

Sarama Resources Ltd

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS JUNE 30, 2013

(Unaudited, Expressed in United States Dollars)

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DIRECTORS

T. Sean Harvey (Non-executive Chairman)
Andrew Dinning (President and CEO)
L. Simon Jackson (Non-executive Director)
William S. Turner (Non-executive Director)

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Sarama Resources Ltd
An Exploration Stage Company
Condensed Consolidated Statement of Financial Position
Expressed in United States Dollars
(Unaudited)

	Note	As at June 30, 2013 \$	As at December 31, 2012 \$
ASSETS			
Current assets			
Cash and cash equivalents		6,889,328	14,728,740
Security deposit		129,890	138,298
Accounts receivable		42,681	73,129
Prepayments		3,518	366,440
Total current assets		7,065,417	15,306,607
Non-current assets			
Exploration and evaluation assets	4	22,736,250	16,409,966
Plant and equipment	5	817,545	723,379
Total non-current assets		23,553,795	17,133,345
Total assets		30,619,212	32,439,952
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		351,689	343,648
Financial liabilities	6(e)	288,599	4,224,438
Total current liabilities		640,288	4,568,086
Total non-current liabilities		-	-
Total liabilities		640,288	4,568,086
EQUITY			
Share capital	6(b)	35,593,423	35,493,423
Stock-based compensation reserve		1,905,029	1,590,634
Foreign currency translation reserve		34,174	143,496
Deficit		(7,553,702)	(9,355,687)
Total equity		29,978,924	27,871,866
Total liabilities and equity		30,619,212	32,439,952

These financial statements are authorised for issue by the Board of Directors on August 28, 2013.

They are signed on the Company's behalf by:

(Signed) "Andrew Dinning" Andrew Dinning, Director

(Signed) "Lawrence. S Jackson" L. Simon Jackson, Director

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

Sarama Resources Ltd
An Exploration Stage Company
Condensed Consolidated Statement of Comprehensive Income/(Loss)
Expressed in United States Dollars
(Unaudited)

	Note	Three month period ended June 30, 2013 \$	Three month period ended June 30, 2012 \$	Six month period ended June 30, 2013 \$	Six month period ended June 30, 2012 \$
Income					
Interest income		23,565	18,436	52,730	33,844
Foreign exchange gain		-	-	-	98,080
Fair value gain on warrants carried at fair value through profit and loss	6(e)	932,485	2,670,210	3,935,839	-
		<u>956,050</u>	<u>2,688,646</u>	<u>3,988,569</u>	<u>131,924</u>
Expenses					
Accounting and audit		49,084	21,486	64,553	33,881
Stock-based compensation		49,149	72,411	314,395	374,475
Salaries		245,092	225,411	654,805	504,684
Directors fees		24,142	-	58,318	64,299
Professional fees		51,957	168,847	66,608	176,760
Office and general		47,073	49,539	159,190	169,412
Travel		87,466	57,790	174,142	136,867
Depreciation		8,848	4,968	17,475	10,272
Foreign exchange loss		290,705	218,855	543,555	-
IPO/raising costs		-	-	-	36,708
Exploration expenditure written off		81,818	-	81,818	-
Insurance		16,304	13,287	51,725	49,060
Fair value loss on warrants carried at fair value through profit and loss		-	-	-	449,903
Total expenses		<u>951,638</u>	<u>832,594</u>	<u>2,186,584</u>	<u>2,006,321</u>
Profit/(loss) before income tax		4,412	1,856,052	1,801,985	(1,874,397)
Income tax expense		-	-	-	-
Profit/(loss) for the period		<u>4,412</u>	<u>1,856,052</u>	<u>1,801,985</u>	<u>(1,874,397)</u>
Other comprehensive (expense)/income					
Exchange differences on translation of foreign operations		(105,253)	114,233	(109,322)	(69,888)
Comprehensive (expense)/income for the period		<u>(100,841)</u>	<u>1,970,285</u>	<u>1,692,663</u>	<u>(1,944,285)</u>
Basic and diluted earnings/ (loss) per common share (cents)	7	0.0c	3.8c	2.7c	(3.6c)

