ZAZU METALS CORPORATION

(An Exploration Stage Company)
Management's Discussion and Analysis
May 6, 2010
In U.S. dollars

The following management discussion and analysis of Zazu Metals Corporation ("Zazu" or the "Company") is intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as certain forward looking statements relating to its potential future performance. The information should be read in conjunction with Zazu's March 31, 2010 unaudited and December 31, 2009 audited annual consolidated financial statements, and the related notes for the period then ended which have been prepared in accordance with Canadian generally accepted accounting principles. Zazu's accounting policies are described in note 2 of the December 31, 2009 audited annual consolidated financial statements. All of the financial information presented herein is expressed in US dollars, unless otherwise indicated. This management discussion and analysis is made as at May 6, 2010.

Additional information, including a copy of Company's Annual Information Form for the year ended December 31, 2009 is available on SEDAR (www.sedar.com).

The Company is in the business of exploring for minerals which by its nature involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of the mineral properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to obtain financing or, alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. The Company's mineral properties are located outside of Canada and are subject to the risks normally associated with foreign investment, including increases in taxes and royalties, recognition of contracts and currency exchange fluctuations.

The events of late 2008 and early 2009 in the global financial markets had a profound impact on financial markets and the global economy. Virtually all industries, including mining for base metals, were impacted by the worsening of market conditions and the slowdown in economic activity is still affecting major global economies. These events have had a significant impact on the Company and will continue to affect the Company as it evaluates its options to finance ongoing development of its Lik project. The second half of 2009 and early 2010 saw some improvement and economies are expected to continue improving. Many commodity prices rebounded in the second half of 2009 and early 2010 and zinc prices are expected to strengthen further as global zinc demand increases and supply decreases due to upcoming mine closures.

This management discussion and analysis contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial and operating performance of the Company, its subsidiaries and affiliated companies, its mining project, the future prices of zinc, lead and silver, the estimation of mineral reserves and mineral resources, the realization of mineral reserve and resource estimates, operating and exploration expenditures, costs and timing of the development of new deposits, costs and timing of future exploration, requirements for additional capital, governmental regulation of mining operations and exploration operations, timing and receipt of approvals, consents and permits under applicable mineral legislation, environmental risks, title disputes or claims, limitations of insurance coverage and regulatory matters.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "estimates", "intends", "targets", "anticipates" or "believes" or variations (including negative variations) of such words and phrases, or may be identified by statements to the effect that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Such factors include, among others, future prices of zinc, lead and silver; general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; conclusions of economic evaluations and studies; fluctuations in the value of the United States dollar relative to the Canadian dollar; changes in project parameters as plans continue to be refined; possible variations of ore grade or projected recovery rates; accidents, labour disputes and other risks of the mining industry; political instability or insurrection or war; labour force availability and turnover; the availability of suitable road and port facilities; delays in obtaining financing or governmental approvals or in the completion of exploration and development activities; as well as those factors discussed in the section entitled "Risk Factors", all of which are described more fully in the Company's filings with Canadian Securities Administrators posted on www.sedar.com.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this management discussion and analysis and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise.

There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein. Subject to applicable law, the Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

OVERALL PERFORMANCE

Zazu Metals is a Canadian based exploration company formed in November 2006 to acquire an interest in a zinc, lead and silver exploration property, known as the LIK property, located in Alaska. The Company holds a 50% interest in the LIK property (the other 50% interest is held by Teck Resources Limited) and has the right to earn up to a further 30%. The Company's primary near term objective is to advance the LIK property towards development through the definition of a resource and commencement of a formal feasibility study. The Company also intends to pursue a strategy of evaluating and potentially acquiring interests in other attractive mineral properties that the Company believes will be accretive to its overall growth strategy.

On December 19, 2007, the Company completed its Initial Public Offering ("IPO") and its common shares and common share purchase warrants began trading on The Toronto Stock Exchange under the symbols "ZAZ" and "ZAZ.WT", respectively. The Company is a reporting issuer in Ontario, British Columbia, Alberta, Saskatchewan, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland.

RESULTS OF OPERATIONS

The net loss of the Company primarily reflects the overhead costs incurred by the Company as it oversees exploration and development of its LIK property and the costs associated with running a public company. The exploration and development costs incurred at the LIK property have been capitalized to mineral property interests. If the property proceeds to development, these costs become part of pre-production and development costs of the mine. If a property is abandoned or continued exploration is deemed not appropriate in the foreseeable future, the related deferred expenditures are written off.

