

# ZAZU METALS CORPORATION

Interim Consolidated Financial Statements  
For the 6 months ended June 30, 2009 and 2008  
Unaudited  
(in US dollars)



**ZAZU METALS CORPORATION**

(An Exploration Stage Company)  
Consolidated Balance Sheets  
In U.S. dollars  
(Unaudited)

	June 30, 2009	December 31, 2008
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,506,925	\$ 4,453,279
Receivables	6,361	46,557
Prepaid expenses	81,506	29,448
	<u>3,594,792</u>	<u>4,529,284</u>
<b>Mineral properties</b> (note 3)	26,095,648	25,664,514
<b>Equipment</b> (note 4)	399,094	435,480
	<u>\$ 30,089,534</u>	<u>\$ 30,629,278</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 70,536	\$ 68,853
Due to related parties (note 5)	11,275	10,712
	<u>81,811</u>	<u>79,565</u>
<b>Future income taxes</b> (note 6)	205,600	193,700
	<u>287,411</u>	<u>273,265</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital stock</b> (note 7(a))	30,941,110	30,941,110
<b>Warrants</b> (note 7(b))	749,600	749,600
<b>Contributed surplus</b>	674,472	674,472
<b>Stock options</b> (note 7(d))	3,080,300	2,919,900
<b>Deficit</b>	(5,643,359)	(4,929,069)
	<u>29,802,123</u>	<u>30,356,013</u>
	<u>\$ 30,089,534</u>	<u>\$ 30,629,278</u>

**Commitments** (note 10)

Approved by the Board of Directors:

"Gil Atzmon" (signed)

Gil Atzmon  
Director

"Bryan Morris" (signed)

Bryan Morris  
Director

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

**ZAZU METALS CORPORATION**

(An Exploration Stage Company)

Consolidated Statements of Loss, Comprehensive Loss and Deficit

In U.S. dollars

(Unaudited)

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>General and administrative expenses:</b>				
Amortization	\$ 2,014	\$ 1,512	\$ 3,985	\$ 2,580
Audit and accounting	44,494	43,429	60,317	60,581
Consulting fees	116,250	116,250	232,500	270,500
Directors' fees	12,824	9,819	23,828	23,819
Insurance	14,784	19,948	33,080	42,343
Investor and shareholder relations	5,924	8,186	9,744	14,261
Legal fees	4,785	23,731	5,006	37,482
Office, rent and communication	24,099	29,523	49,018	62,741
Regulatory and transfer agent	5,684	6,007	17,711	20,962
Salaries and benefits	98,183	97,534	201,343	226,340
Stock based compensation (note 7(d))	100,700	384,500	140,200	1,474,500
Travel	12,578	22,033	21,478	48,866
<b>Loss before other items</b>	<b>442,319</b>	<b>762,472</b>	<b>798,210</b>	<b>2,284,975</b>
<b>Other items:</b>				
Interest income	1,350	57,861	8,917	150,849
Foreign exchange gain (loss)	135,688	27,547	72,803	(33,182)
<b>Loss before taxes</b>	<b>(305,281)</b>	<b>(677,064)</b>	<b>(716,490)</b>	<b>(2,167,308)</b>
Future income tax recovery (note 6)	900	3,374	2,200	35,263
<b>Net loss and comprehensive loss for the period</b>	<b>(304,381)</b>	<b>(673,690)</b>	<b>(714,290)</b>	<b>(2,132,045)</b>
<b>Deficit, beginning of period</b>	<b>(5,338,978)</b>	<b>(2,333,080)</b>	<b>(4,929,069)</b>	<b>(874,725)</b>
<b>Deficit, end of period</b>	<b>(\$ 5,643,359)</b>	<b>(\$ 3,006,770)</b>	<b>(\$ 5,643,359)</b>	<b>(\$ 3,006,770)</b>
<b>Basic and diluted loss per share</b>	<b>(\$ 0.01)</b>	<b>(\$ 0.02)</b>	<b>(\$ 0.02)</b>	<b>(\$ 0.07)</b>
<b>Weighted average number of shares outstanding</b>	<b>30,663,771</b>	<b>30,663,771</b>	<b>30,663,771</b>	<b>30,663,771</b>

