EAST AFRICA METALS INC.
(an exploration stage company)

CONSOLIDATED FINANCIAL STATEMENTS

For the six month transitional fiscal period ended December 31, 2013
and the year ended June 30, 2013

Expressed in Canadian dollars

April 29, 2014

Independent Auditor's Report

To the Shareholders of East Africa Metals Inc.

We have audited the accompanying consolidated financial statements of East Africa Metals Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2013 and June 30, 2013 and the consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for the six month period ended December 31, 2013 and year ended June 30, 2013, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of East Africa Metals Inc. as at December 31, 2013 and June 30, 2013 and its financial performance and its cash flows for the six month period ended December 31, 2013 and year ended June 30, 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia

EAST AFRICA METALS INC.
(an exploration stage company)
Consolidated Balance Sheets
Expressed in Canadian dollars, unless otherwise stated

	December 31, 2013	June 30, 2013
Assets		
Current assets		
Cash and cash equivalents (Note 8)	$ 6,184,190	$ 5,072,586
Short-term investments	11,659,449	13,240,050
Restricted cash (Note 1)	--	3,999,994
Accounts receivable (Note 9)	1,910,268	1,572,481
Loan receivable (Note 10)	1,842,613	--
Marketable securities and other assets (Note 12)	2,151,951	956,275
Prepaid expenses and deposits	347,797	493,466
	24,096,268	25,334,852
Mineral property interests (Note 14)	6,111,159	5,961,798
Property and equipment (Note 13)	1,582,542	1,843,254
	$ 31,789,969	$ 33,139,904
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	$ 786,540	$ 821,819
	786,540	821,819
Equity		
Share capital (Note 16 (b))	33,873,666	33,873,666
Contributed surplus	145,644,115	145,279,147
Accumulated other comprehensive income	696,424	28,119
Deficit	(149,210,776)	(146,862,847)
	31,003,429	32,318,085
	$ 31,789,969	$ 33,139,904

Nature of operations, arrangement agreement and spinout transaction (Notes 1 and 2)
Subsequent events (Note 22)

Approved on behalf of the Board

(signed) “Andrew Lee Smith"　　　　(signed) “Dr. Antony Harwood”

EAST AFRICA METALS INC.

(an exploration stage company)

Consolidated Statements of Operations

Expressed in Canadian dollars, unless otherwise stated

	Six months ended December 31, 2013	Year ended June 30, 2013
Expenses		
Amortization (Note 13)	$ 114,480	$ 276,103
Corporate transaction costs	--	1,830,556
Directors and advisory board fees	42,667	282,198
Exploration and evaluation expenditure (Note 15)	1,380,771	4,611,066
Investor/shareholder communications and filing fees	42,601	402,437
Legal, audit and audit related fees	197,235	975,442
Management consulting fees	115,984	1,133,415
Project generation	280,482	246,970
Office and administration	130,836	888,416
Rent and occupancy costs	113,768	213,723
Salaries and benefits	164,042	1,652,389
Share-based compensation (Note 16 (d))	299,274	1,404,630
Write-off of mineral property interests (Note 14)	31,205	--
	2,913,345	13,917,345
Loss from operations	(2,913,345)	(13,917,345)
Change in fair value of other assets (Note 12)	212,371	(85,318)
Change in fair value of other assets associated with loan receivable (Notes 10 and 12)	157,256	--
Finance income (Note 10)	47,620	--
Foreign exchange gain (loss)	12,553	(72,002)
Gain on sale of marketable securities (Note 12)	16,236	--
Interest income (Note 18)	119,380	904,435
Net loss for the period	(2,347,929)	(13,170,230)
Loss per share, basic and diluted (Note 16 (b))	$ (0.03)	$ (0.20)
Weighted average number of common shares used in the calculation of loss per share – basic and diluted (Note 16 (b))	67,305,842	66,830,772

Consolidated Statements of Comprehensive Income (Loss)

Expressed in Canadian dollars, unless otherwise stated

	Six months ended, December 31, 2013	Year ended, June 30, 2013
Net loss for the period	$ (2,347,929)	$ (13,170,230)
Items that may be reclassified to statement of operations		
Currency translation adjustment	79,705	297,785
Unrealized gain (loss) on investments, net of deferred income tax (Note 12)	604,836	(871,216)
Unrealized gain on investments transferred to net loss (Note 12)	(16,236)	--
Comprehensive loss for the period	$ (1,679,624)	$ (13,743,661)

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

EAST AFRICA METALS INC.
(an exploration stage company)
Consolidated Statements of Changes in Equity
For the six months ended December 31, 2013 and the year ended June 30, 2013
Expressed in Canadian dollars, unless otherwise stated

	Common Shares Without Par Value				Accumulated Other Comprehensive		
	Shares	Amount	Warrants	Contributed Surplus	Income	Deficit	Total Equity
Balance, June 30, 2012	199,708,103	$203,210,286	$ 2,263,787	$ 31,199,887	$ 601,550	$ (133,692,617)	$ 103,582,893
Issued for cash							
Stock options exercised (Note 16 (d))	2,209,535	1,044,569	--	(417,976)	--	--	626,593
Share-based compensation (Note 16 (d))	--	--	--	1,852,260	--	--	1,852,260
Unrealized loss on investments (Note 12)	--	--	--	--	(871,216)	--	(871,216)
Warrants expired, unexercised (Note 16 (e))	--	--	(2,263,787)	2,263,787	--	--	--
Shark Arrangement Agreement (Notes 1, 2 and 16 (b))	(201,917,638)	(170,381,189)	--	110,381,189	--	--	(60,000,000)
Issuance of share (Note 16 (b))	67,305,842	--	--	--	--	--	--
Currency translation adjustment on foreign operations	--	--	--	--	297,785	--	297,785
Net loss for the period	--	--	--	--	--	(13,170,230)	(13,170,230)
Balance, June 30, 2013	67,305,842	33,873,666	--	145,279,147	28,119	(146,862,847)	32,318,085
Share-based compensation (Note 16 (d))	--	--	--	364,968	--	--	364,968
Unrealized gain on investments (Note 12)	--	--	--	--	604,836	--	604,836
Unrealized gain on investments transferred to net loss (Note 12)	--	--	--	--	(16,236)	--	(16,236)
Currency translation adjustment on foreign operations	--	--	--	--	79,705	--	79,705
Net loss for the period	--	--	--	--	--	(2,347,929)	(2,347,929)
Balance, December 31, 2013	67,305,842	$ 33,873,666	--	$ 145,644,115	$ 696,424	$ (149,210,776)	$ 31,003,429

EAST AFRICA METALS INC.
(an exploration stage company)
Consolidated Statements of Cash Flows
Expressed in Canadian dollars, unless otherwise stated

