Sanatana Diamonds Inc.

(An Exploration Stage Company)

Financial Statements
Unaudited – Prepared by Management
For the Periods Ended December 31, 2010 and 2009

(Stated in Canadian dollars)

CONTENTS

SANATANA DIAMONDS Inc.

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Notice to Reader

These unaudited financial statements for the nine-month period ended December 31, 2010 have not been reviewed by our auditors. They have been prepared by the Company's management in accordance with accounting principles generally accepted in Canada, consistent with previous quarters and years. These unaudited financial statements have been reviewed and approved by the Company's audit committee.

Readers are advised to read the attached financial statements in conjunction with the Company's audited financial statements for the year ended March 31, 2010.

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Balance Sheets
Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	Notes	December 31, 2010	March 31, 2010
Assets			
Current			
Cash and equivalents		$ 3,793,021	$ 2,801,892
Amounts receivable	4	30,466	28,081
Prepaid expenses		17,591	42,462
		3,841,078	2,872,435
Reimburseable bonds and deposits	5	446,975	446,975
Mineral properties	5	68,347	2,930,072
Property and equipment	6	145,600	204,902
		$ 4,502,000	$ 6,454,384
Liabilities			
Current			
Accounts payable	10	$ 51,293	$ 88,549
Accrued liabilities		120,000	152,000
		171,293	240,549
Shareholders' Equity			
Common shares	7	31,883,585	30,306,804
Share subscription receivable	15	161,000	-
Share purchase warrants	7, 8	39,238	-
Contributed surplus		2,783,660	2,783,660
Deficit accumulated in the exploration stage		(30,536,776)	(26,876,629)
		4,330,707	6,213,835
		$ 4,502,000	$ 6,454,384

Ability to continue as a going concern (note 2)
Subsequent events (note 15)

The accompanying notes are an integral part of these financial statements

Approved on behalf of the board of directors:

signed "Peter Miles" — Peter Miles, Director

signed "Edward Marlow" — Edward Marlow, Director

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Statement of Changes in Shareholders' Equity
Unaudited – Prepared by Management
(Expressed in Canadian dollars)

	Notes	Number of Shares		Common Shares		Share Subscriptions Received		Share Purchase Warrants		Contributed Surplus		Deficit Accumulated in the Exploration Stage		Shareholders' Equity
Balance - March 31, 2009		62,762,623	$	30,306,804		-	$	530,263	$	2,031,397	$	(12,984,386)	$	19,884,078
Broker warrants, expired unexercised		-		-				(530,263)		530,263		-		-
Stock-based compensation		-		-				-		222,000		-		222,000
Loss for the year		-		-				-		-		(13,892,243)		(13,892,243)
Balance - March 31, 2010		62,762,623		30,306,804				-		2,783,660		(26,876,629)		6,213,835
Private placement of flow-through units at $0.17	7	10,155,883		1,726,500		-		-		-		-		1,726,500
Share issuance costs	7	-		(110,481)		-		-		-		-		(110,481)
Fair value of broker warrants	7, 8	-		(39,238)		-		39,238		-		-		-
Share subscription received	15	-		-		161,000		-		-		-		161,000
Loss for the period		-		-		-		-		-		(3,660,147)		(3,660,147)
Balance - December 31, 2010		72,918,506	$	31,883,585	$	161,000	$	39,238	$	2,783,660	$	(30,536,776)	$	4,330,707

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Statements of Operations and Comprehensive Loss
Unaudited – Prepared by Management
(Expressed in Canadian dollars)

	Notes	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2009
Expenses					
Amortization	6	$ 20,006	$ 1,812	$ 41,923	$ 6,493
Consulting and advisory fees		-	19,200	-	57,600
Director fees	10	10,000	10,000	30,000	30,000
Filing fees		(3,106)	470	3,003	11,118
Investor relations		2,800	5,260	4,756	5,789
Office and administration	10	14,677	25,426	45,456	61,093
Rent		22,615	27,140	66,002	78,749
Professional fees		(275)	3,187	3,998	3,647
Property investigations		74,161	-	123,426	-
Management fees and salaries	10	45,192	34,380	149,536	93,124
Stock-based compensation	9	-	38,000	-	222,000
Transfer agent fees		1,335	1,410	7,889	12,306
Travel and accomodation		9,130	12,842	32,472	26,089
Loss before undernoted		(196,535)	(179,127)	(508,461)	(608,008)
Abandoned claim costs		-	-	(34,564)	-
Mineral property impariment	5	(62,142)	-	(3,121,822)	-
Interest income		1,839	790	4,700	3,350
Loss before income taxes		(256,838)	(178,337)	(3,660,147)	(604,658)
Loss and comprehensive loss for the period		$ (256,838)	$ (178,337)	$ (3,660,147)	$ (604,658)
Loss per share - basic and diluted		$ (0.00)	$ (0.00)	$ (0.06)	$ (0.01)
Weighted average common shares outstanding - basic and diluted		62,868,122	62,762,623	62,797,917	62,762,623

