ZAZU METALS CORPORATION

Condensed Interim Consolidated Financial Statements
For the 3 and 6 months ended June 30, 2015 and 2014
Unaudited
(in US dollars)



ZAZU METALS CORPORATION

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
In U.S. dollars

	Note	June 30 2015	December 31 2014
Assets			
Current assets			
Cash and cash equivalents		$ 920,652	$ 269,539
Trade and other receivables		79,247	39,573
		999,899	309,112
Non-current assets			
Equipment	4	34,013	39,596
Exploration and evaluation assets	4	15,249,481	15,125,900
Total assets		$ 16,283,393	$ 15,474,608
Liabilities			
Current liabilities			
Trade and other payables		$ 48,281	$ 271,466
Total liabilities		48,281	271,466
Equity attributable to shareholders			
Share capital	6	43,521,638	42,070,409
Contributed surplus		674,472	674,472
Accumulated share based compensation	7	5,966,200	5,773,200
Accumulated losses		(33,927,198)	(33,314,939)
Total equity		16,235,112	15,203,142
Total liabilities and equity		$ 16,283,393	$ 15,474,608
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 June 30, 2015	2014	For the 6 months ended June 30, 2015	2014
Expenses					
Depreciation		$ 479	$ 588	$ 958	$ 1,127
Audit and accounting		14,982	11,546	24,580	23,394
Directors' fees		16,081	18,447	32,077	36,507
Financial advisory fees		4,145	-	4,145	-
Insurance		11,233	11,697	22,930	23,185
Investor and shareholder relations		8,356	28,765	12,821	47,117
Legal fees		1,728	-	1,728	582
Office, rent and communication		10,649	12,125	20,782	23,978
Regulatory and transfer agent		13,595	56,631	33,982	61,856
Salaries and benefits		105,798	138,769	248,857	282,378
Share based compensation	7	60,600	332,200	169,600	511,000
Travel		1,463	1,757	6,515	10,628
Loss from operations		249,109	612,525	578,975	1,021,752
Finance income		-	2,111	332	5,513
Interest expense	5	(1,439)	-	(2,458)	-
Foreign exchange gain (loss)		(20,032)	21,243	(31,158)	(10,480)
Net loss and comprehensive loss attributable to the equity holders of the Company		$ (270,580)	$ (589,171)	$ (612,259)	$ (1,026,719)
Basic and diluted loss per share		$ (0.01)	$ (0.01)	$ (0.01)	$ (0.02)

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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, 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		-	-	-	$ (1,026,719)	(1,026,719)
Share based compensation:						
Charged to operations		-	-	511,000	-	511,000
Capitalized to exploration and evaluation assets		-	-	54,700	-	54,700
Exercise of stock options:	2,285,000	617,838	-	-	-	617,838
Balance, June 30, 2014	47,909,051	$ 41,745,109	$ 674,472	$ 5,644,800	$ (32,397,822)	$ 15,666,559
Balance, January 1, 2015	47,909,051	$ 42,070,409	$ 674,472	$ 5,773,200	$ (33,314,939)	$ 15,203,142
Net loss and comprehensive loss for the period		-	-	-	$ (612,259)	(612,259)
Share based compensation:						
Charged to operations		-	-	169,600	-	169,600
Capitalized to exploration and evaluation assets		-	-	23,400	-	23,400
Private placements of shares:						
Proceeds	7,489,000	1,517,598	-	-	-	1,517,598
Share issue costs		(66,369)	-	-	-	(66,369)
Balance, June 30, 2015	55,398,051	$ 43,521,638	$ 674,472	$ 5,966,200	$ (33,927,198)	$ 16,235,112

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 6 months ended June 30, 2015	2014
Cash flow provided by (used in):			
Operating activities			
Loss for the period		$ (612,259)	$ (1,026,719)
Adjustments for non-cash items:			
Depreciation		958	1,127
Share based compensation	7	169,600	511,000
Unrealized foreign exchange loss		33,322	11,337
Net changes in non-cash working capital items:			
Increase in trade and other receivables		(39,905)	(19,443)
Decrease in trade and other payables		(37,080)	(22,759)
Net cash used in operating activities		(485,364)	(545,457)
Financing activities			
Proceeds on issuance of common shares	6	1,517,598	617,838
Share issue costs		(66,369)	-
Net cash from financing activities		1,451,229	617,838
Investing activities			
Purchase of exploration and evaluation assets		(280,498)	(800,469)
Purchase of equipment		-	(865)
Net cash used in investing activities		(280,498)	(801,334)
Effect of exchange rate changes on cash and cash equivalents		(34,254)	(15,688)
Net increase (decrease) in cash and cash equivalents		651,113	(744,641)
Cash and cash equivalents at beginning of period		269,539	1,821,770
Cash and cash equivalents at end of period		$ 920,652	$ 1,077,129
Non-cash transactions:			
Share based compensation capitalized to exploration and evaluation assets		$ 23,400	$ 54,700
Equipment depreciation capitalized to exploration and evaluation assets		4,625	6,559
Decrease in trade and other payables related to exploration and evaluation assets		(184,942)	(73,144)

