

EAST AFRICA METALS INC.
(an exploration stage company)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2015 and 2014

Expressed in Canadian dollars

(Unaudited – prepared by management)

Notice to Reader: As required by National Instrument 51-102 subsection 4.3(3)(a), readers are advised that an auditor has not performed a review of these interim financial statements.

EAST AFRICA METALS INC.

(an exploration stage company)

Condensed Interim Consolidated Balance Sheets - unaudited

Expressed in Canadian dollars, unless otherwise stated

| | June 30, 2015 | December 31, 2014 |
|---|--------------------------|------------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (Note 6) | \$ 2,771,188 | \$ 2,216,673 |
| Short-term investments | 2,500,000 | 8,220,825 |
| Accounts receivable (Note 7) | 810,581 | 719,770 |
| Prepaid expenses and deposits | 260,685 | 261,846 |
| | 6,342,454 | 11,419,114 |
| Mineral property interests (Note 12) | 21,602,651 | 20,056,226 |
| Property and equipment (Note 11) | 1,703,410 | 1,829,485 |
| | \$ 29,648,515 | \$ 33,304,825 |
| Liabilities and Equity | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 9) | \$ 427,308 | \$ 1,077,623 |
| | 427,308 | 1,077,623 |
| Non-current liability | | |
| Leasehold inducement (Note 16) | 118,030 | 131,146 |
| Total liabilities | 545,338 | 1,208,769 |
| Equity | | |
| Share capital (Note 14(b)) | 38,179,332 | 38,179,332 |
| Warrant (Note 14(d)) | 1,407,076 | 1,407,076 |
| Contributed surplus (Note 14(c)) | 145,952,491 | 145,943,957 |
| Accumulated other comprehensive income | 3,161,420 | 1,843,341 |
| Deficit | (163,923,818) | (159,652,398) |
| | 24,776,501 | 27,721,308 |
| Non-controlling interest (Notes 5 and 12) | 4,326,676 | 4,374,748 |
| | 29,103,177 | 32,096,056 |
| | \$ 29,648,515 | \$ 33,304,825 |
| Nature of operations and Tigray arrangement (Notes 1 and 5) | | |
| Commitments (Note 16) | | |

Approved on behalf of the Board

(signed) "David Parsons"

(signed) "Dr. Antony Harwood"

EAST AFRICA METALS INC.

(an exploration stage company)

Condensed Interim Consolidated Statements of Operations - unaudited

Expressed in Canadian dollars, unless otherwise stated

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|-------------------|------------------------------|-------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Expenses | | | | |
| Amortization (Note 11) | \$ 21,720 | \$ 42,980 | \$ 43,976 | \$ 93,652 |
| Directors and board fees | 24,906 | 21,750 | 41,436 | 43,500 |
| Exploration and evaluation expenditure (Note 13) | 1,200,027 | 1,260,859 | 3,425,786 | 1,706,767 |
| Investor/shareholder communications and filing fees | 95,902 | 57,114 | 185,879 | 94,752 |
| Legal, audit and audit related fees | 103,221 | 36,425 | 274,074 | 56,662 |
| Management and advisory consulting fees | 104,727 | 103,499 | 235,725 | 156,959 |
| Office and administration | 118,235 | 134,752 | 251,568 | 248,314 |
| Project generation | -- | 34,712 | -- | 366,469 |
| Rent and occupancy costs | 38,983 | 68,587 | 77,965 | 128,925 |
| Salary and benefits | 98,594 | 103,012 | 201,907 | 200,472 |
| Share-based compensation (Note 14(c)) | 3,426 | -- | 8,534 | -- |
| Write-off of mineral property interests (Note 12) | -- | -- | -- | 4,938 |
| | 1,809,741 | 1,863,690 | 4,746,850 | 3,101,410 |
| Change in fair value of other assets (Note 10) | -- | 165,599 | -- | 543,609 |
| Change in fair value of warrants derivative liability (Note 14(d)) | (676) | (33,774) | (1,630) | (33,774) |
| Finance income (Note 8) | -- | (65,256) | -- | (229,280) |
| Foreign exchange gain (loss) | 26,795 | 56,471 | (44,356) | (14,866) |
| Loss on sale of marketable securities (Note 10) | -- | 59,180 | -- | 38,150 |
| Interest income | (2,822) | (48,519) | (27,012) | (106,496) |
| Loss on loan receivable | -- | 8,859 | -- | 8,859 |
| Net loss for the period | 1,833,038 | 2,006,250 | 4,673,852 | 3,307,612 |
| Net loss attributable to: | | | | |
| Shareholders | 1,712,003 | 1,989,599 | 4,271,420 | 3,290,961 |
| Non-controlling interest | 121,035 | 16,651 | 402,432 | 16,651 |
| | 1,833,038 | 2,006,250 | 4,673,852 | 3,307,612 |
| Loss per share, basic and diluted | \$ 0.02 | \$ 0.02 | \$ 0.04 | \$ 0.04 |
| Weighted average number of common shares used in the calculation of loss per share – basic and diluted | 102,249,661 | 87,336,216 | 102,249,661 | 77,199,374 |

Condensed Interim Consolidated Statements of Comprehensive Income (Loss) – unaudited
(Expressed in Canadian dollars)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|------------------|------------------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net loss for the period | \$ 1,833,038 | \$ 2,006,250 | \$ 4,673,852 | \$ 3,307,612 |
| Items that may be reclassified to statement of operations | | | | |
| Currency translation adjustment | | | | |
| Attributable to shareholders of Company | 269,128 | 465,735 | (1,318,079) | 192,300 |
| Attributable to shareholders of non-controlling interest | 72,000 | 83,123 | (354,360) | 83,123 |
| Unrealized loss on investments, net of deferred income tax (Note 10) | -- | 221,570 | -- | 461,570 |
| Realized loss on investment transferred to net loss (Note 10) | -- | (52,407) | -- | (31,377) |
| Comprehensive loss for the period | 2,174,166 | 2,724,271 | 3,001,413 | 4,013,228 |
| Attributable to shareholders of Company | 1,981,131 | 2,624,497 | 2,953,341 | 3,913,454 |
| Attributable to shareholders of non-controlling interest | 193,035 | 99,774 | 48,072 | 99,774 |
| | \$ 2,174,166 | \$ 2,724,271 | \$ 3,001,413 | \$ 4,013,228 |

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

EAST AFRICA METALS INC.