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Statements of Cash Flow
Unaudited – Prepared by Management
(Expressed in Canadian dollars)

	Notes	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2009
Cash provided by (used in):					
Operating activities:					
Loss for the period		$ (256,838)	$ (178,337)	$ (3,660,147)	$ (604,658)
Adjustment for non-cash items:					
Amortization of property and equipment	6	20,006	1,812	41,923	6,493
Stock-based compensation	9	-	38,000	-	222,000
Mineral property impairment	5	62,142	-	3,121,822	-
Change in non-cash working capital items					
Amounts receivable		6,219	(17,520)	(2,385)	(30,298)
Prepaid expenses		8,291	14,068	24,871	45,128
Accounts payable		27,463	54,059	35,665	54,396
Accrued liabilities		-	(15,000)	(32,000)	(45,003)
		(132,717)	(102,918)	(470,251)	(351,942)
Investing activities:					
Mineral properties	5	(153,012)	(292,674)	(426,109)	(1,454,735)
Reimbursable bonds and deposits		-	-	-	(208,039)
Property and equipment	6	-	-	(795)	-
Rio Tinto contribution	5	31,653	-	111,265	172,309
		(121,359)	(292,674)	(315,639)	(1,490,465)
Financing activities:					
Issuance of common shares	7	1,726,500	-	1,726,500	-
Share subscription receivable	15	161,000	-	161,000	-
Offering costs	7	(110,481)	-	(110,481)	-
		1,777,019	-	1,777,019	-
Change in cash and equivalents		1,522,943	(395,592)	991,129	(1,842,407)
Cash and equivalents, beginning of period		2,270,078	3,459,028	2,801,892	4,905,843
Cash and equivalents, end of period		$ 3,793,021	$ 3,063,436	$ 3,793,021	$ 3,063,436
Cash and equivalents comprise:					
Cash		$ 1,833,407	$ 49,024	$ 1,833,407	$ 49,024
Equivalents		1,959,614	3,014,412	1,959,614	3,014,412
		$ 3,793,021	$ 3,063,436	$ 3,793,021	$ 3,063,436

Supplementary cash flow information (note 13)

The accompanying notes are an integral part of these financial statements

1. Nature of Business and Basis of Presentation

Sanatana Diamonds Inc. ("Sanatana" or the "Company") was incorporated on June 25, 2004 in the Province of British Columbia under the British Columbia Business Corporations Act. The Company is an exploration stage company, and its principal business activity is the acquisition, exploration and development of properties. The Company has mineral property rights in the Northwest Territories which are in a joint venture with Rio Tinto Exploration Canada Inc. ("Rio Tinto"), and has entered into an option agreement to acquire an exploration property in Yukon. The Company is seeking to acquire complementary mineral properties.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for the presentation of interim financial information. These financial statements do not include all disclosures required for annual financial statements and therefore should be read in conjunction with the most recent audited annual consolidated financial statements of the Company for the year ended March 31, 2010.

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.

Although the Company has taken steps to verify title to the properties in 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.

Certain comparative figures have been reclassified to conform to the presentation used in the current period.

2. Ability to Continue as a Going Concern

The accompanying financial statements have been prepared in accordance with GAAP applicable to a going concern, under which material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern must be disclosed. These financial statements do not reflect any adjustments to the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material. As at December 31, 2010 the Company has no source of operating cash flow and has an accumulated deficit of $30,536,776. Operations from inception through December 31, 2010 have been funded primarily from issuances of capital stock and from contributions received from Rio Tinto.