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

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 500 – 666 Burrard Street, Vancouver, BC, Canada, V6C 3P6.

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 June 30, 2015 the Company did not have enough cash on hand to meet its planned expenditures for the next twelve months. The Company plans to pursue financing in the future 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. 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 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 interim consolidated financial statements should be read in conjunction with our audited consolidated annual financial statements for the year ended December 31, 2014.

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 - Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). The comparative information has also been prepared on this basis.

These condensed interim consolidated financial statements are based on International Financial Reporting Standards ("IFRS") interpretations and were approved on August 13, 2015 by the Board of Directors.

3. Summary of significant accounting policies

The Group prepares its audited consolidated annual financial statements in accordance with IFRS as issued by IASB. These condensed interim consolidated financial statements follow the same accounting policies and methods of application as our most recent annual financial statements and should be read in conjunction with our most recent annual financial statements.

4. Equipment and exploration and evaluation assets

	Lik mineral property	Equipment
Opening net book value at January 1, 2014	$ 13,815,467	$ 54,152
Additions	1,310,433	865
Depreciation for the year	-	(15,421)
Net book value at December 31, 2014	$ 15,125,900	$ 39,596
Cost	$ 15,125,900	$ 346,884
Accumulated depreciation	-	(307,288)
Net book value at December 31, 2014	$ 15,125,900	$ 39,596
Opening net book value at January 1, 2015	$ 15,125,900	$ 39,596
Additions	123,581	-
Depreciation for the period	-	(5,583)
Net book value at June 30, 2015	$ 15,249,481	$ 34,013
Cost	$ 15,249,481	$ 346,884
Accumulated depreciation	-	(312,871)
Net book value at June 30, 2015	$ 15,249,481	$ 34,013

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 million and granting a 2% net proceeds royalty.

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 $43.3 million. As of June 30, 2015 a total of $21.7 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, 2014	2015 Expenditures	Balance June 30, 2015
Deferred exploration			
Administration and insurance	$ 590,759	$ 6,955	$ 597,714
Assays/analysis	781,026	8,728	789,754
Camp, freight and logistics	1,908,998	3,034	1,912,032
Drilling	4,112,564	3,091	4,115,655
Engineering and other studies	3,533,932	19,004	3,552,936
Environmental	2,391,381	48,727	2,440,108
Geological	933,846	3,142	936,988
Reclamation	22,500	7,500	30,000
Share based compensation	574,800	23,400	598,200
	14,849,806	123,581	14,973,387
Acquisition	20,276,094	-	20,276,094
Write-downs	(20,000,000)	-	(20,000,000)
Total deferred property expenditures	$ 15,125,900	$ 123,581	$ 15,249,481

5. Loan payable

In order to provide working capital while a larger financing was pursued, the Group's Chief Executive Officer loaned the Group a total of $250,000. In February 2015 $150,000 was advanced and in March 2015 a further $100,000 was advanced. These loans were unsecured and payable on demand, with interest calculated at 6% per year and paid monthly. In May 2015, the Group repaid the loans along with the accumulated interest. See also notes 9 – Related party transactions.

6. Share capital

The Company's common shares began trading on the Toronto Stock Exchange on December 19, 2007 under the symbol "ZAZ" and on the OTCQX exchange in the United States on July 28, 2014 under the symbol "ZAZUF". 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.

In May 2015, the Group raised $1,517,598 by issuing 7,489,000 shares in a non-brokered private placement financing, which was completed in two tranches. In tranche one, the Group sold 275,000 common shares at a price of CDN$0.25 per share for equivalent proceeds of $57,000 and 3,750,000 common shares at a price of $0.20 per share for proceeds of $750,000. Tranche two consisted of the sale of 2,464,000 common shares at a price of CDN$0.25 per share for equivalent proceeds of $511,000 and 1,000,000 common shares at a price of $0.20 per share for proceeds of $200,000 including 1,000,000 shares sold to the Group's Chief Executive Officer. The Group incurred $66,369 in costs related to this financing.