(an exploration stage company)

Condensed Interim Consolidated Statements of Changes in Equity - unaudited

For the three and six months ended June 30, 2015 and 2014

Expressed in Canadian dollars, unless otherwise stated

| | Common Shares Without Par Value | | Warrants | Contributed Surplus | Accumulated Other Comprehensive Income | Deficit | Total Common Shareholders' Equity | Non- Controlling Interest | Total Equity |
|---|------------------------------------|---------------|--------------|------------------------|---|-----------------|--|---------------------------------|---------------|
| | Shares | Amount | | | | | | | |
| Balance, December 31, 2013 | 67,305,842 | \$ 33,873,666 | \$ -- | \$ 145,644,115 | \$ 696,424 | \$(149,210,776) | \$ 31,003,429 | \$ -- | \$ 31,003,429 |
| Repurchase of common shares under normal course issuer bid (Note 14(b)) | (932,500) | (330,755) | -- | 191,356 | -- | -- | (139,399) | -- | (139,399) |
| Shares issued – Tigray acquisition (Notes 5 and 14(b)) | 35,326,319 | 4,592,421 | -- | -- | -- | -- | 4,592,421 | -- | 4,592,421 |
| Stock options – Tigray acquisition (Notes 5 and 14(c)) | -- | -- | -- | 86,870 | -- | -- | 86,870 | -- | 86,870 |
| Warrants issued – Tigray acquisition (Notes 5 and 14(d)) | -- | -- | 1,311,421 | -- | -- | -- | 1,311,421 | -- | 1,311,421 |
| Warrants – Tigray acquisition (Notes 5 and 14(d)) | -- | -- | 87,280 | -- | -- | -- | 87,280 | -- | 87,280 |
| Acquisition of Tigray (Note 5) | -- | -- | -- | -- | -- | -- | -- | 4,299,037 | 4,299,037 |
| Unrealized loss on investments (Note 10) | -- | -- | -- | -- | (461,570) | -- | (461,570) | -- | (461,570) |
| Realized loss on investments transferred to net loss (Note 10) | -- | -- | -- | -- | 31,377 | -- | 31,377 | -- | 31,377 |
| Currency translation adjustment on foreign operations | -- | -- | -- | -- | (192,300) | -- | (192,300) | (83,123) | (\$275,423) |
| Net loss for the period | -- | -- | -- | -- | -- | (3,290,961) | (3,290,961) | (16,651) | (3,307,612) |
| Balance, June 30, 2014 | 101,699,661 | \$ 38,135,332 | \$ 1,398,701 | \$ 145,922,341 | \$ 73,931 | \$(152,501,737) | \$ 33,028,568 | \$ 4,199,263 | \$ 37,227,831 |
| Balance, December 31, 2014 | 102,249,661 | \$ 38,179,332 | \$ 1,407,076 | \$ 145,943,957 | \$ 1,843,341 | \$(159,652,398) | \$ 27,721,308 | \$ 4,374,748 | \$ 32,096,056 |
| Share-based compensation (Note 14(c)) | -- | -- | -- | 8,534 | -- | -- | 8,534 | -- | 8,534 |
| Currency translation adjustment on foreign operations | -- | -- | -- | -- | 1,318,079 | -- | 1,318,079 | 354,360 | 1,672,439 |
| Net loss for the period | -- | -- | -- | -- | -- | (4,271,420) | (4,271,420) | (402,432) | (4,673,852) |
| Balance, June 30, 2015 | 102,249,661 | \$ 38,179,332 | \$ 1,407,076 | \$ 145,952,491 | \$ 3,161,420 | \$(163,923,818) | \$ 24,776,501 | \$ 4,326,676 | \$ 29,103,177 |

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

EAST AFRICA METALS INC.

(an exploration stage company)

Condensed Interim Consolidated Statements of Cash Flows - unaudited

Expressed in Canadian dollars, unless otherwise stated

| | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|--|---|---|
| Cash flows provided by (used for) operating activities | | |
| Loss for the period | \$ (4,673,852) | \$ (3,307,612) |
| Items not involving cash | | |
| Amortization – administration (Note 11) | 43,976 | 93,652 |
| Amortization – exploration and evaluation (Note 13) | 221,776 | 169,401 |
| Amortization – leasehold inducement (Note 16) | (13,116) | -- |
| Share based compensation – administration (Note 14(c)) | 8,534 | -- |
| Write-off of mineral property interests (Note 12) | -- | 4,938 |
| Change in fair value of marketable securities and other assets (Note 10) | -- | 543,609 |
| Change in fair value of warrants derivative liability (Note 14(d)) | (1,630) | (33,774) |
| Finance income (Note 8) | -- | (229,280) |
| Unrealized foreign exchange gain | (85,542) | (14,238) |
| Loss on sale of marketable securities and other assets (Note 10) | -- | 38,150 |
| Interest income | (9,296) | (56,347) |
| Loss on loan receivable | -- | 8,859 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (152,755) | (514,611) |
| Prepaid expenses, deposits, materials and supplies | 8,838 | 151,598 |
| Accounts payable and accrued liabilities | (625,209) | (236,415) |
| | (5,278,276) | (3,382,070) |
| Cash flows provided by (used for) investing activities | | |
| Cash received from acquisition of Tigray (Note 5) | -- | 294,448 |
| Tigray transaction costs (Note 5) | -- | (249,082) |
| Disposal of marketable securities and other assets (Note 10) | -- | 175,257 |
| Mineral property interests acquisitions (Note 12) | (55,029) | (91,830) |
| Purchase of equipment (Note 11) | (26,935) | (211) |
| Purchase of short-term investments | -- | (10,550,406) |
| Redemption of short-term investments | 5,908,272 | 9,750,150 |
| | 5,826,308 | (671,674) |
| Cash flows provided by (used for) financing activities | | |
| Repurchase of common shares - normal course issuer bid (Note 14(b)) | -- | (139,399) |
| | -- | (139,399) |
| Effects of exchange rate changes on cash and cash equivalents | 6,483 | 14,302 |
| Increase / (Decrease) in cash and cash equivalents | 554,515 | (4,178,841) |
| Cash and cash equivalents, beginning of period | 2,216,673 | 6,184,190 |
| Cash and cash equivalents, end of period | \$ 2,771,188 | \$ 2,005,349 |
| Non-cash investing and financing activities | | |
| Tigray Arrangement (Notes 5 and 14(b)) | \$ -- | \$ 4,592,421 |
| Tigray Arrangement (Notes 5 and 14(d)) | -- | 1,311,421 |

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

EAST AFRICA METALS INC.

(an exploration stage company)

Notes to the Condensed Interim Consolidated Financial Statements - unaudited

For the three and six months ended June 30, 2015 and 2014

Expressed in Canadian dollars, unless otherwise stated

1. Nature of operations and Tigray agreement

East Africa Metals Inc. (“East Africa” or the “Company”) was incorporated on December 7, 2012, under the Canada Business Corporations Act (“CBCA”). The address of the Company’s corporate office and principal place of business is Suite 700, 1055 West Georgia 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”.