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

**ZAZU METALS CORPORATION**

(An Exploration Stage Company)

Consolidated Statements of Cash Flow

In U.S. dollars

(Unaudited)

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Cash was provided by (used in):</b>				
<b>Operating activities</b>				
Loss for the period	(\$ 304,381)	(\$ 673,690)	(\$ 714,290)	(\$ 2,132,045)
Items not involving cash:				
Amortization	2,014	1,512	3,985	2,580
Stock based compensation (note 7(d))	100,700	384,500	140,200	1,474,500
Future income tax recovery	(900)	(3,374)	(2,200)	(35,263)
Change in non-cash working capital (note 9)	(26,124)	(100,032)	(39,742)	(594,895)
	<u>(228,691)</u>	<u>(391,084)</u>	<u>(612,047)</u>	<u>(1,285,123)</u>
<b>Financing activities</b>				
Share issuance costs	-	(82,346)	-	(82,346)
<b>Investing activities</b>				
Deferred exploration costs	(215,845)	(547,913)	(333,548)	(595,651)
Purchase of equipment	(759)	(257,832)	(759)	(312,062)
	<u>(216,604)</u>	<u>(805,745)</u>	<u>(334,307)</u>	<u>(907,713)</u>
<b>Decrease in cash and cash equivalents</b>	(445,295)	(1,279,175)	(946,354)	(2,275,182)
<b>Cash and cash equivalents, beginning of period</b>	3,952,220	9,542,526	4,453,279	10,538,533
<b>Cash and cash equivalents, end of period</b>	<u>\$ 3,506,925</u>	<u>\$ 8,263,352</u>	<u>\$ 3,506,925</u>	<u>\$ 8,263,352</u>
<b>Non-cash transactions:</b>				
Stock based compensation capitalized to mineral properties	\$ 14,000	\$ 51,900	\$ 20,200	\$ 207,800
Amortization of equipment capitalized to mineral properties	16,579	60,434	33,159	60,434
Increase (decrease) in accounts payable and accrued liabilities related to mineral properties and equipment	(6,825)	68,280	30,126	371,088

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

## ZAZU METALS CORPORATION

(An Exploration Stage Company)

Notes to the Interim Consolidated Financial Statements

For the periods ended June 30, 2009 and 2008

In U.S. dollars

(Unaudited)

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### 1. Nature of operations

Zazu Metals Corporation (the "Company") is a Canadian company which is engaged in the exploration and development of mineral properties. The Company was incorporated by a Certificate of Incorporation issued pursuant to the provisions of the Canada Business Corporations Act on November 29, 2006.

The Company incorporated Zazu Metals (Alaska) Corporation ("Zazu Alaska"), a subsidiary of the Company, in the State of Alaska, United States on January 18, 2007.

The Company is currently exploring a mineral property located in the State of Alaska, United States and has not yet determined whether its mineral property contains resources that are economically recoverable. The underlying value of the Company's mineral property and the recoverability of the related deferred costs are entirely dependent on the existence of economically recoverable resources in its mineral property and the ability of the Company to obtain the necessary financing to complete development and upon future profitable production from, or the proceeds from the disposition of, its mineral property.

### 2. Significant Accounting Policies

#### a) Basis of presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for the preparation of interim statements. Accordingly, these interim statements do not contain all the information required for annual financial statements and should be read in conjunction with the audited annual consolidated financial statements of the Company as at, and for the year ended, December 31, 2008. These unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the December 31, 2008 audited annual consolidated financial statements of the Company.

#### b) Adoption of new accounting standards and interpretations

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*. This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and is effective for our fiscal year beginning January 1, 2009. The adoption of this standard did not have any effect on our financial statements. Concurrent with the adoption of this standard, CICA Emerging Issues Committee Abstract 27, *Revenues and Expenditures in the Pre-operating Period*, was withdrawn.

