

ZAZU METALS CORPORATION

Consolidated Financial Statements
For the years ended December 31, 2009 and 2008
(in US dollars)



Auditors' Report

To the Shareholders of Zazu Metals Corporation

We have audited the consolidated balance sheets of Zazu Metals Corporation as at December 31, 2009 and 2008, and the consolidated statements of loss, comprehensive loss and deficit, and consolidated statements of cash flows for the years ended December 31, 2009 and 2008. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia

March 25, 2010

ZAZU METALS CORPORATION

(An Exploration Stage Company)

Consolidated Balance Sheets

As at December 31, 2009 and 2008

In U.S. dollars

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,632,491	\$ 4,453,279
Receivables	28,110	46,557
Prepaid expenses	44,318	29,448
	<u>2,704,919</u>	<u>4,529,284</u>
Mineral properties (note 3)	26,809,091	25,664,514
Equipment (note 4)	239,653	435,480
	<u>\$ 29,753,663</u>	<u>\$ 30,629,278</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 171,344	\$ 68,853
Due to related parties (note 5)	15,678	10,712
	<u>187,022</u>	<u>79,565</u>
Future income taxes (note 7)	212,400	193,700
	<u>399,422</u>	<u>273,265</u>
SHAREHOLDERS' EQUITY		
Capital stock (note 6(a))	30,941,110	30,941,110
Warrants (note 6(b))	749,600	749,600
Contributed surplus	674,472	674,472
Stock options (note 6(c))	3,176,900	2,919,900
Deficit	<u>(6,187,841)</u>	<u>(4,929,069)</u>
	<u>29,354,241</u>	<u>30,356,013</u>
	<u>\$ 29,753,663</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

	For the year ended December 31,	
	2009	2008
General and administrative expenses:		
Amortization	\$ 8,016	\$ 5,770
Audit and accounting	131,505	111,581
Consulting fees	500,500	503,000
Directors' fees	53,807	48,319
Insurance	59,551	78,935
Investor and shareholder relations	12,806	25,388
Legal fees	6,915	49,185
Office, rent and communication	95,905	127,580
Regulatory and transfer agent	26,828	33,348
Salaries and benefits	353,716	427,369
Stock based compensation (note 6(c))	225,200	2,354,700
Travel	29,917	72,279
Loss before other items	1,504,666	3,837,454
Other items:		
Interest income	13,729	221,962
Foreign exchange gain (loss)	228,665	(475,652)
Loss before taxes	(1,262,272)	(4,091,144)
Future income tax recovery (note 7)	3,500	36,800
Net loss and comprehensive loss for the period	(1,258,772)	(4,054,344)
Deficit, beginning of period	(4,929,069)	(874,725)
Deficit, end of period	(\$6,187,841)	(\$4,929,069)
Basic and diluted loss per share	(\$0.04)	(\$0.13)
Weighted average number of shares outstanding	30,663,771	30,663,771

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

	For the year ended December 31,	
	2009	2008
Cash was provided by (used in):		
Operating activities		
Loss for the period	(\$ 1,258,772)	(\$ 4,054,344)
Items not involving cash:		
Amortization	8,016	5,770
Stock based compensation	225,200	2,354,700
Future income tax recovery	(3,500)	(36,800)
Change in non-cash working capital (note 9)	41,180	(566,637)
	<u>(987,876)</u>	<u>(2,297,311)</u>
Financing activities		
Share issuance costs	-	(84,608)
Investing activities		
Deferred exploration costs incurred	(832,153)	(3,362,263)
Purchase of equipment	(759)	(341,073)
	<u>(832,912)</u>	<u>(3,703,335)</u>
Decrease in cash and cash equivalents	(1,820,788)	(6,085,254)
Cash and cash equivalents, beginning of period	4,453,279	10,538,533
Cash and cash equivalents, end of period	<u>\$ 2,632,491</u>	<u>\$ 4,453,279</u>
Non-cash transactions:		
Stock based compensation capitalized to mineral properties	\$ 31,800	\$ 330,300
Amortization of equipment capitalized to mineral properties	188,570	186,034
Increase in accounts payable and accrued liabilities related to mineral property expenditures	69,854	21,760