	Six months ended December 31, 2013	Year ended, June 30, 2013
Cash flows provided by (used for) operating activities		
Net loss	$ (2,347,929)	$ (13,170,230)
Items not involving cash		
Amortization – administration (Note 13)	114,480	276,103
Amortization – exploration and evaluation (Notes 13 and 15)	159,960	385,278
Share-based compensation – administration (Note 16(d))	299,274	1,404,630
Share-based compensation – exploration and evaluation (Notes 15 and 16(d))	65,694	447,630
Foreign exchange loss	12,533	72,002
Change in fair value of share purchase warrants (Note 12)	(369,627)	85,318
Impairment of mineral property interest (Note 14)	31,205	--
Gain on marketable securities (Note 12)	(16,236)	--
Finance income (Note 10)	(47,620)	--
Interest Income	27,551	--
Changes in operating assets and liabilities		
Accounts receivable	(317,096)	(454,917)
Prepaid expenses	145,669	280,129
Restricted cash (Note 1)	3,999,994	(3,999,994)
Accounts payable and accrued liabilities	(67,721)	(598,255)
	1,690,131	(15,272,306)
Cash flows provided by (used for) investing activities		
Purchase of marketable securities	--	(1,200,000)
Tigray loan (Note 10)	(2,000,000)	--
Mineral property acquisitions (Note 14)	(117,966)	(457,655)
Purchase of equipment (Note 13)	--	(75,290)
Redemption of short-term investments	4,117,300	92,901,513
Purchase of short-term investments	(2,564,252)	(55,198,051)
	(564,918)	35,970,517
Cash flows provided by (used for) financing activities		
Shark Arrangement Agreement (Note 1)	--	(60,000,000)
Proceeds from exercise of stock options (Note 16(d))	--	626,593
	--	(59,373,407)
Effects of exchange rate changes on cash and cash equivalents	(13,609)	(35,818)
Increase (decrease) in cash and cash equivalents	1,111,604	(38,711,014)
Cash and cash equivalents, beginning of period	5,072,586	43,783,600
Cash and cash equivalents, end of period	$ 6,184,190	$ 5,072,586
Non-cash investing and financing activities		
Shark Arrangement Agreement (Notes 1 and 2)	$ --	110,381,189
Expiry of warrants	--	2,263,787

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

1. Nature of operations, arrangement agreement and spinout transaction

East Africa Metals Inc. ("East Africa Metals" or the "Company) was incorporated on December 7, 2012, under the Canada Business Corporations Act. The address of the Company's corporate office and principal place of business is Suite 3114, 1055 Dunsmuir Street, Vancouver, British Columbia, Canada. On July 11, 2013, the Company commenced trading on the TSX Venture Exchange (the "Exchange") as a Tier 2 mining issuer under the trading symbol "EAM".

The Company was initially a wholly-owned subsidiary of Canaco Resources Inc. ("Canaco") and was formed for the purpose of a spinout of the assets of Canaco which included all the assets and liabilities of Canaco other than $60,000,000 in cash, short-term investments and certain liabilities pursuant to a spinout transaction.

East Africa Metals is an exploration stage business engaged in the acquisition and exploration of mineral properties located in Tanzania. The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. The continued operations of the Company and the recoverability of the amounts capitalized for mineral 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 such properties and upon future profitable production or proceeds from the disposition of the properties.

The Company has changed its year end from June 30 to December 31, effective December 31, 2013. Accordingly, the fiscal year ended December 31, 2013, is a shortened six month transitional fiscal period. The comparative information is for the full twelve months fiscal year ended June 30, 2013.

Shark Arrangement Agreement and spinout transaction

During the year-ended June 30, 2013, Canaco closed a share purchase agreement between Canaco, Shark Minerals Inc. ("Shark") and the shareholders of Shark dated December 14, 2012. Under the agreement Canaco acquired all of the outstanding common shares of Shark in exchange for the issuance of 118,584,735 of its common shares (the "Shark Arrangement Agreement"). In connection with the Shark Arrangement Agreement and effective on April 4, 2013, Canaco also completed a share consolidation (the "Consolidation") on the basis of one (1) new share for three (3) existing shares resulting in issued capital of 106,834,124 common shares and changed its name to Orca Gold Inc. ("Orca Gold"). At the closing of the Shark Arrangement Agreement and the Consolidation, Orca Gold is 63% owned by former Canaco shareholders and 37% owned by former Shark shareholders.

Immediately prior to the Shark Arrangement Agreement and Consolidation, Canaco completed a spinout transaction (the "Spinout") by way of a plan of arrangement whereby Canaco (a) transferred all of its assets other than certain assets and $60,000,000 in cash, short-term investments and certain liabilities as defined in the agreement, to East Africa Metals and (b) distributed all of the shares of East Africa Metals to the shareholders of Canaco immediately prior to giving effect to the Shark Arrangement Agreement on the basis of one (1) East Africa Metals share for every three (3) pre-Consolidation Canaco shares held by shareholders as of the effective date of the Spinout. In addition to the cash and short-term investments noted above, $4,000,000 was set aside in an account jointly controlled by Orca Gold and East Africa Metals to cover any potential future costs that may be incurred after April 4, 2013, as a result of the British Columbia Securities Commission ("BCSC") hearing. Under the terms of the Shark Arrangement Agreement and Spinout, once the BCSC hearing and outcome were concluded, the unexpended balance of these funds will be released to East Africa Metals. On August 7, 2013, the BCSC dismissed the allegations regarding the grant of stock options and the disclosure of the infill drill results made by Canaco. On September 27, 2013, the jointly controlled account was collapsed and the restricted cash was transferred into the Company's operating bank account.

2. Continuity of interests accounting

The legal form of the Spinout provided that on April 4, 2013, Canaco transferred materially all of the assets and liabilities of Canaco to East Africa Metals, except for cash and short-term investments of $60,000,000 and sufficient funds to pay certain liabilities outstanding as at April 4, 2013. For accounting purposes, under a continuity of business basis of presentation the continuing business of East Africa Metals, and its related comparatives will be the historical results of Canaco. Accordingly in the year-ended June 30, 2013, an adjustment of $110,381,189 from share capital to contributed surplus reflects the share capital of the East Africa Metals as a result of the Spinout.

3. Statement of compliance

These consolidated financial statements of the Company and its subsidiaries are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Board of Directors on April 29, 2014.

4. Significant accounting policies

(a) Basis of presentation

These consolidated financial statements have been prepared on an accrual basis and are on an historical costs basis, except for certain financial instruments which are measured at fair value. The preparation of the consolidated 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 consolidated financial statements are disclosed in Note 5.

These consolidated financial statements are prepared in Canadian dollars, with all amounts rounded to the nearest dollar, unless otherwise stated.

(b) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Canaco Resources (BC) 2009 Inc., Canaco Tanzania Limited, Canaco Resources Holdings Inc., Canaco Tanzania Holdings Inc., and of Denwill Mining Services Limited (a structured private entity incorporated in Tanzania) for the purposes of consolidation. All intercompany transactions are eliminated on consolidation. The functional currency of the Company and its subsidiaries in the British Virgin Islands ("BVI") is the Canadian dollar and the functional currency of its Tanzanian subsidiaries is the US dollar ("USD").

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are deconsolidated from the date that control ceases.

The principal subsidiaries of East Africa Metals and their geographic locations at December 31, 2013, were as follows:

Name of subsidiary	Principal Activity	Location	Proportion of ownership interest and/or voting power held
Canaco Resources (BC) 2009 Inc.	Holding company	Canada	100%
Canaco Tanzania Limited	Mineral exploration	Tanzania	100%
Canaco Resources Holdings Inc.	Holding company	BVI	100%
Tanzania Holdings Inc.	Holding company	BVI	100%
Denwill Mining Services Limited	Mineral exploration	Tanzania	100% (consolidated structured entity)

Structured entities are entities controlled by the Company which were designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities controlled by the Company were established under terms that impose strict limitations on the decision-making powers of the structured entities' management and that results in the Company receiving the majority of the benefits related to the structured entities' operations and net assets, being exposed to the majority of risks incident to the structured entities' activities, and retaining the majority of the residual or ownership risks related to the structured entities or their assets.

4. Significant accounting policies (continued)

(b) Consolidation (continued)

The Company accounts for Denwill Mining Services Limited ("Denwill") as a structured entity in accordance with IFRS 10 Consolidated Financial Statements. The Company has concluded that it controls this entity as the Company has the power to control the principal economic and strategic decisions on exploration activities. Refer to Note 5(d) for further information.

(c) Cash and cash equivalents

Cash is cash on deposit with banks and cash equivalents are money market investments with maturities on the date of acquisition of 90 days or less. Cash and cash equivalents are readily convertible to cash and are subject to insignificant changes in value.

(d) Short-term investments

Short-term investments include amounts held as cash term deposits in banks with maturities at date of purchase of between 90 days and one year.

