamation provision previously recorded.
- December 31, 2015 – The Company recorded a \$2,542,000 impairment provision against the Watershed Property.
- March 31, 2016 – The Company completed the sale of the Watershed Property and fully impaired the Green Lake property.

### **Results of Operations for the Year**

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

- The Company's directors receive \$10,000 annually, although Barry Fraser, who served as chairman until December 2015 was compensated with an annual base fee of \$96,000 (see *Related Party Transactions* below). The board of directors has agreed to defer payment of director fees until the Company's financial position improves.
- Investor relations expenses relate to investor communications, including maintaining and updating the website and disseminating news releases. The Company paid \$3,500 per month to an investor relations consultant until February 2015. Investor relations expense decreased significantly following completion of that contract.
- Management fees and salaries represent amounts paid to officers, employees and contractors and related benefits, net of amounts capitalized to exploration and evaluation assets or allocated to property investigation costs. The CEO's employment contract expired December 31, 2015 and has not been renewed. The Company's employees have agreed to defer part of their compensation until the Company's financial position improves (see *Liquidity* below).
- Professional fees were paid to lawyers and auditors. With the resolution of Trelawney's easement application earlier in 2015, the Company incurred lower legal fees in the current period, although legal fees were higher than normal due to the sale of the Watershed Property.
- Rent relates to the Company's office premises and a storage locker. During 2014, the Company moved into smaller offices with a shorter-term lease as part of its initiative to reduce overhead. The Company further reduced its office commitment in 2015.
- Share-based payments represent the fair value of stock options recognized over their vesting term, calculated using the Black-Scholes option-pricing model. The Company generated a recovery in the current period as (1) in previous periods, the Company accrued an expense for options that did not ultimately vest; and (2) in March 2015, the Company accrued an expense for an obligation to issue options, but the value of the options to be granted declined in the interim, and was eventually eliminated when the obligation terminated.



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- Travel and accommodation represents the cost for management travel to Sanatana's exploration and evaluation assets and for corporate development activities. Travel and accommodation expense fluctuates significantly from period to period depending on the initiatives under way.
- Capital asset impairment and loss on sale of equipment together reflect the difference between the carrying value of a drill and the expected value of the debt to be settled by transferring the drill to the creditor.
- Exploration and evaluation assets impairment comprises two components (1) a December 2015 provision to adjust the Watershed Property's carrying value to the then-expected sales proceeds on the subsequent divestiture of the Watershed Property (see *Watershed Property* above); and (2) a full impairment of the carrying value of the Green Lake property (see *Green Lake Property* above).
- Reclamation expense is the cost of removing the Mackenzie diamond property camp in excess of the clean-up provision of \$100,000. Costs incurred comprised labour, travel, accommodation and supplies for disassembly and removal of equipment and garbage. The Company may be able to recover some costs through the sale of equipment.
- Litigation costs recovery represents an award of costs in favour of Sanatana regarding the Watershed Property following a hearing fiscal 2015. The benefit was recognized when the funds were received in May 2015.
- Gain on sale of exploration and evaluation assets resulted from the proceeds from the Watershed Property sale being higher than the carrying value after impairment provisions. To evaluate the economic impact of the Watershed disposition, it is necessary to combine the impairment provision and the gain on sale.
- Gain on settlement of debt reflects the difference between amounts due to creditors and the consideration paid to settle those obligations.
- Interest and other income for fiscal 2015 primarily relates to a recovery of refundable deposits previously written off.
- Deferred income tax recovery represents the reversal of flow-through shares premium liability. This amount does not represent a cash flow to the Company.

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**Results of Operations for the Fourth Quarter**

Comprehensive Loss for the Quarter Ended March 31	2016	2015
	\$	\$
<b>Expenses</b>		
Depreciation	1,710	3,806
Director fees	(5,000)	34,000
Filing fees	6,967	5,475
Investor relations	1,387	8,092
Management salaries and wages	80,128	70,404
Professional fees	70,426	47,959
Share-based compensation	-	42,000
Other operating expenses	38,187	45,981
Loss before the undernoted	(193,805)	(257,717)
Exploration and evaluation assets impairment	(190,954)	-
Loss on sale of equipment	(4,097)	-
Gain on sale of exploration and evaluation assets	59,328	-
Gain on settlement of debt	61,488	-
Interest and other income	7,854	30
Loss before income taxes	(260,186)	(257,687)
Deferred income tax recovery	-	18,891
Loss for the period	(260,186)	(238,796)

The Company results of operations in the fourth quarter were generally consistent with prior periods and the comparative period other than:

- the Company generated a recovery of director fees as a result of an over accrual in a prior period.
- the loss on sale of equipment and gain on sale of exploration and evaluation assets and high professional fees relate to the sale of the Watershed Property in March 2016;
- the gain on settlement of debt resulted from a liquidity crunch experienced by the Company;
- in the comparative period, professional fees were unusually high due to ongoing disputes related to the Watershed Property; and.
- the Company fully impaired the carrying value of the Green Lake property.

**Liquidity**

At March 31, 2016, the Company had cash and cash equivalents of \$1,160,000 and working capital of \$461,000. Cash on hand sufficient to fund, at most, 12 months' activities; specific factors affecting the Company's liquidity are:

- The board of directors is deferring payment of certain director fees until the Company's financial position permits. The Company's employees also agreed to defer a portion of their compensation. At March 31, 2016, deferred compensation owed to Sanatana's employees and current and former board members was \$383,000.
- The Company may be able to sell assets from its Mackenzie diamond property camp which proceeds would be used to defray the clean-up costs incurred in fiscal 2016.

