SANATANA RESOURCES INC.

Condensed Interim Financial Statements

Third Quarter Ended December 31, 2011

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 nine months ended December 31, 2011 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.

Unaudited – Prepared by Management

Condensed Interim Statements of Financial Position

	Notes	December 31, 2011	March 31, 2011
		$	$
ASSETS			
Current assets			
Cash and cash equivalents		3,215,878	4,210,157
Receivables	5	132,073	38,290
Prepaid expenses		24,370	54,078
Total current assets		3,372,321	4,302,525
Non-current assets			
Reimburseable bonds and deposits	6	276,488	277,447
Prepaid exploration and evaluation advance		34,000	-
Exploration and evaluation assets	7	2,823,608	969,909
Property and equipment	8	200,791	225,802
Total non-current assets		3,334,887	1,473,158
Total assets		6,707,208	5,775,683
LIABILITIES			
Current liabilities			
Payables and accruals		369,658	70,908
Provision	9	150,000	120,000
Liability to renounce exploration expenditures	10	303,030	-
Total current liabilities		822,688	190,908
Non-current liabilities			
Deferred income tax liability		431,600	431,600
Total liabilities		1,254,288	622,508
EQUITY			
Share capital	10	38,367,671	37,457,496
Reserves	10	3,630,541	3,359,668
Deficit		(36,545,292)	(35,663,989)
Total equity		5,452,920	5,153,175
Total equity and liabilities		6,707,208	5,775,683

These condensed interim financial statements are authorized for issue by the audit committee on February 23, 2012. They are signed on the Company's behalf by:

"Peter Miles", Director
Peter Miles

"Edward Marlow", Director
Edward Marlow

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

Sanatana Resources Inc.
Unaudited – Prepared by Management

Condensed Interim Statements of Comprehensive Loss

	Notes	Three months ended December 31, 2011	Three months ended December 31, 2010	Nine months ended December 31, 2011	Nine months ended December 31, 2010
		$	$	$	$
Expenses					
Depreciation	8	8,781	12,006	26,521	25,923
Director fees		30,000	10,000	57,500	30,000
Filing fees		2,128	(3,106)	12,613	3,003
Investor relations		1,477	2,800	10,464	4,756
Management fees and salaries	12	119,144	45,192	252,313	149,536
Office and administration		15,382	14,677	45,434	45,456
Professional fees		11,230	(275)	46,538	3,998
Property investigations		901	74,161	23,331	123,426
Rent		29,034	22,615	73,497	66,002
Share-based payments	11	91,000	-	269,000	-
Transfer agent fees		6,743	1,335	16,124	7,889
Travel and accomodation		2,654	9,130	27,232	32,472
Loss before undernoted		(318,474)	(188,535)	(860,567)	(492,461)
Abandonded claim costs		(17,667)	-	(17,667)	(34,564)
Exploration and evaluation assets write-down		-	(62,142)	-	(3,113,822)
Part XII.6 tax	10	(50,100)	-	(50,100)	-
Equipment rental income		37,995	-	37,995	-
Interest income		2,562	1,839	9,036	4,700
Loss and total comprehensive loss for the period		(345,684)	(248,838)	(881,303)	(3,636,147)
Loss per share, basic and diluted	13	(0.00)	(0.00)	(0.01)	(0.06)
Weighted average common shares outstanding - basic and diluted		82,467,984	62,797,917	82,010,470	62,797,917

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

Sanatana Resources Inc.

