SANATANA RESOURCES INC.

Condensed Interim Financial Statements

Second Quarter Ended September 30, 2012

Expressed in Canadian Dollars

Unaudited – Prepared by Management

CONTENTS

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim financial statements of Sanatana Resources Inc. for the six months ended September 30, 2012 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.

Statements of Financial Position

	Notes	September 30, 2012	March 31, 2012
		$	$
ASSETS			
Current assets			
Cash and cash equivalents	5	1,076,868	2,325,543
Receivables	6	184,357	160,184
Prepaid expenses		13,132	25,210
Total current assets		1,274,357	2,510,937
Non-current assets			
Prepaid exploration and evaluation advance		56,463	54,239
Reimburseable bonds and deposits	7	274,651	276,488
Exploration and evaluation assets	8	6,998,006	4,229,548
Property and equipment	9	176,030	193,569
Total non-current assets		7,505,150	4,753,844
Total assets		8,779,507	7,264,781
LIABILITIES			
Current liabilities			
Payables and accruals		250,768	476,775
Provisions	10	150,000	150,000
Liability to renounce exploration expenditures		-	31,430
Total liabilities		400,768	658,205
EQUITY			
Share capital	11	38,887,241	36,900,647
Reserves	11	4,287,641	3,677,541
Deficit		(34,796,143)	(33,971,612)
Total equity		8,378,739	6,606,576
Total equity and liabilities		8,779,507	7,264,781

"Peter Miles", Director
Peter Miles

"Edward Marlow", Director
Edward Marlow

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

Sanatana Resources Inc.

Statements of Comprehensive Loss

	Notes	Three months ended September 30, 2012	Three months ended September 30, 2011	Six months ended September 30, 2012	Six months ended September 30, 2011
		$	$	$	$
Expenses					
Depreciation	9	8,766	8,745	17,539	17,740
Director fees	13	12,500	12,500	25,000	27,500
Filing fees		2,108	2,719	11,851	10,485
Investor relations		2,177	955	9,008	8,987
Management fees and salaries	13	97,499	64,311	173,846	133,169
Office and administration		14,808	14,843	31,256	30,052
Professional fees		23,106	23,769	71,342	35,308
Property investigations		-	20,183	1,000	22,430
Rent		23,705	24,136	52,664	44,463
Share-based payments	12	122,000	75,000	574,000	178,000
Transfer agent fees		6,198	1,849	7,244	9,381
Travel and accomodation		20,910	14,040	26,024	24,578
Loss before undernoted		(333,777)	(263,050)	(1,000,774)	(542,093)
Interest income		603	3,051	2,146	6,474
Loss before income taxes		(333,174)	(259,999)	(998,628)	(535,619)
Deferred income tax recovery		142,667	-	174,097	-
Loss and total comprehensive loss for the period		(190,507)	(259,999)	(824,531)	(535,619)
Loss per share - basic and diluted	14	(0.00)	(0.00)	(0.01)	(0.01)
Weighted average common shares outstanding - basic and diluted	14	95,969,521	81,899,804	92,349,627	81,780,463

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

Sanatana Resources Inc.

Statements of Changes in Equity

	Common Shares $	Reserves $	Deficit $	Equity $
Balance - March 31, 2011 - restated (note2)	35,221,306	3,359,668	(33,009,099)	5,571,875
Agent warrants exercised	84,894	(18,570)	-	66,324
Warrants exercised	23,750	-	-	23,750
Shares issued as part of Trelawney Augen option agreement	50,250	-	-	50,250
Share-based compensation	-	178,000	-	178,000
Loss for the period	-	-	(535,619)	(535,619)
Balance - September 30, 2011	35,380,200	3,519,098	(33,544,718)	5,354,580

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

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

Sanatana Resources Inc.

