Sarama Resources Ltd

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
JUNE 30, 2014

(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)
David A. Groves (Non-executive Director)

REGISTERED OFFICE

Suite 2200, HSBC Building
885 West Georgia Street
Vancouver BC, Canada, V6C 3E8

AUSTRALIAN BRANCH OFFICE

Unit 8, 245 Churchill Avenue
Subiaco, Australia 6008
P: +61 8 9363 7600
F: +61 8 9382 4308

BURKINA FASO OFFICE

Sarama Mining Burkina SUARL
Quartier Ouaga 2000, secteur 15 Zone B,
Rue du Général Tiemoko Marc Garango,
13 B.P. 60 Ouagadougou 13,
Ouagadougou, République du Burkina Faso

LIBERIA OFFICE

Sarama Mining Liberia Ltd
12th Street, Sinkor, Payne Avenue
Monrovia, Liberia

LEGAL ADVISORS

Cassels Brock & Blackwell LLP
Suite 2200, HSBC Building
885 West Georgia Street
Vancouver BC, Canada, V6C 3E8

AUDITORS

PricewaterhouseCoopers
Brookfield Place
Level 15
125 St Georges Terrace
Perth, Australia 6000

WEBSITE

www.saramaresources.com

SHARE REGISTRY

TMX Equity Transfer Services
1185 West Georgia, Suite 1620
Vancouver, BC, Canada V6E 4E6

TSX - V CODE

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Expressed in United States Dollars

	Note	As at June 30, 2014 $	As at December 31, 2013 $
ASSETS			
Current assets			
Cash and cash equivalents		4,492,198	4,200,852
Security deposit		33,037	31,035
Accounts receivable		107,585	26,094
Prepayments		21,130	20,785
Total current assets		4,653,950	4,278,766
Non-current assets			
Exploration and evaluation assets	4	25,407,324	24,253,154
Plant and equipment	5	569,870	680,183
Total non-current assets		25,977,194	24,933,337
Total assets		30,631,144	29,212,103
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		778,273	372,118
Financial liabilities	6(e)	660,231	-
Total current liabilities		1,438,504	372,118
Total non-current liabilities		-	-
Total liabilities		1,438,504	372,118
EQUITY			
Share capital	6(b)	37,538,913	35,593,423
Stock-based compensation reserve		2,045,664	2,002,791
Foreign currency translation reserve		(27,559)	96,035
Deficit		(10,364,378)	(8,852,264)
Total equity		29,192,640	28,839,985
Total liabilities and equity		30,631,144	29,212,103

These financial statements are authorised for issue by the Board of Directors on August 27, 2014.

They are signed on the Company's behalf by:

Andrew Dinning, Director

L. Simon Jackson, Director

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

Condensed Consolidated Statement of Comprehensive Income
Expressed in United States Dollars
(Unaudited)

	Note	Three month period ended June 30, 2014 $	Three month period ended June 30, 2013 $	Six month period ended June 30, 2014 $	Six month period ended June 30, 2013 $
Income					
Interest income		3,552	23,565	9,712	52,730
Other income		10,148	-	16,505	-
Foreign exchange gain		66,575	-	61,319	-
Fair value gain on warrants carried at fair value through profit and loss		-	932,485	-	3,935,839
		80,275	956,050	87,536	3,988,569
Expenses					
Accounting and audit		48,836	49,084	72,025	64,553
Stock-based compensation		5,369	49,149	42,873	314,395
Salaries		251,495	245,092	419,365	654,805
Directors fees		23,531	24,142	46,538	58,318
Professional fees		18,124	51,957	36,391	66,608
Office and general		51,009	69,271	107,150	137,628
Travel		6,207	519	9,149	41,207
Depreciation		8,589	8,848	17,680	17,475
Foreign exchange loss		-	290,705	-	543,555
Marketing and investor relations		81,927	64,749	135,520	154,497
Exploration expenditure written off		675,301	81,818	686,505	81,818
Insurance		12,772	16,304	26,454	51,725
Total expenses		1,183,160	951,638	1,599,650	2,186,584
Profit/(loss) before income tax		(1,102,885)	4,412	(1,512,114)	1,801,985
Income tax expense		-	-	-	-
Profit/(loss) for the period		**(1,102,885)**	**4,412**	**(1,512,114)**	**1,801,985**
Other comprehensive loss					
Exchange differences on translation of foreign operations		(196,354)	(105,253)	(123,594)	(109,322)
Comprehensive loss for the period		**(1,299,239)**	**(100,841)**	**(1,635,708)**	**(1,692,663)**
Basic and diluted earnings/ (loss) per common share (cents)	7	(1.5c)	0.0c	(2.2c)	2.7c

