

ZAZU METALS CORPORATION

Interim Consolidated Financial Statements
For the 9 months ended September 30, 2009 and 2008
Unaudited
(in US dollars)



ZAZU METALS CORPORATION
(An Exploration Stage Company)
Interim Consolidated Balance Sheets
In U.S. dollars
(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,071,398	\$ 4,453,279
Receivables	5,660	46,557
Prepaid expenses	65,945	29,448
	<u>3,143,003</u>	<u>4,529,284</u>
Mineral properties (note 3)	26,450,117	25,664,514
Equipment (note 4)	380,499	435,480
	<u>\$ 29,973,619</u>	<u>\$ 30,629,278</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 106,793	\$ 68,853
Due to related parties (note 5)	12,870	10,712
	<u>119,663</u>	<u>79,565</u>
Future income taxes (note 6)	209,100	193,700
	<u>328,763</u>	<u>273,265</u>
SHAREHOLDERS' EQUITY		
Capital stock (note 7(a))	30,941,110	30,941,110
Warrants (note 7(b))	749,600	749,600
Contributed surplus	674,472	674,472
Stock options (note 7(c))	3,127,600	2,919,900
Deficit	(5,847,926)	(4,929,069)
	<u>29,644,856</u>	<u>30,356,013</u>
	<u>\$ 29,973,619</u>	<u>\$ 30,629,278</u>
Commitments (note 10)		
Subsequent event (note 12)		

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)

Interim Consolidated Statements of Loss, Comprehensive Loss and Deficit

In U.S. dollars

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
General and administrative expenses:				
Amortization	\$ 2,015	\$ 1,580	\$ 6,001	\$ 4,160
Audit and accounting	27,380	8,286	87,697	68,867
Consulting fees	116,250	116,250	348,750	386,750
Directors' fees	13,698	13,182	37,526	37,001
Insurance	14,784	18,296	47,864	60,639
Investor and shareholder relations	931	6,921	10,675	21,182
Legal fees	1,909	10,251	6,915	47,733
Office, rent and communication	24,386	33,153	73,404	95,894
Regulatory and transfer agent	4,586	5,855	22,297	26,817
Salaries and benefits	86,449	98,233	287,792	324,573
Stock based compensation (note 7(c))	41,600	356,800	181,800	1,831,300
Travel	1,613	14,730	23,091	63,596
Loss before other items	335,601	683,537	1,133,812	2,968,512
Other items:				
Interest income	1,271	44,738	10,188	195,587
Foreign exchange gain (loss)	129,263	(126,810)	202,067	(159,992)
Loss before taxes	(205,067)	(765,609)	(921,557)	(2,932,917)
Future income tax recovery (note 6)	500	437	2,700	35,700
Net loss and comprehensive loss for the period	(204,567)	(765,172)	(918,857)	(2,897,217)
Deficit, beginning of period	(5,643,359)	(3,006,770)	(4,929,069)	(874,725)
Deficit, end of period	(\$ 5,847,926)	(\$ 3,771,942)	(\$ 5,847,926)	(\$ 3,771,942)
Basic and diluted loss per share	(\$ 0.01)	(\$ 0.02)	(\$ 0.03)	(\$ 0.09)
Weighted average number of shares outstanding	30,663,771	30,663,771	30,663,771	30,663,771

The accompanying notes are an integral part of these financial statements

ZAZU METALS CORPORATION

(An Exploration Stage Company)

Interim Consolidated Statements of Cash Flow

In U.S. dollars

(Unaudited)

	Three months ended September 30, 2009		Nine months ended September 30, 2008	
Cash was provided by (used in):				
Operating activities				
Loss for the period	(\$ 204,567)	(\$ 765,172)	(\$ 918,857)	(\$ 2,897,217)
Items not involving cash:				
Amortization	2,015	1,580	6,001	4,160
Stock based compensation (note 7(d))	41,600	356,800	181,800	1,831,300
Future income tax recovery	(500)	(437)	(2,700)	(35,700)
Change in non-cash working capital (note 9)	(8,544)	7,326	(48,287)	(587,569)
	(169,996)	(399,903)	(782,043)	(1,685,026)
Financing activities				
Share issuance costs	-	-	-	(82,346)
Investing activities				
Deferred exploration costs	(265,531)	(2,106,547)	(599,079)	(2,702,198)
Purchase of equipment	-	(27,795)	(759)	(339,856)
	(265,531)	(2,134,342)	(599,838)	(3,042,054)
Decrease in cash and cash equivalents	(435,527)	(2,534,245)	(1,381,881)	(4,809,426)
Cash and cash equivalents, beginning of period	3,506,925	8,263,352	4,453,279	10,538,533
Cash and cash equivalents, end of period	\$ 3,071,398	\$ 5,729,107	\$ 3,071,398	\$ 5,729,107
Non-cash transactions:				
Stock based compensation capitalized to mineral properties	\$ 5,700	\$ 50,100	\$ 25,900	\$ 257,900
Amortization of equipment capitalized to mineral properties	16,580	104,266	49,739	164,700
Increase (decrease) in accounts payable and accrued liabilities related to mineral properties and equipment	62,658	82,845	92,784	453,933

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ZAZU METALS CORPORATION

(An Exploration Stage Company)

Notes to the Interim Consolidated Financial Statements

For the periods ended September 30, 2009 and 2008

In U.S. dollars

(Unaudited)

1. Nature of operations

Zazu Metals Corporation (“Zazu” or 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 September 30, 2009, a total of \$12.1 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:

	Balance December 31, 2008	2009 Expenditure (Recovery)	Balance September 30, 2009
Acquisition	\$ 20,276,094	\$ -	\$ 20,276,094
Deferred exploration			
Administration	137,225	85,507	222,732
Assays/analysis	194,488	28,002	222,490
Camp construction and supplies	448,574	8,740	457,314
Drilling	2,356,414	39,409	2,395,823
Environmental consultants	261,073	240,200	501,273
Freight and logistics	426,611	53,145	479,756
Geological consultants	499,615	36,973	536,588
Insurance	12,895	(5,972)	6,923
Maps and reports	452,714	243,016	695,730
Travel	23,591	3,791	27,382
Vehicle	14,420	8,792	23,212
Stock based compensation	330,300	25,900	356,200
	5,157,920	767,503	5,925,423
Future income tax	230,500	18,100	248,600
	\$ 25,664,514	\$ 785,603	\$ 26,450,117

4. Equipment

	September 30, 2009		December 31, 2008	
Cost	Accumulated amortization	Net book value	Net book value	
Exploration equipment	\$ 577,231	\$ 261,784	\$315,447	\$ 354,856
Vehicles	50,424	20,138	30,286	39,079
Camp equipment	12,061	3,347	8,714	10,252
Computer equipment	12,567	7,577	4,990	6,514
Office furniture and equipment	27,008	5,946	21,062	24,779
	\$ 679,291	\$298,792	\$380,499	\$ 435,480

5. Related party transactions

During the third quarter of 2009, the Company incurred \$13,698 (2008 – \$13,182) for directors' fees. Directors' fees for the nine months ended September 30, 2009 totalled \$37,526 (2008 – \$37,001). The Company also incurred \$1,029 (2008 – \$15,641) in legal fees during the nine months ended September 20, 2009 payable to a legal firm whose partner is a director of the Company. No legal fees were incurred in the third quarter of either 2009 or 2008 to this firm.

The total amount payable to related parties at September 30, 2009 was \$12,870. 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.

See note 12.

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, September 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, September 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 and stock based compensation

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 September 30, 2009:

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

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

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

The Company recognizes stock based compensation over the vesting period of the underlying options. During the third quarter of 2009 the Company recognized \$47,300 of stock based compensation (2008 – \$406,900) of which \$5,700 (2008 – \$50,100) was capitalized as a deferred exploration cost and \$41,600 (2008 – \$356,800) was expensed as stock based compensation. Stock based compensation for the nine months ended September 30, 2009 totalled \$207,700 (2008 – \$2,089,200) of which \$25,900 (2008 – \$257,900) was capitalized as a deferred exploration cost and \$181,800 (2008 – \$1,831,300) was expensed as stock based compensation.

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

Balance, December 31, 2008	\$ 2,919,900
Stock based compensation	<u>160,400</u>
Balance, June 30, 2009	3,080,300
Stock based compensation	<u>47,300</u>
Balance, September 30, 2009	<u>\$ 3,127,600</u>

The Company did not grant any stock options in the second or third quarters 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 September 30, 2009 and revenues and expenses for the 3 and 9 months ended September 30, 2009 by geographic areas are as follows:

	Canada	United States	Total
At September 30, 2009:			
Assets	\$ 3,168,627	\$ 26,804,992	\$ 29,973,619
For the 3 months ended September 30, 2009:			
General and administrative expenses	(\$ 334,311)	(\$ 1,290)	(\$ 335,601)
Other items	130,534	-	130,534
Future income tax recovery	-	500	500
Net loss	(\$203,777)	\$ (790)	(\$ 204,567)
For the 9 months ended September 30, 2009:			
General and administrative expenses	(\$ 1,127,234)	(\$ 6,578)	(\$ 1,133,812)
Other items	212,255	-	212,255
Future income tax recovery	-	2,700	2,700
Net loss	(\$ 914,979)	(\$ 3,878)	(\$ 918,857)

The Company's assets at September 30, 2008 and revenues and expenses for the 3 and 9 months ended September 30, 2008 by geographic areas are as follows:

	Canada	United States	Total
At September 30, 2008:			
Assets	\$ 5,863,935	\$ 25,721,455	\$ 31,585,390
For the 3 months ended September 30, 2008:			
General and administrative expenses	(\$ 682,511)	(\$ 1,025)	(\$ 683,536)
Other items	(82,073)	-	(82,073)
Future income tax recovery	-	437	437
Net loss	(\$764,584)	\$ (588)	(\$ 765,172)
For the 9 months ended September 30, 2008:			
General and administrative expenses	(\$ 2,940,049)	(\$ 28,463)	(\$ 2,968,512)
Other items	35,595	-	35,595
Future income tax recovery	-	35,700	35,700
Net loss	(\$ 2,904,454)	\$ 7,237	(\$ 2,897,217)

9. Change in non-cash operating working capital

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Receivables	\$ 701	(\$ 3,884)	\$ 40,897	\$ 23,307
Prepaid expenses	15,561	15,420	(36,497)	(795)
Accounts payable	(26,401)	1,267	(54,845)	(588,022)
Due to related parties	1,595	(5,477)	2,158	(22,059)
	(\$ 8,544)	\$ 7,326	(\$ 48,287)	(\$ 587,569)

10. Commitments

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

	Total	2009	2010 - 2012	2013 - 2014	2015 and beyond
Exploration services agreements – US\$	\$ 223,109	\$ 118,574	\$ 104,535	\$ -	\$ -
Office operation leases – CDN\$	13,609	6,591	7,018	-	-
Consulting agreements – US\$	1,412,500	144,750	1,267,750	-	-
Employment agreements – US\$	475,000	37,500	437,500	-	-

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 \$729,000 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.

See note 12.

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 with large Canadian chartered banks with terms of 90 days or less, which can be easily liquidated.

12. Subsequent event

In October 2009 the Company entered into a lease for its head office in Vancouver with a company whose President is a director of Zazu. The lease calls for monthly payments of CDN\$1,500 for the period from November 2009 through October 2012.