

East Africa Metals Inc. (TSXV: EAM)

Attracts Partners to Fully Fund Its Projects – Resuming Coverage

BUY

Current Price: C\$0.43

Fair Value: C\$0.68

Risk: 4

Sector / Industry: Junior Resource

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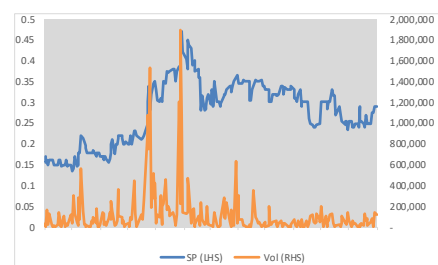
Highlights

- East Africa Metals (EAM) has found partners for its projects in Ethiopia and Tanzania.
- **Tibet Huayu Mining (SHSE: 601020)** is advancing the Mato Bula and Da Tambuk deposits in Ethiopia to production, with a projected CAPEX of US\$54M (Mato Bula) and US\$34M (Da Tambuk).
- Negotiations are underway with **Zijin Mining (SEHK: 2899)** for a joint venture on the **Terakimti project** in Ethiopia. If completed, EAM will hold a 15% interest in the project. Zijin will fund the project to production.
- We commend management's ability to form partnerships despite the **ongoing civil war in Ethiopia**, which broke out last November. EAM and its partners' development timelines are contingent on conditions stabilizing in the country.
- EAM retains a 30% streaming interest in the Handeni project in Tanzania. Its partner recently started processing tailings, and EAM received US\$275k in proceeds from produced gold. Note that tailings will not be a steady stream of cashflows, as EAM's partner is focused on transitioning to hard rock mining.
- The three projects mentioned above have a combined resource of **679 Koz AuEq M&I, and 552 Koz inferred**, net for EAM.
- EAM retains exploration rights on areas outside the Mato Bula, Da Tambuk, and Terakimti mining licenses. The company is planning a \$2.7M exploration program on these areas.
- **In-the-money options and warrants can bring in \$7M.**
- We expect gold prices to strengthen in the near-term, as inflation kicks in from a global economic recovery. We also believe that rising political tensions between China and other developed economies will support gold prices.
- **Near-term catalysts** include commencement of project development once conditions stabilize in Ethiopia, exploration drilling, and commencement of hard rock mining in Tanzania.

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Price Performance (1-year)



	YTD	12M
Ret.	72%	187%
TSXV	-2%	29%

Company Data

52 Week Range	\$0.14 - \$0.58
Shares O/S	203M
Market Cap.	\$87M
Current Yield	N/A
P/E (forward)	N/A
P/B	5x

Key Financial Data (FYE - Dec 31)

(\$)	2020	2021 (6M)
Cash	\$182,184	\$2,485,766
Working Capital	\$1,684,337	\$3,004,981
Mineral Assets	\$16,697,911	\$16,250,919
Total Assets	\$23,116,537	\$24,717,952
Net Income (Loss)	-\$2,668,492	-\$1,863,979
EPS	-\$0.01	-\$0.01

*See last page of this report for important disclosures, rating and risk definition. All figures in C\$ unless otherwise specified.

Portfolio Summary

30% interest in
Adyabo

70% interest in
Harvest

30% streaming
interest in
Magambazi



Source: Company

Project	Ownership
Adyabo Project (Mato Bula & Da Tambuk)	EAM has a 30% interest (carried to production) / Tibet Huaya holds 70%
Handeni Project (Magambazi)	PMM Mining (100% interest) EAM can purchase 30% of produced gold for 115% production cost

Harvest Project (Terakimti) EAM owns 70% / LOI with Zijin Mining to sell 55%

Source: Company/FRC

The ongoing civil war in Ethiopia's Tigray region has been a major cause of concern for EAM's projects in Ethiopia. Conflict between government troops and the Tigray People's Liberation Front (TPLF) erupted in November 2020. Violence has spilled over from the Tigray region to the neighboring regions of Amhara and Afar. In a statement this month, the United Nations (UN) stated that the situation could worsen.

Adyabo Property, Ethiopia (30% interest, carried to production)

In May 2019, the company received mining permits for the Mato Bula and Da Tambuk projects. Tibet Huaya/THM is funding the project to production. Metallurgical work has been completed, and a mining plan has been prepared. Project engineering has been completed, and construction and development will commence when conditions stabilize.

Mining permits issued for Mato Bula and Da Tambuk projects; these projects are 4km apart

Negotiations with Zijin

Harvest Property, Ethiopia (70% interest; LOI with Zijin)

In July 2021, the company entered into a LOI with Zijin Mining, wherein Zijin can acquire a 55% interest in the project for US\$0.90M in cash, and fund 100% of EAM's share of development costs related to the Terakimti oxide mine. If this transaction is finalized, EAM's interest will decline from 70% to 15% (carried to production).