At June 30, 2015 the Company had 55,398,051 shares (2014 – 47,909,051 shares) issued and outstanding.

7. Stock options and share based compensation

	Number of options	Average exercise price (CDN$)
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 December 31, 2014	4,390,000	$ 0.67
Opening balance at January 1, 2015	4,390,000	$ 0.67
Balance at June 30, 2015	4,390,000	$ 0.67

The stock options outstanding at June 30, 2015 expire as follows:

Expiry Date	Number outstanding	Exercise price (CDN$)	Vested and exercisable
May 2018	1,000,000	0.80	1,000,000
November 2018	1,190,000	0.70	1,190,000
May 2019	2,200,000	0.60	1,466,668
Total stock options outstanding	4,390,000		3,656,668

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.

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. 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.

8. Compensation of key management

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

	For the 3 months ended June 30,		For the 6 months ended June 30,	
	2015	2014	2015	2014
Salaries, consulting fees and directors' fees	$ 106,081	$ 139,697	$ 243,327	$ 279,007
Short-term employee benefits	10,694	9,627	22,199	19,481
Stock based compensation	69,300	375,000	193,000	565,700
Total compensation of key management	$ 186,075	$ 524,324	$ 458,526	$ 864,188

Key management personnel were not paid post-employment benefits, termination benefits or other long-term benefits during the periods ended June 30, 2015 and June 30, 2014.

9. Related party transactions

Related parties and the nature of the Group's transactions with them are:

Related party	Nature of transactions
Gil Atzmon	Loan
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 officer and director is a director of the Company

In February 2015 and March 2015 Gil Atzmon, the Group's Chief Executive Officer, loaned the Group $150,000 and $100,000 respectively. These loans were unsecured and payable on demand, with interest calculated at 6% per year and paid monthly. In May 2015, the Group repaid the loans along with the accumulated interest.

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.

	For the 3 months ended June 30,		For the 6 months ended June 30,	
	2015	2014	2015	2014
Interest on loan from Chief Executive Officer	$ 1,439	-	$ 2,458	-
Legal fees expensed	1,728	-	1,728	$ 582
Legal fees capitalized to exploration and evaluation assets	808	-	808	-
Legal fees recorded as a share issue cost	6,293	-	6,293	1,281
Office rent	4,926	$ 5,569	9,903	11,142
Directors' fees	16,081	18,447	32,077	36,507
Total related party transactions	$ 31,275	$ 24,016	$ 53,267	$ 49,512

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

	June 30, 2015	December 31, 2014
Directors' fees	$ 14,624	$ 15,744

10. Commitments

The following is a summary of the Group's contractual obligations and commitments as at June 30, 2015:

	Total	2015	2016 – 2018	2019 – 2020	2021 and beyond
Lik project	$ 360,200	$ 12,000	$ 98,200	-	$ 250,000
Office operation leases	8,691	5,939	2,752	-	-

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 $30,000 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 of one month's 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 Compensation Committee of the Board of Directors.

11. Financial instruments

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

	June 30, 2015	December 31, 2014
Loans and receivables [(1)]	$ 920,652	$ 269,539
Financial liabilities at amortized cost	48,281	147,672
[(1)] Consists of:		
Cash and cash equivalents – US currency	465,661	9,324
Cash and cash equivalents – CDN currency	454,991	260,215

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 will most likely 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.

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

	June 30, 2015 (CDN$)	December 31, 2014 (CDN$)
Loans and receivables	$ 568,284	$ 301,876
Financial liabilities at amortized cost	(44,290)	(81,376)

Based on the net exposures in the preceding table as at June 30, 2015, 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 $42,000 (2014 – $66,900) in the Group's net loss.

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 June 30, 2015 were neither past due nor impaired and have no history of overdue payments.

The maximum credit risk exposure at June 30, 2015 is limited to the carrying value of the cash and cash equivalents and trade and other receivables at the period end.

12. 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 June 30, 2015 and December 31, 2014 by geographic areas are as follows:

	Canada	United States	Total
Non-current assets at December 31, 2014	$ 7,867	$ 15,033,835	$ 15,041,702
Non-current assets at June 30, 2015	6,909	15,276,585	15,283,494