East Africa is a mineral exploration company focused on the identification, acquisition, exploration, development and/or sale of base and precious metal resource properties in Ethiopia and Tanzania. The Company’s major mineral properties consist of two projects in Ethiopia, the Harvest Project and the Adyabo Project and one project in Tanzania, the Handeni Properties.

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.

Tigray Arrangement

On May 7, 2014 (the “Effective Date”), East Africa announced that it had completed the acquisition of all of the issued and outstanding common shares (the “Tigray Shares”) of Tigray Resources Inc. (“Tigray”), other than the Tigray Shares already held by East Africa, by way of a plan of arrangement (the “Tigray Arrangement”) under the CBCA. Tigray was incorporated on September 23, 2010, under the CBCA. Tigray was formed for the purpose of acquiring Harvest Mining Plc (“Harvest Project”). Tigray is a mineral exploration company focused on the identification, acquisition, exploration, and development of base and precious metal resource properties in Ethiopia. Tigray has two projects in Ethiopia, the Harvest Project and the Adyabo Project. Refer to Note 5 for further details.

2. Statement of compliance and basis of preparation

These unaudited condensed interim consolidated financial statements (the “Interim Financial Statements”) have been prepared in accordance with *IAS 34 – Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the IASB have been condensed or omitted. These Interim Financial Statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2014.

The accounting policies applied in the preparation of these Interim Financial Statements are consistent with those applied and disclosed in the Company’s audited consolidated financial statements for the year ended December 31, 2014.

These Interim Financial Statements were approved by the Board of Directors on August 28, 2015.

3. Significant accounting estimates and judgments

The preparation of these Interim 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 judgments, 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.

EAST AFRICA METALS INC.

(an exploration stage company)

Notes to the Condensed Interim Consolidated Financial Statements - unaudited

For the three and six months ended June 30, 2015 and 2014

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3. Significant accounting estimates and judgments (continued)

(a) Investment in structured entity – Denwill Mining Services Limited (“Denwill”)

Denwill is consolidated as a structured 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 (see Note 12). 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 Project.

(b) Asset acquisitions

The Company has determined that the acquisition of Tigray (see Note 5) was an asset acquisition rather than a business combination. This is considered a significant judgment that could have a material impact on the assets and liabilities recognized. The purchase consideration is allocated to the identifiable assets acquired and liabilities assumed based on their fair values at the date of acquisition. The determination of the fair value requires the management to make assumptions, estimates and judgments regarding future events. The allocation process is inherently subjective and impacts the amounts assigned to individually identifiable assets and liabilities.

(c) Asset held for sale

The Company has announced the proposed sale of its assets in Tanzania to a third party (see Note 12). Following the guidance under IFRS 5, “*Noncurrent assets held for sale and discontinued operations*”, management applied significant judgement to determine the classification of asset held for sale and whether impairment was required as at June 30, 2015. In concluding its judgement, management evaluated the duration of time for which the disposal group has been classified as an asset held for sale, the good standing of the exploration licenses, the continued commitment of the Company to actively sell the assets, the likelihood of shareholders’ and regulatory approval and the recoverable amount through the sale. There is no assurance that the Company will complete the sale within one year and obtain in country approval considering the upcoming election in Tanzania. Management has assessed that the assets in Tanzania should not be classified as held for sale as at June 30, 2015.

4. 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. The Standards impacted that are applicable to the Company are as follows:

(a) *IFRS 9 Financial Instruments* (“IFRS 9”)

The final version of IFRS 9 was issued by the IASB in July 2014 and will replace *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses.

It also includes changes in respect of credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and is available for early adoption. In addition, the credit risk changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Company is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

EAST AFRICA METALS INC.

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Notes to the Condensed Interim Consolidated Financial Statements - unaudited

For the three and six months ended June 30, 2015 and 2014

Expressed in Canadian dollars, unless otherwise stated

4. IFRSs not yet effective (continued)

(b) IFRS 10 amendment

Sale or contribution of assets between an investor and its associate *IFRS 10, Consolidated Financial Statements* (“IFRS 10”) has been amended to address an inconsistency between IFRS 10 and *IAS 28, Investments in Associates and Joint Ventures*. The main consequence of the amendment is that a full gain or loss is recognized when the transaction involves a business combination, and whereas a partial gain is recognized when the transaction involves assets that do not constitute a business. The amendment is effective for years beginning January 1, 2016. The Company is in the process of determining the extent of the impact of adopting this standard.

5. Acquisition of Tigray Resources Inc.

During the year ended December 31, 2014, on May 7, 2014, East Africa announced that it had completed the acquisition of all of the Tigray Shares, other than the Tigray Shares already held by East Africa, by way of the Tigray Arrangement. Under the terms of the Tigray Arrangement, East Africa acquired all of the outstanding common shares of Tigray on the basis of 0.55 of an East Africa Share and 0.40 of an East Africa Warrant (the “Exchange Ratio”) for each Tigray Share held by Tigray shareholders. Each East Africa Warrant will entitle the holder to purchase one common share of East Africa at a price of \$0.23 and is exercisable for a period of three (3) years from the Effective Date. Each issued and outstanding Tigray warrant and option will be exercisable as at and after the Effective Date of the Tigray Arrangement to acquire that number of East Africa Shares as is determined based on the Exchange Ratio and the same terms of an East Africa Warrant, in lieu of receiving Tigray Shares. The outstanding Tigray warrants and options will continue to be governed by the same terms and conditions as the original Tigray warrant and option certificate except that upon exercise of each warrant or option, the shareholder would receive 0.55 of East Africa Share and 0.40 of an East Africa Warrant.

For accounting purposes, Tigray is not considered as a business under *IFRS 3 “Business Combinations”* as at the time of the acquisition it is not capable of generating outputs that can provide a return to East Africa. As a result, the Tigray Arrangement has been accounted for as an asset acquisition.