(e) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans are considered to be impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the loan, the estimated future cash flows of the loan have been affected. Loans are considered past due once the borrower has failed to make payments within 30 days of the contractual due date. Alternatively, if there has been a specific event which gives rise to uncertainty as to the ultimate collectability of a loan, including those loans that are less than 30 days in arrears, the loan is declared to be impaired.

Objective evidence of an impairment of a loan could include: significant financial difficulty of the borrower; breach of contract such as a default or delinquency in interest or principal payments; or it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

(f) Foreign currency translation

(i) Transactions and balances

Foreign currency transactions are translated into the functional currency of an entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses result from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in currencies other than an operation's functional currency. These gains and losses are recognized in the consolidated statements of operations.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

(ii) Translation of foreign operations results into the presentation currency

The results and balance sheets of all the Company's subsidiaries with functional currencies different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each consolidated balance sheet presented are translated at the closing rate at the date of the consolidated balance sheet;
- Income and expenses are translated at monthly average exchange rates, unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions; and
- All resulting exchange differences are recognized as a currency translation adjustment in the statements of comprehensive income (loss).

4. Significant accounting policies (continued)

(f) Foreign currency translation (continued)

(ii) Translation of foreign operations results into the presentation currency (continued)

The parent company has monetary items that are inter-company receivables from foreign operations. A monetary item for which settlement is neither planned nor likely to occur in the foreseeable future is in substance a part of the parent company's net investment in that foreign operation. On consolidation, such exchange differences are recognized in the statements of comprehensive income and accumulated other comprehensive income in equity. When a foreign operation is sold, such exchange differences are recognized in the consolidated statements of operations as part of the gain or loss on sale.

(g) Financial instruments

Financial assets and liabilities are initially recognized at fair value on the consolidated balance sheet when the Company becomes a party to the contractual provisions of the instrument. Measurement in subsequent periods depends on the financial instrument's classification.

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

- Cash and cash equivalents have been designated as loans and receivables.
- Receivables and short-term deposits have been designated as loans and receivables and are thus recorded at amortized cost, net of anticipated collection costs, if any.
- Accounts payable and accrued liabilities are initially recorded at fair value and subsequently measured at amortized cost.
- Held for trading financial instruments ("other assets") are measured at fair value. All gains and losses are included in the consolidated statements of operations in the period in which they arise.
- Available-for-sale ("Marketable Securities") are non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income ("OCI"). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from OCI and recognized in the consolidated statements of operations.

The three levels of the fair value hierarchy are:

- Level 1 – Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Valuation based on directly or indirectly observable inputs (other than Level 1 inputs) such as quoted interest or currency exchange rates; and
- Level 3 – Valuation based on significant inputs that are not based on observable market data such as discounted cash flow methodologies based on internal cash flow forecasts.

(h) Impairment of financial assets

Financial assets, other than those at fair value through consolidated statements of operations, are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

(i) Mineral property interests and exploration and evaluation expenditures

Acquisition of mineral property interests

The Company capitalizes the direct costs of acquiring and maintaining mineral property interests. Option payments are considered acquisition costs if the Company has the intention of exercising the underlying option.

4. Significant accounting policies (continued)

(i) Mineral property interests and exploration and evaluation expenditures (continued)

From time to time, the Company acquires and disposes of mineral property interests pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee, and accordingly, are recorded as mineral property costs (recoveries) when payments are made or received until the original cost is recovered and after which subsequent recoveries are charged to the consolidated statements of operations.

Ownership in mineral property interests involves certain inherent risks due to the difficulties of determining and obtaining clear title to claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristics of many mineral properties.

Exploration and evaluation expenditures (“Exploration expenditures”)

The Company’s exploration expenditures are charged to the consolidated statements of operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration and development expenditures are capitalized. Exploration expenditures include salary costs of geologists, field employees and local management.

(j) Property and equipment

Property and equipment are stated at cost as at the date of acquisition or completion and are available for their intended use. Residual values, method of amortization (depreciation) and useful lives of the assets are reviewed annually and adjusted if expectations differ from previous estimates. Amortization (depreciation) related to property and equipment used in exploration and evaluation activities are classified within exploration expenditures.

The Company amortizes (depreciates) property and equipment using the straight-line method over their useful lives as follows:

- Buildings and roads 5-10 years
- Office furniture and equipment 5 years
- Computer equipment and software 2-3 years
- Leasehold improvements over the term of the lease

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the consolidated statements of operations.

(k) Impairment of non-financial assets

(i) Impairment

The Company’s mineral property interests and property and equipment are reviewed for indications of impairment at each reporting period. If indication of impairment exists, the asset’s recoverable amount is estimated.

The Company performs an impairment test when events or circumstances occur which indicate the assets may not be recoverable. The recoverable amount is the greater of the asset’s fair value less costs to sell and value in use. Impairment tests are carried on a project by project basis with each project representing a cash generating unit. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount and recognized in the consolidated statements of operations.

(ii) Reversal of impairment

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

4. Significant accounting policies (continued)

(l) Share-based compensation

The Company grants stock options to directors, officers, employees and service providers. Each tranche in an award is considered a separate award with its own vesting period and fair values. The Company applies the fair-value method of accounting for share-based compensation. The fair value is calculated using the Black-Scholes option pricing model.

Share-based compensation for employees and others providing similar services are determined based on the grant date fair value. Share-based compensation for non-employees is determined based on the fair value of the goods or services received or option granted measured at the date on which the Company obtains such goods or services.

Share-based compensation expense is recognized over each tranche's vesting period, in the consolidated statements of operations or capitalized as appropriate, based on the number of awards that vest less the estimated forfeitures. The number of forfeitures likely to occur is estimated on grant date. If and when stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital.

(m) Income tax

Income tax on the consolidated statement of operations for the years presented comprises current and deferred tax. Income tax is recognized in the consolidated statements of operations except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, adjusted for any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis.

(n) Loss per share

Basic loss per share is computed by dividing loss attributable to common shareholders by the weighted average number of common shares outstanding during the year. The diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of outstanding options and their equivalents are reflected in diluted earnings per share by application of the treasury method, whereby all 'in the money" options and warrants are assumed to have been exercised at the beginning of the year and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the year. If the Company incurs losses, basic and diluted loss per share is the same as the exercise of options and warrants is considered to be anti-dilutive.

(o) Share capital

(i) The proceeds from the exercise of stock options and warrants, in addition to the estimated fair value attributable to these equity instruments, are recorded as share capital when exercised. Warrants issued are recorded at the estimated fair value using the Black-Scholes pricing model.

(ii) Share capital issued for non-monetary consideration is recorded at an amount based on estimated fair market value reduced by an estimate of transaction costs incurred when issuing shares for cash.

4. Significant accounting policies (continued)

(o) Share capital (continued)

(iii) On unit offerings, the Company prorates the proceeds between the relative fair values of the shares issued and the Black-Scholes value of the warrants issued.

(p) Comprehensive income (loss)

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in consolidated statements of operations such as unrealized gains or losses on available-for-sale investments, gains or losses on certain derivative instruments and foreign currency gains or losses related to a translation of foreign operations. The Company's comprehensive income (loss) and cumulative translation adjustments are presented in the consolidated statements of comprehensive income (loss) and the consolidated statements of changes in equity.

5. Significant accounting estimates and judgments

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the notes to the financial statements where applicable. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The Company has identified the following critical accounting policies under which significant estimates and assumptions are made where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the Company's balance sheet reported in future periods.

(a) Investment in Tigray Resources Inc. ("Tigray") - share purchase warrants

Share purchase warrants held as other assets are measured at fair value using the Black-Scholes Option Pricing Model. The fair value estimates derived through the use of this model are subject to the use of subjective assumptions similar to those described for share-based compensation including historical price volatility, forfeiture rate and expected life. Changes in the subjective input assumptions can materially affect the fair value estimate.