(Expressed in Canadian dollars)

3. Accounting Pronouncements

The Company plans to adopt accounting pronouncements as follows:

i. Section 1582, "Business Combinations". This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at acquisition date fair value. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. The Company will be required to adopt this standard prospectively for business combinations with acquisition dates on or after April 1, 2011, but may adopt the standard sooner. The Company is currently evaluating the impact of adopting this standard on its financial statements.

ii. On February 13, 2008, the CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards (“IFRS”) by 2011. The Company’s first year end under IFRS will be March 31, 2012. The Company has completed a high-level scoping study and concluded that the following IFRS standards will have the most significant impact:

- IFRS 1 – First-time adoption of IFRS
- IFRS 2 – Share Based Payments
- IFRS 6 – Exploration and evaluation of mineral resources
- IAS 16 – Property, plant and equipment
- IAS 36 – Impairment of Assets

In addition, while IFRS does not prescribe how to account for flow-through shares, common practice may differ from Canadian GAAP and some adjustment to shareholders’ equity may be required on the first-time adoption of IFRS.

4. Amounts Receivable

	December 31, 2010	March 31, 2010
GST receivable	$ 13,449	$ 6,814
Due from employees (note 10)	17,017	21,267
	$ 30,466	$ 28,081

(Expressed in Canadian dollars)

5. Mineral Properties

	Balance March 31, 2009	Change	Balance March 31, 2010	Change	Balance December 31, 2010
Mackenzie property					
Acquisition costs	$ 426,076	$ -	$ 426,076	$ -	$ 426,076
Helicopter and fixed wing aircraft costs	15,443,968	480,051	15,924,019	7,524	15,931,543
Sampling and assays	4,246,746	116,278	4,363,024	21,238	4,384,262
Contractor and consultant	9,100,004	345,108	9,445,112	615	9,445,727
Project management fees	832,965	135,500	968,465	27,821	996,286
Field and camp	1,985,846	46,350	2,032,196	11,721	2,043,917
Transport and accomodation	2,772,866	141,213	2,914,079	7,404	2,921,483
Expediting	514,512	-	514,512	-	514,512
Reclamation provision	120,000	-	120,000	-	120,000
Permitting and other	715,758	109,786	825,544	48,066	873,610
Total costs incurred	36,158,741	1,374,286	37,533,027	124,389	37,657,416
Mineral property impairment	(11,000,000)	(15,700,000)	(26,700,000)	(2,874,849)	(29,574,849)
Options and contribution payments - Rio Tinto	(7,730,646)	(172,309)	(7,902,955)	(111,265)	(8,014,220)
Mackenzie property, net	17,428,095	(14,498,023)	2,930,072	(2,861,725)	68,347
Piche Lake property					
Acquisition costs	-	52,565	52,565	-	-
Contractor and consultant	-	64,220	64,220	-	-
Project management fees	-	39,500	39,500	-	-
Field and camp	-	2,387	2,387	-	-
Transport and accomodation	-	8,036	8,036	-	-
Permitting and other	-	662	662	-	-
Total costs incurred	-	167,370	167,370	-	-
Mineral property impairment	-	(167,370)	(167,370)	-	-
Piche Lake property, net	-	-	-	-	-
Boulder Claims - Yukon					
Acquisition costs	-	-	-	38,640	38,640
Helicopter and fixed wing aircraft costs	-	-	-	14,074	14,074
Sampling and assays	-	-	-	10,168	10,168
Contractor and consultant	-	-	-	82,965	82,965
Permitting and other	-	-	-	1,541	1,541
Project management fees	-	-	-	45,125	45,125
Field and camp	-	-	-	4,300	4,300
Transport and accomodation	-	-	-	50,160	50,160
Total costs incurred				246,973	246,973
Mineral property impairment	-	-	-	(246,973)	(246,973)
Boulder claims, net	-	-	-	-	-
Total expenditures	$ 17,428,095	$ (14,498,023)	$ 2,930,072	$ (2,861,725)	$ 68,347

5. Mineral Properties (Continued)

The Company is required to make deposits against its Northwest Territories mineral permits to guarantee its performance and has $446,975 on deposit as at December 31, 2010 (March 31, 2010 - $446,975).