2010 vs. 2009

The Company's net loss for the quarter ended March 31, 2010 was $226,370 or $0.01 per share compared to a net loss of $409,909 or $0.01 per share for the quarter ended March 31, 2009.

The overall decrease in expenses in 2010 compared to 2009 corresponds to the decreased level of activity by the Company. In response to the recent downturn in the worldwide capital markets, the Company has scaled back its planned work programs at Lik, as well as reduced administrative expenses where possible, until such time that capital markets improve.

The net loss for 2009 included salaries and consulting fees as well as additional costs for audit and accounting fees, directors' fees, regulatory fees and transfer agent expenses, legal fees, insurance, office costs and travel. A portion of the loss was stock-based compensation, a non-cash item. A foreign exchange gain and interest income offset some of the expenses.

During the first quarter of 2010, the Company recognized $40,100 (2009 – $45,700) 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. Stock based compensation was based on a fair value of CDN$0.12 per option for the 3,065,000 options granted to directors, officers and staff in March 2009 as calculated using the Black-Scholes option pricing model. Stock based compensation is recognized over the vesting period of the underlying options.

Corporate tax reporting and interim review fees, comprise audit and accounting costs which were $3,466 for the first quarter of 2010 (2009 – $15,823). The reduction in accounting costs is due to the decreased use of outside contractors in 2010.

Consulting fees were $116,250 for the first quarter of 2010 (2009 – $116,250). Consulting fees paid to consultants involved directly in exploration at the LIK property are included in deferred exploration expenditures.

During 2009, the Company incurred $16,167 (2009 – $11,004) for directors' fees. The increase was due to the increase in the number of independent directors from 3 to 4.

Insurance costs for the first quarter of 2010 were $13,536 (2009 – $18,296) and represent premiums on the Company's comprehensive general liability and Directors and Officers policies. Insurance costs in 2010 were lower than 2009 due to reduced coverage levels in place resulting from the decrease in on-site exploration activity by the Company. Under the Company's agreement with its drilling contractor, the Company has allowed the use of one of its drill rigs by the drilling contractor who has provided insurance coverage for this equipment.

Investor and shareholder relations expenses of $2,502 (2009 – $3,820) consist primarily of the costs of marketing trips and other costs such as attending industry conferences. These expenses are lower for 2010 than 2009 due to decreased marketing activity in 2010.

Office, rent and communications costs for the first quarter of 2010 were $12,881 (2009 – $24,919). Office costs are lower in 2010 than in 2009 due to decreased staffing levels and the Company's program to reduce administrative expenses where possible. In October 2009, the Company relocated its head office in Vancouver and began sharing office space with a company whose President is a director of Zazu in order to reduce its office rent expense.

Regulatory and transfer agent costs for the first quarter of 2010 were $4,666 (2009 – $12,027). These costs represent those filing and listing fees normally associated with public companies.

Salaries and benefits costs for the first quarter of 2010 were $53,855 (2009 – $103,160). Salaries in 2010 are lower than in 2009 due to decreased staffing levels. Staffing levels were reduced in the second half of 2009 as part of the Company's program to reduce administrative expenses wherever possible. Salary and bonus amounts are determined by the compensation committee of the board of directors. Wages and benefits paid to staff involved directly in exploration at the LIK property are included in deferred exploration expenditures.

Travel costs for the first quarter of 2010 were $11,421 (2009 – $8,900). Several of the Company's officers reside in the United States and travel costs include the costs for these officers to travel to the administrative office in Vancouver to attend management meetings.

Interest income for the first quarter of 2010 was $2,368 (2009 – $7,567). Interest income was lower in 2010 due to decreasing yields from the Company's usual type of investments and lower cash balances. Yields for these investments decreased as interest rates fell in both the US and Canada. Funds not required for the Company's immediate operations are invested in highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased.

Historically, the Company has raised cash in private financings denominated in US dollars. Although the majority of the Company's expenditures are made in US dollars, as a Canadian company, it is necessary to also make payments in Canadian dollars. As a result, the Company maintains a portion of its cash in Canadian dollars and this balance is subject to foreign exchange gains or losses. The Company's initial public offering in December 2007 was denominated in Canadian dollars resulting in the Company holding a larger than usual amount of Canadian dollars. During the first quarter of 2010, the Canadian dollar strengthened versus the US dollar, resulting in a foreign exchange gain of $42,770 as compared to a loss of $62,885 for the first quarter of 2009.