The accompanying notes are an integral part of these financial statements

ZAZU METALS CORPORATION

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

In U.S. dollars

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 exploration 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*

These financial statements are presented in accordance with generally accepted accounting principles ("GAAP") applicable in Canada and include the accounts of the Company and its wholly-owned subsidiary, Zazu Alaska. All intercompany transactions have been eliminated.

b) *Use of estimates*

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Significant areas requiring the use of management estimates are the recoverability of mineral interests and amortization periods for plant and equipment and the assumptions used in the stock option pricing model.

c) *Cash and cash equivalents*

Cash and cash equivalents consist of highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased.

d) *Mineral properties*

Direct mineral property acquisition costs, holding costs, field exploration and field supervisory costs are deferred on a property-by-property basis until the properties are brought into production, at which time they will be amortized on a unit of production basis, or until the properties are abandoned, sold or considered to be impaired in value, at which time an appropriate charge to operations will be made.

The amounts reported as mineral property interests represent costs incurred to date and do not necessarily reflect present or future values.

e) *Financial instruments*

The Company classifies its cash and cash equivalents as held for trading which are recorded at fair value. Receivables are classified as loans and receivables, which are recorded at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are recorded at amortized cost. As at

the period end, the carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to their immediate or short term nature.

During 2009, CICA Handbook Section 3862, "Financial Instruments – Disclosures", was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

All of the Company's financial instruments have been classified as Level 1.

f) Asset impairment

The carrying values of mineral properties and equipment are reviewed by management quarterly, or whenever events or circumstances indicate that its carrying amount may not be recovered, to determine if they have become impaired. If impairment is determined to exist, the carrying values will be written down to the estimated fair value.

g) Asset retirement obligations

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expenses using a systematic and rational method and is also adjusted to reflect period-to-period changes in the liability resulting from passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flow. As at the year end, the Company had no asset retirement obligations.

h) Share capital

- i) The proceeds from the exercise of stock options or warrants are recorded as share capital.
- ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.
- iii) The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis on relative fair values as follows: the fair value of the common share purchase warrants is determined using the Black-Scholes pricing model and the balance is allocated to the common shares.
- iv) Costs directly identifiable with the raising of financing through the issuance of common shares, special warrants and warrants are recorded as a reduction of capital stock, special warrants and warrants respectively.

i) Amortization

Amortization is recorded on the declining balance method at annual rates of 45% for computer equipment and 20% for office furniture and equipment. One half of the normal rate is recorded in the year of acquisition.

Some of the Company's exploration equipment is being amortized on a usage basis. Under the Company's agreement with its drilling contractor, the contractor can earn title to this exploration equipment by completing certain performance conditions. The remaining exploration equipment is being amortized on the declining balance method at an annual rate of 30%.

j) Stock based compensation

The Company has a stock-based compensation plan, which is described in note 6(d). The Company recognizes stock-based compensation expense using the fair value method at the date of grant. Under the fair value

based method, compensation cost attributable to options granted is measured at the fair value at the grant date using the Black-Scholes option pricing model. Compensation expense is recognized over the vesting period of the underlying options, with the offset to a separate component of shareholders' equity (Stock options). Any consideration paid on exercise of stock options, along with the related fair value previously credited to the separate component of shareholders' equity, is credited to share capital.

k) Foreign currency translation

The Company's functional and reporting currency is the US dollar. The Company is based in Canada and its Canadian dollar accounts are re-measured into US dollars using the temporal method as follows:

- i) Monetary items at the rate prevailing at the balance sheet date;
- ii) Non-monetary items at the historical exchange rate;
- iii) Revenue and expense are translated at the average exchange rates in effect during applicable accounting periods except depreciation and amortization which are translated at historical rates;
- iv) Exchange gains and losses on foreign currency translation are included in operations for the period.

l) Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

m) Loss per share

Basic earnings (loss) per share is computed by dividing income (or loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The effect of potential issuances of shares from the exercise of outstanding options and warrants would be anti-dilutive for the periods presented and accordingly, basic and diluted loss per share are the same.

n) Comprehensive income/loss

Comprehensive income/loss is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders. Other comprehensive income/loss includes the holding gains and losses from available for sale securities which are not included in net earnings (loss) until realized. As at the year end no amounts were recorded in the other comprehensive income/loss.

o) Variable interest entities

The Accounting Standards Board (AcSB) issued Accounting Guideline AcG 15 "Consolidation of Variable Interest Entities", to harmonize the Guideline with the equivalent Financial Accounting Standards Board (FASB) Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("VIE"). The Guideline provides criteria for identifying VIEs and further criteria for determining what entity, if any, should consolidate them.

The Company did not have any VIE's in the year ended December 31, 2009.

p) Recent accounting pronouncements

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.

3. Mineral properties

LIK Property

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 LIK 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 December 31, 2009, a total of \$12.5 million has been incurred in exploration expenditures pursuant to the terms of the LIK 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 LIK 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 Expenditures (Recovery)	Balance December 31, 2009
Acquisition	\$ 20,276,094	\$ -	\$ 20,276,094
Deferred exploration			
Administration	137,225	133,892	271,117
Assays/analysis	194,488	104,433	298,921
Camp construction and supplies	448,574	9,252	457,826
Drilling	2,356,414	152,547	2,508,961
Environmental	261,073	274,237	535,310
Freight and logistics	426,611	57,922	484,533
Geological	499,615	63,533	563,148
Insurance	12,895	(5,972)	6,923
Maps, reports and studies	452,714	285,190	737,904
Travel	23,591	3,820	27,411
Vehicle	14,420	11,723	26,143
Stock based compensation	330,300	31,800	362,100
	<u>5,157,920</u>	<u>1,122,377</u>	<u>6,280,297</u>
Future income taxes	230,500	22,200	252,700
	<u>\$ 25,664,514</u>	<u>\$ 1,144,577</u>	<u>\$ 26,809,091</u>

4. Equipment

	December 31, 2009		
	Cost	Accumulated amortization	Net book value
Exploration equipment	\$ 577,230	\$ 397,170	\$ 180,060
Vehicles	50,424	23,069	27,355
Camp equipment	12,061	3,860	8,201
Computer equipment	12,567	8,353	4,214
Office furniture and equipment	27,008	7,185	19,823
	<u>\$ 679,290</u>	<u>\$ 439,637</u>	<u>\$ 239,653</u>

	December 31, 2008		
	Cost	Accumulated amortization	Net book value
Exploration equipment	\$ 577,231	\$ 222,375	\$ 354,856
Vehicles	50,424	11,345	39,079
Camp equipment	12,061	1,809	10,252
Computer equipment	11,807	5,293	6,514
Office furniture and equipment	27,008	2,229	24,779
	<u>\$ 678,531</u>	<u>\$ 243,051</u>	<u>\$ 435,480</u>

5. Related party transactions

Directors' fees for the year ended December 31, 2009 totalled \$53,807 (2008 – \$48,319). In 2009, the Company paid \$1,029 (2008 – \$22,946) for legal costs to a legal firm whose partner is a director of the Company.

In November 2009, the Company began sharing office space with a company whose President is a director of Zazu. This office lease calls for monthly rent payments of CDN\$1,500 per month beginning in November 2009 and ending in October 2012.

The total amount payable to related parties at December 31, 2009 was \$15,678 (2008 – \$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. 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, 2007	30,663,771	\$ 31,025,718
Share issuance costs	-	(84,608)
Balance, December 31, 2008	30,663,771	30,941,110
Balance, December 31, 2009	30,663,771	\$ 30,941,110

b) *Warrants***Issued and outstanding:**

	Number of warrants	Amount
Balance, December 31, 2007	1,268,150	\$ 749,600
Balance, December 31, 2008	1,268,150	749,600
Balance, December 31, 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.