In March 2009, the CICA issued EIC-174, *Mining Exploration Costs*, which provides guidance on the accounting and impairment review of exploration costs. The application of this EIC did not have an effect on the Company's financial statements.

### 3. Mineral properties

#### *LIK Property, Alaska*

The Company is participating in the exploration and possible development of the LIK property through a joint venture (50/50 increasing to 80/20 under certain circumstances) with Teck American, Inc. ("Teck American"), a wholly owned subsidiary of Teck Resources Limited. Zazu acquired its interest in the joint venture in June 2007 by making a cash payment of \$20,000,000 and granting a 2% net proceeds interest.

Zazu is the operator of the joint venture and has the right to earn from Teck American a further 30% interest by incurring qualifying exploration expenditures on or before January 27, 2018. The terms of the joint venture are governed by the LK Block Agreement, signed in 1983 which specified an amount of \$25.0 million of qualifying expenditures to be adjusted annually for inflation, and which balance is currently estimated to be approximately \$39.8 million. As of June 30, 2009, a total of \$11.7 million has been incurred in exploration expenditures pursuant to the terms of the LK Block Agreement.

Once Zazu satisfies this expenditure obligation, Teck American has a onetime election to (i) maintain the 20% interest which shall become a participating interest pursuant to a joint operating agreement with a pro rata sharing of the pre-existing 1% net profits interest, or (ii) transfer its interest in exchange for a 2% net smelter return royalty interest such that Zazu would become the holder of a 100% undivided interest in the LK property subject only to the pre-existing 1% net profits interest and the 2% net smelter royalty.

Acquisition and deferred exploration expenditures made by the Company are as follows:

	<b>Balance December 31, 2008</b>	<b>2009 Expenditure (Recovery)</b>	<b>Balance June 30, 2009</b>
Acquisition	\$ 20,276,094	\$ -	\$ 20,276,094
Deferred exploration			
Administration	137,225	11,946	149,171
Assays/analysis	194,488	10,091	204,579
Camp construction and supplies	448,574	1,038	449,612
Drilling	2,356,414	26,273	2,382,687
Environmental consultants	261,073	192,370	453,443
Freight and logistics	426,611	1,304	427,915
Geological consultants	499,615	22,483	522,098
Insurance	12,895	(5,972)	6,923
Maps and reports	452,714	129,896	582,610
Travel	23,591	1,543	25,134
Vehicle	14,420	5,862	20,282
Stock based compensation	330,300	20,200	350,500
	<u>5,157,920</u>	<u>417,034</u>	<u>5,574,954</u>
Future income tax	230,500	14,100	244,600
	<u>\$ 25,664,514</u>	<u>\$ 431,134</u>	<u>\$ 26,095,648</u>

#### 4. Equipment

	<b>June 30, 2009</b>		<b>December 31, 2008</b>	
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>	<b>Net book value</b>
Exploration equipment	\$ 577,231	\$ 248,648	\$ 328,583	\$ 354,856
Vehicles	50,424	17,207	33,217	39,079
Camp equipment	12,061	2,834	9,227	10,252
Computer equipment	12,567	6,801	5,766	6,514
Office furniture and equipment	27,008	4,707	22,301	24,779
	<u>\$ 679,291</u>	<u>\$280,197</u>	<u>\$ 399,094</u>	<u>\$ 435,480</u>

## 5. Related party transactions

During the second quarter of 2009, the Company incurred \$12,824 (2008 – \$9,819) for directors' fees. Directors' fees for the six months ended June 30, 2009 totalled \$23,828 (2008 – \$23,819). The Company also incurred \$1,029 (2008 – \$15,641) in legal fees during the second quarter of 2009 payable to a legal firm whose partner is a director of the Company. For the six months ended June 30, 2008 the Company paid \$1,029 (2008 – \$15,641) for legal fees to this legal firm.

