

ZAZU METALS CORPORATION

Condensed Interim Consolidated Financial Statements
For the 3 and 9 months ended September 30, 2014 and 2013
Unaudited
(in US dollars)



ZAZU METALS CORPORATION

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

In U.S. dollars

| | Note | September 30 2014 | December 31 2013 |
|--|------|----------------------|----------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 623,535 | \$ 1,821,770 |
| Trade and other receivables | | 52,454 | 34,829 |
| | | 675,989 | 1,856,599 |
| Non-current assets | | | |
| Equipment | 3 | 43,463 | 54,152 |
| Exploration and evaluation assets | 3 | 14,813,850 | 13,815,467 |
| Total assets | | \$ 15,533,302 | \$ 15,726,218 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | | \$ 100,322 | \$ 216,478 |
| Total liabilities | | 100,322 | 216,478 |
| Equity attributable to shareholders | | | |
| Share capital | 4 | 41,745,109 | 41,127,271 |
| Contributed surplus | | 674,472 | 674,472 |
| Accumulated share based compensation | 5 | 5,942,100 | 5,079,100 |
| Accumulated losses | | (32,928,701) | (31,371,103) |
| Total equity | | 15,432,980 | 15,509,740 |
| Total liabilities and equity | | \$ 15,533,302 | \$ 15,726,218 |
| Nature of operations and going concern | 1 | | |

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 condensed interim consolidated financial statements

ZAZU METALS CORPORATION

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

In U.S. dollars

| | Note | For the 3 months ended September 30, | | For the 9 months ended September 30, | |
|--|------|---|---------------------|---|-----------------------|
| | | 2014 | 2013 | 2014 | 2013 |
| Expenses | | | | | |
| Depreciation | | \$ 588 | \$ 750 | \$ 1,715 | \$ 2,249 |
| Audit and accounting | | 30,144 | 30,973 | 53,538 | 67,029 |
| Directors' fees | | 18,394 | 18,994 | 54,901 | 57,675 |
| Insurance | | 11,697 | 11,488 | 34,882 | 34,356 |
| Investor and shareholder relations | | 13,699 | 7,181 | 60,816 | 34,248 |
| Legal fees | | 5,318 | 2,477 | 5,900 | 12,152 |
| Office, rent and communication | | 11,248 | 11,525 | 35,226 | 36,203 |
| Regulatory and transfer agent | | 14,070 | 12,684 | 75,926 | 42,781 |
| Salaries and benefits | | 136,915 | 137,525 | 419,293 | 418,900 |
| Share based compensation | 5 | 264,000 | 116,400 | 775,000 | 344,600 |
| Travel | | 5,065 | 6,702 | 15,693 | 20,383 |
| Loss from operations | | 511,138 | 356,699 | 1,532,890 | 1,070,576 |
| Finance income | | 1,848 | 5,834 | 7,361 | 21,966 |
| Foreign exchange gain (loss) | | (21,589) | 37,787 | (32,069) | (103,162) |
| Net loss and comprehensive loss attributable to the equity holders of the Company | | \$ (530,879) | \$ (313,078) | \$ (1,557,598) | \$ (1,151,772) |
| Basic and diluted loss per share | | \$ (0.01) | \$ (0.01) | \$ (0.03) | \$ (0.03) |

The accompanying notes are an integral part of these condensed interim consolidated financial statements