Statements of Cash Flows

For the three months ended September 30,	Notes	2012	2011
		$	$
Cash provided by (used in):			
Operating activities:			
Loss before income taxes		(998,628)	(535,619)
Adjustments for:			
Depreciation of property and equipment	9	17,539	17,740
Interest income		(2,146)	(6,474)
Share-based compensation	12	574,000	178,000
Changes in non-cash working capital items:			
Receivables		(24,173)	(33,659)
Prepaid expenses		12,078	23,557
Payables and accruals		(66,345)	(26,414)
		(487,675)	(382,869)
Investing activities:			
Prepaid exploration and evaluation advance		(2,224)	(11,000)
Reimburseable bonds and deposits	7	1,837	959
Exploration and evaluation assets	8	(2,818,298)	(711,859)
Property and equipment purchases	9	-	(1,510)
Interest received		2,146	6,474
		(2,816,539)	(716,936)
Financing activities			
Issuance of common shares	11	2,055,539	90,074
		2,055,539	90,074
Decrease in cash and cash equivalents		(1,248,675)	(1,009,731)
Cash and cash equivalents, beginning of period		2,325,543	4,210,157
Cash and cash equivalents, end of period		1,076,868	3,200,426
Cash and equivalents comprise:			
Cash		502,452	132,153
Equivalents		574,416	3,068,273
		1,076,868	3,200,426

Supplementary cash flow information (note 15)

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

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 has an option to acquire up to a 51% interest in certain Ontario gold exploration claims.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. The Company’s continuing operations, and the underlying value and recoverability of the amounts shown for mineral properties are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests.

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

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

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

2. Restatement

The comparative figures have been restated to reflect a change in the International Financial Reporting Standards (“IFRS”) adjustment to deficit at April 1, 2010 resulting from a change in the valuation of the flow-through offerings prior to that date. The effect on the Company’s condensed interim statement of changes in equity at March 31, 2011 was:

Statement of Changes in Equity	As presented	Restated
	$	$
Common shares	37,457,496	35,221,306
Deficit	(35,663,989)	(33,009,099)

This restatement does not affect the statements of financial position or statements of comprehensive loss presented.

3. Basis of Presentation

Statement of Compliance

These condensed interim financial statements of the Company for the six months ending September 30, 2012 have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") 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, 2012 as filed on SEDAR at www.sedar.com. The condensed interim financial statements do not include all of the information required for full annual financial statements and were approved and authorised for issue by the audit committee on November 22, 2012.

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.

3. Basis of Presentation (continued)

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.

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.

4. Changes in Accounting Policies

Leased Assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the statement of comprehensive loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive loss on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

New Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning on or after January 1, 2011 or later years. None of these are expected to have a significant effect on the financial statements, except for the following:

The following standards and interpretations have been issued but are not yet effective:

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 10 Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 is not likely to have any impact on the Company.

IFRS 11 Joint Arrangements

IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning on April 1, 2013. This is likely to have no impact on the Company.

4. Changes in Accounting Policies (continued)

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company intends to adopt the standard no later than the accounting period beginning on April 1, 2013. This is likely to have no impact on the Company.

IFRS 13 Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on April 1, 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

In IFRIC 20, the IFRS Interpretations Committee sets out principles for the recognition of production stripping costs in the balance sheet. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. While the Company is not yet in the production phase, the Company is currently assessing the future impact of this interpretation.

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

5. 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 fixed rates to maturity.

6. Receivables

	September 30, 2012	March 31, 2012
	$	$
Related parties	7,518	7,518
Other	-	40,076
HST - value added tax	176,839	112,590
	184,357	160,184

7. Reimbursable Bonds and Deposits

	$
Balance March 31, 2011	277,447
Bond redemptions	(959)
Balance March 31, 2012	276,488
Bond redemptions	(1,837)
Balance September 30, 2012	274,651

8. Exploration and Evaluation Assets

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

	March 31, 2011	Change	March 31, 2012	Change	September 30, 2012
	$	$	$	$	$
Watershed property	901,562	3,327,986	4,229,548	2,768,458	6,998,006
Mackenzie Diamond Project	68,347	(68,347)	-	-	-
	969,909	3,259,639	4,229,548	2,768,458	6,998,006
Total impairment for the period		$ (68,347)		$ -	

Watershed property

	March 31, 2011	Change	March 31, 2012	Change	September 30, 2012
	$	$	$	$	$
Acquisition costs	850,000	553,250	1,403,250	41,822	1,445,072
Contractor and consultant	22,562	1,974,759	1,997,321	1,852,901	3,850,222
Helicopter and fixed wing aircraft costs	-	13,007	13,007	-	13,007
Expediting	-	5,216	5,216	-	5,216
Project management fees	27,000	135,405	162,405	79,000	241,405
Field and camp	2,000	86,440	88,440	94,519	182,959
Sampling and assays	-	299,612	299,612	482,903	782,515
Transport and accomodation	-	214,940	214,940	199,886	414,826
Reclamation provision	-	30,000	30,000	-	30,000
Permitting and other	-	15,357	15,357	17,427	32,784
Watershed property	901,562	3,327,986	4,229,548	2,768,458	6,998,006

8. Exploration and Evaluation Assets (continued)

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. and renamed Trelawney Augen Acquisition Corp. ("TAAC"). The option and joint venture agreement grants the Company an option to acquire up to a 51% undivided interest in the rights to 46 mineral concessions (the "Claims") and the first right of refusal to acquire an additional nine mineral concessions (the "ROFR Claims"), all located in Ontario and owned by TAAC.

