

ZAZU METALS CORPORATION

Interim Financial Statements

For the 9 months ended September 30, 2008 and 2007

Unaudited

(in US dollars)



ZAZU METALS CORPORATION

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

	September 30, 2008	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,729,107	\$ 10,538,533
Receivables	52,103	75,410
Prepaid expenses	54,584	53,789
	<u>5,835,794</u>	<u>10,667,732</u>
Mineral properties (note 3)	25,292,387	21,533,657
Equipment (note 4)	457,209	286,212
	<u>\$ 31,585,390</u>	<u>\$ 32,487,601</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 508,672	\$ 642,761
Due to related parties (note 5)	12,816	34,875
	<u>521,488</u>	<u>677,636</u>
Future income taxes (note 6)	144,300	-
	<u>665,788</u>	<u>677,636</u>
SHAREHOLDERS' EQUITY		
Capital stock (note 7(a))	30,943,372	31,025,718
Warrants (note 7(b))	749,600	749,600
Contributed surplus (note 7(c))	674,472	674,472
Stock options (note 7(e))	2,324,100	234,900
Deficit	(3,771,942)	(874,725)
	<u>30,919,602</u>	<u>31,809,965</u>
	<u>\$ 31,585,390</u>	<u>\$ 32,487,601</u>

Commitments (note 10)

Approved by the Board of Directors:

"Gil Atzmon" (signed)

Gil Atzmon
Director

"Bryan Morris" (signed)

Bryan Morris
Director

The accompanying notes are an integral part of these financial statements

ZAZU METALS CORPORATION

(An Exploration Stage Company)

Consolidated Statements of Loss, Comprehensive Loss and Deficit

In U.S. dollars

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
General and administrative expenses:				
Amortization	\$ 1,580	\$ 471	\$ 4,160	\$ 471
Audit and accounting	8,286	20,336	68,867	60,976
Consulting fees	116,250	77,500	386,750	137,500
Directors' fees	13,182	-	37,001	-
Incorporation costs	-	-	-	5,367
Insurance	18,296	9,469	60,639	15,344
Investor and shareholder relations	6,921	1,384	21,182	29,705
Legal fees	10,251	13,595	47,733	45,265
Office, rent and communication	33,153	11,019	95,894	16,327
Regulatory and transfer agent	5,855	9,458	26,817	13,561
Salaries and benefits	98,233	46,580	324,573	113,653
Stock based compensation (note 7(e))	356,800	-	1,831,300	-
Travel	14,730	14,011	63,596	35,990
Loss before other items	683,537	203,823	2,968,512	474,159
Other items:				
Interest income	44,738	101,567	195,587	346,679
Foreign exchange gain (loss)	(126,810)	24,693	(159,992)	31,922
Loss before taxes	(765,609)	(77,563)	(2,932,917)	(95,558)
Future income tax recovery (note 6)	437	-	35,700	-
Net loss and comprehensive loss for the period	(765,172)	(77,563)	(2,897,217)	(95,558)
Deficit, beginning of period	(3,006,770)	(175,441)	(874,725)	(157,446)
Deficit, end of period	(\$ 3,771,942)	(\$ 253,004)	(\$ 3,771,942)	(\$ 253,004)
Basic and diluted loss per share	(\$ 0.02)	(\$ 0.00)	(\$ 0.09)	(\$ 0.00)
Weighted average number of shares outstanding	30,663,771	27,951,551	30,663,771	20,417,405

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)