ZAZU METALS CORPORATION

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

In U.S. dollars

| | Common shares # | Common shares \$ | Contributed surplus | Accumulated share based compensation | Accumulated losses | Total |
|---|-----------------------|------------------------|------------------------|--|-----------------------|---------------|
| Balance, January 1, 2013 | 45,274,051 | \$ 41,024,295 | \$ 674,472 | \$ 4,472,400 | \$ (29,727,382) | \$ 16,443,785 |
| Net loss and comprehensive loss for the period | | - | - | - | \$ (1,151,772) | (1,151,772) |
| Share based compensation: | | | | | | |
| Charged to operations | | - | - | 344,600 | - | 344,600 |
| Capitalized to exploration and evaluation assets | | - | - | 30,800 | - | 30,800 |
| Exercise of stock options: | 350,000 | 102,976 | - | - | - | 102,976 |
| Balance, September 30, 2013 | 45,624,051 | \$ 41,127,271 | \$ 674,472 | \$ 4,847,800 | \$ (30,879,154) | \$ 15,770,389 |
| Balance, January 1, 2014 | 45,624,051 | \$ 41,127,271 | \$ 674,472 | \$ 5,079,100 | \$ (31,371,103) | \$ 15,509,740 |
| Net loss and comprehensive loss for the period | | - | - | - | \$ (1,557,598) | (1,557,598) |
| Share based compensation: | | | | | | |
| Charged to operations | | - | - | 775,000 | - | 775,000 |
| Capitalized to exploration and evaluation assets | | - | - | 88,000 | - | 88,000 |
| Exercise of stock options: | 2,285,000 | 617,838 | - | - | - | 617,838 |
| Balance, September 30, 2014 | 47,909,051 | \$ 41,745,109 | \$ 674,472 | \$ 5,942,100 | \$ (32,928,701) | \$ 15,432,980 |

The accompanying notes are an integral part of these condensed interim consolidated financial statements

ZAZU METALS CORPORATION

Condensed Interim Consolidated Statements of Cash Flow

(Unaudited)

In U.S. dollars

| | Note | For the 9 months ended September 30, 2014 | For the 9 months ended September 30, 2013 |
|---|------|--|--|
| Cash flow provided by (used in): | | | |
| Operating activities | | | |
| Loss for the period | | \$ (1,557,598) | \$ (1,151,772) |
| Adjustments for non-cash items: | | | |
| Depreciation | | 1,715 | 2,249 |
| Share based compensation | 5 | 775,000 | 344,600 |
| Unrealized foreign exchange loss | | 32,727 | 106,930 |
| Net changes in non-cash working capital items: | | | |
| Decrease (increase) in trade and other receivables | | (18,127) | 2,882 |
| Decrease in trade and other payables | | (36,179) | (64,520) |
| Net cash used in operating activities | | (802,462) | (759,631) |
| Financing activities | | | |
| Proceeds on issuance of common shares | | 617,838 | 102,976 |
| Net cash from financing activities | | 617,838 | 102,976 |
| Investing activities | | | |
| Purchase of exploration and evaluation assets | | (973,688) | (865,700) |
| Purchase of equipment | | (865) | - |
| Net cash used in investing activities | | (974,553) | (865,700) |
| Effect of exchange rate changes on cash and cash equivalents | | (39,058) | (105,290) |
| Net decrease in cash and cash equivalents | | (1,198,235) | (1,627,645) |
| Cash and cash equivalents at beginning of period | | 1,821,770 | 3,904,164 |
| Cash and cash equivalents at end of period | | \$ 623,535 | \$ 2,276,519 |
| Non-cash transactions: | | | |
| Share based compensation capitalized to exploration and evaluation assets | | \$ 88,000 | \$ 30,800 |
| Equipment depreciation capitalized to exploration and evaluation assets | | 9,839 | 13,966 |
| Decrease in trade and other payables related to exploration and evaluation assets | | (73,144) | (13,782) |

The accompanying notes are an integral part of these condensed interim consolidated financial statements

ZAZU METALS CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2014 and 2013
(Unaudited)
In US dollars

1. Nature of operations and going concern

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 address of its registered office is 350 – 885 Dunsmuir Street, Vancouver, BC, Canada, V6C 1N5.

The Company incorporated Zazu Metals (Alaska) Corporation (“Zazu Alaska”), a subsidiary of the Company, in the State of Alaska, United States on January 18, 2007.

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

At September 30, 2014 the Company did not have enough cash on hand to meet its planned expenditures for the next twelve months. The Company is pursuing financing in order to fund its operations and to continue the advancement of its mineral property but the material uncertainty of raising sufficient funds casts significant doubt about the Company’s ability to continue as a going concern. The Company has historically raised funds primarily through the sales of equity securities for cash and while the Company expects that it will obtain funding through an equity funding, or other means depending on market conditions, there can be no assurance that the Company will be able to obtain such funding or obtain it on acceptable terms.