In June 2010, the Company entered into a non-binding letter of intent to form a joint venture to explore for bedrock gold mineralization on the Boulder Claim Group. As consideration, Sanatana has paid $38,640 to maintain the Boulder Claim Group in good standing until June 2011.

The Company undertook an assessment of its mineral properties at December 31, 2010 and recorded an impairment of $2,874,849 against the value of the Mackenzie property and an impairment of $246,973 against the Boulder Claims property.

In December 2010, the Company entered into a letter of intent (“LOI”) with Augen Gold Corp. (“Augen”) whereby the Company will be granted an option to acquire up to 51% undivided interest in the rights to 46 mineral concessions (“claims”) in Ontario along with the right of first refusal to acquire nine mineral concessions in Ontario. Pursuant to the terms of the LOI, and subject to due diligence investigations, the Company will have an option to earn a 50% interest in the claims by paying Augen $150,000 and issuing 2,000,000 shares upon receiving regulatory approval, and issuing a further 1,500,000 shares one year later and then again at two years later. The Company will also make the following exploration expenditures on the claims:

a) $1,000,000 on or before the first anniversary of receiving regulatory approval.
b) $1,500,000 on or before the second anniversary of receiving regulatory approval
c) $2,500,000 on or before the third anniversary of receiving regulatory approval

After completing the these terms, the Company will enter into a joint venture agreement with Augen and have the right to earn a further 1% interest in the claims by completing and delivering to Augen a pre-feasibility study on or before the fifth anniversary of receiving regulatory approval.

(Expressed in Canadian dollars)

6. Property and Equipment

	Office Furniture	Computer Equipment	Leasehold Improvements	Exploration Equipment	Total
Cost					
At March 31, 2009	$ 34,703	$ 25,663	$ 41,357	$ 363,497	$ 465,220
At March 31, 2010	34,703	25,663	41,357	363,497	465,220
Additions	-	795	-	-	795
At December 31, 2010	34,703	26,458	41,357	363,497	466,015
Accumulated Amortization					
At March 31, 2009	18,392	24,060	41,357	95,508	179,317
Charge for the year	6,936	1,369	-	72,696	81,001
At March 31, 2010	25,328	25,429	41,357	168,204	260,318
Charge for the period	5,143	432	-	54,522	60,097
At December 31, 2010	30,471	25,861	41,357	222,726	320,415
Net book value					
At March 31, 2009	16,311	1,603	-	267,989	285,903
At March 31, 2010	9,375	234	-	195,293	204,902
At December 31, 2010	$ 4,232	$ 597	$ -	$ 140,771	$ 145,600

The amortization change for the period comprises $41,923 expensed to operations (2009 - $6,493) and $18,174 capitalized to mineral properties (2009 - $54,522).

7. Common Shares

a) Authorized share capital

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

b) Issued share capital

At December 31, 2010 there were 72,918,506 common shares issued and outstanding (March 31, 2010 - 62,762,623 common shares).

(Expressed in Canadian dollars)

7. Common Shares (Continued)

c) Private placements

In December 2010, the Company completed a non-brokered private placement consisting of 10,155,883 flow-through shares at a price of $0.17 per share for gross proceeds of $1,726,500. In connection with this private placement the Company paid $26,553 and issued 537,352 broker warrants in finders' fees. Each broker warrant is exercisable for one non flow-through share at a price of $0.25 for a period of 12 months. The fair value of the broker warrants was calculated at $39,238 using the Black-Scholes pricing model and using a volatility rate of 121%, a risk free rate of 1.75% and an annual rate of quarterly dividends of 0.0%.

8. Share Purchase Warrants

The Company has 537,352 broker warrants outstanding at December 31, 2010 exercisable at $0.25 expiring December 30, 2011.

Options

In 2005, the Company's shareholders approved a stock option plan (the "2005 Option Plan") which is a "rolling" plan that provides for the issuance to directors, officers, consultants and employees of the Company up to 10% of the common shares of the Company issued and outstanding at the date of the stock option grant. In July 2007, the Company's shareholders approved a stock option plan with similar provisions to the 2005 Option Plan under the rules of the Exchange. The 2007 stock option plan is considered a continuation of the 2005 Option Plan and was most recently confirmed by shareholders in September 2010. 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. Stock option compensation expense is amortized over the vesting period.