	Three months ended September 30, 2008		Nine months ended September 30, 2007	
Cash was provided by (used in):				
Operating activities				
Loss for the period	(\$ 765,172)	(\$ 77,563)	(\$ 2,897,217)	(\$ 95,558)
Items not involving cash:				
Amortization	1,580	471	4,160	471
Stock based compensation (note 7(e))	356,800	-	1,831,300	-
Future income tax recovery	(437)	-	(35,700)	-
Change in non-cash working capital (note 9)	7,326	262,029	(587,569)	50,822
	(399,903)	184,937	(1,685,026)	(44,265)
Financing activities				
Shares issued for cash	-	258,584	-	358,584
Share issuance costs	-	-	(82,346)	-
Special warrants issued for cash	-	1,437,625	-	20,082,825
Special warrants issuance costs	-	(114,166)	-	(1,562,250)
	-	1,582,043	(82,346)	18,879,159
Investing activities				
Deferred exploration costs	(2,106,547)	(898,348)	(2,702,198)	(984,740)
Purchase of equipment	(27,795)	(331,527)	(339,856)	(331,527)
Property acquisition	-	(27,575)	-	(20,276,094)
	(2,134,342)	(1,257,450)	(3,042,054)	(21,592,361)
Increase (decrease) in cash and cash equivalents	(2,534,245)	509,530	(4,809,426)	(2,757,467)
Cash and cash equivalents, beginning of period	8,263,352	7,244,520	10,538,533	10,511,517
Cash and cash equivalents, end of period	\$ 5,729,107	\$ 7,754,050	\$ 5,729,107	\$ 7,754,050
Non-cash transactions:				
Stock based compensation capitalized to mineral properties	\$ 50,100	\$ -	\$ 257,900	\$ -
Increase in accounts payable and accrued liabilities related to mineral properties	82,845	-	453,933	-
Fair value of broker warrants issued	-	25,376	-	354,449

The accompanying notes are an integral part of these financial statements

ZAZU METALS CORPORATION

(An Exploration Stage Company)

Notes to the Interim Financial Statements

For the periods ended September 30, 2008 and 2007

In U.S. dollars

(Unaudited)

1. Nature of operations

Zazu Metals Corporation (“Zazu” or 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 is currently exploring a mineral exploration property located in the State of Alaska, United States and has not yet determined whether its mineral property contains resources that are economically recoverable. The underlying value of the Company’s mineral property and the recoverability of the related deferred costs are entirely dependent on the existence of economically recoverable resources in its mineral property and the ability of the Company to obtain the necessary financing to complete development and upon future profitable production from, or the proceeds from the disposition of, its mineral property.

2. Significant Accounting Policies

a) Basis of presentation

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, 2007. These unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the December 31, 2007 audited annual consolidated financial statements of the Company, except as described in (c) below.

b) 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%.

c) 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 available-for-sale 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 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 Company has not yet determined the effect, if any, that the adoption of this new standard will have on its financial statements.

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 transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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 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 \$41.8 million. As of September 30, 2008, a total of \$10.9 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 September 30, 2008
Acquisition	\$ 20,276,094	\$ -	\$ 20,276,094
Deferred exploration			
Administration	58,720	76,149	134,869
Assays/analysis	68,221	97,155	165,376
Camp construction and supplies	167,760	279,411	447,171
Drilling	418,258	1,913,185	2,331,443
Environmental consultants	22,278	145,944	168,222
Freight and logistics	185,364	218,367	403,731
Geological consultants	239,374	246,343	485,717
Insurance	-	12,895	12,895
Maps and reports	81,363	313,377	394,740
Travel	16,225	7,366	23,591
Vehicle	-	10,638	10,638
Stock based compensation	-	257,900	257,900
	1,257,563	3,578,730	4,836,293
Future income tax	-	180,000	180,000
	\$ 21,533,657	\$ 3,758,730	\$ 25,292,387

4. Equipment

	September 30, 2008		December 31, 2007	
	Cost	Accumulated amortization	Net book value	Net book value
Exploration equipment	\$ 577,231	\$ 205,425	\$371,806	\$ 275,847
Camp equipment	12,061	1,206	10,855	-
Vehicles	50,424	7,564	42,860	-
Computer equipment	11,807	4,387	7,420	6,056
Office furniture and equipment	25,793	1,525	24,268	4,309
	\$ 677,316	\$220,107	\$457,209	\$ 286,212

