

ZAZU METALS CORPORATION

Interim Consolidated Financial Statements
For the 3 months ended March 31, 2009 and 2008
Unaudited
(in US dollars)



ZAZU METALS CORPORATION

(An Exploration Stage Company)

Consolidated Balance Sheets

In U.S. dollars

(Unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,952,220	\$ 4,453,279
Receivables	5,523	46,557
Prepaid expenses	40,529	29,448
	3,998,272	4,529,284
Mineral properties (note 3)	25,846,248	25,664,514
Equipment (note 4)	416,929	435,480
	\$ 30,261,449	\$ 30,629,278
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 60,939	\$ 68,853
Due to related parties (note 5)	12,006	10,712
	72,945	79,565
Future income taxes (note 6)	196,700	193,700
	269,645	273,265
SHAREHOLDERS' EQUITY		
Capital stock (note 7(a))	30,941,110	30,941,110
Warrants (note 7(b))	749,600	749,600
Contributed surplus	674,472	674,472
Stock options (note 7(d))	2,965,600	2,919,900
Deficit	(5,338,978)	(4,929,069)
	29,991,804	30,356,013
	\$ 30,261,449	\$ 30,629,278

Commitments (note 10)

Approved by the Board of Directors:

"Gil Atzmon" (signed)Gil Atzmon
Director"Bryan Morris" (signed)Bryan Morris
Director*The accompanying notes are an integral part of these financial statements*

ZAZU METALS CORPORATION

(An Exploration Stage Company)

Consolidated Statements of Loss, Comprehensive Loss and Deficit

In U.S. dollars

(Unaudited)

	For the 3 months ended March 31, 2009	For the 3 months ended March 31, 2008
General and administrative expenses:		
Amortization	\$ 1,971	\$ 1,068
Audit and accounting	15,823	17,152
Consulting fees	116,250	154,250
Directors' fees	11,004	14,000
Insurance	18,296	22,395
Investor and shareholder relations	3,820	6,075
Legal fees	221	13,751
Office, rent and communication	24,919	33,218
Regulatory and transfer agent	12,027	14,955
Salaries and benefits	103,160	128,806
Stock based compensation (note 7(d))	39,500	1,090,000
Travel	8,900	26,833
Loss before other items	355,891	1,522,503
Other items:		
Interest income	7,567	92,988
Foreign exchange loss	(62,885)	(60,729)
Loss before taxes	(411,209)	(1,490,244)
Future income tax recovery (note 6)	1,300	31,889
Net loss and comprehensive loss for the period	(409,909)	(1,458,355)
Deficit, beginning of period	(4,929,069)	(874,725)
Deficit, end of period	(\$ 5,338,978)	(\$ 2,333,080)
Basic and diluted loss per share	(\$ 0.01)	(\$ 0.05)
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
(Unaudited)

	For the 3 months ended March 31, 2009	For the 3 months ended March 31, 2008
Cash was provided by (used in):		
Operating activities		
Income (loss) for the period	(\$ 409,909)	(\$ 1,458,355)
Items not involving cash:		
Amortization	1,971	1,068
Stock based compensation (note 7(d))	39,500	1,090,000
Future income tax recovery	(1,300)	(31,889)
Change in non-cash working capital (note 9)	(13,618)	(494,864)
	<u>(383,356)</u>	<u>(894,040)</u>
Investing activities		
Deferred exploration costs	(117,703)	(47,737)
Purchase of equipment	-	(54,230)
	<u>(117,703)</u>	<u>(101,967)</u>
Decrease in cash and cash equivalents	(501,059)	(996,007)
Cash and cash equivalents, beginning of period	4,453,279	10,538,533
Cash and cash equivalents, end of period	<u>\$ 3,952,220</u>	<u>\$ 9,542,526</u>
Non-cash transactions:		
Stock based compensation capitalized to mineral properties	\$ 6,200	\$ 155,900
Amortization of equipment capitalized to mineral properties	16,580	-
Increase in accounts payable and accrued liabilities related to mineral properties and equipment	36,951	83,257

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ZAZU METALS CORPORATION

(An Exploration Stage Company)

Notes to the Interim Consolidated Financial Statements

For the periods ended March 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.

These interim consolidated financial statements have been prepared on the basis of a going concern. 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. If the going concern assumption was not appropriate, the Company may not be able to realize its assets and satisfy its liabilities in the normal course of business.

2. Significant Accounting Policies

a) *Basis of presentation*

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

b) *Adoption of new accounting standards*

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.