(b) Continuity of interests accounting

As described in Notes 1 and 2, during the year-ended June 30, 2013, Canaco transferred all of its assets other than certain assets and $60,000,000 in cash, short-term investments and certain liabilities as defined in the agreement, to East Africa Metals and distributed all of the shares of East Africa Metals to the shareholders of Canaco. As a result there was no substantive change to the shareholder's interest, the assets of the Company, other than $60,000,000 in cash and short-term investments, and the management of the Company. As there was no substantive change in the Company, the Shark Arrangement Agreement represents a rearrangement of the legal interests. Consequently, for accounting purposes, under a continuity of business basis of presentation the continuing business of East Africa Metals, and its related comparatives will be the historical results of Canaco.

(c) Investment in associate – Tigray Resources Inc.

During the six months ended December 31, 2013, the Company received 8,000,000 share purchase warrants in connection with a $2,000,000 loan agreement with Tigray (Note 10). As at December 31, 2013, the Company held 8,000,000 common shares and 12,000,000 share purchase warrants (Note 12), representing approximately 23.74% of the then outstanding common shares of Tigray, assuming exercise of all warrants. Management has considered whether Tigray is an associate because of the acquisition of shares in Tigray which was an independent business decision of East Africa Metals given that there are two pre-existing directors in common of the respective entities. Management concluded that the investment should be categorized as available-for-sale rather than as an associate as the share ownership is below 20% and does not provide any rights to Board appointments of Tigray nor other indicators of significant influence. Management believes that the directors in common do not exercise any significant influence on behalf of East Africa over the direction of Tigray in fulfillment of their fiduciary responsibilities. As a result, East Africa Metals has not recorded its investment in Tigray using the equity method of accounting.

5. Significant accounting estimates and judgments (continued)

(d) Investment in structured entity – Denwill Mining Services Limited

Denwill is consolidated as a structured entity (formerly a Special Purpose Entity), and the purpose of which is for the benefit of the Company to acquire primary mining licenses ("PML") in Magambazi, restricted to citizens of Tanzania (Note 14). During the year ended June 30, 2011, the Company provided funds to Denwill for the payments for the Magambazi PMLs. Concurrently, during the year ended June 30, 2011, the Company and Denwill entered into an agreement whereby the Company is granted an option to acquire all of the issued and outstanding shares of Denwill for US$40,000, which has not yet been exercised. The Company has assessed it has control over Denwill as Denwill's three directors are directors of the Company's Tanzanian subsidiary, it provides funds for the payments of PML's and it has the power to direct the exploration activities, which affects the risks and rewards from the Magambazi property.

(e) Loan receivable

The valuation of loan receivable includes the following estimates and judgments. The carrying value of a loan receivable is determined using valuation techniques based on an amortized cost model for cash flows expected to be received from the loan. The estimated cash flows and the collectability of the principal balance at maturity are subject to significant judgment and uncertainty. Changes in the subjective input assumptions can materially affect the fair value estimate.

6. Adoption of new or revised IFRSs

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

(a) 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 other entities. IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities" ("SIC – 12") and is effective for annual periods beginning on or after January 1, 2013. Previously, Denwill Mining Services Limited, was considered as a special purpose entity ("SPE") and was consolidated in accordance with SIC -12. The Company has assessed that the adoption of IFRS 10 does not result in any change in the consolidation status of this structured entity (formerly a SPE) and its subsidiaries. Refer to Notes 4(b) and 5(d) for the disclosures and further information.

(b) IFRS 11 Joint Arrangements ("IFRS 11")

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets. This accounting requirement is effective for annual periods beginning on or after January 1, 2013. The Company has adopted this new standard and there is no impact on the consolidated financial statements.

(c) IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12")
IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company has disclose the significant judgements and assumptions it has made in determining the nature of its interest in another entity or arrangement, and in determining the type of arrangement in which it has an interest; and information about its interests in subsidiaries, joint arrangements and associates; and structured entities that are not controlled by the Company. Refer to Notes 4(b) and 5(c) for the disclosures and further information.

(d) IFRS 13 Fair Value Measurements ("IFRS 13")

IFRS 13 defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to standards that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. The Company has adopted this new standard. Refer to Note 18 for disclosures.

6. Adoption of new or revised IFRSs (continued)

(e) Amendment to IAS 1, Presentation of Financial Statements

The amendments to IAS 1 require items to be grouped within other comprehensive income that may be reclassified to profit or loss and those that will not be reclassified and the amendments are effective for annual periods beginning on or after January 1, 2013. The Company has amended its consolidated statements of comprehensive income (loss) to reflect the presentation changes required under the amended IAS 1. There is no net impact on the consolidated statements of comprehensive income (loss).

7. IFRSs not yet effective

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC"). The Standards impacted that are applicable to the Company are as follows:

(a) IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 was issued in October 2010 by the IASB to replace IAS 39, Financial Instruments – Recognition and Measurement. The replacement standard has the following significant components: it establishes two primary measurement categories for financial assets – amortized cost and fair value; it establishes criteria for the classification of financial assets within the measurement category based on business model and cash flow characteristics; and it eliminates existing held to maturity, available-for-sale, and loans and receivable categories.

In November 2013, the IASB issued an amendment to IFRS 9 which includes a new hedge model that aligns accounting more closely with risk management and enhances disclosure about hedge accounting and risk management. Additionally, as the impairment guidance and certain limited amendments to the classification and measurement requirements of IFRS 9 are not yet complete, the previously mandated effective date of IFRS 9 of January 1, 2015, has been removed and the updated effective date is January 1, 2018. Entities may apply IFRS 9 before the IASB completes the amendments but are not required to do so. The Company is currently evaluating the impact of adopting this new standard.

(b) Amendment to IAS 36, Impairment of Assets

IAS 36 was amended in May 2013 to make small changes to the disclosures required by IAS 36 when an impairment loss is recognized or reversed. The amendments require the disclosure of the recoverable amount of an asset or cash generating unit ("CGU") at the time an impairment loss has been recognized or reversed and detailed disclosure of how the associated fair value less costs of disposal has been determined. The amendments are effective for accounting periods beginning on or after January 1, 2014, with earlier adoption permitted. The Company is currently evaluating the impact of adopting this new amendment.

(c) Accounting for levies imposed by governments

IFRIC 21, Accounting for levies imposed by governments ("IFRIC 21") is an interpretation on the accounting for levies. IFRIC 21 will affect entities that are subject to levies that are not income taxes within the scope of IAS 12 Income Taxes. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014, and should be applied retrospectively. Earlier adoption is permitted. East Africa Metals is currently evaluating the impact IFRIC 21 is expected to have on its consolidated financial statements.

8. Cash and cash equivalents

	December 31, 2013	June 30, 2013
Cash	$ 5,038,803	$ 2,890,767
Cash equivalents	1,145,387	2,181,819
	$ 6,184,190	$ 5,072,586

9. Accounts receivable

Accounts receivable includes insurance receivable related to the BCSC hearing costs (Refer to Note 1) which are covered under the Company's insurance policy.

	December 31, 2013	June 30, 2013
Insurance receivable and taxes receivable	$ 1,018,562	$ 956,040
Related parties and other receivables	891,706	616,441
	$ 1,910,268	$ 1,572,481

10. Loan receivable

On December 3, 2013, the Company entered into a $2,000,000 loan agreement with Tigray. The loan is due and payable in full on June 3, 2014 ("Maturity Date"), subject to a six-month extension period ("Extension Period") at the discretion of the Company. The loan is secured by a charge on the shares of Tigray Resources Holdings Inc., a wholly-owned subsidiary of Tigray, which holds the controlling interest in Tigray's Ethiopian subsidiaries and mineral projects. The loan bears interest at a rate of 12% per annum, calculated and compounded quarterly, and is payable in full on the Maturity Date. In connection with the loan, Tigray issued an aggregate of 8,000,000 warrants to the Company, with each warrant entitling the holder to purchase one common share of Tigray at a price of $0.15 at any time prior to the Maturity Date, including the Extension Period. The number of warrants will be reduced or cancelled on a pro-rata basis if the loan is reduced or paid out prior to the Maturity Date and any such reduction or cancellation will occur within 30 days after the reduction or paying out of the loan. The Company has provided an undertaking to the Exchange and Tigray not to exercise the warrants without shareholder approval. Transaction costs of $32,442 have been capitalized to the loan receivable.