The Company amortizes stock-based compensation expense over the respective vesting period of the options granted but did not incur any stock-based compensation in the nine-month period ended December 31, 2010 (2009 - $222,000).

For the nine months ended December 31,	2010		2009	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance, beginning of period	5,220,000	$1.16	5,220,000	$1.16
Granted	-	-	-	-
Forfeited	(410,000)	0.90	-	-
Balance, end of period	4,810,000	$1.18	5,220,000	$1.16

(Expressed in Canadian dollars)

9. Stock Options (Continued)

Summary of outstanding options at December 31, 2010:

	Outstanding Options			Exercisable Options	
Exercise Price Range	Number	Weighted Average Exercise Price	Weighted Average Remaining Life	Number	Weighted Average Exercise Price
$0.75-$1.00	1,610,000	$0.77	1.73 years	1,610,000	$0.77
$1.01-$1.40	3,200,000	$1.38	1.64 years	3,200,000	$1.38
	4,810,000	$1.18	1.67 years	4,810,000	$1.18

The Company valued options using the Black-Scholes options pricing model with the following assumptions:

For the nine months ended December 31,	2010	2009
Expected dividend yield	-	0%
Expected volatility	-	86.9%
Risk-free interest rate	-	2.8%
Expected life	-	5.0 years

10. Related Party Transactions

At December 31, 2010, the Company had three employees and had arrangements with contractors to provide administrative, accounting and management services. Certain directors and significant shareholders provided management and consulting services to the Company.

Related party transactions in the periods presented were:

Nine Months Ended December 31, 2010	Director Fees	Management Fees and Salaries	Capitalized Technical Services Fees (note 5)	Exploration Expense Contribution (note 5)
Edward Marlow	$ 15,000	$ -	$ -	$ -
Harley Hotchkiss	7,500	-	-	-
Nick Archibald	7,500	-	-	-
Peter Miles (a)	-	49,500	-	-
Lithosphere Services Inc. (b)	-	20,000	5,000	-
S2 Management Inc. (c)	-	11,260	-	-
Rio Tinto (d)	-	-	-	111,265
	$ 30,000	$ 80,760	$ 5,000	$ 111,265

(Expressed in Canadian dollars)

10. Related Party Transactions (Continued)

Nine Months Ended December 31, 2009	Director Fees	Management Fees and Salaries	Capitalized Technical Services Fees (note 5)	Exploration Expense Contribution (note 5)
Edward Marlow	$ 15,000	$ -	$ -	$ -
Harley Hotchkiss	7,500	-	-	-
Nick Archibald	7,500	-	-	-
Peter Miles (a)	-	49,500	-	-
Lithosphere Services Inc. (b)	-	-	23,000	-
S2 Management Inc. (c)	-	10,660	-	-
Rio Tinto (d)	-	-	-	172,309
	$ 30,000	$ 60,160	$ 23,000	$ 172,309

a) Mr. Miles is the Company's President and CEO, and a director.
b) Lithosphere Servies Inc. is controlled by Mr. Doyle the Company's VP Exploration and a director
c) S2 Management Inc. is controlled by the Company's CFO
d) Rio Tinto is a shareholder of the Company (note 5).

During fiscal 2010, Canada Revenue Agency ("CRA") concluded that certain contractors of the Company were actually employees and required that the Company make payroll remittances in respect of those individuals. The individuals expect to receive a refund of $21,267 from CRA and have agreed to return these funds to the Company, when received (note 4). During the nine months ended December 31, 2010, the Company collected $4,250 of this amount.

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

As at December 31,	2010	2009
Directors and insiders	$ 10,000	$ 10,085
Lithosphere Services Inc.	-	7,350
S2 Management Inc.	1,322	819

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

11. Commitments

a) Under the terms of an agreement dated November 25, 2004 with Kiska Metals Corporation, formerly Geoinformatics Explorations Inc. ("Kiska"), a company in which one of the Company's directors was formerly chief executive officer, Kiska is entitled to a 0.9% gross overriding royalty in respect of the Mackenzie Diamond project.

b) A member of Jaeger Joint Venture, from which the Company purchased an interest in the Mackenzie Diamond Project, is entitled to a 2% net sales revenue royalty from that project.