The Company did not recognize any future income tax recovery in the first quarter of 2010 (2009 – $1,300). The Company records a future income tax liability which relates to the excess of book value of mineral properties and deferred exploration expenditures over tax values. Any future income tax recovery is that portion of the future income tax liability which has been offset by applying the Company's available income tax losses.

LIK Property, Alaska

The technical and preliminary economic information in this section in respect of the LIK property is based upon the "Preliminary Assessment Of The Lik Project, North Western Alaska, U.S.A" dated April 8, 2010 (the "Scoping Study") prepared by Kevin C. Scott, P.Eng., R. Dennis Bergen, P.Eng., Neil N. Gow, PGeo., and William E. Roscoe, Ph.D., P.Eng., of Scott Wilson Roscoe Postle Associates Inc. ("Scott Wilson RPA"). The authors of the Scoping Study are "qualified persons" for purposes of NI 43-101. Scott Wilson RPA is independent of the Company, within the meaning of NI 43-101, as are the authors of the Scoping Study. The Scoping Study is available on the Company's website (www.zazumetals.com) and on SEDAR (www.sedar.com).

In March 2010, Scott Wilson RPA completed a Preliminary Assessment (Scoping) Study on an initial open pit mine at the Lik project. The Preliminary Assessment is an initial investigation of a development scenario for the project which contains a number of economic and technical assumptions. It includes Inferred Resources which are considered too geologically speculative to have economic considerations applied to them that would enable them to be categorized as Mineral Reserves. There is no certainty that the reserves development, production, and economic forecasts will be realized.

The study considered both Indicated and Inferred Mineral Resources at Lik which are amenable to open pit mining. The life of mine open pit plan includes the production of 16 million tonnes grading 8.08% zinc, 2.57% lead and 47.9 g/t silver. Scott Wilson RPA estimated the pre-production capital cost as $352 million including a 22% contingency for a 5,500 tonne per day mine and mill with an 8 year mine life. Scott Wilson RPA estimated life of mine operating costs of $75 per tonne. Their base case assumes metal prices of $1.00 per pound for zinc, $0.80 per pound for lead and $16 per ounce for silver. This demonstrated a pre-tax Internal Rate of Return ("IRR") of 9%. The project's economics are highly levered to the zinc price. Using $1.10 and $1.20 per pound of zinc in the same model yields pre-tax IRR's of 17% and 23% respectively. During the period January 1, 2010 through April 30, 2010, the spot zinc price averaged $1.05 per pound, reaching a high of $1.19 in January and a low of $0.90 in February.

Management, along with other industry participants, believes the longer term outlook for zinc prices is bullish with prices expected to rise as global supply decreases due to declines in existing mines' grades as well as shutdowns of soon to be exhausted mines. At present, there is little new mine capacity scheduled to replace this decline in production. Additional support for the price of zinc is expected in the medium and long term as a result of the increased consumption of zinc by the various infrastructure projects contained in many of the stimulus plans proposed by the world's major economies.

The Scoping Study includes a resource estimate which confirms Lik as one of the largest undeveloped zinc deposits in the western world. Scott Wilson RPA completed the resource estimate, constructing a wireframe block model at various cutoff grades for the Lik South deposit, and its offset extension Lik North.

MINERAL RESOURCE ESTIMATE – FEBRUARY 28, 2009

Location	Cut-off % Pb+Zn	Indicated Resources				Inferred Resources			
		Short tons (million)	Zn %	Pb %	Ag oz/ton	Short tons (million)	Zn %	Pb %	Ag oz/ton
Lik South	5%	20.66	8.08	2.62	1.54	1.36	6.80	2.12	1.02
Lik North	7%					5.71	9.65	3.25	1.48
Total		20.66	8.08	2.62	1.54	7.07	9.10	3.03	1.39

Notes:

1 CIM definitions were followed for Mineral Resources.

2 Mineral Resources are estimated at a cut-off grade of 5% Pb+Zn within a wireframe shell at 3% Pb+Zn for the Lik South deposit. Mineral Resources for Lik North are estimated at a cut-off grade of 7% Pb+Zn within a wireframe shell of 7% Pb+Zn.

3 Mineral Resources are estimated using an average long-term zinc price of $0.85/lb and an average long-term lead price of $0.65/lb.