In November 2008, all of the holders of the Company's stock options agreed to the cancellation of their stock options. No compensation was paid to the option holders for the cancellation of the stock options.

The following stock options to purchase common shares of the Company were authorized and outstanding at December 31, 2009:

	Number	Average exercise price (CDN\$)
Outstanding, December 31, 2007	2,775,000	\$ 1.75
Granted	150,000	1.75
Cancelled	(2,925,000)	1.75
Outstanding, December 31, 2008	-	-
Granted	3,065,000	0.30
Outstanding, December 31, 2009	3,065,000	\$ 0.30

The stock options outstanding at December 31, 2009 expire as follows:

Expiry Date	Number outstanding	Exercise price (CDN)	Exercisable
March 2014	3,065,000	\$ 0.30	1,021,667
Outstanding, December 31, 2009	3,065,000	\$ 0.30	1,021,667

The Company recognizes stock based compensation over the vesting period of the underlying options. During 2008, but prior to the cancellation of the stock options in November 2008, the Company recognized \$2,329,500 (2007 – \$234,900) of stock based compensation of which \$287,500 (2007 – nil) was capitalized as a deferred exploration cost and \$2,042,000 (2007 – \$234,900) was expensed as stock based compensation. Upon cancellation of all the outstanding stock options in November 2008, the unrecognized compensation cost of the unvested options of \$355,500 was immediately recognized and \$42,800 was capitalized as a deferred exploration cost and \$312,700 was expensed as stock based compensation.

In March 2009, the Company granted 3,065,000 stock options to directors, officers and employees. For the year ended December 31, 2009 the Company recognized \$257,000 of stock based compensation of which \$31,800 was capitalized as a deferred exploration cost and \$225,200 was expensed as stock based compensation

The weighted average fair value of CDN\$0.12 for the options issued in 2009 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2009
Expected dividend yield	0%
Expected stock price volatility	180%
Risk free rate	2.00%
Expected life of options	5 years

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options granted and/or vested during the period

7. Future income taxes

A reconciliation of income taxes at statutory rates is as follows:

	2009	2008
Accounting loss before taxes	\$ 1,262,272	\$ 4,091,144
Tax recovery at the statutory rate of 30% (2008 – 31%)	\$ 378,700	\$ 1,268,300
Stock based compensation and other non deductible costs	(70,800)	(735,200)
Effect of changes in tax rates and other	184,500	(284,500)
Expected tax recovery	492,400	248,600
Change in valuation allowance	(488,900)	(211,800)
Future income tax recovery	\$ 3,500	\$ 36,800

Future income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of future income tax assets and liabilities at December 31, 2009 and 2008 are as follows:

	December 31, 2009	December 31, 2008
Future income tax assets:		
Non-capital losses	\$ 1,562,000	\$ 938,300
Equity issue costs	378,400	509,700
Valuation allowance	(1,900,100)	(1,411,200)
Net future income tax assets	40,300	36,800
Future income tax liabilities:		
Mineral properties	(252,700)	(230,500)
Net future income tax liabilities	(\$ 212,400)	(\$ 193,700)

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.

The Company has approximately \$6,150,000 of non-capital losses for Canadian tax purposes and \$98,200 of non-capital losses for US tax purposes that expire between 2026 and 2029. Certain of the Company's losses are restricted in their use.