These condensed interim consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of operations. These financial statements do not reflect the adjustments to carrying values of assets and liabilities that would be necessary should the going concern assumption prove to be inappropriate, and these adjustments could be material.

2. Basis of presentation

These condensed consolidated interim financial statements should be read in conjunction with our audited consolidated annual financial statements for the year ended December 31, 2013.

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 - Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of October 30, 2014, the date the Board of Directors approved the financial statements.

Changes in accounting policies

The Group has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014:

IFRIC 21 - Levies imposed by governments: In May 2013, the IASB issued IFRIC 21, *Levies*, an interpretation of *IAS 37, Provisions, Contingent Liabilities and Contingent Assets*, on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The adoption of IFRIC 21 had no impact on the Group’s financial statements.

ZAZU METALS CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2014 and 2013
(Unaudited)
In US dollars

IAS 36 – Impairment of assets: Small changes have been made to some of the disclosures that are required and are effective for years beginning on/after January 1, 2014. These may result in additional disclosures if the Group recognizes an impairment loss or the reversal of an impairment loss during the period. They will not affect any of the amounts recognized in the financial statements.

Accounting standards issued but not yet applied

The IASB has issued new and amended standards and interpretations which have not yet been adopted by the Group. The following is a brief summary of the new and amended standards and interpretations:

IFRS 9 – Financial Instruments: IFRS 9 *Financial Instruments* (“IFRS 9”) partially replaces IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective on or after January 1, 2018.

3. Equipment and exploration and evaluation assets

| | Lik mineral property | Equipment |
|---|-------------------------------------|------------------|
| Cost | \$ 12,659,085 | \$ 346,019 |
| Accumulated depreciation | - | (270,249) |
| Net book value at January 1, 2013 | \$ 12,659,085 | \$ 75,770 |
| Opening net book value at January 1, 2013 | \$ 12,659,085 | \$ 75,770 |
| Additions | 896,683 | - |
| Depreciation for the period | - | (16,214) |
| Net book value at September 30, 2013 | \$ 13,555,768 | \$ 59,556 |
| Cost | \$ 13,555,768 | \$ 346,019 |
| Accumulated depreciation | - | (286,463) |
| Net book value at September 30, 2013 | \$ 13,555,768 | \$ 59,556 |
| Opening net book value at January 1, 2014 | \$ 13,815,467 | \$ 54,152 |
| Additions | 998,383 | 865 |
| Depreciation for the period | - | (11,554) |
| Net book value at September 30, 2014 | \$ 14,813,850 | \$ 43,463 |
| Cost | \$ 14,813,850 | \$ 346,885 |
| Accumulated depreciation | - | (303,422) |
| Net book value at September 30, 2014 | \$ 14,813,850 | \$ 43,463 |

ZAZU METALS CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2014 and 2013
(Unaudited)
In US dollars

Lik Property

The Group is participating in the exploration and development of the Lik property through a joint arrangement with Teck American, Inc. ("Teck American"), a wholly owned subsidiary of Teck Resources Limited. The Group acquired its interest in the joint arrangement in June 2007 by making a cash payment of \$20,000,000 and granting a 2% net proceeds interest.

The Group is the operator of the joint arrangement and holds a 50% interest in the project. The Group has the right to form a joint venture with Teck American and increase its interest to 80% by incurring qualifying exploration expenditures on or before January 27, 2018. The terms of the joint arrangement 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 amount is currently estimated to be approximately \$44.6 million. As of September 30, 2014 a total of \$21.2 million has been incurred in exploration expenditures pursuant to the terms of the Lik Block Agreement.

Once the Group 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 venture 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 the Group would become the holder of a 100% undivided interest in the Lik property subject only to the pre-existing 1% net profits interest, the 2% net proceeds royalty and the 2% net smelter return royalty.