4 The Mineral Resource estimate was prepared using Gemcom software. A block model was developed and grades interpolated using ordinary kriging.

5 A density value of 0.109 tons/ft.3 was used.

Full results are shown in the Technical Report which is available on the Company’s website (www.zazumetals.com) and on SEDAR (www.sedar.com).

In December 2009, the Company entered into a cost reimbursement agreement with Alaska Industrial Development and Export Agency (“AIDEA”) to enable AIDEA to begin due diligence on the proposed expansion of the Delong Mountain Transportation System (“DMTS”). This proposed expansion will facilitate both the development of the Lik project, and handle future concentrate production from the project. The DMTS road and port system currently handles all concentrate produced by the Red Dog zinc mine of Teck.

AIDEA, as owners of the DMTS, will evaluate their possible role in the two parts of the proposed expansion project: the financing of a spur road connecting the Lik project to the DMTS, and the financing of additional storage and handling facilities at the port. Under the terms of the agreement Zazu will reimburse AIDEA for their cost of conducting certain Pre-Feasibility Activities as part of these evaluation processes.

Prior to the AIDEA agreement Zazu received a letter of Non Objection from the Northwest Arctic Borough (“NWAB”). In this letter, the NWAB formally acknowledges their awareness of the Lik project, and that they have no objection to the project at this time.

During the first quarter of 2010, the Company incurred exploration expenditures at the Lik property of $198,867 (2009 – $177,434).

Administration costs for the first quarter of 2010 were $15,543 (2009 – $4,964) and consist mainly of claim filing fees and the costs associated with managing these claims. Administration costs were higher in 2010 than in 2009 due to the increased use of outside consultants as the Company continues the process of converting the existing federal mining claims into state mining claims.

Assays and analysis costs for the first quarter of 2010 were $9,489 (2009 – $3,696) and consist of drill core storage costs.

Camp costs for the first quarter of 2010 were $410 (2009 – $512) and consist of depreciation on camp equipment. The camp was not open in the first quarter of either 2010 or 2009.

Drilling costs for the first quarter of 2010 were $9,194 (2009 – $13,137) and consist of the amortization of the Company's drilling equipment. 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% and it is this depreciation that has been charged to drilling costs in the first quarter of both 2010 and 2009. The drilling contractor did not use the Company's exploration equipment in the first quarter of either 2010 or 2009.

Environmental costs for the first quarter of 2010 were $69,011 (2009 – $51,225) and consist of fees paid to consultants to collect and evaluate the environmental data ultimately required for mine permitting.

Geological costs for the first quarter of 2010 were $12,495 (2009 – $13,243) and consist of the costs of geologists working on the project.

In 2009, after a premium review by the underwriter comparing actual payroll with estimated payroll, the Company received a $5,972 refund for its workers compensation coverage. The Company is only required to provide coverage for its employees and normally utilizes independent contractors who provide their own coverage. No insurance was charged to the Lik project in the first quarter of 2010 due to the lack of activity.

Maps, reports and studies costs in the first quarter of 2010 were $75,872 (2009 – $86,604). Activity in the first quarter of 2010 included $39,095 for the Scoping Study, $3,495 for the DTMS road access study, $28,500 for a port capacity analysis study and $4,782 for other studies. Activity in 2009 included $9,730 for the Scoping Study, $5,046 for the 43-101 compliant resource calculation, $53,828 for the road alignment study and $18,000 for a port capacity analysis study.

Vehicle costs for the first quarter of 2010 were $2,052 (2009 – $2,931) and consist of depreciation on vehicles at the camp site.

Stock based compensation in the first quarter of 2010 was $4,800 (2009 – $6,200) and is that portion of stock based compensation calculated for employees involved directly in exploration at the LIK property. Stock based compensation in 2009 was based on a fair value of CDN$0.12 per option for the options granted in March 2009 as calculated using the Black-Scholes option pricing model. Stock based compensation is recognized over the vesting period of the underlying options.

Future income taxes in the first quarter of 2010 were $3,400 (2009 – $4,300) and relates to the excess of book value of mineral properties and deferred exploration expenditures over tax values. Capitalized stock based compensation makes up the excess of book value over tax value. Any increases or decreases in capitalized stock based compensation will be reflected with corresponding increases or decreases in future income taxes.

Total deferred property expenditures, including acquisition and an allowance for future income taxes, were $27,011,357 at March 31, 2010.