Handeni Property, Tanzania (30% streaming interest)

EAM can purchase 30% of produced gold for 115% of production cost. PMM has agreed to produce at least 10 Koz in year 1, 20 Koz in year 2, 30 Koz in year 3, and 40 Koz per year thereafter. If PMM is unable to meet these figures, PMM will pay EAM US\$0.2M in year 1, US\$0.4M in year 2, US\$0.6M in year 3, and US\$0.7M per year thereafter if minimum production is not achieved. In Q2-2021, PMM processed 9,721 tonnes (from an estimated 32,000 tonnes of stockpiled tailings) to produce 533 oz. EAM's 30% share of 160 oz generated US\$275k for EAM.

US\$275k in revenue
in Q2

Magambazi Q2 Gold Production Report and Revenue				
	April	May	June	Total Q2
Milled Tonnes (t)	1,444	3,314	4,964	9,721
Feed Grade (g/t)	2.74	2.82	3.04	2.92
Recovery (%)	37.50%	71.40%	78.90%	70.70%
Recovered Gold (g)	1,481	6,674	11,900	20,055
Throughput (tph)	12.2	9.9	9.4	9.9
Final Tails (g/t)	1.71	0.81	0.64	0.86
Operating Cost per Oz (Total Mining & Processing +15%)				
				\$ 300.81
Physical Gold for East Africa Metals (g)	444	2,002	3,570	6,017
Physical Gold for East Africa Metals (Oz)	14	64	115	193
Revenue for Physical Gold	\$ 24,045	\$ 110,462	\$ 198,830	
Less cost for mining & processing (USD/Oz)	\$ 300.81	\$ 300.81	\$ 300.81	
Less cost (TMP+15%)	\$ 4,297	\$ 19,365	\$ 34,528	
Eqv Monthly Revenue USD for East Africa Metals	\$ 19,747.3	\$ 91,097.3	\$ 164,302.1	
Physical Gold for East Africa Metals (Oz)	11.73	53.09	94.85	159.67
Physical Gold for East Africa Metals (g)	364.90	1,651.20	2,950.04	4,966.14
Net Revenue	\$ 19,747	\$ 91,097	\$ 164,302	\$ 275,147

Source: Company

Based on the
production targets
mentioned above,
we are expecting
EAM to generate
\$5.76M in cash flows
from this project by
year four

	Year 1	Year 2	Year 3	Year 4	Year 5
Production Allocated for EAM - oz	3,000	6,000	9,000	12,000	12,000
LT Gold Price Forecast (US\$/oz)	\$1,400	\$1,400	\$1,400	\$1,400	\$1,400
COGS (115% of Production Cost) - FRC est.	\$920	\$920	\$920	\$920	\$920
EAM's Profit	\$1,440,000	\$2,880,000	\$4,320,000	\$5,760,000	\$5,760,000

Source: FRC

Resource / PEA

Consolidated
resource of 679 Koz
indicated + 552 Koz
inferred gold
equivalent

Consolidated Resources

Project	Au Equivalent (x000 oz)	EAM's Share of Au Equivalent (x000 oz)
Adyabo		
Indicated	446	133.8
Inferred	551	165.3
Harvest		
Indicated	470	329
Inferred	427	299
Handeni		
Indicated	721	216.3
Inferred	292	87.6
Total		
Indicated	1,637	679
Inferred	1,270	552

Source: FRC/Company

2018 PEA

Base-case AT-
NPV8% of US\$83M
at US\$1,325/oz gold

Low AISC of
US\$620-US\$649/oz

Total initial CAPEX
of US\$105M

2018 PEA Highlights (100% interest)

Parameters		Units	Mato Bula	Project Da Tambuk	Terakimti
Mine Plan		Tonnes	3,335,000	650,000	1,086,000
Grade	Gold	gpt	3.0	4.9	3.1
	Copper	%	0.3	NA	NA
	Silver	gpt	0.7	2.3	22.9
Metal Recoveries	Gold	%	86.4	93.0	65.0
	Copper	%	87.4	NA	NA
	Silver	%	50.0	50.0	30.0
Recovered Metals	Gold	Ozs	278,000	95,000	71,000
	Copper	Lbs (x000)	13,353	NA	NA
	Silver	Ozs	38,300	24,000	229,000
	Au Eq	Ozs	305,000	95,000	74,000
Capital Cost		US\$(x000)	\$54,200	\$34,030	\$17,180
Sustaining Capital		US\$(x000)	\$5,600	\$8,030	\$1,720
Operating Cost		Site - C1 US\$/tonne	\$47.53	\$61.85	\$34.10
Metal Prices					
Gold Price		US\$/oz	\$1,325	\$1,325	\$1,325
Copper Price		US\$/lb	\$3.00	NA	NA
Silver Price		US\$/oz	\$17.00	\$17.00	\$17.00
POST-TAX					
Cash Flow		LOM US\$(x000)	\$97,700	\$20,615	\$20,890
NPV(8%)		US\$(x000)	\$56,660	\$13,020	\$13,180
IRR		%	28.4	28.6	30.1
PAYBACK		Years	3.0	1.9	2.4
AISC		US\$/oz Au	\$620	\$642	\$649

