# Sarama Resources Ltd

***(An Exploration Stage Company)***

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
## MARCH 31, 2012

***(Unaudited, Expressed in United States Dollars)***

INDEX

**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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***Expressed in United States Dollars***

| | Note | As at March, 31 2012 $ | As at December, 31 2011 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 14,036,911 | 17,091,005 |
| Receivables | | 147,331 | 72,871 |
| Prepayments | | 11,075 | 561,665 |
| **Total current assets** | | 14,195,317 | 17,725,541 |
| **Non-current assets** | | | |
| Exploration and evaluation assets | 3 | 8,319,902 | 5,298,529 |
| Plant and equipment | 4 | 643,907 | 543,163 |
| **Total non-current assets** | | 8,963,809 | 5,841,692 |
| **Total assets** | | 23,159,126 | 23,567,233 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | 479,107 | 401,588 |
| Financial liabilities | 5(e) | 4,207,841 | 1,087,727 |
| **Total current liabilities** | | 4,686,948 | 1,489,315 |
| **Total non-current liabilities** | | - | - |
| **Total liabilities** | | 4,686,948 | 1,489,315 |
| **EQUITY** | | | |
| Share capital | 5 | 22,979,644 | 22,979,644 |
| Stock-based compensation reserve | 5(d) | 1,372,608 | 1,070,543 |
| Foreign currency translation reserve | | (186,834) | (2,713) |
| Deficit | | (5,693,240) | (1,969,556) |
| **Total equity** | | 18,472,178 | 22,077,918 |
| **Total liabilities and equity** | | 23,159,126 | 23,567,233 |

These financial statements are authorised for issue by the Board of Directors on May 30, 2012.

They are signed on the Company's behalf by:

(signed) *"Andrew Dinning"* Andrew Dinning, Director

(signed) *"Lawrence S. Jackson"* L. Simon Jackson, Director

***Expressed in United States Dollars***

| | Note | Three month period ended March 31, 2012 $ | Three month period ended March 31, 2011 $ |
|---|---|---|---|
| **Income** | | | |
| Interest income | | 28,462 | 23,724 |
| Foreign exchange gain | | 322,487 | - |
| | | 350,948 | 23,724 |
| **Expenses** | | | |
| Accounting and audit | | 12,394 | 10,127 |
| Stock - based compensation | | 302,065 | - |
| Salaries | | 279,271 | 90,046 |
| Professional fees | | 7,913 | 27,263 |
| Office and general | | 232,719 | 31,120 |
| Travel | | 79,076 | 59,095 |
| Depreciation | | 5,305 | - |
| Foreign exchange loss | | - | 11,500 |
| Insurance | | 35,775 | - |
| Fair value loss on warrants carried at fair value through profit and loss | 5(e) | 3,120,114 | - |
| **Total expenses** | | 4,074,632 | 229,151 |
| **Loss before income tax** | | (3,723,684) | (205,427) |
| Income tax expense | | - | - |
| **Loss for the period** | | **(3,723,684)** | **(205,427)** |
| **Other Comprehensive income/(loss)** | | | |
| Exchange differences on translation of foreign operations | | (184,121) | 11,278 |
| **Comprehensive loss for the period** | | **(3,907,805)** | **(194,149)** |
| Basic and diluted loss per common share | 6 | 7.22c | 0.69c |

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

***Expressed in United States Dollars***

| | Three months Ended March 31, 2012 $ | Three months Ended March 31, 2011 $ |
|---|---|---|
| **Cash flows used in operating activities** | | |
| Payments to suppliers and employees | (444,802) | (305,469) |
| Interest received | 28,462 | 23,724 |
| Net cash used in operating activities | (416,340) | (281,745) |
| **Cash flows used in investing activities** | | |
| Purchase of plant and equipment | (126,557) | (104,244) |
| Payments for exploration and evaluation | (2,649,563) | (678,658) |
| Net cash used in investing activities | (2,776,119) | (782,902) |
| **Cash flows from financing activities** | - | - |
| Net cash generated by financing activities | - | - |
| **Net decrease in cash and cash equivalents** | (3,192,459) | (1,064,647) |
| Net foreign exchange differences | 138,365 | 222 |
| Cash and cash equivalents at beginning of the period | 17,091,005 | 7,377,633 |
| **Cash and cash equivalents at end of the period** | 14,036,911 | 6,313,208 |