Management believes that the work done to date by the Company has produced results as good as, or in some cases, better than expected and justifies further work. Although it has decided to curtail exploration work at the Lik property until such time as capital markets improve, management has concluded that there has been no impairment of the Company's long-lived assets as at March 31, 2010 and no adjustments are required to the carrying value of the Lik project on the Company's balance sheet.

SUMMARY OF QUARTERLY RESULTS

For the quarters ended:

	03/31/10 $	12/31/09 $	9/30/09 $	6/30/09 $	3/31/09 $	12/31/08 $	9/30/08 $	6/30/08 $
Interest income	2,368	3,541	1,271	1,350	7,567	26,375	44,738	57,861
Net loss	(226,370)	(339,915)	(204,567)	(304,381)	(409,909)	(1,157,127)	(765,172)	(673,690)
Loss per share - basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)	(0.02)	(0.02)

The large fluctuations in the Company's quarterly results are primarily due to the timing of stock option grants and the translation of foreign currency denominated financial items. Excluding stock-based compensation expense and foreign exchange gains and losses, the Company's net losses would amount to $233,840 for the first quarter of 2010, $323,113 for the fourth quarter of 2009, $292,230 for the third quarter of 2009, $340,269 for the second quarter of 2009, $307,524 for the first quarter of 2009, $318,067 for the fourth quarter of 2008, $281,562 for the third quarter of 2008 and $316,737 for the second quarter of 2008. These amounts reflect normal overheads expected by the Company given its current stage of operations.

LIQUIDITY AND CAPITAL RESOURCES

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.

At March 31, 2010, the Company had cash and cash equivalents totalling $2,207,494 as compared to $2,632,491 at December 31, 2009. The Company has no significant financial or other instruments other than its cash balances which are primarily invested with large Canadian chartered banks. The Company does not have any exposure to Asset-Backed Commercial Paper.

At March 31, 2010, the Company's aggregate commitments for operating leases for its office in Vancouver totalled CDN$52,202. In November 2009, the Company downsized its head office space by moving and 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.

Under the contract with its drilling contractor, the Company agreed to complete a minimum of 30,000 feet of drilling. A total of 4,564 feet was drilled during the 2007 work season, and 22,406 feet were drilled during the 2008 work season. The Company has committed to spend $150,000 for the preparation of the scoping study for the Lik property of which $100,137 has been spent and $38,000 for the preparation of a port expansion study of which $28,500 has been spent.

The Company has entered into a cost reimbursement agreement with AIDEA to enable AIDEA to begin due diligence on the proposed expansion of the Delong Mountain Transportation System. Under the agreement, Zazu is obligated to reimburse AIDEA for their costs, up to a maximum of $100,000.

The Company also had commitments of $1,637,000 for amounts due under various consulting and employment contracts.

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

	Total	2010	2011 – 2013	2014 – 2015	2016 and beyond
Exploration services agreement – 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.

As the Company has in the past been dependent on the sale of equity securities in order to raise cash, it has scaled back its planned work programs at Lik, and reduced administrative expenses, until such time that capital markets improve and the prospects for a successful financing, on less dilutive terms to the Company, is more likely. The Company believes its current capital resources will be sufficient to finance its planned business objectives for the next twelve months.

OFF-BALANCE SHEET ARRANGEMENTS

During the first quarter of 2010 and up to the date of this report, the Company had no off-balance sheet transactions.

TRANSACTIONS WITH RELATED PARTIES

Under the Company's policy for director remuneration, each non-executive director receives a base fee of CDN$12,000 per year and is entitled to be reimbursed for reasonable expenses (including travel) incurred in connection with the attendance of committee or directors' meetings. Non-executive directors who chair a committee are entitled to additional compensation as follows: (i) CDN$10,000 to chair the Audit Committee; (ii) CDN$5,000 to chair the Corporate Governance Committee; and (iii) CDN$5,000 to chair the Compensation and Nomination Committee.

Upon the retirement of the Company's former President in the third quarter of 2009, the number of non-executive directors increased from 3 to 4. During first quarter of 2010, the Company incurred $16,167 (2009 – $11,004) for directors' fees.

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 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.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of Common Shares and an unlimited number of special voting shares, issuable in series. At May 6, 2010, the Company had 30,663,771 Common Shares issued and outstanding as well as warrants to purchase an additional 1,268,150 common shares.