The allocation of the consideration to the assets and liabilities acquired is as follows:

| Allocation of assets and liabilities | |
|---|----------------------|
| Current assets | \$ 521,329 |
| Mineral property interests | 14,527,698 |
| Property and equipment | 215,939 |
| Current liabilities | (212,713) |
| Non-controlling interest | (4,299,037) |
| | <u>\$ 10,753,216</u> |

The total consideration relating to the Tigray Arrangement is summarized below:

| Consideration | |
|--|----------------------|
| Common shares issued | \$ 4,592,421 |
| Warrants issued | 1,311,421 |
| Fair value of Tigray stock options assumed | 86,870 |
| Fair value of Tigray warrants assumed | 87,280 |
| Fair value of warrants derivative liability assumed | 169,260 |
| Fair value of Tigray Shares and warrants held | 958,667 |
| Loan and interest receivable from Tigray | 2,071,893 |
| Fair value of Tigray warrants held in connection with the loan | 6,075 |
| Other receivables from Tigray | 1,113,054 |
| Transaction costs | 356,275 |
| Total consideration | <u>\$ 10,753,216</u> |

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Notes to the Condensed Interim Consolidated Financial Statements - unaudited

For the three and six months ended June 30, 2015 and 2014

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5. Acquisition of Tigray Resources Inc. (continued)

Total consideration of \$10,753,216 is comprised of:

- a) 35,326,319 East Africa Shares issued with a fair value of \$4,592,421 based on the opening price of an East Africa's share on May 7, 2014, at \$0.13 per share.
 - b) 25,691,867 East Africa Warrants issued with a fair value of \$1,311,421. The fair value was determined using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 81.81%, risk-free rate of 1.17% and expected life of 3 years.
 - c) 2,316,600 East Africa Shares and 1,684,800 East Africa Warrants are issuable on exercise of the outstanding stock options of Tigray and 4,998,703 East Africa Shares are issuable on exercise of the outstanding share purchase warrants of Tigray. The outstanding Tigray stock options are accounted for under *IFRS 2 Share-based payments* as the stock options have been modified as a result that they are exercisable at the Exchange Ratio of 0.55 for an East Africa Share and 0.40 for an East Africa Warrant. The fair value of Tigray's outstanding stock options of \$86,870 and the fair value of the East Africa Warrants of \$87,280, issuable on the exercise of Tigray's outstanding stock options, was determined using the Black-Scholes option pricing model based on the following assumptions: stock option exercise price (post Exchange Ratio) \$0.19 and Tigray warrant exercise price (post Exchange Ratio) of \$0.23 to \$0.73, expected dividend yield of 0%, expected volatility of 48.69% to 86.33%, risk-free rate of 1.05% to 1.17%, and expected life of 0.38 years to 3 years.
 - d) As part of the acquisition of Tigray, the legal existence of the Tigray share purchase warrants was continued; however, the share purchase warrants were modified such that they are exercisable for 0.55 of a common share of East Africa and for 0.40 of a warrant of East Africa. As a result, the modified East Africa Warrants have been recognized as a liability rather than an equity instrument of the consolidated group in these consolidated financial statements on the basis that a Tigray share purchase warrant which is settled in another warrant meets the definition of a financial liability rather than equity instrument under *IAS 32 Financial instruments: presentation*. Accordingly, the modified Tigray share purchase warrants will be measured on a recurring basis at fair value until the earlier of expiry or exercise. Subsequent gains or losses are to be recognized in the consolidated statement of operations.
- The financial liability fair value of \$169,260, related to the 3,635,420 East Africa Warrants, was determined using the Black-Scholes option pricing model based on the following assumptions: exercise price of \$0.23, expected dividend yield of 0%, expected volatility of 84.89% to 89.33%, risk-free rate of 1.07% to 1.17% and expected life of 2.05 years to 2.62 years.
- e) On April 19, 2013, the Company acquired 8,000,000 shares and 4,000,000 share purchase warrants of Tigray (see Note 10). Each warrant allowed the holder to purchase one common share of Tigray at an exercise price of \$0.20 until April 19, 2015. The shares were valued at \$800,000 based on the closing price immediately before the completion of the Tigray Arrangement. The 4,000,000 share purchase warrants were voluntarily cancelled and were fair valued immediately before completion of the Tigray Arrangement at \$158,667 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 155.39%, risk-free rate of 1.05% and expected life of 0.95 years.
 - f) On December 4, 2013, the Company granted a loan of \$2,000,000 to Tigray due and payable in full on June 3, 2014 (see Note 8). The loan bore an interest rate of 12% per annum, calculated and compounded quarterly. In connection with the loan, Tigray issued 8,000,000 share purchase warrants to East Africa, with each share purchase warrant exercisable at a price of \$0.15 at any time prior to June 3, 2014, the maturity date of the loan ("Maturity Date"). The carrying loan payable and interest accrual carrying amounts of \$2,071,893 on the closing of the Tigray Arrangement were recorded as part of the consideration. The 8,000,000 share purchase warrants were voluntarily cancelled and were fair valued immediately before completion of the Tigray Arrangement at \$6,075 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 92.47%, risk-free rate of 1.05% and expected life of 0.08 years.
 - g) \$1,113,054 payable to East Africa for exploration related costs and administrative expenses paid on behalf of Tigray.
 - h) Transaction costs of \$356,275 have been included as part of the consideration.

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Notes to the Condensed Interim Consolidated Financial Statements - unaudited

For the three and six months ended June 30, 2015 and 2014

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6. 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. As at June 30, 2015, the Company had \$2,771,188 (December 31, 2014 – \$2,216,673) cash on hand.

7. Accounts receivable

Accounts receivable includes leasehold inducement in connection with the office premise in Vancouver (Note 16).

| | June 30, 2015 | December 31, 2014 |
|---|--------------------------|------------------------------|
| Leasehold inducement and taxes receivable | \$ 674,174 | \$ 596,562 |
| Related parties and other receivables | 136,407 | 123,208 |
| | \$ 810,581 | \$ 719,770 |

8. Loan receivable

On December 3, 2013, the Company entered into a \$2,000,000 loan agreement with Tigray. The loan was due and payable in full on the Maturity Date, subject to a six-month extension period (“Extension Period”). The loan bore an interest at a rate of 12% per annum, calculated and compounded quarterly, and was 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 grant date fair value of the warrants was estimated at \$237,449 using the Black-Scholes option pricing model 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 were being recognized as income over the term of the loan.

As part of the consideration of the Tigray Arrangement (see Note 5), the fair value of the loan receivable and interest accrual of \$2,071,893 and the fair value of the warrants of \$6,075 was estimated respectively on May 7, 2014.

The fair value loss of \$388,630 for the share purchase warrants (“other assets”) for the period ended prior to the completion of the Tigray Arrangement was recorded through the consolidated statements of operations. The warrants were voluntarily cancelled upon the completion of the Tigray Arrangement.

For the six months ended June 30, 2014, the Company recorded finance (accretion) income of \$229,280 with a corresponding increase in the carrying amount of the loan receivable.

9. Accounts payable and accrued liabilities

| | June 30, 2015 | December 31, 2014 |
|---------------------|--------------------------|------------------------------|
| Trade payables | \$ 219,363 | \$ 900,641 |
| Accrued liabilities | 207,945 | 176,982 |
| | \$ 427,308 | \$ 1,077,623 |

10. Marketable securities and other assets

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 June 30, 2014, an unrealized marked to market loss of \$141,570 was recorded in other comprehensive income. For the six months ended June 30, 2014, the Company sold 4,045,000 Candente Gold’s common shares for total proceeds of \$182,030 before commission of \$6,773. These common shares were recorded at a nominal value when issued. Revaluation gains previously included in accumulated other comprehensive income in the amount of \$182,030 before commission was transferred to the consolidated statements of operations as gain on sale of marketable securities.