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

***Expressed in United States Dollars***

| | Number of Common Shares | Capital Stock (note 5) | Stock-based Compensation Reserve | Foreign Currency Translation Reserve | Deficit | Total |
|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ |
| **Balance at January 1, 2011** | **29,774,601** | **8,246,280** | **-** | **(4,953)** | **(470,751)** | **7,770,576** |
| Loss attributed to members of the company | - | - | - | - | (205,427) | (205,427) |
| Exchange differences on translation of foreign operations | - | - | - | 11,278 | - | 11,278 |
| **Total comprehensive loss for the period** | | | | **11,278** | **(205,427)** | **(194,149)** |
| **Balance at March 31, 2011** | **29,774,601** | **8,246,280** | **-** | **6,325** | **(676,178)** | **7,576,427** |
| **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 | - | - | - | - | (3,723,684) | (3,723,684) |
| Exchange differences on translation of foreign operations | - | - | - | (184,121) | - | (184,121) |
| **Total comprehensive loss for the period** | **-** | **-** | **-** | **(184,121)** | **(3,723,684)** | **(3,907,805)** |
| Stock options granted | - | - | 302,065 | - | - | 302,065 |
| **Balance at March 31, 2012** | **51,513,312** | **22,979,644** | **1,372,608** | **(186,834)** | **(5,693,240)** | **18,472,178** |

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

## 1. NATURE OF OPERATIONS

Sarama Resources Ltd (the "Company") 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 for the Company for the year ended December 31, 2011.

In the opinion of management, all adjustments considered necessary for a fair statement of results in accordance with International Financial Reporting Standards ("IFRS") have been included.

The board of directors of the Company approved these condensed consolidated interim financial statements on the May 30, 2012.

The principal accounting policies adopted are consistent with those of the previous financial year.

*Basis of Presentation*

These 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 IFRS issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

## 2. 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 December 31, 2011. Many are not applicable or do not have a significant impact to the Company and have been excluded from the list below. The following have not been adopted and are being evaluated to determine their impact on the Group:

a) IFRS 9 "Financial Instruments" ("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;

b) IFRS 10 "Consolidated Financial Statements" – which is effective for annual periods beginning on or after January 1, 2013 (with early adoption permitted), establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more of the entities;

c) IFRS 11 "Joint arrangements" ("IFRS 11") which was issued by the IASB in May 2011 and will replace IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non Monetary Contributions by Venturers". IFRS 11 is effective for annual periods beginning on or after January 1, 2013;

d) IFRS 12 "Disclosure of Interests in Other Entities" – which requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows.

***Expressed in United States Dollars***

IFRS 12 is effective for annual reporting periods beginning January 1, 2013 (with early adoption permitted); and

e) IFRS 13 "Fair Value Measurement" – which is effective for annual periods beginning on or after January 1, 2013, (with early adoption permitted), provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

## 3. MINERAL INTERESTS

The schedule below summarises the carrying amounts of acquisition costs and all capitalised exploration expenditures incurred to date for each mineral property interest that the Group is continuing to explore as at March 31, 2012:

| | **December 31, 2011** | **Additions 2012** | **March 31, 2012** |
|---|---|---|---|
| **Burkina Faso** | | | |
| Namare (a) | | | |
| Acquisition costs | 79,931 | - | 79,931 |
| Exploration expenditure | 942,291 | - | 942,291 |
| | | | |
| Bouni (b) | | | |
| Acquisition costs | 38,074 | - | 38,074 |
| Exploration expenditure | 209,429 | - | 209,429 |
| | | | |
| Tankoro (c) | | | |
| Acquisition costs | 182,132 | - | 182,132 |
| Exploration expenditure | 881,523 | 1,699,325 | 2,580,848 |
| | | | |
| Other | | | |
| Acquisition costs | 253,704 | - | 253,704 |
| Exploration expenditure | 633,923 | 572,358 | 1,206,281 |
| | | | |
| **Total Burkina Faso** | **3,221,007** | **2,271,683** | **5,492,690** |
| | | | |
| **Mali** | | | |
| Acquisition Costs | 34,460 | - | 34,460 |
| Exploration expenditure | 1,175,636 | 206,306 | 1,381,942 |
| **Total Mali** | **1,210,096** | **206,306** | **1,416,402** |
| | | | |
| **Liberia** | | | |
| Pedsam (d) | | | |
| Acquisition Costs | 279,437 | - | 279,437 |
| Exploration expenditure | 556,219 | 508,377 | 1,064,596 |
| | | | |
| Other | | | |
| Acquisition Costs | 30,000 | - | 30,000 |
| Exploration expenditure | 1,770 | 35,007 | 36,777 |
| **Total Liberia** | **867,426** | **543,384** | **1,410,810** |
| | | | |
| **Total** | **5,298,529** | **3,021,373** | **8,319,902** |

*a. Namare Property, Burkina Faso*

On July 2, 2010, the Group entered an Option Agreement with Diallo Maliki whereby the Group will have the right to earn a 100% interest in Namare Property for consideration of $20,000 on execution of the agreement and meeting the first year annual expenditure commitments of $144,000 required by the Government of Burkina Faso. Option Agreement payments of $20,000 are payable to Diallo Makili on the first, second and third anniversary of the contract execution, as well as meeting future ongoing annual expenditure commitments of

***Expressed in United States Dollars***

$127,000 required by the Government of Burkina Faso. The Namare project is subject to a 1.5% Net Smelter Return ("NSR") royalty.