The Company has an option to earn a 50% undivided interest in the Claims (the "50% Interest") by completing the following:

	Cumulative Exploration Expenditures		Shares		Cash Payments	
	$				$	
by April 2, 2011	-		2,000,000	(issued)	150,000	(paid)
by March 23, 2012	1,000,000	(incurred)	1,500,000	(issued)	-	
by March 23, 2013	2,500,000	(incurred)	1,500,000		-	
by March 23, 2014	5,000,000	(incurred)	-		-	
			5,000,000		150,000	

To September 30, 2012, the Company incurred exploration expenditures in accordance with the terms of the option and joint venture agreement, including a permitted administrative mark-up of $5,746,000. At September 30, 2012, the Company had met the exploration expenditure requirement under the option and joint venture agreement but had not yet formed a joint venture. The option and joint venture agreement provides that any "work costs", as defined, incurred by the Company in excess of the $5,000,000 requirement will be credited to the Company's contribution to the first work program after formation of the joint venture.

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

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

The Company agreed to pay a finders' fee in connection with the Watershed property that was payable in the Company's common shares. The amount of the finders' fee was based on the transaction value, as defined in the finder's fee agreement. The maximum value of the finders' fee determined in accordance with applicable regulatory policies was $142,500, which was settled through the issuance of 678,571 common shares. In fiscal 2012, the Company issued 239,283 common shares with a value for accounting purposes of $50,250. In August 2012, the Company issued 439,287 common shares with a value for accounting purposes of $109,822.

9. Property and Equipment

	Office Furniture	Computer Equipment	Leasehold Improvements	Exploration Equipment	Total
	$	$	$	$	$
Cost					
At March 31, 2011	34,703	26,458	41,357	363,497	466,015
Additions	-	3,033	-	-	3,033
At March 31, 2012	34,703	29,491	41,357	363,497	469,048
Additions	-	-	-	-	-
At September 30, 2012	34,703	29,491	41,357	363,497	469,048
Accumulated Depreciation					
At March 31, 2011	31,993	25,927	41,357	140,936	240,213
Charge for the year	1,768	642	-	32,856	35,266
At March 31, 2012	33,761	26,569	41,357	173,792	275,479
Charge for the period	475	636	-	16,428	17,539
At September 30, 2012	34,236	27,205	41,357	190,220	293,018
Net book value					
At March 31, 2011	2,710	531	-	222,561	225,802
At March 31, 2012	942	2,922	-	189,705	193,569
At September 30, 2012	467	2,286	-	173,277	176,030

10. Provisions

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

	September 30, 2012	March 31, 2012
	$	$
Mackenzie Diamond Project	120,000	120,000
Watershed Property	30,000	30,000
	150,000	150,000

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 2013

In July 2012, the Company closed a non-brokered private placement of 5,315,000 non-flow-through units priced at $0.25 per unit and 2,853,333 flow-through units priced at $0.30 per unit for aggregate gross proceeds of $2,184,750. The non-flow-through units consist of one common share and a half-warrant, with each full warrant exercisable at $0.35 until July 12, 2013. The flow-through units consist one flow-through common share and a half-warrant, with each whole warrant exercisable into non-flow-through common shares at $0.40 per share until July 12, 2013. The Company paid cash commissions of $116,148 to certain finders (equal to 7% of proceeds raised by such finders) and issued 429,800 finder warrants to certain finders. The finders' warrants have a fair value of $36,100, which was determined using the Black-Scholes option pricing model with the following assumptions:

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

Each finder's warrant has the same terms as the non-flow-through warrants in the offering. The Company will renounce an amount equal to the gross proceeds derived from the sale of the flow-through units to purchasers in accordance with the provisions of the Income Tax Act (Canada).