5. Related party transactions

During the third quarter of 2008, the Company incurred \$13,182 (2007 – nil) for directors' fees. Directors' fees for the nine months ended September 30, 2008 totalled \$37,001 (2007 – nil). For the nine months ended September 30, 2008 the Company paid \$15,641 (2007 – \$170,377) for legal, incorporation and share issuance costs to a legal firm whose partner is a director of the Company. The Company incurred legal fees of \$83,358 during the third quarter of 2007 to this legal firm. The Company did not incur any legal fees during the third quarter of 2008 to this legal firm.

The total amount payable to related parties at September 30, 2008 was \$12,816 (2007 – nil). As at December 31, 2007, the Company owed \$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. 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, 2007	30,663,771	\$ 31,025,718
Share issuance costs		(82,346)
Balance, September 30, 2008	30,663,771	\$ 30,943,372

During the second quarter of 2008 the Company paid costs relating to the Company's initial public offering in December 2007.

b) Warrants

Issued and outstanding:

	Number of warrants	Amount
Balance, December 31, 2007	1,268,150	\$ 749,600
Balance, September 30, 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 and contributed surplus

In connection with private placement financings in 2006 and 2007, the agent for such offerings was issued broker special warrants entitling the agent to receive Broker Warrants which are exercisable in whole or in part allowing the holder to purchase Common Shares. The fair value of the broker warrants was estimated on the date of issue and recorded in contributed surplus. These broker special warrants were converted into broker warrants upon the completion of the Company's initial public offering in December 2007. Broker warrants outstanding are:

	Number of broker warrants	Weighted average exercise price
Balance, December 31, 2007	1,480,195	\$ 1.29
Expired	(906,400)	\$1.00
Balance, September 30, 2008	573,795	\$ 1.75

Each 2006 Broker Special Warrant was exercisable for one warrant (a "2006 Broker Warrant") for no additional consideration and was automatically converted for 2006 Broker Warrants in December 2007 upon completion of the Company's initial public offering. Each 2006 Broker Warrant was exercisable for one Common Share until June 20, 2008 at an exercise price of \$1.00 per share when they expired unexercised.

Each 2007 Broker Special Warrant was exercisable for one warrant (a "2007 Broker Warrant") for no additional consideration and was automatically converted for 2007 Broker Warrants in December 2007 upon completion of the Company's initial public offering. Each 2007 Broker Warrant is exercisable for one Common Share until December 28, 2008 at an exercise price of \$1.75 per share.

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 September 30, 2008:

	Number	Average exercise price (CDN)
Outstanding, December 31, 2007	2,775,000	\$ 1.75
Granted	150,000	1.75
Outstanding, September 30, 2008	2,925,000	\$ 1.75

The stock options outstanding at September 30, 2008 expire as follows:

Expiry Date	Number outstanding	Exercise price (CDN)	Exercisable
December 2012	2,775,000	\$ 1.75	925,000
March 2013	150,000	\$ 1.75	50,000
Outstanding, September 30, 2008	2,925,000	\$ 1.75	975,000

e) *Stock based compensation*

During the third quarter of 2008 the Company recognized \$406,900 of stock based compensation (2007 – nil) of which \$50,100 was capitalized as a deferred exploration cost and \$356,800 was expensed as stock based compensation. Stock based compensation for the nine months ended September 30, 2008 totalled \$2,089,200 (2007 – nil) of which \$257,900 was capitalized as a deferred exploration cost and \$1,831,300 was expensed as stock based compensation.