Acquisition and deferred exploration expenditures made by the Group are as follows:

| | Balance December 31, 2013 | 2014 Expenditures | Balance September 30, 2014 |
|--------------------------------------|---------------------------------|----------------------|----------------------------------|
| Deferred exploration | | | |
| Administration and insurance | \$ 547,332 | \$ 40,624 | \$ 587,956 |
| Assays/analysis | 686,317 | 87,946 | 774,263 |
| Camp, freight and logistics | 1,826,716 | 79,710 | 1,906,426 |
| Drilling | 4,103,733 | 6,623 | 4,110,356 |
| Engineering and other studies | 2,913,655 | 424,272 | 3,337,927 |
| Environmental | 2,069,199 | 240,639 | 2,309,838 |
| Geological | 908,021 | 23,069 | 931,090 |
| Reclamation | 15,000 | 7,500 | 22,500 |
| Share based compensation | 469,400 | 88,000 | 557,400 |
| | 13,539,373 | 998,383 | 14,537,756 |
| Acquisition | 20,276,094 | - | 20,276,094 |
| Write-downs | (20,000,000) | - | (20,000,000) |
| Total deferred property expenditures | \$ 13,815,467 | \$ 998,383 | \$ 14,813,850 |

4. Share capital

The Company's common shares began trading on the Toronto Stock Exchange on December 19, 2007 under the symbol "ZAZ". The Company is authorized to issue an unlimited number of Common Shares with no par value and an unlimited number of Special Voting Shares with no par value. At September 30, 2014 the Company had 47,909,051 shares (2013 – 45,624,051 shares) issued and outstanding.

ZAZU METALS CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2014 and 2013
(Unaudited)
In US dollars

5. Stock options and share based compensation

| | Number of options | Average exercise price (CDN\$) |
|------------------------------------|----------------------|--------------------------------------|
| Opening balance at January 1, 2013 | 3,875,000 | \$ 0.59 |
| Granted | 1,000,000 | 0.80 |
| Exercised | (350,000) | 0.30 |
| Expired | (50,000) | 1.25 |
| Cancelled | (1,190,000) | 1.19 |
| Balance at September 30, 2013 | 3,285,000 | \$ 0.45 |
| Opening balance at January 1, 2014 | 4,475,000 | \$ 0.52 |
| Granted | 2,200,000 | 0.60 |
| Exercised | (2,285,000) | 0.30 |
| Balance at September 30, 2014 | 4,390,000 | \$ 0.67 |

The stock options outstanding at September 30, 2014 expire as follows:

| Expiry Date | Number outstanding | Exercise price (CDN\$) | Market value of shares at time of grant (CDN\$) | Vested and exercisable |
|---------------------------------|-----------------------|---------------------------|--|---------------------------|
| May 2018 | 1,000,000 | 0.80 | 0.70 | 666,667 |
| November 2018 | 1,190,000 | 0.70 | 0.60 | 396,667 |
| May 2019 | 2,200,000 | 0.60 | 0.55 | 733,333 |
| Total stock options outstanding | 4,390,000 | | | 1,796,667 |

Under the terms of the employment agreements between the Group and its senior officers, an officer's unvested stock options will vest immediately and become exercisable if the agreement is terminated by the Group, or if the officer so elects within 120 days of a change of control of the Group.

On May 9, 2014 the Company granted 2,200,000 stock options to directors and officers. 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\$0.60 per share.

The Company recognizes stock based compensation over the vesting period of the underlying options using the fair value calculated by the Black-Scholes option pricing model.

The options granted in May 2014 will vest during the period May 2014 through November 2015. Their weighted average fair value of CDN\$0.41 was estimated on the date of grant using the Black-Scholes option pricing model based on the following assumptions:

| | |
|---------------------------------|---------|
| Expected dividend yield | 0% |
| Expected stock price volatility | 105% |
| Risk free rate | 1.50% |
| Expected life of warrants | 5 years |

ZAZU METALS CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2014 and 2013
(Unaudited)
In US dollars

Option pricing models require the input of highly subjective assumptions including 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.