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In the longer term, Sanatana expects to address its funding needs through private placements but may not be able to do so on acceptable terms or at all. If the Company's share price improves, warrant holders may exercise their share purchase warrants, but there can be no assurance that they will do so.

***Related Party Transactions***

At March 31, 2016, the Company had four employees and arrangements with contractors to provide certain administrative, accounting and management services. In addition, certain directors, officers and significant shareholders provide management and consulting services to the Company. The Company had a contract with its CEO to pay a salary of \$15,000 per month which expired on December 31, 2015 and was not renewed.

The Company had a contract with its board chairman, Barry Fraser that provided for a monthly payment of \$8,000 until March 31, 2016 and the issuance of 1,500,000 options to purchase common shares at \$0.10 per share. The Company issued the 1,500,000 options to Mr. Fraser in March 2014. Sanatana was also committed to award options to Mr. Fraser to purchase 500,000 common shares. Mr. Fraser resigned as director and chairman in December 2015 and so the obligation to award options and pay compensation ended on his resignation.

The Company had an agreement that in the event that the Company reached a settlement with Trelawney, lamgold, or any of their affiliates regarding the Company's interests in the vicinity of the Côté gold deposit, or enters into a related transaction, the Company would pay a bonus to its former chairman. The bonus amount was to be determined as (a) 5% of any settlement or transaction amount up to \$10,000,000 (so the maximum amount payable under this part was \$500,000); and (b) 2.5% of the balance. In March 2016, Mr. Fraser agreed to settle this obligation and directors fees owed to him for payment of \$65,000 in cash and issuance of 1,000,000 common shares. The issuance of shares is subject to the approval of the TSX-V.

The Company has entered into change of control agreements with its directors, officers and employees. These agreements provide that in the event of a change of control, as defined, directors and officers of the company may be eligible to receive termination payments within 12 months of the change of control if they resign or are terminated. The amounts potentially payable are: Buddy Doyle \$144,000; and Simon Anderson \$135,000. In addition, other employees would be eligible to receive up to an aggregate of \$234,000. The change of control agreements confirm that unvested stock options vest immediately on a change of control.

In the current fiscal year, the Company's CEO advanced \$82,800 to fund critical expenditures. These advances were repaid from the Watershed Property sales proceeds.

**Share Capital**

The Company had 127,761,073 common shares issued and outstanding at March 31, 2015 and 120,773,834 common shares outstanding at March 31, 2016. During the 2016 fiscal year, 6,987,239 shares were returned to treasury on the sale of the Watershed Property (see *Watershed Property* above).

***Share Option Plan***

*Plan Description*

The Company has a rolling share option plan that provides an incentive to directors, officers, employees, management and others who provide services to the Company. Under the option

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plan, a maximum of 10% of the issued and outstanding common shares at the time an option is granted, less common shares reserved for issuance on exercise of options then outstanding under the option plan, are reserved for options to be granted at the discretion of the board to eligible optionees.

Options granted under the option plan are non-assignable and non-transferable and are issuable for a period of up to ten years. In the case of employment or other contracting arrangements of a director, officer, employee or consultant of the Company being terminated, the options will immediately terminate without right to exercise. The board of directors of the Company determines the exercise price, which may be no less than the discounted market price, as defined in the option plan, at the day of grant. The Company's shareholders re-approved the plan in December 2015.

*Option Forfeitures and Expiry*

In June 2015, option holders forfeited options to purchase up to 875,000 common shares at prices between \$0.10 and \$0.35 per share. In December 2015, an option holder forfeited options to purchase up to 1,100,000 common shares at prices between \$0.10 and \$0.35 per share. In February 2016, options to purchase up to 3,400,000 common shares expired unexercised and in March 2016 an option holder forfeited options to purchase up to 1,500,000 common shares.

**Warrants**

In August 2015, 8,830,000 warrants expired unexercised, in September 2015, 2,750,000 warrants expired unexercised and in October 2015, 625,000 warrants expired unexercised.

**Dividends**

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

**Outstanding Share Information**

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

- 120,773,834 common shares;
- 1,250,000 share purchase warrants; and
- 4,950,000 stock options.

Fully diluted share capital is therefore 126,973,834 common shares. In addition, the Company has committed to issue 1,000,000 common shares to settle an obligation to a former director (see *Related Party Transactions*).

**Risks and Uncertainties**

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

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### *Capital Markets and Economic Uncertainty*

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

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

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

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

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

The profitability of the Company's operations will be dependent on the market price of the resources it is seeking, currently gold and diamonds. Resource prices are affected by factors beyond the control of the Company, including international economic and political conditions, levels of supply and demand and international currency exchange rates.

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

### *Conflicts of Interest*

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

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committee of independent directors to review a matter in which one or more directors or officers may have a conflict.

From time to time, the Company, together with several other companies, may be involved in a joint venture opportunity where several companies participate in the acquisition, exploration and development of natural resource properties, thereby permitting the Company to be involved in a greater number of larger projects with an associated reduction of financial exposure in any given project. The Company may also assign all or a portion of its interest in a particular project to any of these companies due to the financial position of the other company or companies.

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

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