In March 2009, the Company granted 3,065,000 stock options to directors, officers and employees. These stock options were granted pursuant to the Company's Stock Option Plan with a term of five years and an exercise price of CDN$0.30 per share. At May 6, 2010, 3,065,000 stock options were outstanding, of which 2,043,333 had vested, and are exercisable.

If fully exercised, the warrants and stock options would bring a further CDN$3,772,800 to the Company's treasury.

PROPOSED TRANSACTIONS

As is typical of the mineral exploration and development industry, the Company is continually reviewing potential merger, acquisition, investment and joint venture transactions and opportunities that could enhance shareholder value. At present there are no transactions being contemplated by management or the board that would affect the financial condition, results of operations and cash flows of any asset of the Corporation.

CRITICAL ACCOUNTING ESTIMATES

The preparation of its consolidated financial statements requires the Company to use estimates and assumptions that affect the reported amounts of assets, liabilities and expenses. The Company's accounting policies are described in Note 2 to the December 2009 audited consolidated financial statements.

The Company is capitalizing all direct acquisition, land holding and exploration expenditures related to its properties until commercial production commences or the investment is abandoned, at which time the costs will either be amortized on a unit-of-production basis or fully charged to operations.

In addition, Canadian generally accepted accounting principles require the Company to consider at the end of each accounting period whether or not there has been any change in circumstances which would indicate impairment of the capitalized mineral property, plant and equipment. For non-producing properties, this assessment is based on whether factors that may indicate the need for a write-down are present. If the Company determines there has been an impairment because the Company has determined that the deferred costs of non-producing properties may not be recovered based on current economics or permitting considerations, the Company would be required to write-down the recorded value of its mineral property, plant and equipment to its estimated fair value, which would reduce the Company's earnings and net assets.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company contracted an independent consultant to identify the differences between GAAP and IFRS that affect the Company. After the review, no material restatements of balances are expected on the initial implementation of IFRS by the Company. The implementation and transition phases to IFRS are currently planned for 2010 in order to meet the adoption date of January 1, 2011. The Company has begun the work necessary to prepare an IFRS compliant balance sheet as at January 1, 2010 in order to have IFRS compliant comparative prior year amounts for its 2011 financial statements. This January 1, 2010 balance sheet will be reviewed by the Company's independent consultant in the second quarter of 2010 and then presented to the Company's Audit Committee early in the third quarter of 2010.

The key areas identified with the greatest potential issues and their impact on the Company's financial statements are:

Impairment of long-lived assets

The requirements under IFRS and Canadian GAAP are substantially the same, except that under IFRS, the Company must assess whether there is any indication that an asset may be impaired each reporting period. While there is no explicit requirement to make such an assessment each reporting period under Canadian GAAP, the Company already performs this assessment each reporting period. Under Canadian GAAP, impairment tests are done on an undiscounted cash flow basis, whereas under IFRS, a discounted cash flow basis is used, increasing the likelihood of impairment.

Deferred mineral property costs

Under IFRS, deferred exploration and evaluation costs can be recognized at cost or at fair value, while Canadian GAAP does not allow for the revaluation of exploration and evaluation assets other than during a business combination. The Company plans to continue to use the cost method and not the revaluation method due to the difficulty in determining accurate fair value information and the effort required to continually monitor fair values.

Equipment

Under IFRS, the Company can revalue its equipment at the equipment's fair value less any accumulated depreciation unlike Canadian GAAP which only allows equipment to be carried at cost less any accumulated depreciation. Due to the difficulty in determining accurate fair value information and the effort required to continually monitor fair values, the Company will continue to carry its equipment at cost less accumulated depreciation.

IFRS requires that each part of an item of equipment with a cost that is significant in relation to the total cost of the asset shall be depreciated separately, unlike Canadian GAAP where the cost of an item of equipment made up of significant separable component parts is allocated to the component parts only when practicable and when estimates can be made of the lives of the separate components. The requirement for componentization may result in additional detail being required to be maintained in the fixed asset sub-ledgers for equipment purchased in the future. However, at this time, none of the equipment currently owned by the Company requires componentization.

Under IFRS, the residual value and useful life of an asset must be reviewed at least each financial year-end while Canadian GAAP only requires that the amortization method and estimates of the life and useful life be reviewed on a regular basis. While the Company may need to review the residual values and useful life of assets on a more frequent basis than they do under Canadian GAAP, no significant impact on the Company's financial statements is expected.

