

# ZAZU METALS CORPORATION

Interim Consolidated Financial Statements  
For the 3 months ended March 31, 2010 and 2009  
Unaudited  
(in US dollars)



**ZAZU METALS CORPORATION**

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

	March 31, 2010	December 31, 2009
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,207,494	\$ 2,632,491
Receivables	10,897	28,110
Prepaid expenses	102,321	44,318
	2,320,712	2,704,919
<b>Mineral properties</b> (note 3)	27,011,357	26,809,091
<b>Equipment</b> (note 4)	226,532	239,653
	<u>\$ 29,558,601</u>	<u>\$ 29,753,663</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 158,847	\$ 171,344
Due to related parties (note 5)	15,983	15,678
	174,830	187,022
<b>Future income taxes</b> (note 6)	215,800	212,400
	390,630	399,422
<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(c))	3,217,000	3,176,900
<b>Deficit</b>	(6,414,211)	(6,187,841)
	<u>29,167,971</u>	<u>29,354,241</u>
	<u>\$ 29,558,601</u>	<u>\$ 29,753,663</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)

Interim Consolidated Statements of Loss, Comprehensive Loss and Deficit

In U.S. dollars

(Unaudited)

	For the 3 months ended March 31, 2010	For the 3 months ended March 31, 2009
<b>General and administrative expenses:</b>		
Amortization	\$ 1,464	\$ 1,971
Audit and accounting	3,466	15,823
Consulting fees	116,250	116,250
Directors' fees	16,167	11,004
Insurance	13,536	18,296
Investor and shareholder relations	2,502	3,820
Legal fees	-	221
Office, rent and communication	12,881	24,919
Regulatory and transfer agent	4,666	12,027
Salaries and benefits	53,855	103,160
Stock based compensation (note 7(c))	35,300	39,500
Travel	11,421	8,900
	<hr/>	<hr/>
<b>Loss before other items</b>	271,508	355,891
<b>Other items:</b>		
Interest income	2,368	7,567
Foreign exchange gain (loss)	42,770	(62,885)
	<hr/>	<hr/>
<b>Loss before taxes</b>	(226,370)	(411,209)
Future income tax recovery (note 6)	-	1,300
	<hr/>	<hr/>
<b>Net loss and comprehensive loss for the period</b>	(226,370)	(409,909)
<b>Deficit, beginning of period</b>	(6,187,841)	(4,929,069)
	<hr/>	<hr/>
<b>Deficit, end of period</b>	(\$ 6,414,211)	(\$ 5,338,978)
	<hr/>	<hr/>
<b>Basic and diluted loss per share</b>	(\$ 0.01)	(\$ 0.01)
	<hr/>	<hr/>
<b>Weighted average number of shares outstanding</b>	30,663,771	30,663,771
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*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)

	<b>For the 3 months ended March 31, 2010</b>	<b>For the 3 months ended March 31, 2009</b>
<b>Cash was provided by (used in):</b>		
<b>Operating activities</b>		
Income (loss) for the period	(\$ 226,370)	(\$ 409,909)
Items not involving cash:		
Amortization	1,464	1,971
Stock based compensation (note 7(c))	35,300	39,500
Future income tax recovery	-	(1,300)
Change in non-cash working capital (note 9)	(142,017)	(13,618)
	<u>(331,623)</u>	<u>(383,356)</u>
<b>Investing activities</b>		
Deferred exploration costs	(93,374)	(117,703)
	<u>(424,997)</u>	<u>(501,059)</u>
<b>Decrease in cash and cash equivalents</b>	<b>(424,997)</b>	<b>(501,059)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>2,632,491</b>	<b>4,453,279</b>
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 2,207,494</u></b>	<b><u>\$ 3,952,220</u></b>
<b>Non-cash transactions:</b>		
Stock based compensation capitalized to mineral properties	\$ 4,800	\$ 6,200
Amortization of equipment capitalized to mineral properties	11,657	16,580
Increase in accounts payable and accrued liabilities related to mineral properties and equipment	89,035	36,951

*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 March 31, 2010 and 2009

In U.S. dollars

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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 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**

#### *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, 2009. These unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the December 31, 2009 audited annual consolidated financial statements of the Company.

### **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 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 \$41.6 million. As of March 31, 2010, a total of \$12.2 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, 2009	2010 Expenditures	Balance March 31, 2010
Acquisition	\$ 20,276,094	\$ -	\$ 20,276,094
Deferred exploration			
Administration	271,117	15,543	286,660
Assays/analysis	298,921	9,489	308,410
Camp construction and supplies	457,826	410	458,236
Drilling	2,508,961	9,194	2,518,155
Environmental	535,310	69,011	604,321
Freight and logistics	484,533	-	484,533
Geological	563,148	12,495	575,643
Insurance	6,923	-	6,923
Maps, reports and studies	737,904	75,872	813,776
Travel	27,411	-	27,411
Vehicle	26,143	2,052	28,195
Stock based compensation	362,100	4,800	366,900
	6,280,297	198,866	6,479,163
Future income taxes	252,700	3,400	256,100
	\$ 26,809,091	\$ 202,266	\$ 27,011,357

#### 4. Equipment

	Mar 31, 2010		Dec 31, 2009	
Cost	Accumulated amortization	Net book value	Net book value	
Exploration equipment	\$ 577,231	\$ 406,366	\$ 170,865	\$ 180,060
Vehicles	50,424	25,120	25,304	27,355
Camp equipment	12,061	4,270	7,791	8,201
Computer equipment	12,567	8,827	3,740	4,214
Office furniture and equipment	27,008	8,176	18,832	19,823
	\$ 679,291	\$ 452,759	\$ 226,532	\$ 239,653

#### 5. Related party transactions

Directors' fees for the first quarter of 2010 totalled \$16,167 (2009 – \$11,004).