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

Expressed in United States Dollars

	Six month period ended June 30, 2014 $	Six month period ended June 30, 2013 $
Cash flows used in operating activities		
Payments to suppliers and employees	(978,899)	(1,161,203)
Interest received	9,712	52,730
Net cash used in operating activities	(922,649)	(1,108,473)
Cash flows used in investing activities		
Purchase of plant and equipment	-	(23,318)
Payments for exploration and evaluation assets	(1,434,521)	(6,063,156)
Net cash used in investing activities	(1,684,069)	(6,086,474)
Cash flows from financing activities		
Common shares issued for cash	1,967,500	-
Warrants issued	660,231	-
Payment of share issue costs	(22,009)	-
Net cash generated by financing activities	2,605,722	-
Net decrease in cash and cash equivalents	202,015	(7,194,947)
Net foreign exchange differences	89,332	(644,465)
Cash and cash equivalents at beginning of the period	4,200,852	14,728,740
Cash and cash equivalents at end of the period	**4,492,198**	**6,889,328**

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

Expressed in United States Dollars

For the six months ended June 30, 2013 and June 30, 2014, respectively	Number of common shares	Share capital (note 6)	Stock - based compensation reserve	Foreign currency translation reserve	Deficit	Total
		$	$	$	$	$
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**
Balance at January 1, 2014	**66,159,894**	**35,593,423**	**2,002,791**	**96,035**	**(8,852,264)**	**28,839,985**
Loss attributed to members of the company	-	-	-	-	(1,512,114)	(1,512,114)
Exchange differences on translation of foreign operations	-	-	-	(123,594)		(123,594)
Total comprehensive income for the period	**-**	**-**	**-**	**(123,594)**	**(1,512,114)**	**(1,635,708)**
Transactions with owners in their capacity as owners:						
Share issues	19,192,366	1,945,490	-	-	-	1,945,490
Stock-based compensation	-	-	42,873	-	-	42,873
Balance at June 30, 2014	**85,352,260**	**37,538,913**	**2,045,664**	**(27,559)**	**(10,364,378)**	**29,192,640**

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

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.

The board of directors of the Company approved these condensed consolidated interim financial statements on August 28, 2014.

Basis of Presentation

These condensed consolidated interim financial statements have been prepared 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"). These condensed consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim consolidated financial statements, including International Accounting Standard ("IAS") 34, "*Interim Financial Reporting*", and have been prepared following the same accounting policies as the annual consolidated financial statements for the year ended December 31, 2013 except as described in Note 2. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRSs.

2. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2014, the Company adopted the following IFRS:

IAS 36 *"Impairment of Assets"* ("IAS 36") **-** In 2013, the IASB issued amendments to IAS 36 that requires entities to disclose the recoverable amount of impaired Cash Generating Units ("CGU"). These amendments are effective for annual periods beginning on or after January 1, 2014; accordingly, the Company has adopted these amendments for the current period. These amendments had no material impact on the consolidated financial statements.

IFRIC 21 *"Levies"* ("IFRIC 21") **-** IFRIC 21 sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Company is not currently subject to significant levies. These amendments are effective for annual periods beginning on or after January 1, 2014; accordingly, the Company has adopted these amendments for the current period. These amendments had no material impact on the consolidated financial statements.