On closing the July 2012 flow-through financing, the Company recognized a $142,667 liability representing its obligation to renounce flow-through expenditures to investors. The Company incurred sufficient exploration expenditures to satisfy this obligation by September 30, 2012.

Fiscal 2012

In December 2011, the Company closed a non-brokered private placement of 3,030,303 flow-through shares for gross proceeds of $1,000,000. The Company subsequently renounced an amount equal to the gross proceeds derived from the sale of the flow-through shares to purchasers in accordance with the provisions of the Income Tax Act (Canada). The Company paid cash commissions of $70,000, $14,804 in other offering costs, and issued 212,121 finders' warrants exercisable at $0.40 per common share until December 30, 2012. The finders' warrants have a fair value of $30,120, which was determined using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.95%
Estimated volatility	144%
Expected life in years	1

On closing the December 2011 flow-through financing, the Company recognized a $303,030 liability representing its obligation to renounce flow-through expenditures to investors. The Company renounced the full $1,000,000 to investors in February 2012, but at March 31, 2012, there was a residual liability of $31,430 relating to financing proceeds not yet spent on exploration activities. The Company satisfied this obligation in the period ended April 30, 2012.

11. Share Capital and Reserves (continued)

The following is a summary of changes in common share capital from March 31, 2011 to September 30, 2012:

	Notes	Number of Shares	Issue Price $	Common Shares $
Balance - March 31, 2011		81,585,172		35,221,306
Agent warrants exercised		403,529	0.25	100,882
Fair value of agent warrants exercised		-	-	28,247
Warrants exercised		1,931,666	0.25	482,916
Private placement of flow through units		3,030,303	0.33	1,000,000
Liability to renounce exploration expenditures		-	-	(303,030)
Watershed finder fees	8	239,283	0.21	50,250
Share issuance for Trelawney Augen option	8	1,500,000	0.29	435,000
Less share issue costs		-	-	(114,924)
Balance - March 31, 2012		88,689,953		36,900,647
Private placement		5,315,000	0.25	1,328,750
Private placement of flow-through shares		2,853,333	0.30	856,000
Fair value of broker warrants		-	-	(36,100)
Share issuance for Trelawney Augen option		439,287	0.25	109,822
Liability to renounce exploration expenditures		-	-	(142,667)
Share issuance costs		-	-	(129,211)
Balance - September 30, 2012		97,297,573		38,887,241

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, 2011 to September 30, 2012:

	$
Balance, March 31, 2011	3,359,668
Fair value of agent warrants exercised	(28,247)
Fair value of broker warrants	30,120
Share-based compensation	316,000
Balance, March 31, 2012	3,677,541
Fair value of broker warrants	36,100
Share-based compensation	574,000
Balance, September 30, 2012	4,287,641

11. Share Capital and Reserves (continued)

Warrants

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

	September 30, 2012		March 31, 2012	
	Number Of Warrants	Weighted Average Exercise Price	Number Of Warrants	Weighted Average Exercise Price
Balance, beginning of period	212,121	$0.40	4,034,018	$0.25
Granted	4,513,966	0.37	212,121	0.40
Exercised	-	-	(2,335,195)	0.25
Forfeited	-	-	(1,698,823)	0.25
Balance, end of period	4,726,087	$0.37	212,121	$0.40

Summary of outstanding warrants is as follows:

Expiry Date	Exercise Price	Financing Warrants	Broker Warrants
December 30, 2012	$ 0.40	-	212,121
July 12, 2013	$ 0.35	2,657,500	429,800
July 12, 2013	$ 0.40	1,426,666	-
		4,084,166	641,921

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.

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

12. Share-Based Payments (continued)

In June 2012, the Company issued options exercisable at $0.30 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. The Company has treated these transactions as a modification of the 1,400,000 options and has calculated share-based compensation for these options as the difference between the fair value of the share purchase options immediately before the grant and the fair value of the new options granted. The Company recognized this share-based compensation expense on the issuance of the new options rather than over their vesting period. In determining the fair value of the old options, the Company employed substantially the same assumptions regarding volatility, risk-free rate of return and dividend yield as for the new options and used the following assumptions regarding remaining life:

- 300,000 options exercisable at $0.75 - 0.1 years
- 800,000 options exercisable at $1.35 - 0.8 years
- 300,000 options exercisable at $0.75 - 1.0 years