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 \$39.8 million. As of March 31, 2009, a total of \$11.4 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 Expenditure (Recovery)	Balance March 31, 2009
Acquisition	\$ 20,276,094	\$ -	\$ 20,276,094
Deferred exploration			
Administration	137,225	4,964	142,189
Assays/analysis	194,488	3,696	198,184
Camp construction and supplies	448,574	512	449,086
Drilling	2,356,414	13,137	2,369,551
Environmental consultants	261,073	51,225	312,298
Freight and logistics	426,611	-	426,611
Geological consultants	499,615	13,243	512,858
Insurance	12,895	(5,972)	6,923
Maps and reports	452,714	86,604	539,318
Travel	23,591	894	24,485
Vehicle	14,420	2,931	17,351
Stock based compensation	330,300	6,200	336,500
	<u>5,157,920</u>	<u>177,434</u>	<u>5,335,354</u>
Future income tax	230,500	4,300	234,800
	<u>\$ 25,664,514</u>	<u>\$ 181,734</u>	<u>\$ 25,846,248</u>

4. Equipment

	Mar 31, 2009		Dec 31, 2008	
Cost	Accumulated amortization	Net book value	Net book value	
Exploration equipment	\$ 577,231	\$ 235,512	\$ 341,719	\$ 354,856
Vehicles	50,424	14,276	36,148	39,079
Camp equipment	12,061	2,321	9,740	10,252
Computer equipment	11,807	6,026	5,781	6,514
Office furniture and equipment	27,008	3,467	23,541	24,779
	<u>\$ 678,531</u>	<u>\$ 261,602</u>	<u>\$ 416,929</u>	<u>\$ 435,480</u>

5. Related party transactions

Amounts payable to related parties at March 31, 2009 were \$10,396 (2008 – \$13,369) for directors' fees and \$1,610 (2008 – nil) for legal fees incurred with a legal firm whose partner is a director of the Company. The amounts due to related parties are interest free with no specific terms of repayment.

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

6. Future income taxes

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

7. Capital stock

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

a) Common shares

Authorized:

Unlimited Common Shares with no par value
Unlimited Special Voting Shares with no par value

Issued and outstanding:

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

b) Warrants

Issued and outstanding:

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

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, 2009:

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

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

Expiry Date	Number outstanding	Exercise price (CDN)	Exercisable
March 2014	3,065,000	\$ 0.30	-
Outstanding, March 31, 2009	<u>3,065,000</u>	<u>\$ 0.30</u>	-

None of the options granted in 2009 had vested by March 31, 2009.

d) *Stock based compensation*

The Company recognizes stock based compensation over the vesting period of the underlying options. During the first quarter of 2009 the Company recognized \$45,700 of stock based compensation (2008 – \$1,245,900) of which \$6,200 (2008 – \$155,900) was capitalized as a deferred exploration cost and \$39,500 (2008 – \$1,090,000) was expensed as stock based compensation.

Accumulated stock based compensation at March 31, 2009 is as follows:

Balance, December 31, 2008	\$ 2,919,900
Stock based compensation	<u>45,700</u>
Balance, March 31, 2009	<u>\$ 2,965,600</u>

During the first quarter of 2009 the Company granted 3,065,000 options with an estimated weighted average fair value of CDN\$0.12 calculated using the Black-Scholes option pricing model with the following assumptions:

	2009	2008
Expected dividend yield	0%	0%
Expected stock price volatility	180%	95%
Risk free rate	2.00%	3.10%
Expected life of options	5 years	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.

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, 2009 and revenues and expenses for the 3 months ended March 31, 2009 by geographic areas are as follows:

	Canada	United States	Total
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 loss	(\$ 408,043)	(\$ 1,866)	(\$ 409,909)

The Company's assets at March 31, 2008 and revenues and expenses for the 3 months ended March 31, 2008 by geographic areas are as follows:

	Canada	United States	Total
Assets	\$ 9,704,773	\$ 22,444,276	\$ 32,149,049
General and administrative expenses	(\$ 1,503,273)	(\$ 19,230)	(\$1,522,503)
Other items	32,259	-	32,259
Future income tax recovery	-	31,889	31,889
Net income (loss)	\$ (1,471,014)	\$ 12,659	(\$ 1,458,355)

9. Change in non-cash operating working capital

	2009	2008
Receivables	\$ 41,034	(\$ 1,502)
Prepaid expenses	(11,081)	12,485
Accounts payable	(44,865)	(484,611)
Due to related parties	1,294	(21,236)
	(\$ 13,618)	(\$ 494,864)

10. Commitments

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

	Total	2009	2010 – 2012	2013 – 2014	2014 and beyond
Exploration services agreements – US\$	\$ 270,265	\$ 270,265	\$ -	\$ -	\$ -
Office operation leases – CDN\$	47,891	40,873	7,018	-	-
Consulting agreements – US\$	1,702,000	434,250	1,267,750	-	-
Employment agreements – US\$	1,083,333	232,500	850,833	-	-

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

11. Management of capital risk

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

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

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