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10. Marketable securities and other assets (continued)

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 had directors and officers in common. Each unit comprised of 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. As part of the consideration of the Tigray Arrangement (see Note 5(e)), the Company's investment in 8,000,000 common shares of Tigray was valued at \$800,000 based on the close price of a Tigray share on May 7, 2014. The revaluation loss previously included in accumulated other comprehensive income in the amount of \$213,407 was transferred to the consolidated statements of operations as loss on marketable securities. For the period ended prior to the completion of the Tigray Arrangement, May 7, 2014, an unrealized marked to market loss of \$320,000 for the 8,000,000 common shares held was recorded in other comprehensive income.

On December 3, 2013, the Company entered into a \$2,000,000 loan agreement with Tigray and in connection with the loan, the Company received 8,000,000 Tigray's share purchase warrants (see Note 8). As part of the consideration of the Tigray Arrangement (see Notes 5(e) and (f)), the 12,000,000 share purchase warrants were voluntarily cancelled and fair valued at \$164,742 on May 7, 2014, using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 92.47% to 155.39%, risk free interest rate of 1.05% and an expected life of 0.08 years to 0.95 years.

For the period ended prior to the completion of the Tigray Arrangement, May 7, 2014, there was a change in fair value of share purchase warrants of \$154,979 for the 4,000,000 share purchase warrants related to Tigray equity placement and a change in fair value of share purchase warrants of \$388,630 related to the 8,000,000 share purchase warrants received in relation to the loan to Tigray (see Note 8).

11. Property and equipment

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

| | Buildings and roads | Office furniture and field equipment | Computers and software | Leasehold improvements | Vehicles | Total |
|---------------------------------|------------------------|---|---------------------------|---------------------------|------------|--------------|
| Cost | | | | | | |
| As at December 31, 2014 | \$ 1,802,174 | \$ 1,036,038 | \$ 464,797 | \$ 552,295 | \$ 141,619 | \$ 3,996,923 |
| Additions | -- | 12,074 | 14,861 | -- | -- | 26,935 |
| Foreign exchange | 140,878 | 57,181 | 8,210 | 6,747 | 10,852 | 223,868 |
| As at June 30, 2015 | \$ 1,943,052 | \$ 1,105,293 | \$ 487,868 | \$ 559,042 | \$ 152,471 | \$ 4,247,726 |
| | | | | | | |
| | Buildings and roads | Office furniture and field equipment | Computers and software | Leasehold improvements | Vehicles | Total |
| Accumulated amortization | | | | | | |
| As at December 31, 2014 | \$ 769,099 | \$ 585,583 | \$ 448,341 | \$ 364,415 | \$ -- | \$ 2,167,438 |
| Amortization | -- | 20,331 | 5,640 | 18,005 | -- | 43,976 |
| Exploration amortization | 119,555 | 74,649 | 9,291 | -- | 18,281 | 221,776 |
| Foreign exchange | 60,281 | 36,255 | 7,639 | 6,747 | 204 | 111,126 |
| As at June 30, 2015 | \$ 948,935 | \$ 716,818 | \$ 470,911 | \$ 389,167 | \$ 18,485 | \$ 2,544,316 |
| | | | | | | |
| Net book value | | | | | | |
| As at June 30, 2015 | \$ 994,117 | \$ 388,475 | \$ 16,957 | \$ 169,875 | \$ 133,986 | \$ 1,703,410 |
| As at December 31, 2014 | 1,033,075 | 450,455 | 16,456 | 187,880 | 141,619 | 1,829,485 |

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11. Property and equipment (continued)

| | Buildings and roads | Office furniture and equipment | Computers and software | Leasehold improvements | Total |
|---------------------------------|------------------------|--------------------------------------|---------------------------|---------------------------|--------------|
| Cost | | | | | |
| As at December 31, 2013 | \$ 1,611,900 | \$ 801,769 | \$ 439,949 | \$ 357,092 | \$ 3,210,710 |
| Acquisition of Tigray (Note 5) | 38,206 | 166,959 | 10,774 | -- | 215,939 |
| Additions | -- | -- | 211 | -- | 211 |
| Foreign exchange | 4,535 | (1,586) | 56 | 258 | 3,263 |
| As at June 30, 2014 | \$ 1,654,641 | \$ 967,142 | \$ 450,990 | \$ 357,350 | \$ 3,430,123 |
| Accumulated amortization | | | | | |
| As at December 31, 2013 | \$ 502,298 | \$ 443,229 | \$ 388,922 | \$ 293,719 | \$ 1,628,168 |
| Amortization | -- | 26,427 | 27,744 | 39,481 | 93,652 |
| Exploration amortization | 104,100 | 55,674 | 5,835 | 3,792 | 169,401 |
| Foreign exchange | (1,197) | (416) | 105 | 143 | (1,365) |
| As at June 30, 2014 | \$ 605,201 | \$ 524,914 | \$ 422,606 | \$ 337,135 | \$ 1,889,856 |
| Net book value | | | | | |
| As at June 30, 2014 | \$ 1,049,440 | \$ 442,228 | \$ 28,384 | \$ 20,215 | \$ 1,540,267 |
| As at December 31, 2013 | 1,109,602 | 358,540 | 51,027 | 63,373 | 1,582,542 |

12. Mineral property interests

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

| | Tanzania, Handeni properties | Tanzania, other properties | Ethiopia Harvest Project | Ethiopia Adyabo Project | Total |
|--------------------------------|------------------------------------|----------------------------------|--------------------------------|-------------------------------|---------------|
| Acquisition costs | | | | | |
| As at December 31, 2014 | \$ 2,225,053 | \$ 1,986,573 | \$ 15,104,388 | \$ 740,212 | \$ 20,056,226 |
| Property payments | 43,289 | 11,315 | 274 | 151 | 55,029 |
| Foreign exchange | 151,699 | 152,505 | 1,157,474 | 29,718 | 1,491,396 |
| As at June 30, 2015 | \$ 2,420,041 | \$ 2,150,393 | \$ 16,262,136 | \$ 770,081 | \$ 21,602,651 |
| Acquisition costs | | | | | |
| As at December 31, 2013 | \$ 2,815,705 | \$ 3,295,454 | \$ -- | \$ -- | \$ 6,111,159 |
| Property payments | 12,954 | 120,681 | 665 | -- | 134,300 |
| Acquisition of Tigray (Note 5) | -- | -- | 14,163,673 | 364,025 | 14,527,698 |
| Impairment | -- | (4,938) | -- | -- | (4,938) |
| Foreign exchange | 6,723 | 7,462 | (272,104) | (7,313) | (265,232) |
| As at June 30, 2014 | \$ 2,835,382 | \$ 3,418,659 | \$ 13,892,234 | \$ 356,712 | \$ 20,502,987 |

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12. Mineral property interests (continued)

Harvest Project

The Harvest Project in Ethiopia consists of four exploration concessions. The four concessions are known as Nefasit, Hamlo, Terakimti, and Igub. The Company has a 70% interest in the Harvest Project with the remaining 30% held with Ezana Mining Development ("Ezana"), an Ethiopian company. The non-controlling interest is carried at 30% until the completion of the feasibility study. The Company is responsible for all exploration costs until completion of a feasibility study. Subsequent to the completion of a feasibility study any approved contributions by the Company for which Ezana elects not to contribute or elects to contribute less than its equity interest could increase the Company's interest.