	September 30, 2012		March 31, 2012	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance, beginning of period	6,225,000	$0.53	6,910,000	$0.56
Granted	3,950,000	0.36	400,000	0.50
Expired	(600,000)	0.65	-	-
Forfeited	(1,400,000)	1.09	(1,085,000)	0.71
Balance, end of period	8,175,000	$0.34	6,225,000	$0.53

Summary of outstanding options at September 30, 2012:

	Outstanding Options			Exercisable Options	
Exercise Price Range	Number	Weighted Average Exercise Price	Weighted Average Remaining Life	Number	Weighted Average Exercise Price
$0.30-$0.35	7,050,000	$0.32	4.03 years	4,537,500	$0.31
$0.40-$0.50	1,000,000	0.44	2.59 years	225,000	0.49
$0.75	125,000	0.75	0.72 years	125,000	0.75
	8,175,000	$0.34	3.80 years	4,887,500	$0.33

The Company incurred a charge of $574,000 (2011 - $178,000) for share-based payments for the six months ended September 30, 2012 of which $299,300 related to the modification of existing grants.

The weighted average grant date fair value was $0.23.

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

12. Share-Based Payments (continued)

For the six months ended September 30,	2012	2011
Dividend yield	0%	0%
Risk-free interest rate	1.3%	2.4%
Estimated volatility	124%	137%
Expected life in years	5	5

13. Related Party Transactions and Balances

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

	Three months ended September 30,		Six months ended September 30,	
	2012	2011	2012	2011
	$	$	$	$
Key management personnel compensation				
Salary	45,000	33,000	82,000	66,000
Director fees	12,500	12,500	25,000	27,500
Short-term benefits	2,382	-	4,763	-
Management fees - expensed	13,080	7,200	27,250	20,910
Technical fees - capitalized	3,500	6,000	5,500	6,000
Share-based payments	142,000	-	375,000	-
Total	218,462	58,700	519,513	120,410
Included in the above is compensation paid through companies:				
Lithosphere Services Inc.	8,000	6,000	13,000	9,000
S2 Management Inc.	8,580	7,200	19,750	17,910

Lithosphere Servies Inc. is controlled by Mr. Doyle the Company's VP Exploration and a director.
S2 Management Inc. is controlled by the Company's CFO.

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

	September 30 2012	March 31, 2012
	$	$
Lithosphere Services Inc.	4,480	23,520
S2 Management Inc.	2,374	1,254
	6,854	24,774

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

14. 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 September 30,		Six months ended September 30,	
	2012	2011	2012	2011
	$	$	$	$
Loss for the period	(190,507)	(259,999)	(824,531)	(535,619)
Weighted average number of common shares outstanding	95,969,521	81,899,804	92,349,627	81,780,463
	(0.00)	(0.00)	(0.01)	(0.01)

Diluted loss per share for the six months ended September 30, 2012 and 2011 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 six months ended September 30,	2012	2011
	$	$
Non-cash investing activities:		
Change in accounts payable regarding exploration and evaluation assets	58,433	52,991
Shares issued for exploration and evaluation assets	109,822	50,250
Non-cash financing activities:		
Tax value of assets forfeited to flow-through share investors	174,097	-
Fair value of broker warrants exercised	36,100	18,570

16. Commitments

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

Period ending March 31, 2013	$ 123,080
Year ending March 31, 2014	$ 2,500

b) In May 2012, the Company entered into lease agreements for two trucks with a combined value of $89,602. The leases, which require aggregate monthly payments of $2,190 over the lease term, expire in May 2014 and include option to purchase the trucks for $45,000 at the end of the term. Since the leases do not transfer substantially all of the risk and rewards of ownership to the Company, they are operating leases.

17. Segmented Information

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

18. Events after the Reporting Period

a) In November 2012, the Company closed a non-brokered private placement consisting of up to 6,013,500 flow-through units priced at $0.33 per unit for gross proceeds of $1,984,455. Each unit consisted of one flow-through common share and one-half of one share purchase warrant where each whole warrant will entitle the holder to purchase one additional non-flow-through common share of the Company at a price of $0.40 per warrant share for a period of 24 months from the closing of the private placement. The Company will pay a finder’s fee of up to 6% of the gross proceeds raised.

b) In November 2012, the Company renewed its office lease and, in addition to the commitment included in note 16, must pay $8,413 per month from February 2013 to January 2014.

c) In November 2012, the Company issued 1,500,000 common shares to TAAC and in doing do fulfilled the requirements to earn a 50% interest in the Watershed property (note 8).