The grant date fair value of the warrants was estimated at $237,449 using the Black Scholes option pricing formula with the following assumptions: expected dividend yield of 0%; expected volatility of 167.2%; risk free interest rate of 1.06% and expected life of 0.5 years. The estimated grant date fair value of the warrants and associated costs were discounted to the loan and recognized as income over the term of the loan. On December 31, 2013, the fair value of the warrants was determined to be $394,705 by revaluing the warrants using the Black Scholes option pricing model with the following assumptions: expected dividend yield 0%, expected volatility 149.90%, risk free interest rate 1.1% and an expected life of 0.42 years. The fair value gain of $157,256 in the share purchase warrants ("other assets") was recorded through the statement of operations.

	Carrying Value
As at June 30, 2013	$ --
Amortized cost of loan	1,794,993
Finance (accretion) income	47,620
As at December 31, 2013	$ 1,842,613

11. Accounts payable and accrued liabilities

	December 31, 2013	June 30, 2013
Trade payables	$ 558,641	$ 403,241
Accrued liabilities	227,899	418,578
	$ 786,540	$ 821,819

12. Marketable securities, other assets and investment

	Candente Gold Corp.		Tigray Resources Inc.		Total
	Quantity (Shares / warrants)	Carrying Value	Quantity	Carrying Value	Carrying Value
Marketable securities					
As at June 30, 2012	2,975,000	$ 535,500	--	$ --	$ 535,500
Releases from escrow	1,275,000	177,309	--	--	177,309
Additions	--	--	8,000,000	1,013,407	1,013,407
Change in fair value	--	(457,809)	--	(413,407)	(871,216)
As at June 30, 2013	4,250,000	255,000	8,000,000	600,000	855,000
Disposals / (Gain)	(205,000)	(16,236)	--	--	(16,236)
Change in fair value	--	84,836	--	520,000	604,836
As at December 31, 2013	4,045,000	323,600	8,000,000	1,120,000	1,443,600
Other assets (warrants)					
As at June 30, 2012	--	--	--	--	--
Additions	--	--	4,000,000	186,593	186,593
Change in fair value	--	--	--	(85,318)	(85,318)
As at June 30, 2013	--	--	4,000,000	101,275	101,275
Additions	--	--	8,000,000	237,449	237,449
Change in fair value	--	--	--	369,627	369,627
As at December 31, 2013	--	--	12,000,000	708,351	708,351
As at December 31, 2013	**4,045,000**	**$ 323,600**	**20,000,000**	**$ 1,828,351**	**$ 2,151,951**
As at June 30, 2013	**4,250,000**	**$ 255,000**	**12,000,000**	**$ 701,275**	**$ 956,275**

Candente Gold Corp. (“Candente Gold”)

On January 4, 2010, Candente Gold’s common shares were listed on the Exchange and have been marked to market since that date with changes in fair value recorded in other comprehensive income. For the six months ended December 31, 2013, the Company sold 205,000 Candente Gold’s common shares for total proceeds of $16,236. These common shares were recorded at a nominal value when issued. The gain previously included in accumulated other comprehensive income in the amount of $16,236 was transferred to the consolidated statements of operations. For the six months ended December 31, 2013, an unrealized marked to market gain of $84,836 (year ended June 30, 2013 – loss of $457,809) was recorded in other comprehensive income.

Tigray Resources Inc.

During the year-ended June 30, 2013, the Company acquired 8,000,000 units of Tigray’s Equity Placement at a price of $0.15 per unit. The Company and Tigray have Directors and officers in common. Each unit comprises one common share and one-half of one non-transferable common share purchase warrant. Each whole warrant allows the holder to purchase one common share of Tigray at an exercise price of $0.20 for a period of two years from the date of closing.

On December 3, 2013, the Company entered into a $2,000,000 loan agreement with Tigray (Note 10). The loan is due in full on June 3, 2014 and bears interest at a rate of 12% per annum. In connection with the loan, the Company received 8,000,000 Tigray’s share purchase warrants with each warrant entitling the holder to purchase one common share of Tigray at a price of $0.15 at any time prior to the maturity date. The initial value of the warrants, $237,449, was discounted to the loan and recognized as income over the term of the loan. On December 31, 2013, these share purchase warrants were revalued at $394,705 using the Black Scholes Option Pricing Model.

12. Marketable securities, other assets and investment (continued)

The Company's investment in common shares of Tigray was valued at the close price of the shares on the Exchange on December 31, 2013. The fair value of the share purchase warrants was estimated using the Black-Scholes option pricing model with the following inputs:

	December 31, 2013	June 30, 2013
Expected life (years)	0.42 – 1.30	1.80
Volatility	149.90% – 167.20%	113.05%
Dividend yield	--	--
Risk free rate	1.06% – 1.10%	1.25%

For the six months ended December 31, 2013, an unrealized marked to market gain of $520,000 (year ended June 30, 2013 – loss of $413,407) for the 8,000,000 common shares held was recorded in other comprehensive income and a change in fair value of share purchase warrants of $369,627 (year ended June 30, 2013 – loss of $85,318) for the 12,000,000 share purchase warrants was included in consolidated statements of operations.

13. Property and equipment

Details of the Company's property and equipment are as follows:

	Buildings and roads	Office furniture and equipment	Computers and software	Leasehold improvements	Total
Cost					
As at June 30, 2013	$ 1,593,615	$ 796,234	$ 439,037	$ 356,196	$ 3,185,082
Additions	--	--	--	--	--
Disposals	--	--	--	--	--
Foreign exchange	18,285	5,535	912	896	25,628
As at December 31, 2013	$ 1,611,900	$ 801,769	$ 439,949	$ 357,092	$ 3,210,710

	Buildings and roads	Office furniture and equipment	Computers and software	Leasehold improvements	Total
Accumulated amortization					
As at June 30, 2013	$ 399,822	$ 371,152	$ 332,336	$ 238,518	$ 1,341,828
Amortization	--	23,415	51,582	39,483	114,480
Disposals	--	--	--	--	--
Exploration amortization	96,170	44,900	4,139	14,751	159,960
Foreign exchange	6,306	3,762	865	967	11,900
As at December 31, 2013	$ 502,298	$ 443,229	$ 388,922	$ 293,719	$ 1,628,168

Net book value					
As at December 31, 2013	$ 1,109,602	$ 358,540	$ 51,027	$ 63,373	$ 1,582,542

13. Property and equipment (continued)

	Buildings and roads	Office furniture and equipment	Computers and software	Leasehold improvements	Total
Cost					
As at June 30, 2012	$ 1,526,018	$ 779,503	$ 417,450	$ 353,554	$ 3,076,525
Additions	47,785	1,560	25,945	--	75,290
Disposals	--	(951)	(6,924)	--	(7,875)
Foreign exchange	19,812	16,122	2,566	2,642	41,142
As at June 30, 2013	$ 1,593,615	$ 796,234	$ 439,037	$ 356,196	$ 3,185,082

	Buildings and roads	Office furniture and equipment	Computers and software	Leasehold improvements	Total
Accumulated amortization					
As at June 30, 2012	$ 181,366	$ 213,374	$ 167,711	$ 114,636	$ 677,087
Amortization	--	57,238	139,903	78,962	276,103
Disposals	--	(301)	(4,134)	--	(4,435)
Exploration amortization	216,122	100,418	25,428	43,310	385,278
Foreign exchange	2,334	423	3,428	1,610	7,795
As at June 30, 2013	$ 399,822	$ 371,152	$ 332,336	$ 238,518	$ 1,341,828