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

Sarama Resources Ltd
An Exploration Stage Company
Condensed Consolidated Statement of Cash Flows
Expressed in United States Dollars
(Unaudited)

	Six month period ended June 30, 2013 \$	Six month period ended June 30, 2012 \$
Cash flows used in operating activities		
Payments to suppliers and employees	(1,161,203)	(1,167,689)
Interest received	52,730	32,490
Net cash used in operating activities	(1,108,473)	(1,135,199)
Cash flows used in investing activities		
Purchase of plant and equipment	(23,318)	(181,688)
Payments for exploration and evaluation assets	(6,063,156)	(6,683,676)
Net cash used in investing activities	(6,086,474)	(6,865,364)
Cash flows from financing activities		
Net cash generated by financing activities	-	-
Net decrease in cash and cash equivalents	(7,194,947)	(8,000,563)
Net foreign exchange differences	(644,465)	69,888
Cash and cash equivalents at beginning of the period	14,728,740	17,091,005
Cash and cash equivalents at end of the period	6,889,328	9,160,330

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

Sarama Resources Ltd
An Exploration Stage Company
Condensed Consolidated Statement of Changes in Equity
Expressed in United States Dollars
(Unaudited)

For the six months ended June 30, 2012 and June 30, 2013, respectively	Number of common shares	Share capital (note 6)	Stock - based compensation reserve	Foreign currency translation reserve	Deficit	Total
		\$	\$	\$	\$	\$
Balance at January 1, 2012	51,513,312	22,979,644	1,070,543	(2,713)	(1,969,556)	22,077,918
Loss attributed to members of the company	-	-	-	-	(1,874,397)	(1,874,397)
Exchange differences on translation of foreign operations	-	-	-	(69,888)	-	(69,888)
Total comprehensive loss for the period	-	-	-	(69,888)	(1,874,397)	(1,944,285)
Transactions with owners in their capacity as owners:						
Stock options granted	-	-	374,475	-	-	374,475
Balance at June 30, 2012	51,513,312	22,979,644	1,445,018	(72,601)	(3,843,953)	20,508,108
Balance at January 1, 2013	66,018,702	35,493,423	1,590,634	143,496	(9,355,687)	27,871,866
Profit attributed to members of the company	-	-	-	-	1,801,985	1,801,985
Exchange differences on translation of foreign operations	-	-	-	(109,322)	-	(109,322)
Total comprehensive income for the period	-	-	-	(109,322)	1,801,985	1,692,663
Transactions with owners in their capacity as owners:						
Share Issues	141,192	100,000	-	-	-	100,000
Stock-based compensation	-	-	314,395	-	-	314,395
Balance at June 30, 2013	66,159,894	35,593,423	1,905,029	34,174	(7,553,702)	29,978,924

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

Sarama Resources Ltd
An Exploration Stage Company
Notes to the Condensed Consolidated Financial Statements
Expressed in United States Dollars
(Unaudited)

1. NATURE OF OPERATIONS

Sarama Resources Ltd (the “Company” or “Sarama”) was incorporated under the laws of the Province of British Columbia, Canada on April 8, 2010.

Statement of compliance

These condensed consolidated interim financial statements have been prepared in United States Dollars, in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. They do not include all of the information and note disclosures required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company for the year ended December 31, 2012.

The board of directors of the Company approved these condensed consolidated interim financial statements on August 28, 2013.

The principal accounting policies adopted are consistent with those of the previous financial year and the corresponding interim reporting period.

Basis of Presentation

These condensed consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2013 Sarama adopted the following IFRS:

IAS 1 Presentation of Financial Statements (“IAS 1”) - IAS 1 was amended and requires companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. The Company adopted IAS 1 on January 1, 2013. The adoption of this amendment did not result in any adjustments to other comprehensive income or comprehensive income.