Adyabo Project

As at November 30, 2013, prior to the Tigray Arrangement, Tigray completed the first phase of the option agreement under which it may acquire up to an undivided 80% interest in the Adyabo Project in two phases. The Adyabo Project consists of two exploration concessions, West Shire and Adi Dairo, located in the Tigray National Regional State of Ethiopia. The first phase has allowed Tigray to earn a 55% interest in the properties in exchange for payment of \$300,000 in cash (paid) and the issuance of 300,000 common shares (issued) of Tigray on the Effective Date of the transaction, which was November 1, 2012, and a second payment of \$300,000 (paid) and the issuance of 300,000 common shares (issued) of Tigray on November 1, 2013.

Subsequent to the Tigray Arrangement, the second phase will allow the Company to earn an additional 25% in exchange for (a) payment of \$300,000 (paid) in cash and the issuance of an additional 550,000 East Africa Shares (issued) and 400,000 East Africa Warrants (issued) by November 1, 2014, and (b) the issuance of an additional 550,000 East Africa Shares and 400,000 East Africa Warrants by November 1, 2015. On receipt of a positive feasibility study, the Company shall issue 550,000 East Africa Shares and 400,000 East Africa Warrants to the optionor, and on commencement of commercial production, the Company shall issue 275,000 East Africa Shares and 200,000 East Africa Warrants to the optionor. The optionor may elect to convert the remaining 20% interest into a 2.0% net smelter royalty ("NSR"), and the Company will have the option to buy back 1.0% of the NSR for a cash payment of \$5,000,000.

Tanzania – Handeni properties

The Handeni properties consist of two contiguous claims, Magambazi and Kilindi. The properties are located in the Handeni district, Tanga Region of Tanzania. The Company has two mining licenses over the Magambazi Deposit.

The Kwadijava agreement includes payments of US\$100,000 in year one (paid); US\$120,000 in year two (paid) and US\$140,000 (accrued) in year three. For the year ended December 31, 2014, the Company terminated the option agreement and reversed the accrual of US\$140,000.

During the six months ended June 30, 2015, the Company entered into a five-year retention agreement whereby the option holders agreed to hold the property on behalf of the Company for a fee of US\$30,000. This arrangement allows the Company to retain the property for other use connected to its mining activities in the adjacent properties.

In 2010, the Magambazi agreement was restructured and transferred from the original optionor, Magambazi Mines Company Limited ("MML"), to Denwill for US\$1,800,000, subject to the 2% net smelter royalty. Magambazi is owned 100% by Denwill, a structured entity controlled by East Africa, and East Africa has an option agreement to acquire a 100% interest upon payment of US\$40,000. As of June 30, 2015, the option has not yet been exercised.

Tanzania – Other properties

The Company's "Other properties" consists of three claims. The properties are located in the Handeni district, Tanga Region of Tanzania. For the six months ended June 30, 2014, the Company discontinued its exploration program and did not renew its PL for one project within Tanzania Other properties and recorded an impairment charge of \$4,938.

Tanzania – Handeni and Other properties transaction

On June 10, 2015, East Africa signed a binding letter agreement with an arm's length private exploration and development company (the "Developer") with management based in the United Kingdom and Tanzania, to acquire and develop East Africa's Magambazi Project in Tanzania.

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12. Mineral property interests (continued)

Tanzania – Handeni and Other properties transaction (continued)

Under the terms of the letter agreement, the Developer will:

- (a) pay East Africa US\$1,000,000 in cash for a 100% interest in the Handeni property, which includes the Magambazi Project, and all of "Tanzania Other properties" owned by East Africa in Tanzania (the "Tanzanian Assets");
- (b) pay East Africa approximately US\$1,000,000 in cash for the book value of the camp, equipment and other assets;
- (c) convey to East Africa the right to receive a 1.6% net smelter royalty on production, capped at US\$1,800,000;
- (d) convey to East Africa the right to acquire a gold stream equal to 30% of the life of mine gold production from all of the Tanzanian Assets;
- (e) issue treasury shares of the Developer that is expected to represent 9.9% of the Developer's outstanding shares. The Developer intends to list on the London Stock Exchange's AIM and expects to issue such shares to East Africa before the listing; and
- (f) offer East Africa a seat on the Board of Directors of the Developer and a seat on the Management Committee of the Magambazi Project.

East Africa will not be required to contribute to capital or exploration expenditures with respect to the construction and development of any of the Tanzanian Assets.

The transaction will provide East Africa with the right to purchase 30% of gold produced during mining operations established at any of the Tanzanian Assets, for a per ounce payment equal to the lesser of: (i) production cost plus 15% based on the Developer's historical and budgeted production costs, and (ii) the prevailing market price for gold.

The letter agreement is binding and subject to certain conditions having been fulfilled by October 15, 2015, including, but not limited to:

- (i) the completion of satisfactory due diligence by East Africa on the Developer (completed);
- (ii) the finalization of the structure of the transaction;
- (iii) the entering into of a definitive agreement and gold purchase agreement; and
- (iv) the receipt of initial payment of US\$500,000 and regulatory approvals, including acceptance by the Exchange. The balance of approximately US\$1,500,000 will be payable within one year of the effective date.