*b. Bouni Property, Burkina Faso*

On October 16, 2010, the Group entered an Option Agreement with Zombré L. Francis whereby the Group will have the right to earn a 100% interest in the Bouni Property for consideration of $4,000 on execution of the agreement and meeting the first annual expenditure commitments of $140,000 as required by the Government of Burkina Faso. Option Agreement payments of $8,000 are payable to Zombré L. Francis on the first, second and third anniversaries of the contract execution, as well as meeting future ongoing annual expenditure commitments of $112,000 required by the Government of Burkina Faso. The Bouni project is subject to a 1% NSR royalty and the Group has an option to acquire the NSR royalty for $1 million.

*c. Tankoro Property, Burkina Faso*

On January 18, 2011, the Group entered an Option Agreement with Birba Ousmane whereby the Group will have the right to earn a 100% interest in the property for consideration of $40,000 on execution of the agreement and meeting the first annual expenditure commitments of $140,000 required by the Government of Burkina Faso. Option Agreement payments of $60,000 are payable to Birba Ousmane on the sixth month, first, second and third year anniversaries of the contract execution, as well as meeting future ongoing annual expenditure commitments of $112,000 required by the Government of Burkina Faso. The Tankoro project is subject to a 1.5% NSR royalty which the Company has an option to acquire for $1 million.

*d. Liberian Earn-in Agreement*

On May 30, 2011, the Group entered into a farm-in agreement with Norwegian Company Pedra to incrementally acquire an equity interest in its Liberian subsidiary Pedsam Mining Liberia SARL, the holder of the following exploration licences within Liberia - Cape Mount – MEL 11055 (199.2 $km^2$), Gbarpolu – MEL 11024 (400 $km^2$), Grand Bassa – MEL 11032 (603.5 $km^2$). An amount of $100,000 was paid to the vendor on execution of this agreement.

As at March 31, 2012, the Company's equity interest was 20% (2011: 0%).

## 4. PLANT AND EQUIPMENT

| | March 31, 2012 | | | |
|---|---|---|---|---|
| | **Plant and Equipment $** | **Motor Vehicles $** | **Office Equipment $** | **Total $** |
| Opening Net Book Value | 115,911 | 282,822 | 144,430 | 543,163 |
| Additions | 33,119 | 58,316 | 35,123 | 126,557 |
| Depreciation | (1,041) | (16,463) | (8,309) | (25,814) |
| **Closing Net Book Value** | **147,988** | **324,675** | **171,244** | **643,907** |
| | | | | |
| Cost | 153,560 | 399,010 | 216,054 | 768,624 |
| Accumulated Depreciation | (5,572) | (74,335) | (44,810) | (124,717) |
| **Closing Net Book Value** | **147,988** | **324,675** | **171,244** | **643,907** |

***Expressed in United States Dollars***

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | **Plant and Equipment** | **Motor Vehicles** | **Office Equipment** | **Total** |
| | **$** | **$** | **$** | **$** |
| Opening Net Book Value | 5,876 | 28,876 | 56,405 | 91,157 |
| Additions | 114,566 | 311,818 | 123,390 | 549,774 |
| Depreciation | (4,531) | (57,872) | (35,365) | (97,768) |
| **Closing Net Book Value** | **115,911** | **282,822** | **144,430** | **543,163** |
| Cost | 120,442 | 340,694 | 180,932 | 642,068 |
| Accumulated Depreciation | (4,531) | (57,872) | (36,502) | (98,905) |
| **Closing Net Book Value** | **115,911** | **282,822** | **144,430** | **543,163** |

## 5. SHARE CAPITAL

*(a) Authorised Share Capital*

At March 31, 2012, the authorised share capital comprised an unlimited number of common shares without par value.