IFRS 10 Consolidated Financial Statements (“IFRS 10”) – IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more of the entities. The Company reviewed its consolidation methodology and determined that the adoption of IFRS 10 did not result in a change to the consolidation status of its subsidiaries.

IFRS 11 Joint Arrangements (“IFRS 11”) – IFRS 11 presents a new model for determining whether entities should account for joint arrangement using proportionate consolidation or the equity accounting method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. Sarama reviewed its joint arrangements and determined that the adoption of IFRS 11 did not result in any changes in accounting for its joint arrangements.

IFRS 12 Disclosure of Interest in Other Entities (“IFRS 12”) – IFRS 12 aggregates and amends disclosure requirements included within other standards. The standard requires an entity to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The application of IFRS 12 had no impact on the consolidated statement of comprehensive income or the consolidated statement of financial position.

IFRS 13 Fair Value Measurement (“IFRS 13”) – IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk.

Sarama Resources Ltd
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Sarama adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by Sarama to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

3. ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after June 30, 2013. Many are not applicable or do not have a significant impact to Sarama and have been excluded from the list below. The following are being evaluated to determine their impact on Sarama:

IFRS 9 *Financial Instruments* ("IFRS 9") – IFRS 9 which was issued by the IASB in October 2010 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IAS 36 *Impairment of Assets* ("IAS 36") – IAS 36 was amended regarding disclosure requirements and is effective for years beginning on or after January 1, 2014. The Company is currently evaluating the impact of the amendments on the Company's consolidated financial statements.

4. EXPLORATION AND EVALUATION ASSETS

The schedule below summarises the carrying amounts of acquisition costs and all capitalised exploration expenditures incurred to date for each mineral property interest that Sarama is continuing to explore as at June 30, 2013:

	December 31, 2012	Additions 2013	June 30, 2013
	\$	\$	\$
Burkina Faso			
Tankoro (a)			
Acquisition costs	153,773	199,325	353,098
Exploration expenditure	8,559,647	4,867,059	13,426,706
Other			
Acquisition costs	351,005	15,748	366,753
Exploration expenditure	3,959,085	761,402	4,720,487
Total Burkina Faso	13,023,510	5,843,534	18,867,044
Mali			
Acquisition costs	71,106	-	71,106
Exploration expenditure	297,213	49,417	346,630
Expenditure written off	-	(16,736)	(16,736)
Total Mali	368,319	32,681	401,000
Liberia			
Pedsam (b)			
Exploration expenditure	2,871,568	457,526	3,329,094
Other			
Acquisition costs	30,000	15,000	45,000
Exploration expenditure	116,569	42,625	159,194
Expenditure written off	-	(65,082)	(65,082)
Total Liberia	3,018,137	450,069	3,468,206
Total	16,409,966	6,326,284	22,736,250

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a. Tankoro Permit, Burkina Faso

In early 2011, Sarama entered into an option agreement to acquire the Tankoro permit. Sarama had the right to earn up to a 100% interest with a trailing 1.5% Net Smelter Return (“NSR”) royalty, which Sarama has an option to acquire for \$1 million at any time after Sarama has taken ownership of the permit. On November 2, 2012, Sarama exercised its option to acquire ownership of the Tankoro permit. Pursuant to the agreement with the vendor, the vendor retains the right to a 1.5% NSR for any future mineral production from the Property. Sarama retains the right to acquire the NSR for \$1 million at any time. On March 23, 2013, the Burkina Faso Ministry of Mines and Energy issued the exploration permit to a Sarama wholly-owned subsidiary. The permit contained no additional conditions and is valid until December 17, 2014. In accordance with the Burkina Faso Mining Code, Sarama can elect to renew the permit for a further three years from this expiry date.

b. Liberian Earn-in Agreement

On May 30, 2011, Sarama entered into an earn-in agreement with a Norwegian Company Pedra to incrementally acquire an equity interest in its Liberian subsidiary Pedsam Mining Ltd (“Pedsam”), the holder of the following exploration licences within Liberia: - Cape Mount – MEL 11055 (199.2 km²), Gbarpolu – MEL 11024 (400 km²), Grand Bassa – MEL 11032 (603.5 km²). An amount of \$100,000 was paid on execution of this agreement to the vendor.