13. Exploration and evaluation expenditure (“exploration expenditure”)

As a result of the Tigray Arrangement, the exploration expenditure for the six months ended June 30, 2015, includes the Harvest and Adyabo Projects (see Notes 1 and 5). Details of the Company's Exploration expenditure are as follows:

| | Tanzania, Handeni properties | Tanzania, other properties | Ethiopia Harvest Project | Ethiopia Adyabo Project | Three months ended June 30, 2015 | Six months ended June 30, 2015 |
|--|------------------------------------|----------------------------------|--------------------------------|-------------------------------|--|---|
| Exploration expenditure | | | | | | |
| Amortization | \$ 82,302 | \$ -- | \$ 11,463 | \$ 16,034 | \$ 109,799 | \$ 221,776 |
| Camp and administration costs | 331,928 | -- | 65,574 | 128,187 | 525,689 | 1,046,295 |
| Drilling | -- | -- | 226,197 | 36,114 | 262,311 | 1,422,437 |
| Geochemistry | 2,214 | -- | 15,940 | 13,887 | 32,041 | 56,441 |
| Geology | 3,623 | -- | 99,909 | (18,468) | 85,064 | 254,707 |
| Preliminary resource and engineering studies | -- | -- | 46,219 | 26,317 | 72,536 | 181,576 |
| Property management and consulting | 12,906 | -- | -- | -- | 12,906 | 25,938 |
| Technical services | 23,070 | -- | 37,195 | 39,416 | 99,681 | 216,616 |
| Total for the period | \$ 456,043 | \$ -- | \$ 502,497 | \$ 241,487 | \$ 1,200,027 | \$ 3,425,786 |
| Cumulative exploration expenditure as at December 31, 2014 | | | | | | 71,056,477 |
| Cumulative exploration expenditure as at June 30, 2015 | | | | | | \$ 74,482,263 |

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13. Exploration and evaluation expenditure (“exploration expenditure” – continued)

| | Tanzania, Handeni properties | Tanzania, other properties | Ethiopia Harvest Project | Ethiopia Adyabo Project | Three months ended June 30, 2014 | Six months ended June 30, 2014 |
|--|------------------------------------|----------------------------------|--------------------------------|-------------------------------|--|---|
| Exploration expenditure | | | | | | |
| Amortization | \$ 75,226 | \$ -- | \$ 9,656 | \$ 4,236 | \$ 89,118 | \$ 169,401 |
| Camp and administration costs | 245,480 | 20,559 | 2,938 | 126,003 | 394,980 | 639,024 |
| Drilling | -- | -- | 274 | 535,394 | 535,668 | 535,668 |
| Geochemistry | 4,251 | 5,956 | -- | 5,803 | 16,010 | 17,424 |
| Geology | 4,725 | -- | 22,367 | 76,748 | 103,840 | 108,424 |
| Property management and consulting | 11,446 | -- | -- | -- | 11,446 | 23,037 |
| Technical services | 37,928 | 19,679 | 18,483 | 33,707 | 109,797 | 213,789 |
| Total for the period | \$ 379,056 | \$ 46,194 | \$ 53,718 | \$ 781,891 | \$ 1,260,859 | \$ 1,706,767 |
| Cumulative exploration expenditure as at December 31, 2013 | | | | | | 65,784,232 |
| Cumulative exploration expenditure as at June 30, 2014 | | | | | | \$ 67,490,999 |

14. Share capital

As at June 30, 2015, the Company’s share capital consisted of the following:

- (a) Authorized: Unlimited common shares without par value
- (b) Issued and outstanding: 102,249,661 (December 31, 2014 – 102,249,661) common shares

For the six months ended June 30, 2015, no common shares were issued by the Company. On January 24, 2014, the Company initiated a normal course issuer bid through the facilities of the Exchange for a one year period commencing January 29, 2014, and ending January 28, 2015. The Company could repurchase for cancellation up to 4,000,000 common shares in its own capital stock. For the year ended December 31, 2014, the Company purchased and cancelled 932,500 common shares at an average price of approximately \$0.149, totaled \$139,399 (including transaction costs). The average cost base of each share purchased was \$0.50 resulting in the difference from the purchase price and cost base of \$191,356 being recorded in contributed surplus.

On May 7, 2014, the Company issued 35,326,319 common shares at a fair value of \$4,592,421 as part of the acquisition of Tigray (see Note 5(a)).

- (c) 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.

There were no stock options issued or exercised during the six months ended June 30, 2015.

Pursuant to the Tigray Arrangement in May 2014, all Tigray outstanding stock options at the Effective date will be exercisable to acquire that number of East Africa Shares and East Africa Warrants as is determined based on the Exchange Ratio, in lieu of receiving Tigray Shares, but will otherwise continue to be governed by the same terms and conditions as the original Tigray stock option certificate. The fair value of Tigray outstanding stock options of \$86,870 (see Note 5(c)) was estimated using the Black-Scholes option pricing model with the following assumptions: exercise price (post Exchange Ratio) of \$0.19, expected dividend yield of 0%, expected volatility of 86.33%, risk-free rate of 1.05% and an expected life of 1.59 years.

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14. Share capital (continued)

(c) Share-based compensation (continued)

As at June 30, 2015, there were 3,850,000 (December 31, 2014 – 3,850,000) Tigray stock options outstanding that on exercise would be exchanged for 2,117,500 East Africa Shares and 1,540,000 East Africa Warrants.

Details of stock option activity during the six months ended June 30, 2015 and 2014, are as follows:

| | Number of options outstanding | Weighted average exercise price |
|---|----------------------------------|------------------------------------|
| Balance, December 31, 2014 | 5,900,000 | \$ 0.14 |
| Expired and forfeited | (500,000) | 0.14 |
| Balance, June 30, 2015 | 5,400,000 | 0.14 |
| Outstanding and exercisable as at June 30, 2015 | 5,150,000 | 0.14 |
| Outstanding and exercisable as at December 31, 2014 | 4,900,000 | \$ 0.14 |

| | Number of options outstanding | Weighted average exercise price |
|--|----------------------------------|------------------------------------|
| Balance, December 31, 2013 | 5,000,000 | \$ 0.14 |
| Expired and forfeited | (250,000) | 0.14 |
| Outstanding and exercisable, June 30, 2014 | 4,750,000 | \$ 0.14 |

During the six months ended June 30, 2015, the Company recognized \$8,534 (six months ended June 30, 2014 – \$Nil) share-based compensation for the stock options that had vested in connection with 1,000,000 stock options granted to two investor relations consultants for the year ended December 31, 2014.

The following table summarizes information about the stock options outstanding and exercisable at June 30, 2015:

| Options outstanding | | | | Options exercisable | |
|-----------------------|---------------------------------------|---------------------------------------|-----------------|-----------------------|---------------------------------------|
| Number outstanding | Weighted average exercise price | Weighted average remaining life | Expiry date | Number exercisable | Weighted average exercise price |
| 4,750,000 | \$ 0.14 | 3.14 years | August 19, 2018 | 4,750,000 | \$ 0.14 |
| 150,000 | 0.14 | 3.88 years | May 16, 2019 | 150,000 | 0.14 |
| 500,000 | 0.14 | 1.27 years | October 6, 2016 | 250,000 | 0.14 |
| 5,400,000 | \$ 0.14 | 2.99 years | | 5,150,000 | \$ 0.14 |

(d) Share-purchase warrants

For the six months ended June 30, 2015, no warrants were issued by the Company.