Unaudited – Prepared by Management

Condensed Interim Statements of Changes in Equity

	Common Shares $	Share Subscriptions Received $	Reserves $	Deficit $	Equity $
Balance - April 1, 2010	34,272,603	-	2,783,660	(30,775,762)	6,280,501
Private placement of flow-through shares	1,726,500	-	-	-	1,726,500
Share issuance costs	(110,481)	-	-	-	(110,481)
Fair value of broker warrants	(39,238)	-	39,238	-	-
Share subscriptions received	-	161,000	-	-	161,000
Loss for the period	-	-	-	(3,636,147)	(3,636,147)
Balance - December 31, 2010	35,849,384	161,000	2,822,898	(34,411,909)	4,421,373

	Common Shares $	Share Subscriptions Received $	Reserves $	Deficit $	Equity $
Balance - April 1, 2011	37,457,496	-	3,359,668	(35,663,989)	5,153,175
Agent warrants exercised	129,129	-	(28,247)	-	100,882
Warrants exercised	148,750	-	-	-	148,750
Private placement of flow-through shares	1,000,000	-	-	-	1,000,000
Share issuance costs	(84,804)	-	-	-	(84,804)
Liability to renounce exploration expenditures	(303,030)	-	-	-	(303,030)
Fair value of broker warrants	(30,120)	-	30,120	-	-
Shares issued as part of Watershed finder's fees	50,250	-	-	-	50,250
Share-based compensation	-	-	269,000	-	269,000
Loss for the period	-	-	-	(881,303)	(881,303)
Balance - December 31, 2011	38,367,671	-	3,630,541	(36,545,292)	5,452,920

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

Sanatana Resources Inc.

Unaudited – Prepared by Management

Condensed Interim Statements of Cash Flows

	Notes	Nine months ended December 31, 2011	2010
		$	$
Cash provided by (used in):			
Operating activities:			
Loss for the period		(881,303)	(3,636,147)
Adjustment for:			
Depreciation of property and equipment	8	26,521	25,923
Interest income		(9,036)	(4,700)
Exploration and evaluation asset write-down		-	3,113,822
Share-based compensation	11	269,000	-
Changes in non-cash working capital items:			
Receivables		(93,783)	(2,385)
Prepaid expenses		29,708	24,871
Payables and accruals		108,473	3,665
		(550,420)	(474,951)
Investing activities:			
Prepaid exploration and evaluation advance		(34,000)	-
Reimburseable bonds and deposits	6	959	-
Exploration and evaluation assets	7	(1,583,172)	(426,109)
Rio Tinto contribution	7	-	111,265
Property and equipment purchases	8	(1,510)	(795)
Interest received		9,036	4,700
		(1,608,687)	(310,939)
Financing activities			
Issuance of common shares	10	1,164,828	1,616,019
Share subscription received		-	161,000
		1,164,828	1,777,019
Decrease in cash and cash equivalents		(994,279)	991,129
Cash and cash equivalents, beginning of period		4,210,157	2,801,892
Cash and cash equivalents, end of period		3,215,878	3,793,021
Cash and equivalents comprise:			
Cash		1,045,105	1,833,407
Equivalents		2,170,773	1,959,614
		3,215,878	3,793,021

Supplementary cash flow information (note 14)

The accompanying notes are an integral part of these condensed interim 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. It also has diamond mineral property rights in the Northwest Territories and an option to acquire a gold exploration property in Yukon.

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.

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

2. Basis of Preparation

Statement of Compliance

The financial statements of the Company for the year ending March 31, 2012 will be prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), having previously prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). These condensed interim financial statements for the nine-month period ended December 31, 2011 have been prepared in accordance with IAS 34 Interim Financial Reporting, and as they are part of the Company's first IFRS annual reporting period, IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

As these condensed interim financial statements are the Company's third financial statements prepared using IFRS, certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian GAAP have been included in these financial statements for the comparative annual period. However, these condensed interim financial statements do not include all of the information required for full annual financial statements.

2. Basis of Preparation (continued)

These condensed interim financial statements should be read in conjunction with the Company's March 31, 2011 annual financial statements, June 30, 2011 condensed interim financial statements and the explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 17.