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. A total of \$4,255 was paid to this company in the first quarter of 2010.

The total amount payable to related parties at March 31, 2010 was \$15,983. As at December 31, 2009, the Company owed \$15,678. 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:**

	<b>Number of shares</b>	<b>Amount</b>
Balance, December 31, 2009	30,663,771	\$ 30,941,110
Balance, March 31, 2010	30,663,771	\$ 30,941,110

### b) Warrants

#### **Issued and outstanding:**

	<b>Number of warrants</b>	<b>Amount</b>
Balance, December 31, 2009	1,268,150	\$ 749,600
Balance, March 31, 2010	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 March 31, 2010:

	<b>Number</b>	<b>Average exercise price (CDN\$)</b>
Outstanding, December 31, 2009	3,065,000	\$ 0.30
Outstanding, March 31, 2010	3,065,000	\$ 0.30

The stock options outstanding and vested at March 31, 2010 expire as follows:

<b>Expiry Date</b>	<b>Number outstanding</b>	<b>Exercise price (CDN\$)</b>	<b>Exercisable</b>
March 2014	3,065,000	\$ 0.30	2,043,333
Outstanding, December 31, 2009	3,065,000	\$ 0.30	2,043,333

The Company recognizes stock based compensation over the vesting period of the underlying options.

The Company did not grant any stock options in the first quarter of 2010. In March 2009, the Company granted 3,065,000 stock options to directors, officers and employees.

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. 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.

For the quarter ended March 31, 2010 the Company recognized \$40,100 of stock based compensation of which \$4,800 (2009 – \$6,200) was capitalized as a deferred exploration cost and \$35,300 (2009 – \$39,500) was expensed as stock based compensation.

Accumulated stock based compensation at March 31, 2010 is as follows:

Balance, December 31, 2009	\$ 3,176,900
Stock based compensation	40,100
Balance, March 31, 2010	<u>\$ 3,217,000</u>

## 8. Segmented information

The Company currently operates in one business segment, being the exploration and development of mineral properties. The Company's assets at March 31, 2010 and revenues and expenses for the 3 months ended March 31, 2010 by geographic areas are as follows:

	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Assets	\$ 2,342,855	\$ 27,215,746	\$ 29,558,601
General and administrative expenses	(\$ 271,508)	-	(\$ 271,508)
Other items	45,138	-	45,138
Net loss	<u>(\$ 226,370)</u>	-	<u>(\$ 226,370)</u>

The Company's assets at March 31, 2009 and revenues and expenses for the 3 months ended March 31, 2009 by geographic areas are as follows:

	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Assets	\$ 4,024,838	\$ 26,236,611	\$ 30,261,449
General and administrative expenses	(\$ 352,725)	(\$ 3,166)	(\$ 355,891)
Other items	(55,318)	-	(55,318)
Future income tax recovery	-	1,300	1,300
Net income (loss)	<u>(\$ 408,043)</u>	<u>(\$ 1,866)</u>	<u>(\$ 409,909)</u>

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

	2010	2009
Receivables	\$ 17,213	\$ 41,034
Prepaid expenses	(58,003)	(11,081)
Accounts payable	(101,532)	(44,865)
Due to related parties	305	1,294
	<u>(\$ 142,017)</u>	<u>(\$ 13,618)</u>

## 10. Commitments

The following is a summary of the Company's commitments as at March 31, 2010:

	Total	2010	2011 – 2013	2014 – 2015	2016 and beyond
Exploration services agreements – US\$	\$ 270,119	\$ 270,119	-	-	-
Office operation leases – CDN\$	52,202	17,448	\$ 34,755	-	-
Consulting agreements – US\$	1,237,000	434,250	802,750	-	-
Employment agreements – US\$	400,000	112,500	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 \$60,750 per month. 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 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.

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.

	March 31, 2010	December 31, 2009
Held for trading <sup>(1)</sup>	\$ 2,207,494	\$ 2,632,491
Loans and receivables	10,897	28,110
Other financial liabilities	174,830	187,022

<sup>(1)</sup> Consists of:

Cash and cash equivalents – US currency	898,420	1,189,696
Cash and cash equivalents – CDN currency	1,309,074	1,442,795

The Company is exposed to certain financial risks, including currency risk, liquidity 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 March 31, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars:

	March 31, 2010 (CDN\$)	December 31, 2009 (CDN\$)
Cash and cash equivalents	\$ 1,329,757	\$ 1,516,378
Receivables	11,070	5,863
Accounts payable and accrued liabilities	(41,672)	(69,750)
Due to related parties	(16,235)	(16,478)

Based on the net exposures in the preceding table as at March 31, 2010, 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 \$126,300 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.