

ZAZU METALS CORPORATION

Consolidated Financial Statements
For the years ended December 31, 2008 and 2007
(in US dollars)



Auditors' Report

To the Shareholders of
Zazu Metals Corporation

We have audited the consolidated balance sheets of Zazu Metals Corporation as at December 31, 2008 and 2007 and the consolidated statements of loss, comprehensive loss and deficit, and consolidated statements of cash flows for the years ended December 31, 2008 and 2007. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
March 26, 2009

ZAZU METALS CORPORATION

(An Exploration Stage Company)

Consolidated Balance Sheets

As at December 31, 2008 and 2007

In U.S. dollars

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,453,279	\$ 10,538,533
Receivables	46,557	75,410
Prepaid expenses	29,448	53,789
	4,529,284	10,667,732
Mineral properties (note 3)	25,664,514	21,533,657
Equipment (note 4)	435,480	286,212
	\$ 30,629,278	\$ 32,487,601
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 68,853	\$ 642,761
Due to related parties (note 5)	10,712	34,875
	79,565	677,636
Future income taxes (note 7)	193,700	-
	273,265	677,636
SHAREHOLDERS' EQUITY		
Capital stock (note 6(a))	30,941,110	31,025,718
Warrants (note 6(b))	749,600	749,600
Contributed surplus (note 6(c))	674,472	674,472
Stock options (note 6(d))	2,919,900	234,900
Deficit	(4,929,069)	(874,725)
	30,356,013	31,809,965
	\$ 30,629,278	\$ 32,487,601

Commitments (note 10)**Subsequent event** (note 13)

Approved by the Board of Directors:

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

ZAZU METALS CORPORATION

(An Exploration Stage Company)

Consolidated Statements of Loss, Comprehensive Loss and Deficit

In U.S. dollars

	For the year ended December 31,	
	2008	2007
General and administrative expenses:		
Amortization	\$ 5,770	\$ 2,237
Audit and accounting	111,581	104,144
Consulting fees	503,000	233,750
Directors' fees	48,319	34,875
Incorporation costs	-	5,367
Insurance	78,935	25,918
Investor and shareholder relations	25,388	45,002
Legal fees	49,185	63,252
Office, rent and communication	127,580	44,579
Regulatory and transfer agent	33,348	135,236
Salaries and benefits	427,369	172,308
Stock based compensation (note 6(e))	2,354,700	234,900
Travel	72,279	47,414
Loss before other items	3,837,454	1,148,982
Other items:		
Interest income	221,962	432,513
Foreign exchange loss	(475,652)	(810)
Loss before taxes	(4,091,144)	(717,279)
Future income tax recovery (note 7)	36,800	-
Net loss and comprehensive loss for the period	(4,054,344)	(717,279)
Deficit, beginning of period	(874,725)	(157,446)
Deficit, end of period	(\$4,929,069)	(\$874,725)
Basic and diluted loss per share	(\$0.13)	(\$0.12)
Weighted average number of shares outstanding	30,663,771	6,063,409

The accompanying notes are an integral part of these financial statements

ZAZU METALS CORPORATION

(An Exploration Stage Company)

Consolidated Statements of Cash Flow

In U.S. dollars

	For the year ended December 31,	
	2008	2007
Cash was provided by (used in):		
Operating activities		
Loss for the period	(\$ 4,054,344)	(\$ 717,279)
Items not involving cash:		
Amortization	5,770	2,237
Stock based compensation	2,354,700	234,900
Future income tax recovery	(36,800)	-
Change in non-cash working capital (note 9)	(566,637)	252,932
	<u>(2,297,311)</u>	<u>(227,210)</u>
Financing activities		
Shares issued for cash	-	3,763,174
Share issuance costs	(84,608)	(957,017)
Warrants issued for cash	-	1,040,600
Warrants issuance costs	-	(291,000)
Special warrants issued for cash	-	20,082,825
Special warrants issuance costs	-	(1,562,250)
	<u>(84,608)</u>	<u>22,076,332</u>
Investing activities		
Deferred exploration costs incurred	(3,362,263)	(1,208,068)
Purchase of equipment	(341,073)	(337,944)
Property acquisition	-	(20,276,094)
	<u>(3,703,335)</u>	<u>(21,822,106)</u>
Increase (decrease) in cash and cash equivalents	(6,085,254)	27,016
Cash and cash equivalents, beginning of period	10,538,533	10,511,517
Cash and cash equivalents, end of period	<u>\$ 4,453,279</u>	<u>\$ 10,538,533</u>
Non-cash transactions:		
Stock based compensation capitalized to mineral properties	\$ 330,300	\$ -
Amortization of equipment capitalized to mineral properties	186,034	49,495
Fair value of broker warrants issued	-	354,489
Increase in accounts payable and accrued liabilities related to mineral properties	21,760	69,485