The total amount payable to related parties at June 30, 2009 was \$11,275. As at December 31, 2008, the Company owed \$10,712. The amounts due to related parties are interest free with no specific terms of repayment.

Related party transactions are in the ordinary course of business, occurring on terms that are similar to those of transactions with unrelated parties, and therefore are measured at the exchange amount.

## 6. Future income taxes

The future income tax liability relates to the excess of book value of mineral properties and deferred exploration expenditures over tax values. A portion of the future income tax liability has been offset by applying the Company's available income tax losses.

## 7. Capital stock

The Company's common shares and common share purchase warrants began trading on the Toronto Stock Exchange on December 19, 2007 under the symbols "ZAZ" and "ZAZ.WT", respectively.

### a) Common shares

#### Authorized:

Unlimited Common Shares with no par value

Unlimited Special Voting Shares with no par value

#### Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2008	30,663,771	\$ 30,941,110
Balance, June 30, 2009	30,663,771	\$ 30,941,110

### b) Warrants

#### Issued and outstanding:

	Number of warrants	Amount
Balance, December 31, 2008	1,268,150	\$ 749,600
Balance, June 30, 2009	1,268,150	\$ 749,600

In connection with the Company's initial public offering completed in December 2007, the Company issued 2,536,300 units. Each unit was comprised of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share for C\$2.25 until December 19, 2012.

### c) Stock options

The Company has a stock option plan which permits the Company's Board of Directors to grant stock options to certain employees, directors and consultants. The exercise price, term to expiry and vesting period are determined at the discretion of the Board of Directors but the exercise price may not be lower than the market price of the common shares on the date of grant, less any discount permitted by the Toronto Stock Exchange. The term to expiry is generally five years from the date of grant. The stock options can not vest sooner than one third after 90 days following the date

of grant, a further one third after 12 months following the date of grant and the final one third after 18 months following the date of grant.

The following stock options to purchase common shares of the Company were authorized and outstanding at June 30, 2009:

	Number	Average exercise price (CDN)
Outstanding, December 31, 2008	-	\$ -
Granted in March 2009	3,065,000	0.30
Outstanding, June 30, 2009	<u>3,065,000</u>	<u>\$ 0.30</u>

The stock options outstanding at June 30, 2009 expire as follows:

Expiry Date	Number outstanding	Exercise price (CDN)	Exercisable
March 2014	3,065,000	\$ 0.30	1,021,667
Outstanding, June 30, 2009	<u>3,065,000</u>	<u>\$ 0.30</u>	<u>1,021,667</u>

*d) Stock based compensation*

The Company recognizes stock based compensation over the vesting period of the underlying options. During the second quarter of 2009 the Company recognized \$114,700 of stock based compensation (2008 – \$436,400) of which \$14,000 (2008 – \$51,900) was capitalized as a deferred exploration cost and \$100,700 (2008 – \$384,500) was expensed as stock based compensation. Stock based compensation for the six months ended June 30, 2009 totalled \$160,400 (2008 – \$1,682,300) of which \$20,200 (2008 – \$207,800) was capitalized as a deferred exploration cost and \$140,200 (2008 – \$1,474,500) was expensed as stock based compensation.

Accumulated stock based compensation at June 30, 2009 is as follows:

Balance, December 31, 2008	\$ 2,919,900
Stock based compensation	<u>45,700</u>
Balance, March 31, 2009	2,965,600
Stock based compensation	<u>114,700</u>
Balance, June 30, 2009	<u>\$ 3,080,300</u>

The Company did not grant any stock options in the second quarter of 2009.