*(b) Issued Share Capital*

| | Capital Stock | |
|---|---|---|
| | **Number** | **$** |
| **Balance, March 31, 2011** | 29,774,601 | 8,426,280 |
| Shares issued via a private placement (note 6(b)(i)) | 3,200,000 | 2,648,320 |
| Share issue costs | - | (1,418,464) |
| Shares issued pursuant to prospectus financing (note 6(b)(ii)) | 18,538,711 | 13,503,508 |
| **Balance, March 31, 2012** | **51,513,312** | **22,979,644** |

*Details of issues of common shares*

(i) On July 4, 2011, the Company completed a non-brokered private placement, issuing 3,200,000 common shares at a price of $0.8275 per share (CAD$0.80), for proceeds of $2.648 million (CAD$2.56 million).

(ii) On November 3, 2011, the Company filed its final prospectus. The Company issued 18,538,711 units comprising of 1 common share and ½ a warrant at a price of $0.89 per unit (CAD $0.90) for gross proceeds of $16,476,279 (CAD $16,684,840). The warrants have an exercise price of CAD $1.20 and can be exercised up to November 2, 2013. The warrants were classed as a financial liability (see note 5(e)). Both the common shares and warrants commenced trading on the TSX Venture exchange on November 3, 2011. As part of the consideration for provision of services, the Agents to the share issue received 973,656 warrants. The warrants have an exercise price of CAD $0.90 and can be exercised up to November 2, 2013. These warrants are non-transferable.

*(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.

The Company's stock options currently on issue vested as at grant date.

***Expressed in United States Dollars***

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 | 1,125,000 | 1.00 | February 17 , 2017 |
| | 4,050,000 | | |

On February 20, 2012, the Company granted 1,125,000 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 CAD1.00 per share

*(d) Stock-Based Compensation*

For the period ended March 31, 2012, the Company granted stock options to its directors, officers, employees and consultants and estimated the stock based compensation as follows:

| | February 20, 2012 |
|---|---|
| Total options granted | 1,125,000 |
| Exercise price | $1.00 |
| Estimated fair value of compensation recognised (i) | $321,993 |
| Balance to be recognised over remaining vesting period (ii) | $256,222 |
| Estimated fair value per option | 49.62c |

(ii) 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:

| | February 20, 2012 |
|---|---|
| Risk-free interest rate | 1% |
| Expected dividend yield | 0% |
| Expected stock price volatility | 95% |
| Expected option life in years | 2.5-3 years |

(ii) The options granted on February 20, 2012 vesting conditions were that 50% vest immediately and 50% vest 12 months from the date of grant.

*(e) Warrants*

The Company issued warrants as part of the common share issue on November 2, 2011. Changes in the fair value of these warrants since listing are as follows:

| | $ |
|---|---|
| Fair value at December 31, 2011 | 1,087,727 |
| Fair value loss on warrants carried at fair value through profit and loss | 3,120,114 |
| Fair value at March 31, 2012 | 4,207,841 |

***Expressed in United States Dollars***

| | Broker Warrants | Shareholder Warrants |
|---|---|---|
| Total warrants issued | 973,656 | 9,269,355 |
| Exercise price | $0.90 | $1.20 |
| Estimated fair value of warrants (i) | 469,133 | 3,738,717 |
| Estimated fair value per warrant | 48.39c | 40.51c |

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

| | March 31, 2012 |
|---|---|
| Risk-free interest rate | 1% |
| Expected dividend yield | 0.00% |
| Expected stock price volatility | 95% |
| Expected warrant life in years | 1 year 7 months |

## 6. BASIC AND DILUTED LOSS PER SHARE

| | Three months ended March 31, 2012 | Three months ended March 31, 2011 |
|---|---|---|
| | Cents per share | Cents per share |
| Basic Loss per share | 7.22 | 0.69 |
| Diluted loss per share | 7.22 | 0.69 |
| Net loss used in calculating basic/diluted loss per share | (3,723,684) | (205,427) |
| *Weighted average number of shares on issue during the financial year used in the calculation of basic loss per share* | **51,513,312** | **29,774,600** |

Diluted loss per share as at March 31, 2012 is the same as basic loss per share as it does not result in a less favourable position.

## 7. COMMITMENTS

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

| | March 31, 2012 $ | December 31, 2011 $ |
|---|---|---|
| Less than one year | 43,560 | 58,080 |
| Between 1 and 2 years | 72,680 | 72,680 |
| Total | 116,240 | 130,760 |

On September 21, 2011 the Group entered into an agreement with PPI Burkina SARL (“PPI”) for the provision of drilling services. As part of this agreement, the Group has committed to USD $2,000,000 of drilling services from PPI. The services are to be provided in accordance with the drilling requirements of the Group and there is no fixed period in which the services must be provided.

The Group has no contingencies (2011: Nil).