Share based payments

The Company issues share option awards to employees, consultants and directors on an ongoing basis. The eligibility is dependent on staff classification and performance. The vesting conditions are solely time-based and are accounted for using graded vesting. Under the Company's stock option plan, options typically vest in three separate tranches over 18 months and have a five year term. The Company currently measures the fair value of each option at the date of grant and then records the expense using the attribution method. IFRS will require the Company to measure the initial fair value of each option granted based on the date that the option vests, that is each tranche will be accounted for as a separate arrangement and expensed accordingly.

IFRS removes the option to recognize the entire expense and then adjust for forfeitures when they occur. The Company currently records the entire expense at the grant date assuming that all options will vest, and then records the forfeitures as they occur. On transition to IFRS, management will need to estimate the forfeitures at the grant date for all outstanding share-based payments and record the revised amounts against the liability and retained earnings. The estimate should be revised if subsequent information indicates that actual forfeitures are likely to differ from previous estimates.

No significant impact on the Company's financial statements is expected, though management's estimate of expected forfeitures of stock options in the future could result in a lower compensation expense being recorded in the income statement each period.

FINANCIAL AND OTHER INSTRUMENTS

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. These accounts are recorded at cost in US dollars, which approximates fair value. The Company is exposed to financial gain or loss as a result of foreign exchange movements by the Canadian dollar against the US dollar.

The Company's cash and cash equivalents are primarily invested in easily liquidated bankers' acceptances issued by Canadian chartered banks. The Company does not have any exposure to Asset-Backed Commercial Paper.

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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with accounting principles generally accepted in Canada. Based on regular reviews of its internal control procedures during and at the end of the period covered by this MD&A, management believes its internal controls and procedures are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

CHANGES TO INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes to the Company's internal control over financial reporting that occurred during the first quarter of 2010 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

DISCLOSURE CONTROLS

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiary, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2010 and have concluded that these controls and procedures are effective in providing reasonable assurance that material information relating to the Company is made known to them by others within the Company.

OUTLOOK

The Company begins the second quarter of 2010 with $2.2 million in cash. As the Company has in the past been dependent on the sale of equity securities in order to raise cash, and in response to the recent downturn in base metals prices and the worldwide capital markets in general, the Company has scaled back its planned work programs at Lik until such time that capital markets improve and the prospect for a successful financing, on less dilutive terms to the Company, is more likely. The Company is also reducing its administrative expenses wherever and whenever possible. The Company believes its current capital resources will be sufficient to finance its planned business objectives for the next twelve months. In order to fund further exploration work and advance the LIK property, the Company may be required to raise additional financing through the issuance of its securities.

In March 2010, the Company received the scoping study which suggests that the Lik project can be mined economically at current zinc and lead prices. The scoping study is an initial investigation of a development scenario for the deposit which contains a number of economic and technical assumptions. It includes Inferred Resources which are considered too geologically speculative to have economic considerations applied to them that would enable them to be categorized as Mineral Reserves. There is no certainty that the reserves development, production, and economic forecasts will be realized.

The Company plans to continue environmental work, including an environmental impact study, in order to obtain all necessary land use and operating permits for the LIK property. The collection and evaluation of on-site environmental data is continuing. This work is required for mine permitting.

The Company has commissioned an independent engineering firm and entered into an agreement with AIDEA to analyse the proposed expansion of the Delong Mountain Transportation System to facilitate both the development of the Lik project and accommodate future concentrate production from the Lik property.

Expenditures at Lik are expected to total $1.2 million for 2010, similar to the $1.1 million spent in 2009 but significantly less than the $3.9 million spent in 2008. While planned expenditures at Lik in 2010 will be less than 2008, they will be sufficient to keep Lik on the Company's planned development timeline.

RISK FACTORS

The financing, exploration, development and mining of any of the Company's properties is subject to a number of factors including the price of zinc, lead and silver, laws and regulations, political conditions, currency fluctuations, environmental regulations, hiring qualified people and obtaining necessary services in jurisdictions where the Company operates. The current trends relating to these factors are favorable but could change at any time and negatively affect the Company's operations and business.

The following is a brief discussion of those distinctive or special characteristics of the Company's operations and industry which may have a material impact on, or constitute risk factors in respect of the Company's future financial performance.

Exploration Risk

Mineral exploration and development involve a high degree of risk and few projects are ultimately developed into producing mines. There is no assurance that the Company's future exploration and development activities will result in the definition of a body of commercial ore. Whether an ore body will be commercially viable depends on a number of factors including the particular attributes of the deposit such as size, grade and proximity to infrastructure, as well as mineral prices and government regulations, including environmental regulations.