The accompanying notes are an integral part of these financial statements

ZAZU METALS CORPORATION

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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 consolidated interim 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*

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

b) *Use of estimates*

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

c) *Cash and cash equivalents*

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

d) *Mineral properties*

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

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

e) *Financial instruments*

The Company classifies its cash and cash equivalents as held for trading which are recorded at fair value. Receivables are classified as loans and receivables, which are recorded at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are recorded at amortized cost. As at the period end, the carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to their immediate or short term nature.

f) *Asset impairment*

The carrying values of mineral properties and equipment are reviewed by management at least annually to determine if they have become impaired. If impairment is determined to exist, the carrying values will be written down to the estimated fair value.

g) *Asset retirement obligations*

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

h) *Share capital*

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

i) *Amortization*

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

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

j) *Stock based compensation*

The Company has a stock-based compensation plan, which is described in note 7(e). The Company recognizes stock-based compensation expense using the fair value method at the date of grant. Under the fair value based method, compensation cost attributable to options granted is measured at the fair value at the grant date using the Black-Scholes option pricing model. Compensation expense is recognized over the vesting period of the underlying options, with the offset to a separate component of shareholders' equity (Stock options). Any consideration paid on exercise of stock options, along with the related fair value previously credited to the separate component of shareholders' equity, is credited to share capital.

k) Foreign currency translation

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

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

l) Income taxes

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

m) Loss per share

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

n) Comprehensive income/loss

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

o) Variable interest entities

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

The Company did not have any VIE's in the year ended December 31, 2008.

p) Risk management

The Company is engaged primarily in mineral exploration and manages related industry risk issues directly. The Company is at risk from environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate significant environmental remediation costs or liabilities in respect of its current operations.

The Company is not exposed to significant credit concentration risk. The Company is not exposed to significant interest rate risk.

The Company operates in both Canada and the United States, exposing it to market risks from changes in the Canadian currency exchange rate. The financial risk is the risk to the Company's operations that arises from fluctuations in the Canadian currency exchange rate and the degree of volatility of this rate. Currently, the Company does not use derivative instruments to reduce its exposure to Canadian currency risk.

q) *Recent accounting pronouncements*

In February 2007, the CICA issued Handbook Section 1535, *Capital Disclosures* which is effective for fiscal years beginning on or after October 1, 2007. This standard requires disclosure of information that enables users of the Company's financial statements to evaluate the entity's objectives, policies and processes for managing capital. The Company adopted this standard effective January 1, 2008 (see note 11).

In February 2007, the CICA issued Handbook Section 3862, *Financial Instruments – Disclosure* ("Section 3862") and Handbook Section 3863, *Financial Instruments – Presentation* ("Section 3863"), which are effective for fiscal years beginning on or after October 1, 2007. The Company adopted these standards effective January 1, 2008. The objective of Section 3862 is to provide financial statement disclosure to enable financial statement users to evaluate the significance of financial instruments on the Company's financial position and performance and the nature and extent of risks arising from financial instruments that the Company is exposed to during the reporting period and at the balance sheet date, and how the Company is managing those risks. The purpose of Section 3863 is to enhance the financial statement user's understanding of the significance of financial instruments to the Company's financial position, performance and cash flows. The Company has designated its cash and cash equivalents as held for trading which are recorded at fair value. Receivables are designated as loans and receivables, which are recorded at amortized cost. Accounts payable and accrued liabilities are designated as other financial liabilities, which are recorded at amortized cost. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to their immediate or short term nature.

In May 2007, the CICA issued amended Handbook Section 1400, *General Standards of Financial Statement Presentation*. The section provides revised guidance related to management's responsibility to assess and disclose the ability of an entity to continue as a going concern. This amended standard applies to annual financial statements for fiscal years beginning on or after January 1, 2008. The Company has included this disclosure in Note 1 to these consolidated financial statements.

In June 2007, the CICA issued Handbook Section 3031, *Inventories* which became effective on January 1, 2008. This section requires that inventory be recorded at the lower of cost or net realizable value. This section also clarifies that the allocation of fixed production overhead requires the consistent use of either first-in, first-out or the weighted average method to measure inventory, and requires that any previous write-downs be reversed when the value of the inventory increases. The amount of the reversal is limited to the amount of the original write-down. The Company adopted this standard effective January 1, 2008 with no effect on the Company's financial statements.

In November 2007, the CICA approved new Section 3064, *Goodwill and Intangible Assets*, replacing Sections 3062, *Goodwill and Other Intangible Assets*, and 3450, *Research and Development Costs*. New Section 3064 establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets and becomes effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted. The adoption of this standard is not expected to have any effect on the Company's financial statements.