Basis of Measurement

The condensed interim 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.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Going Concern of Operations

The Company has not generated revenue from operations. The Company incurred a loss of $898,303 during the nine months ended December 31, 2011 and, as of that date the Company's deficit was $36,562,292. However, the Company has sufficient cash resources to meet its obligations for at least twelve months from the end of the reporting period. As the Company is in the exploration stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

3. Critical Accounting Estimates and Judgements

Sanatana 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 condensed interim financial statements within the next financial year are discussed below:

3. Critical Accounting Estimates and Judgements (continued)

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 of the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

Exploration and Evaluation Expenditures

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after the expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Income Tax

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. Management 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.

3. Critical Accounting Estimates and Judgements (continued)

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 11.

4. Cash and Cash Equivalents

Cash at banks and on hand earns interest at floating rates based on daily bank deposit rates. Short-term investment deposits included in cash and cash equivalents bear interest at fixed rates to maturity.

5. Receivables

	December 31, 2011	March 31, 2011
Related parties	8,078	8,078
Other	-	12,655
HST - value added tax	123,995	17,557
Balance, end of period	132,073	38,290

6. Reimbursable Bonds and Deposits

	$
Balance April 1, 2010	446,975
Net bond redemptions	(169,528)
Balance March 31, 2011	277,447
Net bond redemptions	(959)
Balance December 31, 2011	276,488

7. Exploration and Evaluation Assets

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

	Balance April 1, 2010	Change	Balance March 31, 2011	Change	Balance December 31, 2011
	$	$	$	$	$
Watershed property					
Accumulated costs	-	901,562	901,562	1,853,699	2,755,261
Net	-	901,562	901,562	1,853,699	2,755,261
Mackenzie Diamond Project					
Accumulated costs	37,533,027	132,277	37,665,304	-	37,665,304
Impairment	(26,700,000)	(2,882,737)	(29,582,737)	-	(29,582,737)
Contribution payments	(7,902,955)	(111,265)	(8,014,220)	-	(8,014,220)
Net	2,930,072	(2,861,725)	68,347	-	68,347
Boulder Claims					
Accumulated costs	-	247,161	247,161	15,777	262,938
Abandoned claim costs	-	-	-	(15,777)	(15,777)
Impairment	-	(247,161)	(247,161)	-	(247,161)
Net	-	-	-	-	-
	2,930,072	(1,960,163)	969,909	1,853,699	2,823,608
Total impairment		$(3,129,898)		$ -	

Watershed property

	Balance April 1, 2010	Change	Balance March 31, 2011	Change	Balance December 31, 2011
	$	$	$	$	$
Acquisition costs	-	850,000	850,000	50,250	900,250
Contractor and consultant	-	22,562	22,562	1,325,893	1,348,455
Helicopter and fixed wing aircraft costs	-	-	-	13,007	13,007
Expediting	-	-	-	5,216	5,216
Project management fees	-	27,000	27,000	100,205	127,205
Field and camp	-	2,000	2,000	52,771	54,771
Sampling and assays	-	-	-	154,069	154,069
Transport and accomodatior	-	-	-	121,607	121,607
Permitting and other	-	-	-	30,681	30,681
Watershed property, net	-	901,562	901,562	1,853,699	2,755,261

7. Exploration and Evaluation Assets (continued)

In February 2011, the Company signed a definitive option and joint venture agreement with Augen Gold Corp. ("Augen"), which was subsequently acquired by Trelawney Mining and Exploration Inc. 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.

Pursuant to the terms of the option and joint venture agreement, the Company has an option to earn a 50% undivided interest in the Claims (the "50% Interest") by completing the following:

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

To December 31, 2011, the Company had incurred exploration expenditures, including a permitted administrative mark-up, of $1,964,000.

If the Company earns the 50% Interest, 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 by March 23, 2016.

The option and joint venture agreement includes a provision that while 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 equity offerings by the Company on the same terms and conditions of such offering.

The Company agreed to pay a finders' fee in connection with the Watershed property that is payable in the Company's common shares. The amount of the finders' fee is equal to 10% of the first $300,000 in transaction value, as defined in the finder's fee agreement, 7.5% of the transaction value from $300,000 to $1,000,000 and 5% of all transaction value in excess of $1,000,000. The maximum value of the finders' fee is $142,500 which will be settled through the issuance of up to 678,571 common shares. To date, the Company has incurred an obligation to pay $50,250 of the maximum finders' fee, which it has settled through the issuance of 293,283 common shares.