8. Segmented information

The Company currently operates in one business segment, being the exploration and development of mineral properties. The Company's assets at December 31, 2009 and revenues and expenses for the year ended December 31, 2009 by geographic areas are as follows:

	Canada	United States	Total
2009			
Assets	\$ 2,728,527	\$ 27,025,136	\$ 29,753,663
General and administrative expenses	(\$ 1,496,072)	(\$ 8,594)	(\$ 1,504,666)
Other items	242,394	-	242,394
Future income tax recovery	-	3,500	3,500
Net income (loss)	(\$ 1,253,678)	\$ (5,094)	(\$ 1,258,772)

The Company's assets at December 31, 2008 and revenues and expenses for the year ended December 31, 2008 by geographic areas are as follows:

	Canada	United States	Total
2008			
Assets	\$ 4,557,032	\$ 26,072,246	\$ 30,629,278
General and administrative expenses	(\$ 3,806,232)	(\$ 31,222)	(\$ 3,837,454)
Other items	(253,690)	-	(253,690)
Future income tax recovery	-	36,800	36,800
Net income (loss)	(\$ 4,059,922)	\$ 5,578	(\$ 4,054,344)

9. Change in non-cash operating working capital

	2009	2008
Receivables	\$ 18,447	\$ 28,853
Prepaid expenses	(14,870)	24,341
Accounts payable	32,637	(595,668)
Due to related parties	4,966	(24,163)
	<u>\$ 41,180</u>	<u>(\$ 566,637)</u>

10. Commitments

The following is a summary of the Company's commitments as at December 31, 2009:

	Total	2010	2011 – 2013	2014 - 2015	2016 and beyond
Exploration services agreement – US\$	\$ 342,496	\$ 342,496	-	-	-
Office operation leases – CDN\$	58,018	23,264	\$ 34,755	-	-
Consulting agreements – US\$	1,381,750	579,000	802,750	-	-
Employment agreements – US\$	437,500	150,000	287,500	-	-

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.

11. Management of capital

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 LK 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.

The Company believes its current capital resources will be sufficient to finance its planned business objectives for 2010 and part of 2011.

12. Financial instruments

The Company's financial instruments are classified into the following categories under Canadian generally accepted accounting principles and the following table shows their carrying values.

	2009	2008
Held for trading ⁽¹⁾	\$ 2,632,491	\$ 4,453,279
Loans and receivables	28,110	46,557
Other financial liabilities	187,022	79,565
⁽¹⁾ Consists of:		
Cash and cash equivalents – US currency	1,189,696	2,590,442
Cash and cash equivalents – CDN currency	1,442,795	1,862,837

The Company is exposed to certain financial risks, including currency risk, liquidity risk, interest rate risk and price risk.

a) *Currency risk*

The Company's financial assets and liabilities consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities and the amount due to related parties, some of which are denominated in Canadian dollars. The Company is exposed to financial gain or loss as a result of foreign exchange movements by the Canadian dollar against the US dollar.

In addition to costs denominated in US dollars, the Company also incurs general and administrative costs denominated in Canadian dollars. Accordingly, the Company's general and administrative costs are affected by changes in the foreign exchange rate of the Canadian dollar. Canadian dollar denominated costs represent approximately 20% of the Company's total budgeted general and administrative costs for 2010. A 10% increase in the value of the Canadian dollar against the US dollar could increase the Company's reported general and administrative costs by approximately \$25,000 annually. The Company has elected not to hedge its exposure to fluctuations in the Canadian dollar by buying fixed rate forward contracts in Canadian dollars.

As at December 31, 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars:

	2009 (CDN\$)	2008 (CDN\$)
Cash and cash equivalents	\$ 1,516,378	\$ 2,268,936
Receivables	5,863	55,369
Accounts payable and accrued liabilities	(69,750)	(54,796)
Due to related parties	(16,478)	(13,048)

Based on the net exposures in the preceding table as at December 31, 2009, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the US dollar would result in an increase/decrease of \$137,000 in the Company's net earnings.

b) *Liquidity risk*

Liquidity risk is the potential that the Company will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding. The Company manages liquidity risk through the management of its capital structure as described in note 11.

Accounts payable and accrued liabilities and amounts due to related parties are all due within the current operating period.

c) *Price risk*

The Company is exposed to price risk with respect to commodity prices. The profitability of the Company's future operations will be dependent upon the market price of mineral commodities. The prices of commodities are affected by numerous factors beyond the Company's control. Current and future price declines could cause commercial production to be impracticable. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.