ZAZU METALS CORPORATION

Condensed Interim Consolidated Financial Statements
For the 3 months ended March 31, 2016 and 2015
Unaudited
(in US dollars)

ZAZU METALS CORPORATION

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

	Note	March 31 2016	December 31 2015
Assets			
Current assets			
Cash and cash equivalents		$ 364,025	$ 459,458
Receivables and prepaids		31,943	36,323
		395,968	495,781
Non-current assets			
Equipment	4	22,469	24,307
Exploration and evaluation assets	4	15,388,192	15,365,235
Total assets		$ 15,806,629	$ 15,885,323
Liabilities			
Current liabilities			
Trade and other payables		$ 41,358	$ 47,236
Total liabilities		41,358	47,236
Equity attributable to shareholders			
Share capital	5	43,521,638	43,521,638
Contributed surplus		674,472	674,472
Accumulated share based compensation	6	6,037,100	6,033,000
Accumulated deficit		(34,467,939)	(34,391,023)
Total equity		15,765,271	15,838,087
Total liabilities and equity		$ 15,806,629	$ 15,885,323
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 March 31, 2016	For the 3 months ended March 31, 2015
Expenses			
Depreciation		$ 206	$ 479
Audit and accounting		7,355	9,598
Directors' fees		7,390	15,996
Insurance		11,233	11,697
Investor and shareholder relations		132	4,465
Office, rent and communication		4,650	10,133
Regulatory and transfer agent		16,246	20,387
Salaries and benefits		36,376	143,059
Share based compensation	6	4,100	109,000
Travel		-	5,052
Loss from operations		87,688	329,866
Finance income		552	332
Interest expense		-	(1,019)
Foreign exchange gain (loss)		10,220	(11,126)
Net loss and comprehensive loss attributable to the equity holders of the Company		$ (76,916)	$ (341,679)
Basic and diluted loss per share		$ 0.00	$ (0.01)
Weighted average number of shares outstanding		55,398,051	47,909,051

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 deficit	Total
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		-	-	-	(341,679)	(341,679)
Share based compensation:						
Charged to operations		-	-	109,000	-	109,000
Capitalized to exploration and evaluation assets		-	-	14,700	-	14,700
Balance, March 31, 2015	47,909,051	$ 42,070,409	$ 674,472	$ 5,896,900	$ (33,656,618)	$ 14,985,163
Balance, January 1, 2016	55,398,051	$ 43,521,638	$ 674,472	$ 6,033,000	$ (34,391,023)	$ 15,838,087
Net loss and comprehensive loss for the year		-	-	-	(76,916)	(76,916)
Share based compensation:						
Charged to operations		-	-	4,100	-	4,100
Balance, March 31, 2016	55,398,051	$ 43,521,638	$ 674,472	$ 6,037,100	$ (34,467,939)	$ 15,765,271

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 3 months ended March 31, 2016	For the 3 months ended March 31, 2015
Cash flow provided by (used in):			
Operating activities			
Loss for the year		$ (76,916)	$ (341,679)
Adjustments for non-cash items:			
Depreciation		206	479
Share based compensation	6	4,100	109,000
Unrealized foreign exchange loss (gain)		(9,457)	12,120
Net changes in non-cash working capital items:			
Decrease (increase) in trade and other receivables		5,156	(1,487)
Decrease in trade and other payables		(16,326)	(25,863)
Net cash used in operating activities		(93,237)	(247,430)
Financing activities			
Loan proceeds		-	250,000
Net cash from financing activities		-	250,000
Investing activities			
Purchase of exploration and evaluation assets		(13,115)	(76,210)
Net cash used in investing activities		(13,115)	(76,210)
Effect of exchange rate changes on cash and cash equivalents		10,919	(13,660)
Net decrease in cash and cash equivalents		(95,433)	(87,300)
Cash and cash equivalents at beginning of year		459,458	269,539
Cash and cash equivalents at end of year		$ 364,025	$ 182,239
Non-cash transactions:			
Share based compensation capitalized to exploration and evaluation assets		-	$ 14,700
Equipment depreciation capitalized to exploration and evaluation assets		1,632	2,313
Increase (decrease) in trade and other payables related to exploration and evaluation assets		8,210	(24,721)

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 March 31, 2016 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 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 interim consolidated financial statements should be read in conjunction with our audited consolidated annual financial statements for the year ended December 31, 2015.

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements were approved by the Board of Directors on May 9, 2016.