Net book value					
As at June 30, 2013	$ 1,193,793	$ 425,082	$ 106,701	$ 117,678	$ 1,843,254

14. Mineral property interests

Details of the Company's mineral property interests are as follows:

	Tanzania, Handeni properties	Tanzania, other properties	Total
Acquisition costs			
As at June 30, 2012	$ 2,481,173	$ 2,828,733	$ 5,309,906
Property payments	102,211	355,444	457,655
Foreign exchange	98,223	96,014	194,237
As at June 30, 2013	2,681,607	3,280,191	5,961,798
Property payments	108,545	9,421	117,966
Write-off	--	(31,205)	(31,205)
Foreign exchange	25,553	37,047	62,600
As at December 31, 2013	$ 2,815,705	$ 3,295,454	$ 6,111,159

Tanzania – Handeni properties

The Handeni Gold Project consists of two contiguous claims, Magambazi and Kilindi. The properties are located in the Handeni district, Tanga Region of Tanzania. The Kilindi property is 100% owned by the Company and is subject to a Prospecting Licence ("PL").

14. Mineral property interests (continued)

During the six months ended December 31, 2013, and the year end June 30, 2013, the Company had:

a) through a structured entity, the Company made the third payment of US$50,000 on a Handeni PML exploration and purchase option agreement ("Agreement') to acquire 100% interest in the PML. The Agreement includes payments of US$50,000 in year one (paid); US$50,000 in year two (paid) and US$50,000 in year three (paid). The Company has a purchase option to acquire the PML for US$400,000. The Agreement is subject to a 2.0% Net Smelter Returns Royalty ("NSR") with an option for the Company to buy back 1.0% of the NSR for US$250,000.

b) through a structured entity, the Company made the third payment of US$50,000 on a second Handeni PML exploration and option agreement ("2nd Agreement"), with a different third party than noted in a). The 2nd Agreement includes payments of US$50,000 in year one (paid); US$50,000 in year two (paid) and US$50,000 in year three (paid). The Company has a purchase option to acquire the PML for US$400,000. The 2nd agreement is subject to a 2.0% NSR with an option for the Company to buy back 1.0% of the NSR for US$250,000.

c) the Kwadijava PML exploration and purchase option agreement includes payments of US$100,000 in Year 1 (paid); US$120,000 in year two (paid) and US$140,000 has been accrued in year three. The Company has a purchase option of US$1,200,000 to be exercised before January 7, 2014, subject to a NSR of 2.0% on gold and/or other base metals. The Company has an option to buy back 1.0% of the NSR. If the purchase option is exercised prior to January 7, 2014, the value of any unexpired payments as noted above will be deducted from the purchase consideration.

Tanzania – Other properties

The Company's "Other properties" consists of 5 non-contiguous claims. The properties are located in the Handeni district, Tanga Region of Tanzania. For the period ended December 31, 2013, the Company discontinued its exploration program and did not renew its PL for one project within Tanzania Other properties. As a result, the Company recorded an impairment charge of $31,205 to Mineral Property acquisition costs in the period ending December 31, 2013.

15. Exploration and evaluation expenditure ("exploration expenditure")

Details of the Company's exploration expenditure are as follows:

	Tanzania, Handeni Properties	Tanzania other properties	Six months ended December 31, 2013
Exploration expenditure			
Amortization	$ 159,960	$ --	$ 159,960
Camp and administration costs	698,417	86,048	784,465
Geochemistry	6,337	81,835	88,172
Geology	10,354	1,345	11,699
Project management and consulting	21,916	--	21,916
Share-based compensation	65,694	--	65,694
Technical services	85,855	163,010	248,865
Total for six months ended December 31, 2013	1,048,533	332,238	1,380,771
Cumulative exploration expenditure as at June 30, 2013	63,320,313	1,083,148	64,403,461
Cumulative exploration expenditure as at December 31, 2013	$ 64,368,846	$ 1,415,386	$ 65,784,232

15. Exploration and evaluation expenditure ("exploration expenditure") (continued)

	Tanzania, Handeni Properties	Tanzania other properties	Year ended June 30, 2013
Exploration expenditure			
Amortization	$ 385,278	$ --	$ 385,278
Camp and administration costs	1,122,982	186,272	1,309,254
Drilling	154,875	--	154,875
Geochemistry	44,210	314,344	358,554
Geology	47,648	339,646	387,294
Project development	873,749	--	873,749
Project management and consulting	262,598	--	262,598
Share-based compensation	447,630	--	447,630
Technical services	206,231	225,603	431,834
Total for the year ended June 30, 2013	3,545,201	1,065,865	4,611,066
Cumulative exploration expenditure as at June 30, 2012	59,775,112	17,283	59,792,395
Cumulative exploration expenditure as at June 30, 2013	$ 63,320,313	$ 1,083,148	$ 64,403,461

16. Share capital

As at December 31, 2013, the Company's share capital consisted of the following:

(a) Authorized: Unlimited common shares without par value

(b) Issued and outstanding: 67,305,842 (June 30, 2013 – 67,305,842) common shares

For the six months ended December 31, 2013, no common shares were issued by the Company.

For the year ended June 30, 2013, Canaco, prior to April 4, 2013, issued 2,209,535 common shares on the exercise of stock options

On April 4, 2013, as a result of the Shark Arrangement Agreement (Refer to Note 1), Canaco's outstanding shares of 201,917,638 were assigned to Orca. Immediately prior to the Shark Arrangement Agreement, on the basis of one (1) East Africa Metals share for every three (3) pre-Consolidation Canaco shares, 67,305,842 shares were distributed to Canaco shareholders.

(c) Escrowed shares

As at December 31, 2013, 507,553 (June 30, 2013 – 507,553) common shares are held in escrow. The release of these shares is based on the future exploration expenditures, discovery of an ore deposit and achieving commercial mineral production.

(d) Share-based compensation

The Company has established a share purchase option plan whereby the Board of Directors may grant stock options to directors, officers, employees or consultants in order to more closely align the grant-recipients' interests with those of shareholders.

The Company has been authorized by its shareholders to grant stock options of up to ten percent (10%) of the number of common shares issued and outstanding. Options granted are subject to a maximum term of ten years from the date of grant. The exercise price of an option must be determined in accordance with the share purchase option plan. Options vest at the time the stock options are granted unless determined otherwise by the Board of Directors, other than options granted to consultants performing investor relations activities, which vest in stages over twelve months with no more than one quarter vesting in any three-month period.

16. Share capital (continued)

(d) Share-based compensation

Details of stock option activity during the six months ended December 31, 2013, are as follows:

	Number of options outstanding	Weighted average exercise price
Balance, June 30, 2012	13,259,535	$ 2.96
Granted	6,000,000	0.40
Exercised	(2,209,535)	0.28
Expired and forfeited	(2,605,000)	2.65
Shark Arrangement Agreement	(14,445,000)	2.36
Outstanding and exercisable, June 30, 2013	--	--
Granted	5,000,000	0.14
Outstanding and exercisable, December 31, 2013	5,000,000	$ 0.14

The fair value of the 5,000,000 (year ended June 30, 2013 – 6,000,000) options granted in the period which vested on the grant date, totalled $364,968 (year ended June 30, 2013 – $1,852,260), of which $299,274 (year ended June 30, 2013 – $1,404,630) was recorded as share-based compensation expense and $65,694 (year ended June 30, 2013 – $447,630) was recognized as share-based compensation expense within exploration expenditure. The options were valued using the Black-Scholes model based on the following assumptions:

	Six months ended December 31, 2013	Year ended June 30, 2013
Expected life	2.31 years	2.90 years
Volatility	96.00%	140.24%
Dividend yield	--	--
Risk free rate	1.20%	1.16%

Option pricing models require the input of subjective assumptions including the expected volatility. The expected volatility is based on the historical volatility of the Company's common shares. Changes in the subjective input assumptions can materially affect the fair value estimate.