Mackenzie Diamond Project

On July 31, 2004, and March 4, 2005, the Company entered into a series of agreements with the Jaeger Joint Venture ("Jaeger"), an entity partially owned by a director of the Company, to purchase the rights to any diamonds located on a series of properties (the "MacKenzie Diamond Project") in the Inuvialuit, Gwich'in and Sahtu mining districts in the Northwest Territories, Canada. In June 2005, the Company acquired from Jaeger all other mineral rights, excluding uranium rights, to the prospecting permits to which it already owned diamond rights. Jaeger retains a 10% production carried interest and a member of Jaeger retains a 2% net smelter returns royalty ("NSR"). In addition, in terms of the agreements, the Company has agreed to pay 100% of the exploration and mine construction costs.

7. Exploration and Evaluation Assets (continued)

The Company has a joint venture agreement with diamond producer Rio Tinto Exploration Canada Inc. ("Rio Tinto"), a subsidiary of the Rio Tinto Group. Pursuant to the joint venture, the Company acts as the operator and Rio Tinto has a 15% interest in the Company's Mackenzie diamond project, which can be increased to a maximum of 60% based on certain milestones. Rio Tinto elected not to participate in the Company's summer 2010 exploration program resulting in its interest being diluted, although the amount of dilution to date has not been material.

At December 31, 2011 the Company held 136,000 hectares (March 31, 2011 – 728,000 hectares) of permits and unpatented mining claims.

Boulder Claim Group

	Balance March 31, 2010	Change	Balance March 31, 2011	Change	Balance December 31, 2011
	$	$	$	$	$
Boulder Claim Group					
Acquisition costs	-	38,640	38,640	-	38,640
Helicopter and fixed wing aircraft costs	-	14,074	14,074	-	14,074
Sampling and assays	-	10,168	10,168	-	10,168
Contractor and consultant	-	83,153	83,153	8,590	91,743
Permitting and other	-	1,541	1,541	7,113	8,654
Project management fees	-	45,125	45,125	-	45,125
Field and camp	-	4,300	4,300	-	4,300
Transport and accomodation	-	50,160	50,160	74	50,234
Total costs incurred		247,161	247,161	15,777	262,938
Abandoned claim costs	-	-	-	(15,777)	(15,777)
Mineral property impairment	-	(247,161)	(247,161)	-	(247,161)
Boulder claims, net	-	-	-	-	-

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 paid $38,640 to maintain the Boulder Claim Group in good standing until June 2011.

The Company undertook an assessment of its mineral properties during the year ended March 31, 2011 and, due to a lack of exploration success, recorded an impairment of $247,161 against the Boulder Claims property.

8. Property and Equipment

	Office Furniture	Computer Equipment	Leasehold Improvements	Exploration Equipment	Total
	$	$	$	$	$
Cost					
At April 1, 2010	34,703	25,663	41,357	363,497	465,220
Additions	-	795	-	-	795
At March 31, 2011	34,703	26,458	41,357	363,497	466,015
Additions	-	1,510	-	-	1,510
At December 31, 2011	34,703	27,968	41,357	363,497	467,525
Accumulated Depreciation					
At April 1, 2010	25,328	25,429	41,357	101,538	193,652
Charge for the year	6,665	498	-	39,398	46,561
At March 31, 2011	31,993	25,927	41,357	140,936	240,213
Charge for the period	1,471	408	-	24,642	26,521
At December 31, 2011	33,464	26,335	41,357	165,578	266,734
Net book value					
At April 1, 2010	9,375	234	-	261,959	271,568
At March 31, 2011	2,710	531	-	222,561	225,802
At December 31, 2011	1,239	1,633	-	197,919	200,791

In the nine months ended December 31, 2011, depreciation of $nil (2010 - $18,174) was capitalized to exploration and evaluation assets.