AT-NPV8%
increases to
US\$95M at
US\$1,379/oz gold

Metal Price Sensitivity (After-Tax)

Parameters	Units	Base Case	Lowest Case	5 Year Average	Long Term
Metal Prices					
Gold Price	US\$/oz	\$1,325	\$1,200	\$1,250	\$1,379
Copper Price	US\$/lb	\$3.00	\$2.50	\$2.75	\$3.25
Silver Price	US\$/oz	\$17.00	\$17.00	\$17.00	\$17.00
Mato Bula - Gold, Copper & Silver					
Cash Flow	US\$(x000)	\$97,700	\$75,050	\$84,325	\$107,340
NPV(8%)	US\$(x000)	\$56,660	\$39,460	\$46,490	\$63,980
IRR	%	28.4	22.50	25.0	30.8
Payback	Years	3.0	3.7	3.4	1.8
Da Tambuk - Gold & Silver					
Cash Flow	US\$(x000)	\$20,615	\$12,600	\$15,805	\$24,080
NPV(8%)	US\$(x000)	\$13,020	\$6,060	\$8,840	\$16,025
IRR	%	28.6	17.7	22.1	33.2
Payback	Years	1.9	3.2	3.1	1.7
Terakimti - Gold & Silver					
Cash Flow	US\$(x000)	\$20,890	\$15,130	\$17,430	\$23,380
NPV(8%)	US\$(x000)	\$13,180	\$8,340	\$10,280	\$15,275
IRR	%	30.1	21.9	25.2	33.7
Payback	Years	2.4	2.8	2.6	2.3
Total - ATNPV8%		\$82,860	\$53,860	\$65,610	\$95,280

Source: Company

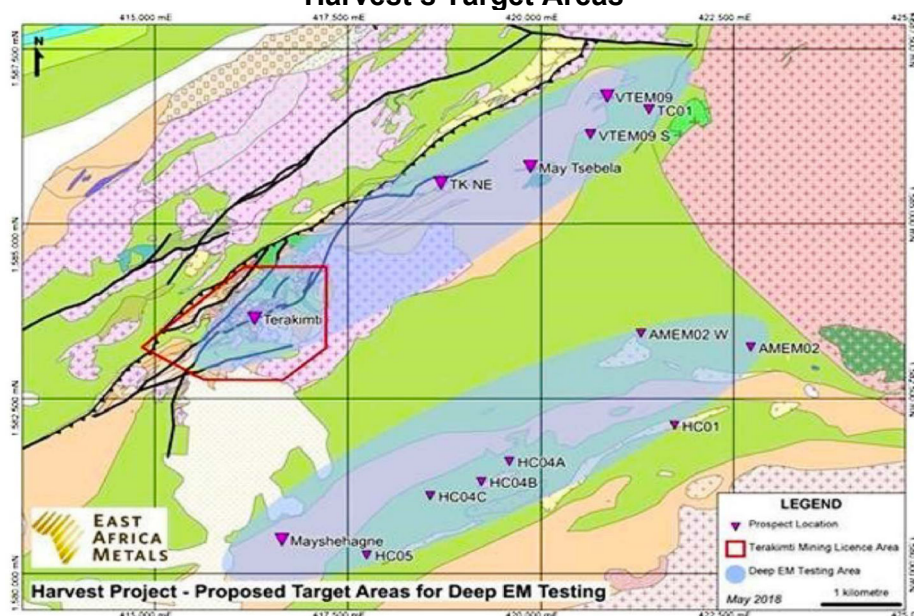
Exploration

The company has
earmarked \$2.7M for
exploration in
Ethiopia

EAM retains exploration rights on areas outside the Mato Bula, Da Tambuk, and Terakimti mining licenses in Ethiopia. EAM has started a Phase 1 exploration program, which includes 8,000 m of diamond drilling, 115-line km of geophysical surveys, environmental and metallurgical studies.