During the six months ended December 31, 2013, no stock options were exercised.

(e) Share purchase warrants

As at December 31, 2013, there were no share purchase warrants outstanding.

	Number of warrants
Balance, June 30, 2012	897,465
Warrants expired	(897,465)
Balance, June 30, 2013	--
Balance, December 31, 2013	--

17. Related party transactions

(a) Related parties

	Six months ended December 31, 2013	Year ended, June 30, 2013
Services rendered and expenses incurred (vii):		
Services and related expenses (i)	$ 316,960	$ 791,346
Management and consulting fees (ii)	116,250	1,011,875
Loan interest income (v)	(18,065)	--

	December 31, 2013	June 30, 2013
Balances receivable from (vii):		
Reimbursement of shared costs (iii)	$ 755,926	$ 616,441
Loan and interest receivable (v)	2,018,065	--
	2,773,991	616,441
Balances payable to (vii):		
Services rendered (i)	(144,971)	(129,500)
Directors and officers (iv)	(30,469)	(27,607)
	$ (175,440)	$ (157,107)

(a) Related parties

(i) Services and related expenses are paid for related parties with directors in common.

(ii) Management fees were paid to a privately held company for the services of an officer of the Company and consulting fees to a Company with directors in common.

(iii) The Company shares office premises with two other companies that have directors in common and expenses were reimbursed at cost.

(iv) Director fees and salaries paid or accrued to directors and officers of the Company.

(v) On December 3, 2013, the Company entered into a $2,000,000 loan agreement with Tigray, company with directors in common. This amount reflects the face value of the loan and interest receivable to represent the legal repayment. Refer to Note 10 for the fair value balances and further details.

(vi) Subsequent to December 31, 2013, the Company and Tigray have entered into an Arrangement Agreement which the Company has agreed to acquire all of the issued and outstanding common shares of Tigray. Refer to Note 22 for further details.

(vii) These transactions were in the normal course of business recorded at their exchange amounts, which was established and agreed to by the related parties. The balances payable are included in accounts payable and accrued liabilities and the amounts receivable are included in accounts receivable and loan receivable.

(b) Key management personnel

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management includes the Company's directors and members of the senior management group.

Details of key management personnel compensation is as follows:

	Six months ended December 31, 2013	Year ended, June 30, 2013
Directors fees, key management personnel salaries and short-term benefits	$ 182,598	$ 1,841,926
Share-based compensation	244,529	879,824
	$ 427,127	$2,721,750

18. Financial instruments and risk management

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The book values of cash and cash equivalents, short-term investments, restricted cash, accounts receivable, loan receivable, and accounts payables and accrued liabilities are representative of their respective fair values due to the short-term nature of these instruments. As at December 31, 2013, the classifications of the financial instruments are shown in the table below:

	Fair value through profit or loss	Available-for-sale	Loans and receivables	Other financial liabilities	Total carrying value
As at December 31, 2013					
Cash	$ --	$ --	$ 6,184,190	$ --	$ 6,184,190
Short-term investments	--	--	11,659,449	--	11,659,449
Accounts receivable	--	--	1,664,875	--	1,664,875
Loan receivable	--	--	1,842,613	--	1,842,613
Marketable securities and other assets	708,351	1,443,600	--	--	2,151,951
Accounts payable and accrued liabilities	--	--	--	(786,540)	(786,540)
	$ 708,351	$ 1,443,600	$ 21,351,127	$ (786,540)	$ 22,716,538

	Fair value through profit or loss	Available-for-sale	Loans and receivables	Other financial liabilities	Total carrying value
As at June 30, 2013					
Cash	$ --	$ --	$ 5,072,586	$ --	$ 5,072,586
Short-term investments	--	--	13,240,050	--	13,240,050
Restricted cash	--	--	3,999,994	--	3,999,994
Accounts receivable	--	--	1,394,335	--	1,394,335
Marketable securities and other assets	101,275	855,000	--	--	956,275
Accounts payable and accrued liabilities	--	--	--	(821,819)	(821,819)
	$ 101,275	$ 855,000	$ 23,706,965	$ (821,819)	$ 23,841,421

From time to time, the Company may make strategic investments in other private or publicly traded entities. These investments may take the form of common shares and share purchase warrants. For accounting purposes, the Company has determined that any share purchase warrants held are derivative financial instruments and any change in fair value is included in the consolidated statements of operations for the period. The fair value of share purchase warrants is measured using Black-Scholes that uses inputs that are primarily based on market indicators. Refer to Note 12 for the inputs used in the fair value measurement. Any common shares (equities) held are designated as available-for-sale and any change in fair value is included in accumulated other comprehensive income ("AOCI"), until such time as the common shares are sold or otherwise disposed of at which time any gains or losses will be included in the consolidated statements of operations for the period. Refer to Note 12 for the inputs used in the fair value measurement. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from AOCI and recognized in the consolidated statements of operations.

18. Financial instruments and risk management (continued)

The following table presents the Company’s financial assets that are measured at fair value as at December 31, 2013:

	Level 1	Level 2	Level 3	Total
As at December 31, 2013				
Marketable securities and other assets	$ 1,443,600	$ 708,351	$ 1,443,600	$ 2,151,951
	$ 1,443,600	$ 708,351	$ --	$ 2,151,951

	Level 1	Level 2	Level 3	Total
As at June 30, 2013				
Marketable securities and other Assets	$ 855,000	$ 101,275	$ --	$ 956,275
	$ 855,000	$ 101,275	$ --	$ 956,275

The fair values of the Company’s financial instruments measured at December 31, 2013, constitute Level 1 for marketable securities and Level 2 for other assets (share purchase warrants). For the six months ended December 31, 2013, the Company recognized interest income totaling $119,380 (year ended June 30, 2013- $904,435). This is primarily interest income from the Company’s cash and cash equivalents and short-term investments.

Management of financial risk

The Company’s financial instruments are exposed to certain financial risks including price risk, currency risk, interest rate risk, credit risk and liquidity risk.

Price Risk

The Company is exposed to equity securities price risk because of investments held by the Company and classified on the consolidated balance sheet as marketable securities (“available-for-sale”). The Company has not mitigated against price risk on these financial assets. The Company’s investments in equity of other entities that are publicly traded are included on the Exchange. As at December 31, 2013, the Company had $1,443,600 (June 30, 2013 - $855,000) in available-for-sale assets. Based on the net exposure as at December 31, 2013, and assuming all other variables held constant, a 10% depreciation or appreciation on the equity instruments would result in a decrease /increase of $144,360 (June 30, 2013 - $85,000) in the Company's equity account accumulated other comprehensive income and the consolidated statement of comprehensive income (loss).

Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and Tanzania and a portion of its expenses are incurred in Euros, Australian dollars, US dollars and Tanzanian shillings. A significant change in the currency exchange rates between the functional currencies relative to these currencies could have an effect on the Company’s results of operations. The Company has not hedged its exposure to currency fluctuations. As at December 31, 2013, and June 30, 2013, the Company is exposed to currency risk through the following assets and liabilities dominated in Euros, Australian dollars, United States dollars and Tanzanian shillings:

	EUR	AUD	USD	TSH
As at December 31, 2013				
Cash and cash equivalents	€ --	$ --	$ 1,786,674	103,499,017
Accounts payable and accrued liabilities	--	--	(12,413)	(215,309,361)
	€ --	$ --	$ 1,774,261	(111,810,344)

	EUR	AUD	USD	TSH
As at June 30, 2013				
Cash and cash equivalents	€ --	$ --	$ 2,869,630	219,397,971
Accounts payable and accrued liabilities	(319)	(1,317)	(11,195)	(5,474,996)
	€ (319)	$ (1,317)	$ 2,858,435	213,922,975

18. Financial instruments and risk management (continued)

Currency risk (continued)

Based on the above net exposure as at December 31, 2013, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against these currencies would result in a decrease/increase of $182,098 (June 30, 2013 – $312,960) in the Company's consolidated statements of operations.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's interest rate risk arises from the interest rate impact on cash and cash equivalent and short term investments. The Company earns interest on its cash and cash equivalents and short term investments based on current market interest rates, which during the six months ended December 31, 2013, ranged between 1.4% to 2.1% (year ended June 30, 2013 – 1.2% to 2.0%).