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, 2015	$ 15,125,900	$ 39,596
Additions	239,335	1,245
Loss on disposal of equipment	-	(5,728)
Depreciation for the year	-	(10,806)
Net book value at December 31, 2015	$ 15,365,235	$ 24,307
Cost	$ 15,365,235	$ 307,336
Accumulated depreciation	-	(283,029)
Net book value at December 31, 2015	$ 15,365,235	$ 24,307
Opening net book value at January 1, 2015	$ 15,365,235	$ 39,596
Additions	22,957	-
Depreciation for the period	-	(10,806)
Net book value at March 31, 2016	$ 15,388,192	$ 24,307
Cost	$ 15,388,192	$ 307,336
Accumulated depreciation	-	(283,029)
Net book value at March 31, 2016	$ 15,388,192	$ 24,307

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 $42.2 million. As of March 31, 2016 a total of $21.8 million has been incurred in exploration expenditures pursuant to the terms of the Lik Block Agreement. If the qualifying expenditures are not made before January 2018, the Group remains as operator and its interest stays at 50%.

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, 2015	2016 Expenditures	Balance December 31, 2015
Deferred exploration			
Administration and insurance	$ 641,986	$ 251	$ 642,237
Assays/analysis	800,347	4,669	805,016
Camp, freight and logistics	1,922,042	550	1,922,592
Drilling	4,118,746	1,081	4,119,827
Engineering and other studies	3,586,896	14,996	3,601,892
Environmental	2,442,328	-	2,442,328
Geological	941,596	1,410	943,006
Reclamation	30,000	-	30,000
Share based compensation	605,200	-	605,200
	15,089,141	22,957	15,112,098
Acquisition	20,276,094	-	20,276,094
Write-downs	(20,000,000)	-	(20,000,000)
Total deferred property expenditures	$ 15,365,235	$ 22,957	$ 15,388,192

5. 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.

At March 31, 2016 the Company had 55,398,051 shares (2015 – 55,398,051 shares) issued and outstanding.

6. Stock options and share based compensation

	Number of options	Average exercise price (CDN$)
Opening balance at January 1, 2015	4,390,000	$ 0.67
Granted	600,000	0.25
Balance at December 31, 2015	4,990,000	$ 0.62

Opening balance at January 1, 2015	4,990,000	$ 0.62
Balance at December 31, 2015	4,990,000	$ 0.62

The stock options outstanding at March 31, 2016 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	2,200,000
August 2020	600,000	0.25	200,000
Total stock options outstanding	4,990,000		4,590,000

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.

7. Compensation of key management

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

	3 months ended March 31, 2016	3 months ended March 31, 2015
Salaries, consulting fees and directors' fees	$ 29,890	$137,246
Short-term employee benefits	11,372	11,505
Stock based compensation	4,100	123,700
Total compensation of key management	$ 45,362	$ 272,451

Key management personnel were not paid post-employment benefits, termination benefits or other long-term benefits during the periods ended March 31, 2016 and March 31, 2015.

8. 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.

	3 months ended March 31, 2016	3 months ended March 31, 2015
Interest on loan from Chief Executive Officer	-	$ 1,019
Legal fees expensed	-	-
Legal fees capitalized to exploration and evaluation assets	-	-
Legal fees recorded as a share issue cost	-	-
Office rent	-	4,977
Directors' fees	$ 7,390	15,996
Total related party transactions	$ 7,390	$ 21,992

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

	March 31, 2016	March 31, 2015
Loan from Chief Executive Officer	-	$ 250,000
Interest on loan from Chief Executive Officer	-	997
Directors' fees	$ 7,109	14,421
Total related party transactions	$ 7,109	$ 265,418

9. Commitments

The following is a summary of the Group's contractual obligations and commitments as at March 31, 2016:

	Total	2016	2017 – 2019	2020 – 2021	2022 and beyond
Lik project	$ 12,000	$ 12,000	-	-	-
Office operation leases	1,396	1,396	-	-	-

The Group has entered into employment agreements with its senior officers for an aggregate of $7,500 per month effective January 1, 2016. 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 the greater of (i) a lump sum amount ranging from $25,000 to $30,833, and (ii) the minimum payment prescribed by applicable employment standards legislation. 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.

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.

10. Financial instruments

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

	March 31, 2016	December 31, 2015
Loans and receivables [(1)]	$ 364,025	$ 459,727
Financial liabilities at amortized cost	31,826	47,236
[(1)] Consists of:		
Cash and cash equivalents – US currency	186,339	227,245
Cash and cash equivalents – CDN currency	177,686	232,213

The carrying values of all of the Group's financial assets and liabilities reasonably approximate their fair values.

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 the 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:

	March 31, 2016 (CDN$)	December 31, 2015 (CDN$)
Loans and receivables	$ 230,760	$ 321,384
Financial liabilities at amortized cost	(30,187)	(64,144)

Based on the net exposures in the preceding table as at March 31, 2016, 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 $15,400 (2014 – $3,000) 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-.

The maximum credit risk exposure at March 31, 2016 is limited to the carrying value of the cash and cash equivalents and trade and other receivables at the period end.

11. 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 March 31, 2016 and December 31, 2015 by geographic areas are as follows:

	Canada	United States	Total
Non-current assets at December 31, 2015	$ 1,828	$ 15,387,714	$ 15,389,542
Non-current assets at March 31, 2016	1,622	15,409,039	15,410,661