Accumulated share based compensation is as follows:

| | <u>Amount</u> |
|--------------------------------------|---------------------|
| Opening balance at January 1, 2013 | \$ 4,472,400 |
| Share based compensation | 375,400 |
| Balance at September 30, 2013 | \$ 4,847,800 |
| <hr/> | |
| Opening balance at January 1, 2014 | \$ 5,079,100 |
| Share based compensation | 863,000 |
| Balance at September 30, 2014 | \$ 5,942,100 |

6. Compensation of key management

The remuneration of directors and other members of key management personnel included:

| | For the 3 months ended | | For the 9 months ended | |
|---|-------------------------------|-------------------|-------------------------------|-------------------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Salaries, consulting fees and directors' fees | \$ 139,645 | \$ 140,244 | \$ 418,652 | \$ 421,425 |
| Short-term employee benefits | 9,858 | 10,513 | 29,339 | 31,048 |
| Stock based compensation | 297,300 | 129,300 | 863,000 | 375,400 |
| Total compensation of key management | \$ 446,803 | \$ 280,057 | \$ 1,310,991 | \$ 827,873 |

Key management personnel were not paid post-employment benefits, termination benefits or other long-term benefits during the periods ended September 30, 2014 and 2013.

7. Related party transactions

Balances between the Company and its subsidiary have been eliminated on consolidation and are not disclosed in this note.

| Related party | Nature of transactions |
|--|-------------------------------|
| Peterson Law Professional Corporation ⁽¹⁾ | Legal fees |
| Peterson & Company, LLC ⁽¹⁾ | Legal fees |
| Lincoln Mining Corp. ⁽²⁾ | Office rent |

⁽¹⁾ A company owned or controlled by one of the Company's directors

⁽²⁾ A company whose officers or directors are also directors of the Company

ZAZU METALS CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2014 and 2013
(Unaudited)
In US dollars

The Group incurred fees and expenses with the above mentioned related parties. Related party transactions also include directors' fees and 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.

| | For the 3 months ended September 30, | | For the 9 months ended September 30, | |
|--|---|------------------|---|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Legal fees expensed | \$ 3,860 | \$ 2,477 | \$ 5,900 | \$ 12,152 |
| Legal fees capitalized to exploration and evaluation assets | 1,180 | - | 2,461 | - |
| Office rent | 5,640 | 5,532 | 16,781 | 16,777 |
| Directors' fees | 18,394 | 18,994 | 54,901 | 57,675 |
| Total related party transactions | \$ 29,074 | \$ 27,003 | \$ 80,043 | \$ 86,604 |

At the period end, the Group had the following outstanding balances payable to related parties:

| | September 30, 2014 | September 30, 2013 |
|---|-----------------------|-----------------------|
| Directors' fees | \$ 15,807 | \$ 19,173 |
| Legal fees | 4,680 | - |
| Total related party transactions | \$ 20,487 | \$ 19,173 |

8. Commitments

The following is a summary of the Group's contractual obligations and commitments as at September 30, 2014:

| | Total | 2014 | 2015 – 2017 | 2018 – 2019 | 2020 and beyond |
|---------------------------------|------------|------------|----------------|----------------|--------------------|
| Lik project – US\$ | \$ 874,207 | \$ 439,007 | \$ 185,200 | - | \$ 250,000 |
| Office operation leases – CDN\$ | 13,433 | 6,559 | 6,874 | - | - |
| Employment agreements – US\$ | 670,000 | 121,250 | 548,750 | - | - |

The Department of Natural Resources of the State of Alaska requires the Group, as operator of the Lik project, to post a \$250,000 bond to cover any future reclamation activities necessary upon the abandonment of the mining claims that make up the project. The Group has contracted with a surety bond company to provide this bond.

The Group has entered into employment agreements with its senior officers for an aggregate of \$40,417 per month. These agreements can be terminated by the Group at any time, or by the officer within 120 days of a change of control of the Group, subject to the payment of a lump sum amount ranging between one and two years' salary. At such time any outstanding stock options will immediately vest and, upon the officer's request, the Group will provide an interest free loan for up to six months to exercise any stock options, with the shares held by the Group as collateral. Salary amounts are reviewed annually by the Board of Directors.