## 8. Segmented information

The Company currently operates in one business segment, being the exploration and development of mineral properties. The Company's assets at June 30, 2009 and revenues and expenses for the 3 and 6 months ended June 30, 2009 by geographic areas are as follows:

	Canada	United States	Total
<b>At June 30, 2009:</b>			
Assets	\$ 3,622,431	\$ 26,467,103	\$ 30,089,534
<b>For the 3 months ended June 30, 2009:</b>			
General and administrative expenses	(\$ 440,197)	(\$ 2,122)	(\$ 442,319)
Other items	137,038	-	137,038
Future income tax recovery	-	900	900
Net loss	(\$303,159)	\$ (1,222)	(\$ 304,381)
<b>For the 6 months ended June 30, 2009:</b>			
General and administrative expenses	(\$ 792,922)	(\$ 5,288)	(\$ 798,210)
Other items	81,720	-	81,720
Future income tax recovery	-	2,200	2,200
Net loss	(\$ 711,202)	(\$ 3,088)	(\$ 714,290)

The Company's assets at June 30, 2008 and revenues and expenses for the 3 and 6 months ended June 30, 2008 by geographic areas are as follows:

	Canada	United States	Total
<b>At June 30, 2008:</b>			
Assets	\$ 8,390,091	\$ 23,440,434	\$ 31,830,525
<b>For the 3 months ended June 30, 2008:</b>			
General and administrative expenses	(\$ 754,264)	(\$ 8,208)	(\$ 762,472)
Other items	85,408	-	85,408
Future income tax recovery	-	3,374	3,374
Net loss	(\$668,856)	\$ (4,834)	(\$ 673,690)
<b>For the 6 months ended June 30, 2008:</b>			
General and administrative expenses	(\$ 2,257,537)	(\$ 27,438)	(\$ 2,284,975)
Other items	117,667	-	117,667
Future income tax recovery	-	35,263	35,263
Net loss	(\$ 2,139,870)	\$ 7,825	(\$ 2,132,045)

## 9. Change in non-cash operating working capital

	Three months ended		Six months ended	
	2009	June 30, 2008	2009	June 30, 2008
Receivables	(\$ 838)	\$ 28,693	\$ 40,196	\$ 27,191
Prepaid expenses	(40,977)	(28,700)	(52,058)	(16,215)
Accounts payable	16,422	(104,679)	(28,443)	(589,289)
Due to related parties	(731)	4,654	563	(16,582)
	(\$ 26,124)	(\$ 100,032)	(\$ 39,742)	(\$ 594,895)

## 10. Commitments

The following is a summary of the Company's commitments as at June 30, 2009:

	Total	2009	2010 - 2012	2013 - 2014	2015 and beyond
Exploration services agreements – US\$	\$ 270,265	\$ 270,265	\$ -	\$ -	\$ -
Office operation leases – CDN\$	30,750	23,732	7,018	-	-
Consulting agreements – US\$	1,557,250	289,500	1,267,750	-	-
Employment agreements – US\$	1,005,833	155,000	850,833	-	-

The Company has entered into consulting and employment agreements with senior officers for terms ranging from three to five years and for an aggregate of \$889,000 per year. The Company may terminate these agreements at any time, subject to the payment of fees ranging from a lump sum payment amounting to three months of the contract fee, to a lump sum amounting to the balance of the contract fee for the duration of the entire contract, plus a cancellation and termination penalty equal to 40% of that amount.

## 11. Management of capital risk

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

The Company's Board of Directors (the "Board") has responsibility for stewardship of the Company by supervising the administration of the Company's business and affairs. The Board is responsible for the oversight and review of the strategic planning process of the Corporation. Strategic issues facing the Corporation are reviewed with Management and addressed by the Board at its regularly scheduled meetings, and at meetings specifically called for such purpose. Management must seek the Board's approval for any transaction that would have a significant effect on the strategic plan.

The Company manages and makes adjustments to the capital structure as opportunities arise in the marketplace or as and when funding is required. Historically the Company's primary source of funding has been the sale of equity securities for cash. The Company is not in commercial production on the LIK property and, accordingly, it does not generate cash from operations.

As part of its program to manage its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors including availability of capital and general industry conditions. The annual and updated budgets are reviewed and approved by the Board.

Under Company policy, cash and cash equivalents are primarily invested in bank and non-asset backed commercial paper, all with the two highest possible investment ratings and with terms of 90 days or less, which can be easily liquidated.