Financial Capability and Additional Financing

If the Company's exploration programs are successful, additional funds will be required in order to complete the development of its properties. The only sources of future funds presently available to the Company are the sale of additional equity capital or the entering into of joint venture arrangements or other strategic alliances in which the funding sources could become entitled to an interest in the properties or the projects. The Company's capital resources are largely determined by the strength of the junior resource market and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects.

In order to exercise the option to increase its ownership of the Lik property to 80%, the Company must spend the Required Expenditure Amount prior to 2018. The Required Expenditure Amount is currently estimated to be approximately $41.6 million (after adjustment for inflation indexing and escalations) of which $12.2 million has been incurred. Accordingly, the exact amount the Company is required to spend is uncertain and the longer the duration of time over which such expenditures are made, the greater the potential variability in this spending obligation.

There is no assurance that the Company will be successful in raising sufficient funds to meet its obligations or to complete all of the currently proposed exploration programs. If the Company does not raise the necessary capital to meet its obligations under current contractual obligations, the Company may have to forfeit its interest in properties or prospects earned or assumed under such contracts. In addition, if the Company does not raise the funds to complete the currently proposed exploration programs, the viability of the Company could be jeopardized.

Permits and Government Regulation

Although the Company believes it has all of the necessary permits to carry out the proposed exploration programs, the operations of the Company may require licenses and permits from time to time from various governmental authorities to carry out exploration and development at its projects. Obtaining permits can be a complex, time-consuming process. There can be no assurance that the Company or its joint venture partner will be able to obtain the necessary licences and permits on acceptable terms, in a timely manner or at all. The costs and delays associated with obtaining permits and complying with these permits and applicable laws and regulations could stop or materially delay or restrict the Company or its joint venture partner from continuing or proceeding with existing or future operations or projects. Any failure to comply with permits and applicable laws and regulations, even if inadvertent, could result in the interruption or closure of operations or material fines, penalties or other liabilities. In addition, the requirements applicable to sustain existing permits and licenses may change or become more stringent over time and there is no assurance that the Company or its joint venture partner will have the resources or expertise to meet its obligations under such licenses and permits.

The mineral exploration activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards, occupational health, mine safety, waste disposal, toxic substances and other matters. Mining and exploration activities are also subject to various laws and regulations relating to the protection of the environment, historical and archaeological sites and endangered and protected species of plants and animals. Although the exploration activities of the Company are currently carried out in material compliance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail exploration or development. New rules and regulations may be enacted or existing rules and regulations may be applied to the operations and activities of the Company and could have a substantial adverse impact on the Company.

In the United States, Congress has considered a number of proposed amendments to the General Mining Law of 1872. If adopted, such amendments could, among other things, substantially increase the cost of holding unpatented mining claims, impair the ability of companies to develop mineral resources on unpatented mining claims and impose royalties on production from unpatented mining claims. The effects, if any, of any such amendments on the Company and its operations cannot be determined at this time.

Fluctuating Prices

The profitability of the Company's operations will be dependent upon the market price of mineral commodities. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, rate of inflation, world supply of mineral commodities, consumption patterns, sales of zinc, lead and silver, forward sales by producers, production, industrial and consumer demand, speculative activities and stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The prices of mineral commodities have fluctuated widely in recent years. Current and future price declines could cause commercial production to be impracticable. The prices of commodities are affected by numerous factors beyond the Company's control.

Environmental Regulation

The Company's activities are subject to environmental laws and regulations which may materially adversely affect its future operations. These laws and regulations control the exploration and development of the LIK property and their effects on the environment, including air and water quality, mine reclamation, waste handling and disposal, the protection of different species of plant and animal life, and the preservation of lands. These laws and regulations will require the Company to acquire permits and other authorizations for certain activities. There can be no assurance that the Company will be able to acquire such necessary permits or authorizations on a timely basis, if at all.

Further, environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

The Company is not currently insured against most environmental risks. Without such insurance, and if the Company becomes subject to environmental liabilities, the payment of such liabilities would reduce or eliminate its available funds or could exceed the funds the Company has to pay such liabilities and result in bankruptcy.

More information

For a further discussion of risk factors, please see "Risk Factors" in the Investors section of our website (www.zazumetals.com).