ZAZU METALS CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2014 and 2013
(Unaudited)
In US dollars

9. Financial instruments

The Group's financial instruments are classified into the following categories and the following table shows their carrying values.

| | September 30, 2014 | December 31, 2013 |
|--|-------------------------------|------------------------------|
| Loans and receivables ⁽¹⁾ | \$ 623,535 | \$ 1,821,770 |
| Financial liabilities at amortized cost | 100,322 | 216,478 |
| ⁽¹⁾ Consists of: | | |
| Cash and cash equivalents – US currency | 182,678 | 680,189 |
| Cash and cash equivalents – CDN currency | 440,857 | 1,141,581 |

The Group is exposed to certain financial risks, including currency risk, liquidity risk and credit risk.

Capital Risk Management

The Group's objectives of capital management are intended to safeguard the entity's ability to support the Group's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties and support any expansionary plans.

The capital structure of the Group consists of equity attributable to shareholders. The Group manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Group's assets.

To effectively manage the entity's capital requirements, the Group has in place a planning and budgeting process to help determine the funds required to ensure the Group has the appropriate liquidity to meet its operating and growth objectives. The Group has historically relied on issuance of shares to develop the project and may be obliged to do so again in the future.

Currency risk

The Group's financial assets and liabilities consist of cash and cash equivalents, trade receivables and trade payables, some of which are denominated in Canadian dollars. The Group 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 Group also incurs general and administrative costs denominated in Canadian dollars. Accordingly, the Group's general and administrative costs are affected by changes in the foreign exchange rate of the Canadian dollar. The Group has elected not to hedge its exposure to fluctuations in the Canadian dollar by buying fixed rate forward contracts in Canadian dollars.

The Group was exposed to currency risk through the following assets and liabilities denominated in Canadian dollars:

| | September 30, 2014 (CDN\$) | December 31, 2013 (CDN\$) |
|---|---|--|
| Loans and receivables | \$ 493,760 | \$ 1,214,186 |
| Financial liabilities at amortized cost | (61,964) | (154,882) |

Based on the net exposures in the preceding table as at September 30, 2014, 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 \$38,600 (2013 – \$99,600) in the Group's net income (loss).

ZAZU METALS CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2014 and 2013
(Unaudited)
In US dollars

Liquidity risk

Liquidity risk is the potential that the Group will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding. The Group manages liquidity risk through the management of its capital structure. The Group manages and makes adjustments to the capital structure as opportunities arise in the marketplace or as and when funding is required. Historically the Group's primary source of funding has been the sale of equity securities for cash. The Group is not in commercial production on the Lik property and, accordingly, it does not generate cash from operations. See Note 1 for going concern discussion.

Trade and other payables are all due within the current operating period.

Credit risk

The Group's credit risk arises from the non-performance by counterparties to fulfill their contractual obligations. The Group's maximum exposure to credit risk is limited to its cash and cash equivalents and trade and other receivables.

The Group mitigates its credit risk on its cash and cash equivalents by maintaining its funds in bank and investment accounts in one of Canada's largest financial institutions that holds a Standard & Poor's senior debt credit rating of AA-.

Cash and cash equivalents and trade and other receivables at September 30, 2014 and September 30, 2013 were neither past due nor impaired and have no history of overdue payments.

The maximum credit risk exposure at September 30, 2014 and September 30, 2013 is limited to the carrying value of the cash and cash equivalents and trade and other receivables at the period end.

10. Segment reporting

The Group currently operates in one business segment, being the exploration and development of mineral properties. The Group's non-current assets at September 30, 2014 and December 31, 2013 by geographic areas are as follows:

| | Canada | United States | Total |
|--|---------------|----------------------|---------------|
| Non-current assets at December 31, 2013 | \$ 9,304 | \$ 13,860,315 | \$ 13,869,619 |
| Non-current assets at September 30, 2014 | 8,455 | 14,848,858 | 14,651,382 |