(Expressed in Canadian dollars)

11. Commitments (Continued)

c) The Company is contractually committed under a lease agreement to make payments as follows:

Period ending March 31,	
2011	$ 23,219
2012	78,950
	$102,169

d) At December 31, 2010, under the conditions of a flow-through financing (note 7) and related income tax law, the Company was committed to spending $1,726,500 on eligible exploration expenditures before December 31, 2012.

12. Capital Management

The Company considers items included in its shareholders' equity as capital. The Company's objectives in managing capital are to ensure that it has sufficient funds to complete its planned exploration activities; maintain creditor confidence; and to safeguard the Company's ability to obtain further financing when the need arises.

The Company does not have any externally imposed capital requirements. In maintaining its capital, the Company has a strict investment policy which includes investing surplus cash only in highly liquid, highly rated financial instruments. The Company regularly reviews its capital management approach. There were no changes in the Company's approach to capital management during the year.

13. Supplementary Cash Flow Information

For the nine months ended December 31,	2010	2009
Interest and taxes paid	$ -	$ -
Non-cash investing activities:		
Amortization in mineral properties	18,174	54,522
Non-cash financing activities:		
Fair value of broker warrants	39,238	-

14. Financial Risk Management

Interest Rate Risk
The Company's interest rate risk mainly arises from changes in the interest rates on cash and equivalents. Cash and equivalents generate interest based on market interest rates. At December 31, 2010, the Company was not subject to significant interest rate risk.

Credit Risk
Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's credit risk arises primarily with respect to money market investments.

The Company manages its credit risk by investing only in obligations of any province of Canada, Canada or their respective agencies; banker's acceptances purchased in the secondary market and having received the highest credit rating from a recognized rating agency in Canada, with a term of less than 180 days; and bank term deposits and bearer deposit notes, with a term of less than 180 days.

(Expressed in Canadian dollars)

14. Financial Risk Management (Continued)

The Company's maximum exposure to credit risk at the reporting date is the carrying value of cash and equivalents and amounts receivable.

Liquidity Risk
The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances. If necessary, the Company may raise funds through the issuance of debt, equity or monetization of non-core assets. The Company ensures that there is sufficient capital to meet its obligations by continuously monitoring and reviewing actual and forecasted cash flows, and match the maturity profile of financial assets to development, capital and operating needs.

The following table presents the financial instruments recorded at fair value in the balance sheet, classified using the fair value hierarchy:

	Level 1	Level 2	Level 3	Total financial assets at fair value
Financial assets				
Cash	$ 3,793,021	$ -	$ -	$ 3,793,021
Total financial assets	$ 3,793,021	$ -	$ -	$ 3,793,021

15. Subsequent events

(a) In January 2011, the Company closed a non-brokered private placement consisting of 6,666,666 units at a price of $0.15 per unit for gross proceeds of $1,000,000. Each unit consists of one common share and one half of a share purchase warrant where each whole warrant entitles the holder to purchase one share of the Company for a price of $0.25 until January 14, 2012. In connection with this private placement, the Company paid $47,160 and issued 163,333 broker warrants in finders' fees. Each broker warrant is exercisable for one common share at a price of $0.25 for a period of 12 months.

The Company received $161,000 of the share subscription prior to the end of the quarter.

(b) In February 2011, the Company granted directors, offices and an employee options to purchase up to 2,950,000 common shares at an exercise price of $0.30 per share for five years. The options vest over 18 months.

(c) In February 2011, the Company signed a definitive agreement with Augen Cold Corp. granting 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 Augen. The proposed option is an arm's length transaction and subject to Exchange approval.

Pursuant to the terms of the definitive agreement, the Company will have an option to earn a 50% undivided interest in the Claims (the "50% Interest") by paying Augen $150,000 in cash, issuing 5,000,000 common shares and spending $5,000,000 on exploration expenditures in installments over three years. If the Company earns the 50% Interest in accordance, the parties will enter into a joint venture agreement with respect to the Claims and the Company will have the right to earn a further 1% interest (for a total interest of 51%) in the Claims by completing and delivering to Augen a pre-feasibility study within five years of regulatory approval.

15. Subsequent events (Continued)

The definitive agreement includes a provision that as the Company and Augen are parties to an option or joint venture, with respect to the Claims or the ROFR Claims, Augen has the option to purchase up to 10% of any securities issued in any future equity offerings by the Company, on the same terms and conditions of such offering.