As at June 30, 2013, Sarama’s equity interest was 80% (June 30, 2012: 50%).

5. PLANT AND EQUIPMENT

June 30, 2013

	Plant and Equipment	Motor Vehicles	Office Equipment	Total
	\$	\$	\$	\$
Opening net book value	199,417	308,056	215,906	723,379
Additions	107,065	2,123	23,313	132,501
Depreciation	(1,784)	(15,205)	(21,346)	(38,335)
Closing net book value	304,698	294,974	217,873	817,545
Cost	315,201	416,083	308,070	1,039,354
Accumulated depreciation	(10,503)	(121,109)	(90,197)	(221,809)
Closing net book value	304,698	294,974	217,873	817,545

December 31, 2012

	Plant and Equipment	Motor Vehicles	Office Equipment	Total
	\$	\$	\$	\$
Opening net book value	115,911	282,822	144,430	543,163
Additions	87,694	73,266	103,825	264,785
Depreciation	(4,188)	(48,032)	(32,349)	(84,569)
Closing net book value	199,417	308,056	215,906	723,379
Cost	208,136	413,960	284,757	906,853
Accumulated depreciation	(8,719)	(105,904)	(68,851)	(183,474)
Closing Net Book Value	199,417	308,056	215,906	723,379

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6. SHARE CAPITAL

(a) Authorised Share Capital

At June 30, 2013 the authorised share capital comprised an unlimited number of common shares without par value.

(b) Issued Share Capital

	Capital Stock	
	Number	\$
Balance at December 31, 2012	66,018,702	35,493,423
Shares issued during the quarter ended 30 June 2013 (i)	141,192	100,000
Balance at June 30, 2013	66,159,894	35,593,423

- (i) Sarama issued 141,192 shares for \$100,000 as part of the consideration for the purchase of two exploration properties located in the Banfora Belt in south-western Burkina Faso, West Africa.

(c) Company stock option plan

The Company has a fixed stock option plan that provides for the issuance of up to 10% of the issued and outstanding shares of the Company. The board of directors is authorised to set the exercise price, expiry date, and vesting provisions for each grant, subject to the policies of the TSX Venture Exchange. The plan provides for a maximum grant period of five years. Options can be exercised at any time prior to their expiry date.

Details are as follows:

Grant Date	No.	Exercise Price CAD	Expiry Date
May 12, 2011 (vested)	2,475,000	0.75	May 12, 2016
July 28, 2011 (vested)	450,000	1.00	July 28, 2016
February 20, 2012 (vested)	1,125,000	1.00	February 17, 2017
January 31, 2013	1,005,000	0.80	January 31, 2018
	<u>5,055,000</u>		

On January 31, 2013, the Company granted 1,005,000 options to directors, executive officers, management and a consultant in accordance with the Company's stock option plan. The option's vesting conditions were that 50% vest immediately and 50% vest 12 months from the date of grant. The options have a term of 5 years and are exercisable at a price of CAD \$0.80 per share.