9. Provision

	December 31, 2011
Mackenzie Diamond Project	120,000
Watershed Property	30,000
Balance, end of period	150,000

10. Share Capital and Reserves

Authorized share capital

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

Common Shares

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 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.

The Company has incurred a Part XII.6 tax liability in connection with its 2010 flow-through offering which it estimates at $50,100 based on the timing of exploration expenditures and statutory interest rates.

The following is a summary of changes in common share capital from April 1, 2010 to December 31, 2011:

	Number of Shares	Issue Price $	Common Shares $
Balance - April 1, 2010	62,762,623		34,272,603
Private placement of flow through units	10,155,883	0.17	1,726,500
Private placement of units	6,666,666	0.15	1,000,000
Share issuance for Augen JV option	2,000,000	0.35	700,000
Less share issue costs	-	-	(241,607)
Balance - March 31, 2011	81,585,172		37,457,496
Agent warrants exercised	403,529	0.25	100,882
Fair value of agent warrants exercised	-	-	28,247
Warrants exercised	595,000	0.25	148,750
Private placement of flow through units	3,030,303	0.33	1,000,000
Liability to renounce exploration expenditures	-	-	(303,030)
Shares issued related to Watershed finder's fees	239,283	0.21	50,250
Less share issue costs	-	-	(114,924)
Balance - December 31, 2011	85,853,287		38,367,671

10. Share Capital and Reserves (continued)

Reserves

Reserves comprise the fair value of stock option grants and warrants prior to exercise. The following is a summary of changes in reserves from April 1, 2010 to December 31, 2011:

	$
April 1, 2010	2,783,660
Share-based compensation	525,000
Fair value of broker warrants	51,008
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	286,000
Balance, December 31, 2011	3,647,541

Warrants

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

	December 31, 2011		March 31, 2011	
	Number Of Warrants	Weighted Average Exercise Price	Number Of Warrants	Weighted Average Exercise Price
Balance, beginning of period	4,034,018	$0.25	-	$ -
Granted	212,121	0.40	4,034,018	0.25
Exercised	(998,529)	0.25	-	-
Forfeited	(133,823)	0.25		
Balance, end of period	3,113,787	$0.26	4,034,018	$0.25

Summary of outstanding warrants is as follows:

Expiry Date	Exercise Price	Financing Warrants	Broker Warrants	Subsequent to Quarter Exercised	Subsequent to Quarter Expired
January 14, 2012	$ 0.25	2,738,333	163,333	1,336,666	1,565,000
December 30, 2012	$ 0.40	-	212,121		
		2,738,333	375,454		

Nature and Purpose of Reserves and Deficit

The reserves recorded in equity on the Company's balance sheet comprise contributed surplus and deficit. Contributed surplus is used to recognize the fair value of stock option grants and agent warrants prior to exercise. Deficit records the Company's cumulative earnings or loss.

11. Share-Based Payments

The Company has a "rolling" stock option plan that allows the Company's board of directors to issue options to purchase up 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 2011.

	December 31, 2011		March 31, 2011	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance, beginning of period	6,910,000	$0.56	5,220,000	$1.16
Granted	400,000	0.50	4,350,000	0.30
Expired or cancelled	(250,000)	0.30	(2,660,000)	1.30
Balance, end of period	7,060,000	$0.57	6,910,000	$0.56

Summary of outstanding options at December 31, 2011:

	Outstanding Options			Exercisable Options	
Exercise Price Range	Number	Weighted Average Exercise Price	Weighted Average Remaining Life	Number	Weighted Average Exercise Price
$0.30	4,500,000	$0.31	4.19 years	2,150,000	$0.31
$0.75	1,460,000	0.75	0.67 years	1,460,000	0.75
$1.35-$1.40	1,100,000	1.35	1.22 years	1,100,000	1.35
	7,060,000	$0.57	3 years	4,710,000	$0.69

The Company incurred $286,000 (2010 - $nil) share-based payments for the six months ended September 30, 2011.