Pursuant to the Tigray Arrangement (see Note 5(b)), the Company has issued 25,691,867 warrants based on the Exchange Ratio and the number of outstanding shares immediately prior to the Effective Date. In addition, all Tigray outstanding warrants at the Effective Date will be exercisable to acquire that number of East Africa Shares and East Africa Warrants as is determined based on the Exchange Ratio, in lieu of receiving Tigray Shares, but will otherwise continue to be governed by the same terms and conditions as the original Tigray warrant certificate.

As at June 30, 2015, there were Nil (December 31, 2014 – 4,070,000) Tigray warrants outstanding that on exercise would be exchanged for Nil East Africa Shares (December 31, 2014 – 2,238,500) and Nil East Africa Warrants (December 31, 2014 – 1,628,000). These warrants were recognized as a liability and the fair value was insignificant as at December 31, 2014. For the period ended June 30, 2015, a change in fair value of \$1,630 (June 30, 2014 – \$33,774) was recognized in the consolidated statement of operations.

In addition, there are 1,540,000 East Africa Warrants that can be issued on the exercise of 3,850,000 (December 31, 2014 – 3,850,000) outstanding Tigray stock options.

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14. Share capital (continued)

(d) Share-purchase warrants (continued)

Details of share-purchase warrants activity during the six months ended June 30, 2015 and 2014, are as follows:

| | Number of warrants outstanding | Weighted average exercise price |
|---|-----------------------------------|------------------------------------|
| Balance, June 30, 2015 and December 31, 2014 | 26,091,867 | \$ 0.23 |
| Outstanding and exercisable, June 30, 2015 and December 31, 2014 | 26,091,867 | \$ 0.23 |

| | Number of warrants outstanding | Weighted average exercise price |
|--|-----------------------------------|------------------------------------|
| Balance, December 31, 2013 | -- | \$ -- |
| Issued on acquisition of Tigray | 25,691,867 | 0.23 |
| Outstanding and exercisable, June 30, 2014 | 25,691,867 | \$ 0.23 |

The following table summarizes information about the warrants outstanding and exercisable at June 30, 2015:

| Warrants outstanding and exercisable at June 30, 2015 | Weighted average exercise price | Weighted average remaining contractual life | Expiry date |
|---|------------------------------------|--|-------------|
| 25,691,867 | \$ 0.23 | 1.85 years | May 7, 2017 |
| 400,000 | 0.23 | 1.85 years | May 7, 2017 |
| 26,091,867 | \$ 0.23 | 1.85 years | |

15. Related party transactions

(a) Related parties

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|---------------------|------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Services rendered and expenses incurred (vii): | | | | |
| Services and related expenses (i) | \$ 45,582 | \$ 51,252 | \$ 83,493 | \$ 504,698 |
| Management fees (ii) | 77,500 | 72,292 | 155,000 | 126,667 |
| Loan interest income (v) | -- | (168,150) | -- | (229,280) |
| Geology (vi) | 22,100 | 17,160 | 45,900 | 17,160 |
| | | | | |
| | June 30, | December 31, | | |
| | 2015 | 2014 | | |
| Balances receivable from (vii): | | | | |
| Reimbursement of shared costs (iii) | \$ 93,662 | \$ 43,048 | | |
| | 93,662 | 43,048 | | |
| Balances payable to (vii): | | | | |
| Services rendered (i) | (37,365) | (39,480) | | |
| Directors and officers (iv) | (20,670) | (21,297) | | |
| | \$ (58,035) | \$ (60,777) | | |

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15. Related party transactions (continued)

Related parties transactions:

- (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, a company with directors in common. This amount reflects the face value of the loan and interest receivable to represent the legal repayment (see Note 8).
- (vi) Fees are paid to a related company for geological services. The related company and the Company have directors in common.
- (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 balances receivable are included in accounts 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:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|------------|------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Directors fees, key management personnel fees and salaries and short-term benefits | \$ 143,514 | \$ 127,389 | \$ 303,443 | \$ 269,914 |

16. Commitments and lease inducement

As at June 30, 2015, the Company had the following commitments:

| | June 30, 2015 |
|---|------------------|
| No later than 1 year | \$ 326,630 |
| Later than 1 year and no later than 5 years | 1,058,576 |
| Later than 5 years | -- |
| | \$ 1,385,206 |

During the year ended December 31, 2014, the Company entered into a five (5) year operating lease for office premises commencing on January 1, 2015. The monthly lease payment and building operating costs before estimated rent recoveries is approximately \$24,000. Pursuant to the lease agreement, the Company is entitled to leasehold inducement of \$131,146. The amount is included in accounts receivable (see Note 7) with a corresponding deferred credit amortized on a straight line basis over the term of the lease. During the six months ended June 30, 2015, the rent includes a reduction of \$13,116 for the leasehold inducement amortization and results in a leasehold inducement carrying amount of \$118,030 as at June 30, 2015.

EAST AFRICA METALS INC.

(an exploration stage company)

Notes to the Condensed Interim Consolidated Financial Statements - unaudited

For the three and six months ended June 30, 2015 and 2014

Expressed in Canadian dollars, unless otherwise stated

17. 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 | Ethiopia | Total |
|--|---------------|-----------------|-----------------|--------------|
| For the three months ended June 30, 2015 | | | | |
| Net loss for the period | \$ 625,021 | \$ 486,480 | \$ 721,537 | \$ 1,833,038 |
| For the six months ended June 30, 2015 | | | | |
| Net loss for the period | 1,285,916 | 907,570 | 2,480,366 | 4,673,852 |
| As at June 30, 2015 | | | | |
| Total liabilities | (466,251) | (49,007) | (30,080) | (545,338) |
| Total non-current assets | 844,842 | 5,394,886 | 17,066,333 | 23,306,061 |
| Total assets | 6,250,870 | 5,873,390 | 17,524,255 | 29,648,515 |

| | Canada | Tanzania | Ethiopia | Total |
|--|---------------|-----------------|-----------------|--------------|
| For the three months ended June 30, 2014 | | | | |
| Net loss for the period | \$ 740,279 | \$ 435,787 | \$ 830,184 | \$ 2,006,250 |
| For the six months ended June 30, 2014 | | | | |
| Net loss for the period | 1,594,085 | 883,343 | 830,184 | 3,307,612 |
| As at June 30, 2014 | | | | |
| Total liabilities | (713,914) | (345,359) | (12,456) | (1,071,729) |
| Total non-current assets | 714,833 | 6,881,125 | 14,447,296 | 22,043,254 |
| Total assets | 16,217,114 | 7,428,220 | 14,654,226 | 38,299,560 |