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

IFRS 9, *"Financial Instruments"*, which has been issued in final in July 2014 with an effective date of January 1, 2015, addresses the classification and measurement of financial assets and financial liabilities and hedge accounting. IFRS 9 replaces the parts of IAS 39, "*Financial Instruments: Recognition and Measurement"* that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. In the third and final outstanding phase of the standard, the IASB will address impairment of financial assets. The Company is currently assessing the impact of adopting IFRS 9 on its consolidated financial statements

Expressed in United States Dollars

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

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, 2014:

	December 31, 2013 $	Additions 2014 $	June 30, 2014 $
Burkina Faso			
Tankoro (a)			
Acquisition costs	353,097	-	353,097
Exploration expenditure	13,981,752	423,191	14,404,943
Other			
Acquisition costs	509,475	-	509,475
Exploration expenditure	5,566,217	757,895	6,324,112
Exploration expenditure written off (c)	(520,501)	(650,261)	(1,170,762)
Total Burkina Faso	**19,890,040**	**530,825**	**20,420,865**
Mali			
Acquisition costs	71,105	(1,999)	69,106
Exploration expenditure	1,817,413	101,792	1,919,205
Expenditure written off	(1,424,497)	(35,577)	(1,460,074)
Total Mali	**464,021**	**64,216**	**528,237**
Liberia			
Pedsam (b)			
Exploration expenditure	3,656,895	512,830	4,169,725
Other			
Acquisition costs	30,000	-	30,000
Exploration expenditure	277,281	46,487	323,768
Expenditure written off	(65,083)	(188)	(65,271)
Total Liberia	**3,899,093**	**559,129**	**4,458,222**
Total	**24,253,154**	**1,154,170**	**25,407,324**

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 royalty for any future mineral production from the Property. Sarama retains the right to acquire the NSR royalty 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.

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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 km^2), Gbarpolu – MEL 11024 (400 km^2), Grand Bassa – MEL 11032 (603.5 km^2). An amount of $100,000 was paid on execution of this agreement to the vendor.

As at June 30, 2014, Sarama's equity interest was 90% (June 30, 2013: 80%).

c. Exploration expenditure write off

The Company took the decision during the second quarter to relinquish the Mousseo, Minnisia and Tiefora Nord permits in Burkina Faso. Any evaluation and exploration expenditure relating to these permits has been expensed.

5. PLANT AND EQUIPMENT

June 30, 2014

	Plant and Equipment $	Motor Vehicles $	Office Equipment $	Total $
Opening net book value	292,460	227,238	160,485	680,183
Additions	500	-	9,165	9,665
Disposals	-	(31,052)	-	(31,052)
Depreciation	(25,525)	(34,741)	(28,660)	(88,926)
Closing net book value	**267,435**	**161,445**	**140,990**	**569,870**
Cost	355,111	415,030	304,918	1,075,059
Accumulated depreciation	(87,676)	(253,585)	(163,928)	(505,189)
Closing net book value	**267,435**	**161,445**	**140,990**	**569,870**

December 31, 2013

	Plant and Equipment $	Motor Vehicles $	Office Equipment $	Total $
Opening net book value	231,130	310,178	182,071	723,379
Additions	114,680	30,000	44,913	189,593
Depreciation	(53,350)	(112,940)	(66,499)	(232,789)
Closing net book value	**292,460**	**227,238**	**160,485**	**680,183**
Cost	354,611	446,082	295,753	1,096,446
Accumulated depreciation	(62,151)	(218,844)	(135,268)	(416,263)
Closing Net Book Value	**292,460**	**227,238**	**160,485**	**680,183**

6. SHARE CAPITAL

(a) Authorised Share Capital

At June 30, 2014 the authorised share capital comprised an unlimited number of common shares without par value.