(d) Stock-based Compensation

For the period ended June 30, 2013, the Company granted stock options to its directors, officers, employees and consultants and estimated the stock based compensation as follows:

	January 31, 2013
Total options granted	<u>1,005,000</u>
Exercise price	CAD\$0.80
Estimated fair value of compensation recognised (i)	275,664
Balance to be recognised over remaining vesting period (ii)	114,326
Estimated fair value per option	38.8c

- (i) The fair value of the stock-based compensation recognised in the accounts has been estimated using the Black-Scholes Option-Pricing Model with the following assumptions:

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	January 31, 2013
Risk-free interest rate	1%
Expected dividend yield	0%
Expected stock price volatility	95%
Expected option life in years	2.5-3 years

(e) *Warrants*

The Company issued warrants as part of the common share issue on November 2, 2011 and additional warrants issued as part of the capital raising in October 2012. Changes in the fair value of these warrants are as follows:

	\$
Fair value at December 31, 2012	4,224,438
Fair value gain on warrants carried at fair value through profit and loss	(3,935,839)
Fair value at June 30, 2013	288,599

Warrant issue	Total Warrants Issued	Exercise Price	Estimated fair value of warrants (i)	Estimated fair value per warrant
Shareholder Warrants issued November 2, 2011	9,269,356	CAD\$1.20	10,521	0.1c
Broker Warrants issued November 2, 2011	973,656	CAD\$0.90	3,931	0.4c
Shareholder Warrants issued October 16, 2012	6,666,667	CAD\$1.20	230,281	3.5c
Shareholder Warrants issued November 14, 2012	1,000,000	CAD\$1.20	34,304	3.6c
Shareholder Warrants issued November 15, 2012	277,778	CAD\$1.20	9,562	3.6c
Total	18,187,457		288,599	

(i) The fair value of the warrants recognised in the financial statements has been estimated using the Black-Schöles Option-Pricing Model at inception with the following assumptions:

Warrant issue	Risk – free interest rate	Expected dividend yield	Expected stock price volatility	Remaining warrant life in years
Shareholder Warrants issued November 2, 2011	1.25%	0%	95%	0 years and 4 months
Broker Warrants issued November 2, 2011	1.25%	0%	95%	0 years and 4 months
Shareholder Warrants issued October 16, 2012	1.25%	0%	95%	1 year and 4 months
Shareholder Warrants issued November 14, 2012	1.25%	0%	95%	1 year and 5 months
Shareholder Warrants issued November 15, 2012	1.25%	0%	95%	1 year and 5 months

7. BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE

	Six months ended June 30, 2013	Six months ended June 30, 2012
	Cents per share	Cents per share
Basic earnings/(loss) per share	2.7c	(3.6c)
Diluted earnings/(loss) per share	2.7c	(3.6c)
Net profit/(loss) used in calculating basic/diluted earnings/(loss) per share	1,801,985	(1,874,399)
<i>Weighted average number of shares on issue during the financial year used in the calculation of basic earnings/(loss) per share</i>	66,036,883	51,513,312

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8. COMMITMENTS

Sarama has the following commitments relating to its office lease and office equipment:

	June 30, 2013	December 31, 2012
	\$	\$
Less than one year	43,696	55,224
Between one and two years	-	17,456
Total	<u>43,696</u>	<u>72,680</u>

Sarama has no contingencies (2012: Nil).

9. FINANCIAL INSTRUMENTS

Sarama is exposed to financial risks through the normal course of its business operations. The key risks impacting Sarama's financial instruments are considered to be foreign currency risk, interest rate risk, liquidity risk, credit risk and equity price risk. Sarama's financial instruments exposed to these risks are cash and short-term deposits, receivables, trade payables and investments in foreign operations.

The executive management team monitors the financial instrument risk to which it is exposed and assesses the impact and likelihood of those risks on an ongoing basis. Where material, these risks are reported and reviewed by the board of directors.

Fair Values

The fair value of Sarama's financial instruments approximates their carrying values due to the immediate or short-term maturity of these financial instruments. Sarama's financial assets and liabilities are measured and recognised at fair value as at June 30, 2013 according to the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities (level 1),
- (b) quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability (level 2), and
- (c) prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity) (level 3).

At June 30, 2013, Sarama has a warrant liability recognised at fair value. The level 2 financial liability is recognised at fair value through the profit and loss carried at fair value gain of \$3,935,839 (2012: loss of \$449,903).