3. Mineral properties

LIK Property

The Company is participating in the exploration and possible development of the LIK property through a joint venture (50/50 increasing to 80/20 under certain circumstances) with Teck Cominco American, Inc. ("Teck American"), a wholly owned subsidiary of Teck Cominco Limited. Zazu acquired its interest in the joint venture in June 2007 by making a cash payment of \$20,000,000 and granting a 2% net proceeds interest.

Zazu is the operator of the joint venture and has the right to earn from Teck American a further 30% interest by incurring qualifying exploration expenditures on or before January 27, 2018. The terms of the joint venture are governed by the LIK Block Agreement, signed in 1983 which specified an amount of \$25.0 million of qualifying expenditures to be adjusted annually for inflation, and which balance is currently estimated to be approximately \$39.8 million. As of December 31, 2008, a total of \$11.2 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, 2007	2008 Expenditures	Balance December 31, 2008
Acquisition	\$ 20,276,094	\$ -	\$ 20,276,094
Deferred exploration			
Administration	58,720	78,505	137,225
Assays/analysis	68,221	126,267	194,488
Camp construction and supplies	167,760	280,814	448,574
Drilling	418,258	1,938,156	2,356,414
Environmental	22,278	238,795	261,073
Freight and logistics	185,364	241,247	426,611
Geological	239,374	260,241	499,615
Insurance	-	12,895	12,895
Maps and reports	81,363	371,351	452,714
Travel	16,225	7,366	23,591
Vehicle	-	14,420	14,420
Stock based compensation	-	330,300	330,300
	<u>1,257,563</u>	<u>3,900,357</u>	<u>5,157,920</u>
Future income taxes	-	230,500	230,500
	<u>\$ 21,533,657</u>	<u>\$ 4,130,857</u>	<u>\$ 25,664,514</u>

4. Equipment

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

	December 31, 2007		
	Cost	Accumulated amortization	Net book value
Exploration equipment	\$ 325,342	\$ 49,495	\$ 275,847
Computer equipment	7,814	1,758	6,056
Office furniture and equipment	4,788	479	4,309
	\$ 337,944	\$ 51,732	\$ 286,212

5. Related party transactions

Directors' fees for the year ended December 31, 2008 totalled \$48,319 (2007 – \$34,875). In 2008, the Company paid \$22,946 for legal costs to a legal firm whose partner is a director of the Company. In 2007, the Company paid \$277,700 for legal, incorporation and share issuance costs to this legal firm.

The total amount payable to related parties at December 31, 2008 was \$10,712 (2007 – \$34,875). The amounts due to related parties are interest free with no specific terms of repayment.

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

6. Capital stock

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

a) Common shares

Authorized:

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

Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2006	5,000,000	\$ 5,000
Shares issued for cash pursuant to private placements	251,571	365,249
Shares issued for cash pursuant to initial public offering	2,536,300	3,397,925
Shares issued on exercise of special warrants	100,000	100,000
Shares issued on conversion of special warrants	22,775,900	28,114,561
Share issuance costs	-	(957,017)
Balance, December 31, 2007	30,663,771	31,025,718
Share issuance costs	-	(84,608)
Balance, December 31, 2008	30,663,771	\$ 30,941,110

b) *Warrants*

Issued and outstanding:

	Number of warrants	Amount
Balance, December 31, 2006	-	\$ -
Warrants issued for cash pursuant to initial public offering	1,268,150	1,040,600
Warrant issuance costs	-	(291,000)
Balance, December 31, 2007	1,268,150	749,600
Balance, December 31, 2008	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) *Broker warrants*

In connection with private placement offerings of special warrants in 2006 and 2007, the agent for such offerings was issued broker special warrants entitling the agent to receive broker warrants which were exercisable in whole or in part allowing the holder to purchase Common Shares. These broker special warrants were converted into broker warrants upon the completion of the Company's initial public offering in December 2007.

Each broker warrant from the 2006 private placement offering was exercisable for one Common Share at an exercise price of CDN\$1.00 per share until June 20, 2008 when they expired unexercised. Each broker warrant from the 2007 private placement offering was exercisable for one Common Share at an exercise price of CDN\$1.75 per share until December 28, 2008 when they expired unexercised.

	Number of broker warrants	Amount
Balance, December 31, 2006	906,400	\$ 319,983
Issued	573,795	354,489
Balance, December 31, 2007	1,480,195	674,472
Expired	(1,480,195)	-
Balance, December 31, 2008	-	\$674,472

The fair value of the broker warrants issued was estimated on the date of issue using the Black-Scholes Option Pricing Model and their estimated fair value was recorded in Contributed Surplus based on the following weighted average assumptions:

	2007	2006
Expected dividend yield	0%	0%
Expected stock price volatility	70%	75%
Risk free rate	4.20%	4.20%
Expected life of warrants	1.5 years	1.5 years

d) *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 December 31, 2008:

	Number	Average exercise price (CDN\$)
Outstanding, December 31, 2006	-	\$ -
Issued	2,775,000	1.75
Outstanding, December 31, 2007	2,775,000	1.75
Issued	150,000	1.75
Cancelled	(2,925,000)	1.75
Outstanding, December 31, 2008	-	\$ -

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

e) *Stock based compensation*

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

The weighted average fair value of the option grants for the options issued was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2008	2007
Expected dividend yield	0%	0%
Expected stock price volatility	95%	70%
Risk free rate	3.10%	4.20%
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

7. Future income taxes

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

	2008	2007
Accounting loss before taxes	\$ 4,091,144	\$ 717,279
Tax recovery at the statutory rate of 31%	\$ 1,268,300	\$ 243,900
Stock based compensation and other non deductible costs	(735,200)	(79,900)
Deductible portion of equity issue costs	235,000	261,200
Effect of changes in tax rates and other	(265,400)	(87,500)
Expected tax recovery	502,700	337,700
Change in valuation allowance	(465,900)	(337,700)
Future income tax recovery	\$ 36,800	\$ -

Future income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of future income tax assets and liabilities at December 31, 2008 and 2007 are as follows:

	December 31, 2008	December 31, 2007
Future income tax assets:		
Non-capital losses	\$ 938,300	\$ 435,600
Valuation allowance	(901,500)	(435,600)
Net future income tax assets	36,800	-
Future income tax liabilities:		
Mineral properties	(230,500)	-
Net future income tax liabilities	(\$ 193,700)	\$ -

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

The Company has approximately \$3,609,000 of non-capital losses for tax purposes that expire between 2026 and 2028. Certain of the Company's losses are restricted in their use.

8. Segmented information

The Company currently operates in one business segment, being the exploration and development of mineral properties. The Company's assets at December 31, 2008 and revenues and expenses for the year ended December 31, 2008 by geographic areas are as follows:

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

The Company's assets at December 31, 2007 and revenues and expenses for the year ended December 31, 2007 by geographic areas are as follows:

	Canada	United States	Total
2007			
Assets	\$ 10,672,569	\$ 21,815,032	\$32,487,601
General and administrative expenses	(\$ 1,090,642)	(\$ 58,340)	(\$ 1,148,982)
Other items	431,703	-	431,703
Net loss	(\$ 658,939)	(\$ 58,340)	(\$ 717,279)

9. Change in non-cash operating working capital

	2008	2007
Receivables	\$ 28,853	(\$ 75,348)
Prepaid expenses	24,341	(53,789)
Accounts payable	(595,668)	347,194
Due to related parties	(24,163)	34,875
	<u>(\$ 566,637)</u>	<u>\$ 252,932</u>

10. Commitments

The following is a summary of the Company's commitments as at December 31, 2008:

	Total	2009	2010 – 2012	2013 - 2014	2015 and beyond
Exploration services agreement – US\$	\$ 270,265	\$ 270,265	\$ -	\$ -	\$ -
Office operation leases – CDN\$	65,032	58,014	7,018	-	-
Consulting agreements – US\$	1,846,750	579,000	1,267,750	-	-
Employment agreements – US\$	1,160,833	310,000	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

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 2009, 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.

	2008	2007
Held for trading ⁽¹⁾	\$ 4,453,279	\$ 10,538,533
Loans and receivables	46,557	75,410
Other financial liabilities	79,565	677,636

⁽¹⁾ Consists of:

Cash in Canadian chartered banks – US currency	24,647	978,156
Cash in Canadian chartered banks – CDN currency	10,281	113,721
Bankers acceptances issued by Canadian chartered banks – US currency	2,565,795	5,680,477
Bankers acceptances issued by Canadian chartered banks – CDN currency	1,852,556	3,766,179

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

a) Currency risk

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

In addition to costs denominated in US dollars, the Company also incurs general and administrative costs denominated in Canadian dollars. Accordingly, the Company's general and administrative costs are affected by changes in the foreign exchange rate of the Canadian dollar. Canadian dollar denominated costs represent approximately 18% of the Company's total budgeted general and administrative costs for 2009. 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 \$28,000 annually. The Company has elected not to hedge its exposure to fluctuations in the Canadian dollar by buying fixed rate forward contracts in Canadian dollars.

As at December 31, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars:

	2008 (CDN\$)	2007 (CDN\$)
Cash and cash equivalents	\$ 2,268,936	\$ 3,913,951
Receivables	55,369	62,344
Accounts payable and accrued liabilities	(54,796)	(536,595)
Due to related parties	(13,048)	(34,875)

Based on the net exposures in the preceding table as at December 31, 2008, 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 \$168,000 in the Company's net earnings.

b) Liquidity risk

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

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

c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk that the Company will realize a loss as a result of a decline in the fair value of the short term investments included in cash and cash equivalents is limited because these investments are generally held to maturity.

d) 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.

13. Subsequent event

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.