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

	December 31, 2011
Dividend yield	0%
Risk-free interest rate	1.9%
Estimated volatility	143%
Expected life in years	5

12. Related Party Transactions and Balances

At December 31, 2011, the Company had three employees and had arrangements with contractors to provide administrative, accounting and certain management services. Certain directors and significant shareholders provided management and consulting services to the Company.

Related party transactions in the nine months ended December 31, 2011 were:

	Three months ended December 31,		Nine months ended December 31,	
	2011	2010	2011	2010
	$	$	$	$
Key management personnel compensation				
Salary	58,000	16,500	124,000	49,500
Director fees	30,000	10,000	57,500	30,000
Management fees - expensed	28,520	6,900	49,430	10,660
Technical fees - capitalized	12,000	-	18,000	23,000
Share-based payments	13,000	-	63,000	-
Total	141,520	33,400	311,930	113,160
Included in the above is compensation paid through companies:				
Lithosphere Services Inc.	7,000	3,000	21,000	25,000
S2 Management Inc.	3,520	3,900	21,430	11,260

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:

	December 31, 2011	March 31, 2011
	$	$
Directors and insiders	42,500	10,000
Lithosphere Services Inc.	15,000	5,000
S2 Management Inc.	10,347	3,528

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

13. Loss per Share

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

	Three months ended December 31,		Nine months ended December 31,	
	2011	2010	2011	2010
	$	$	$	$
Net loss	(345,684)	(248,838)	(881,303)	(3,636,147)
Weighted average number of common shares outstanding	82,467,984	62,797,917	82,010,470	62,797,917
	(0.00)	(0.00)	(0.01)	(0.06)

Diluted loss per share for the periods ended December 31, 2011 and 2010 is the same as basic loss per share as the impact of the exercise of the share options and warrants is anti-dilutive.

14. Supplemental Cash Flow Information

Non-cash financing and investing activities included the following:

For the nine months ended December 31,	2011	2010
Non-cash investing activities:		
Depreciation in mineral properties	-	18,174
Change in accounts payable regarding mineral properties	190,277	72,943
Shares issued for mineral property interests	50,250	-
Provision	30,000	-
Non-cash financing activities:		
Tax value of assets renounced to flow-through share investors	431,600	-
Fair value of broker warrants granted	30,120	-
Fair value of broker warrants exercised	28,247	39,238
Liability to renounce exploration expenditures	303,030	431,600

15. 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 smelter return from that project.

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

Period ending March 31,2012	$ 23,685
Period ending March 31, 2013	$ 78,950

15. Commitments (continued)

d) At December 31, 2011, the Company was committed to spending $1,000,000 before December 31, 2012 under the conditions of its December 2011 flow-through financing and related income tax law. During the period ended December 31, 2011, the Company satisfied spending obligations under its December 2010 flow-through financing.

16. Segmented Information

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

17. Transition to International Financial Reporting Standards

As stated in note 2, these are the Company's third condensed interim financial statements for the period covered by the first annual financial statements prepared in accordance with IFRS.

Initial elections upon IFRS adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

<u>IFRS Exemption options</u>

Share-based payments – IFRS 2 *Share-based payments* encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the transition date. The Company has chosen to apply the exemption under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by the transition date.

Leases - In some cases leases, such as premises leases, are accounted for differently under IFRS and Canadian GAAP. The Company has chosen to apply an exemption under IFRS 1 so that the Company does not have to restate balances at the transition date that might result from lease accounting differences.

Rehabilitation provisions - The determination of rehabilitation provisions under IFRS differs from the method employed under Canadian GAAP. The Company has elected to apply an exemption under IFRS 1 so that it will not have to restate previously determined rehabilitation provisions.

<u>IFRS Mandatory exceptions</u>

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Company's first time adoption of IFRS did not have an effect on the total operating, investing and financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity and comprehensive income.