Expressed in United States Dollars

(b) Issued Share Capital

	Capital Stock Number	$
Balance at December 31, 2013	66,159,894	35,593,423
Shares issued during the period ended June 30 2014 (i)	19,192,366	1,945,490
Balance at June 30, 2014	**85,352,260**	**37,538,913**

(i) During the period, the Company commenced a non-brokered private placement (the "Private Placement"). The Private Placement closed on July 4, 2014. At the balance date, the Company had issued 19,192,366 common shares and 9,596,183 warrants in return for gross proceeds of C$2,878,855. Subsequent to balance date, a further 1,800,000 common shares and 900,000 warrants were issued in return for gross proceeds of C$270,000.

(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 C$**	**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 (vested)	1,005,000	0.80	January 31, 2018
January 30, 2014 (partially vested)	1,415,000	0.28	January 31, 2017
	6,470,000		

No options have been exercised in the three and six months ended June 30, 2014.

On January 31, 2014, the Company granted 1,415,000 options to directors, executive officers, management and employees in accordance with the Company's stock option plan. The option's vesting conditions were that 50% vest immediately and 50% vest 6 months from the date of grant. The options have a term of 3 years and are exercisable at a price of C$0.28 per share.

(d) Stock-based Compensation

For the six month period ended June 30, 2014, the Company granted stock options to its directors, officers, employees and consultants and estimated the stock based compensation as follows:

	January 30, 2014
Total options granted	1,415,000
Exercise price	C$0.28
Estimated fair value of compensation recognised (i)	21,476
Balance to be recognised over remaining vesting period (ii)	21,476
Estimated fair value per option	3.4c

(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:

Expressed in United States Dollars

	January 30, 2014
Risk-free interest rate	0.99%
Expected dividend yield	0%
Expected stock price volatility	105%
Expected option life in years	1.5 years

(ii) The options granted on January 31, 2014 vesting conditions were that 50% vest immediately and 50% vest 6 months from the date of grant.

(e) Warrants

The Company issued warrants as part of its bought deal offering in October and November 2012 and its non-brokered private placement in May and June 2014. Changes in the fair value of these warrants are as follows:

	$
Fair value at December 31, 2013	-
Fair value of warrants recognized as part of the non-brokered private placement in May and June 2014	660,231
Fair value at June 30, 2014	660,231

Warrant issue	Total Warrants Issued	Exercise Price	Estimated fair value of warrants (i)	Estimated fair value per warrant
Shareholder Warrants issued Oct, Nov 2012	7,944,445	C$1.20	-	0.0c
Shareholder Warrants issued May, June 2014	9,596,183	C$0.20	660,231	7.3c
Total	**17,540,628**		**660,231**	

(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 Oct, Nov 2012	0.94%	0%	105%	3 months
Shareholder Warrants issued May, June 2014	1.102%	0%	105%	2 years 0 months

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

	Six months ended June 30, 2014	Six months ended June 30, 2013
	Cents per share	Cents per share
Basic earnings/(loss) per share	(2.2c)	2.7c
Diluted earnings/(loss) per share	(2.2c)	2.7c
Net profit/(loss) used in calculating basic/diluted earnings/(loss) per share	(1,512,114)	1,801,985

Expressed in United States Dollars

Weighted average number of shares on issue during the financial year used in the calculation of basic earnings/(loss) per share	**69,358,672**	**66,036,883**

8. 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, 2014 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, 2014, Sarama has a warrant liability recognised at fair value. This level 2 financial liability is recognised at fair value through the profit and loss carried at fair value gain of $Nil (December 31, 2013: $Nil).

9. SUBSEQUENT EVENTS

On July 4, 2014 the Company closed the Private Placement of 1,800,000 units at a price of C$0.15 per Unit for gross proceeds of approximately C$270,000. Each Unit is comprised of one common share of the Company and one-half of one Common Share purchase warrant. Each Warrant entitles the holder to purchase one Common Share at a price of C$0.20 at any time prior to 5:00 p.m. (Toronto time) on July 4, 2016.