At least five targets

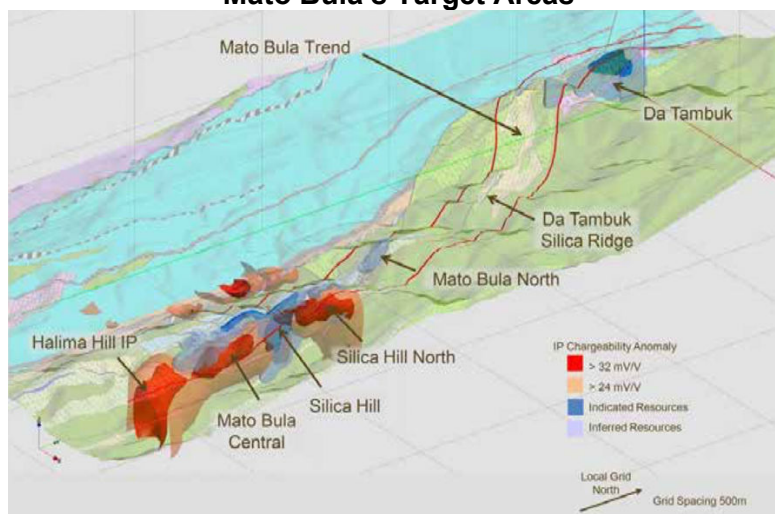
Harvest's Target Areas



Source: Company

At least seven targets

Mato Bula's Target Areas



Source: Company

Financials

\$2.49M in cash at the end of Q2

	2020	2021 (6M)
Cash	\$182,184	\$2,485,766
Working Capital	\$1,684,337	\$3,004,981
Current Ratio	1.40	3.27
LT Debt	-	-
LT Debt / Assets	0.00	0.00
Monthly Burn Rate (incl. G&A)	-\$97,732	-\$99,353
Property Related	-\$1,116,563	-\$635,704
Cash from Financing Activities	\$1,024,495	\$4,980,607

Source: FRC / Company

In-the-money options and warrants can bring in up to \$7.32M

Stock Options and Warrants – 25.88M options (weighted average exercise price of \$0.23 per share), and 3.85M warrants (\$0.35 per share) outstanding. **All of the options and warrants are in-the-money, implying a potential to raise up to \$7.32M.**

Valuation and Rating

DCF Valuation on Harvest + Adyabo (100% of M&I + 50% of Inferred)

LT Average Price of Au (\$/oz)	\$1,400
LT Average Price of Cu (US\$/lb)	\$3
C\$/US\$	1.27
Discount Rate	13.49%
After-Tax Net Asset Value (\$)	\$111,410,203
No. of Shares *	215,391,724
Value per Share (\$)	\$0.52

* calculated based on the treasury stock method

Valuing EAM's
interest in Adyabo &
Harvest at \$0.52 per
share

Valuing Handeni and
Harvest (sulphides)
based on the sector
average of \$49/oz
for gold juniors in
Africa

Sensitive to gold
prices and discount
rates; our base-case
discount rate of
13.49% includes a
country risk-premium
for Ethiopia

	Value	Value per Share
Harvest/Oxides + Adyabo (DCF)	\$111,410,203	\$0.52
Handeni + Harvest/Sulphides (Comparables)	\$32,237,745	\$0.15
Current Working Capital	\$2,706,924	\$0.01
Fair Value of EAM	\$146,354,872	\$0.68

		Gold Price (US\$ / oz)				
		\$1,200	\$1,300	\$1,400	\$1,600	\$1,800
Discount Rate	7.50%	\$0.71	\$0.76	\$0.81	\$0.90	\$1.00
	10.00%	\$0.66	\$0.71	\$0.75	\$0.84	\$0.93
	13.49%	\$0.61	\$0.64	\$0.68	\$0.76	\$0.84
	15.00%	\$0.58	\$0.62	\$0.66	\$0.73	\$0.80
	17.50%	\$0.55	\$0.58	\$0.62	\$0.68	\$0.75

Source: FRC

We are resuming coverage on EAM with a BUY rating, and a fair value estimate of \$0.68 per share. Upcoming catalysts include:

Multiple catalysts

- Commence construction and development of Adyabo when conditions stabilize in the Tigray region.
- Closing of the JV agreement with Zijin
- Phase 1 exploration program in Ethiopia
- Commencement of hard rock mining in Tanzania

Risks

We believe the company is exposed to the following key risks (not exhaustive):

Assigning a risk
rating of 5

- The value of the company is highly dependent on gold prices.
- Exploration and development risks.
- Political risks and changes to mining laws in Ethiopia and Tanzania may negatively impact the company.

- Security risks in Ethiopia.
- Access to capital and share dilution.
- Exchange rate.

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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The distribution of FRC's ratings are as follows: BUY (68%), HOLD (7%), SELL / SUSPEND (25%).

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