17. Transition to International Financial Reporting Standards (continued)

The accounting policies disclosed in note 3 of the Company's June 30, 2011 financial statements have been applied as follows:

- in preparing the condensed interim financial statements for the three and nine months ended December 31, 2011;
- the comparative information for the three and nine months ended December 31, 2010;
- the statement of financial position as at March 31, 2011; and
- the preparation of an opening IFRS statement of financial position on the Transition Date, April 1, 2010.

In preparing the opening IFRS statement of financial position, comparative information for the nine months ended December 31, 2010 and the financial statements for the year ended March 31, 2011, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

The financial information prepared under IFRS and that prepared under Canadian GAAP for periods beginning on April 1, 2010 have the following major differences:

(i) Under IFRS, share-based payment transactions which are subject to graded vesting should have the separate tranches valued and amortized over the respective vesting periods separately as if each tranche was a separate award. Canadian GAAP allows the entire award to be valued together and to be amortized on a straight-line basis over the vesting time of the entire award. The Company's stock options typically vest over an 18-month period. The requirement to adopt graded vesting under IFRS accelerates recognition of share-based compensation expense with the result that the share-based compensation is increased in the year ended March 31, 2011 under IFRS.

(ii) Under IFRS, flow-through instruments are accounted for as combined instruments comprising a liability component and an equity instrument upon issuance of the flow-through instruments. Upon renunciation of the expenditures for Canadian income tax purposes, the liability is reversed and a taxable temporary difference is recorded. Under Canadian GAAP flow-through instruments are accounted for as equity instruments only. Upon renunciation of the expenditures for Canadian tax purposes, a taxable temporary difference effected at the issuer's applicable tax rate is recorded and charged to equity as cost of issuance of flow-through instruments. The Company recognized a future income tax liability under Canadian GAAP relating to the tax benefit transferred to flow-through shareholders. Under IFRS, the Company would have had to recognize an income tax expense of the same amount.

(iii) Under IFRS, the Company revisited the useful life of the components of its drill with the result of changing its annual depreciation expense from $60,000 to $28,000. The decreased depreciation provision under IFRS means that the mineral property write-down would have been $8,000 higher under IFRS since capitalized exploration and evaluation assets included capitalized depreciation of property and equipment.

17. Transition to International Financial Reporting Standards (continued)

	December 31, 2010 $
Total assets under Canadian GAAP	4,502,000
Adjustments for different accounting treatments:	
(i) Share-based compensation	-
(ii) Treatment of flow-through shares	-
(iii) Property and equipment assets	
- adjustment to property and equipment	90,666
Total assets under IFRS	4,592,666
Total liabilities under Canadian GAAP	171,293
Adjustments for different accounting treatments:	
(i) Share-based compensation	-
(ii) Treatment of flow-through shares	-
(iii) Property and equipment assets	-
Total liabilities under IFRS	171,293
Total equity under Canadian GAAP	4,330,707
Adjustments for different accounting treatments:	
(i) Share-based compensation	
- adjustment to expense	-
- adjustment to reserves	-
(ii) Treatment of flow-through shares	
- adjustment to share capital	3,965,799
- adjustement to deficit	(3,965,799)
(iii) Property and equipment assets	
- adjustment to accumulated depreciation	90,666
Total equity under IFRS	4,421,373

17. Transition to International Financial Reporting Standards (continued)

	Three Months Ended December 31, 2010 $	Nine Months Ended December 31, 2010 $
Total comprehensive loss under Canadian GAAP	(256,838)	(3,660,147)
Adjustments for different accounting treatments:		
(i) Share-based compensation	-	-
(ii) Future income taxes	-	-
(iii) Depreciation expense	8,000	16,000
(iii) Mineral property write-down	-	8,000
Total comprehensive loss under IFRS	(248,838)	(3,636,147)

18. Events after the Reporting Period

In January 2012 1,336,666 warrants were exercised for gross proceeds of $334,167 and 1,401,667 warrants and 163,333 broker warrants expired unexercised.