Based on the amount of cash and cash equivalents and short term investments as at December 31, 2013, and assuming that all other variables remain constant, a 0.5% change in the applicable interest rate would result in an increase/ decrease of $89,218 (year ended June 30, 2013 – $91,563) to the interest earned in the Company statements of operations per annum.

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, short-term investments and receivables. Cash and cash equivalents and short-term investments consist of GIC's and short-term deposits issued by major Canadian banks. Receivables mainly consist of insurance receivable and trade receivables from related parties. The carrying amount of cash and cash equivalents, short-term investments, receivables from related parties and other accounts receivable represents the Company's maximum exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with the financial liabilities. The Company has a planning and budget process in place by which it anticipates and determines the funds necessary to support normal operation requirements and development of its mineral property interests. The Company coordinates the planning and budgeting process with its financing activities through the capital management process described in Note 19.

The Company's investment policy is to invest its cash in highly liquid short-term interest bearing investments with maturities greater than 90 days from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. The Company ensures that sufficient funds are raised from private placements to meet its operating requirements, after taking into account existing cash. As at December 31, 2013, the Company has sufficient cash on hand to meet its current liabilities and it's expected administrative, explorations and potential acquisition requirements for the coming fiscal year.

19. Management of capital

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk.

In the management of capital, the Company includes the components of equity attributable to common shareholders. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue debt and acquire or dispose of assets. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. The Company's investment policy is to limit investments to guaranteed investment certificates, banker's acceptance notes, investment savings accounts or money market funds with high quality financial institutions in Canada, selected with regards to the expected timing of expenditures from continuing operations. At present, the Company has investments in savings accounts and guaranteed investment certificates of varying terms.

20. Income tax

The provision for income taxes differs from the amount calculated using the Canadian federal and provincial statutory income tax rates of 26.00% (June 30, 2013 - 25.38%) as follows:

	December 31, 2013	June 30, 2013
Expected tax recovery	$ (610,462)	$ (3,341,946)
Stock based compensation and other permanent differences	14,659	(756,487)
Tax rate differences	(108,130)	(250,533)
Tax impact of restructuring	--	2,478,807
Unrecognized tax assets	703,933	1,870,159
Income tax expense	$ --	$ --

As at December 31, 2013, no deferred tax assets are recognized on the following temporary differences as it is not probable that sufficient future taxable profit will be available to utilize such differences:

	December 31, 2013	June 30, 2013
Non-capital loss carry forwards – Canada	$ 1,062,000	$ 357,000
Non-capital loss carry forwards – Tanzania	6,289,000	5,617,000
Unamortized capital costs in excess of net book value	193,000	79,000
Mineral properties	58,662,000	57,260,000
Unrealized gain on available-for-sale investments	(339,000)	669,000
Total unrecognized deferred tax assets	$ 65,867,000	$ 63,982,000

As a result of the Shark Arrangement Agreement (refer to Notes 1 and 2) Orca Gold became the legal entity and inherited all of Canaco's accumulated non-capital losses up until April 4, 2013. The below non-capital losses represent the losses of East Africa Metals from April 4, 2013. At December 31, 2013, the Company has accumulated non-capital losses of approximately $1,062,000 (June 30, 2013 – $357,000) which may be carried forward to apply against future year's income for Canadian income tax purposes subject to final determination by taxation authorities, expiring as follows:

Year	$
2032	357,000
2033	705,000
	1,062,000

21. Geographical segment information

The Company's activities are all in the one industry segment of mineral property acquisition, exploration and development. Following is a summary of net loss, assets and liabilities by geographical segment:

	Canada	Tanzania	Total
For the six months ended December 31, 2013			
Net loss for the period	$ 1,002,011	$ 1,345,918	$ 2,347,929
As at December 31, 2013			
Total liabilities	(357,525)	(429,015)	(786,540)
Total non-current assets	808,486	6,885,215	7,693,701
Total assets	24,507,001	7,282,968	31,789,969

21. Geographical segment information (continued)

	Canada	Tanzania	Total
For the year ended June 30, 2013			
Net loss for the year	$ 9,003,438	$ 4,166,792	$ 13,170,230
As at June 30, 2013			
Total liabilities	(380,868)	(440,951)	(821,819)
Total non-current assets	922,966	6,882,086	7,805,052
Total assets	25,834,579	7,305,325	33,139,904

22. Subsequent events

(a) On January 24, 2014, the Company initiated a normal course issuer bid ("NCIB") through the facilities of the Exchange for a one year period commencing January 29, 2014, and ending January 28, 2015. The Company can repurchase for cancellation up to 4,000,000 common shares in its own capital stock. Subsequent to December 31, 2013, the Company repurchased 932,500 common shares for total payments of $135,635.

(b) On February 24, 2014, the Company and Tigray jointly announced that they have entered into the Arrangement Agreement pursuant to which East Africa Metals has agreed to acquire all of the issued and outstanding common shares of Tigray (other than the Tigray shares it currently owns). The transaction will be implemented by way of a statutory Plan of Arrangement (“Arrangement”) under the Canada Business Corporations Act. Under the terms of the Arrangement Agreement, on completion of the Arrangement, East Africa Metals will issue to each holder of a Tigray common share 0.55 of an East Africa Metals common share and 0.40 of an East Africa Metals warrant. Each full warrant will entitle the holder to acquire one common share of East Africa Metals at a price of $0.23 for a period of three years from the closing date.

The obligation of the Company to complete the Arrangement is subject to Tigray acquiring for cancellation for no consideration, a sufficient number of common share purchase warrants and stock options of Tigray, such that after such acquisition, upon completion of the Arrangement, the former holders of common shares of Tigray shall hold no more than 49.9% of the issued and outstanding shares of East Africa Metals on a partially diluted basis. Pursuant to the Arrangement, a total of 2,630,000 stock options, under Tigray’s Stock Option Plan, which were granted to certain employees, consultants and directors of Tigray have been cancelled. All of the stock options were priced at $1.31 and had an expiry date of September 8, 2016. The optionees agreed to Tigray's request to voluntarily and unconditionally cancel the stock options. Tigray also reached agreement with certain warrant holders to cancel an aggregate of 141,950 share purchase warrants. The share purchase warrants had an exercise price of $0.40 and an expiry date of September 21, 2014. The warrant holders agreed to Tigray's request to voluntarily and unconditionally cancel these warrants.

Following the completion of the Arrangement, current shareholders of Tigray, excluding East Africa Metals, will hold approximately 34.4% of the issued and outstanding shares of East Africa Metals (prior to the exercise of the East Africa Metals warrants to be issued in connection with the Arrangement) and no more than 49.9% of the issued and outstanding shares of East Africa Metals assuming the exercise of the East Africa Metals warrants to be issued in connection with the Arrangement.

The Arrangement Agreement provides for, among other things, a non-solicitation covenant on the part of Tigray (subject to customary fiduciary out provisions). In the event of a superior proposal, East Africa Metals has the right to either match such superior proposal or receive a termination fee in the amount of $250,000. The termination fee is also payable to East Africa Metals under certain other scenarios.