Accumulated stock based compensation at September 30, 2008 is as follows:

Balance, December 31, 2007	\$ 234,900
Stock based compensation	2,089,200
Balance, September 30, 2008	\$ 2,324,100

During the first quarter of 2008 the Company granted 150,000 options with an estimated weighted average fair value of \$0.45 calculated using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield	0%
Expected stock price volatility	95%
Risk free rate	3.10%
Expected life of options	5 years

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

8. Segmented information

The Company currently operates in one business segment, being the exploration and development of mineral properties. The Company's assets at September 30, 2008 and revenues and expenses for the 3 and 9 months ended September 30, 2008 by geographic areas are as follows:

	Canada	United States	Total
At September 30, 2008:			
Assets	\$ 5,863,935	\$ 25,721,455	\$ 31,585,390
For the 3 months ended September 30, 2008:			
General and administrative expenses	(\$ 682,511)	(\$ 1,025)	(\$ 683,536)
Other items	(82,073)	-	(82,073)
Future income tax recovery	-	437	437
Net loss	(\$ 764,584)	\$ (588)	(\$ 765,172)
For the 9 months ended September 30, 2008:			
General and administrative expenses	(\$ 2,940,049)	(\$ 28,463)	(\$ 2,968,512)
Other items	35,595	-	35,595
Future income tax recovery	-	35,700	35,700
Net loss	(\$ 2,904,454)	\$ 7,237	(\$ 2,897,217)

The Company's assets at September 30, 2007 and revenues and expenses for the 3 and 9 months ended September 30, 2007 by geographic areas are as follows:

	Canada	United States	Total
At September 30, 2007:			
Assets	\$ 7,984,431	\$ 21,645,202	\$ 29,629,633
For the 3 months ended September 30, 2007:			
General and administrative expenses	(\$ 188,480)	(\$ 15,343)	(\$ 203,823)
Other items	126,260	-	126,260
Net loss	(\$ 62,220)	(\$ 15,343)	(\$ 77,563)
For the 9 months ended September 30, 2007:			
General and administrative expenses	(\$ 437,355)	(\$ 36,804)	(\$ 474,159)
Other items	378,601	-	378,601
Net income (loss)	(\$ 58,754)	(\$ 36,804)	(\$ 95,558)

9. Change in non-cash operating working capital

	Three months ended September 30, 2008		Nine months ended September 30, 2007	
Receivables	(\$ 3,884)	(\$ 63,467)	\$ 23,307	(\$ 65,496)
Prepaid expenses	15,420	(44,744)	(795)	(218,135)
Accounts payable	1,267	393,513	(588,022)	289,067
Due to related parties	(5,477)	(23,273)	(22,059)	45,386
	(\$ 7,326)	\$ 262,029	(\$ 587,569)	\$ 50,822

10. Commitments

The following is a summary of the Company's commitments as at September 30, 2008:

	Total	2008	2009 - 2011	2012 - 2013	2014 and beyond
Exploration services agreements – US\$	\$ 196,255	\$ 196,255	\$ -	\$ -	\$ -
Office operation leases – CDN\$	82,173	17,141	65,032	-	-
Consulting agreements – US\$	1,991,500	144,750	1,575,500	271,250	-
Employment agreements – US\$	1,238,333	77,500	930,000	230,833	-

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 \$655,000 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.

In October 2008, the Company entered into an agreement for engineering services at the LIK property. The agreement calls for fees of \$30,000 and are expected to be incurred during the fourth quarter of 2008.

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 the remainder of 2008 and part of 2009.

12. Management of financial risk

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, prepaid expenses, 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, including stock-based compensation expense, represent approximately 70% of the Company's total budgeted general and administrative costs for 2008. 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 \$285,000 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 September 30, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars:

	September 30, 2008 (CDN)	December 31, 2007 (CDN)
Cash and cash equivalents	\$ 2,640,640	\$ 3,913,951
Receivables	52,278	62,344
Accounts payable and accrued liabilities	(19,703)	(536,595)
Due to related parties	(12,816)	(34,875)

Based on the net exposures in the preceding table as at September 30, 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 \$227,000 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, although available for sale, 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 October 2008, the Company entered into an agreement for engineering services at the LK property. The agreement calls for fees of \$30,000 and are expected to be incurred during the fourth quarter of 2008.