

**Zara Resources Inc.**

**Unaudited Interim Financial Statements**

**Nine Months Ended April 30, 2014 and 2013**

*(Expressed in Canadian Dollars)*

### ***Management's responsibility for financial reporting***

The accompanying financial statements of Zara Resources Inc. (the "Company" or "Zara") were prepared by management in accordance with International Financial Reporting Standards ("IFRS"). Management acknowledges responsibility for the preparation and presentation of the financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 4 of the financial statements.

Management has established processes which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements and (ii) the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of April 30, 2014 and for the periods presented by the financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

### ***Management's assessment of internal control over financial reporting ("ICFR")***

Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system was designed to provide reasonable assurance to the Company's management regarding the preparation and presentation of the financial statements.

*"Daniel Wettreich"*  
Chief Executive Officer

## **NOTICE OF NO AUDITOR REVIEW OF REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited condensed interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**Zara Resources Inc.**

**Unaudited Interim Statements of Financial Position**  
**as at**  
*(Expressed in Canadian Dollars)*

	<b>April 30, 2014</b>	<b>July 31, 2013</b>
<b>Assets</b>		
<b>Current Asset</b>		
Cash	\$ 27	\$ 207,689
HST recoverable	52,292	26,150
Due from former parent company <i>(Note 10)</i>	629	-
Prepaid expenses	7,474	3,274
	<b>60,422</b>	237,113
<b>Investment in Series A Preferred Shares</b> <i>(Note 9, 10)</i>	<b>100,000</b>	-
<b>Exploration and Evaluation Assets</b> <i>(Note 7)</i>	<b>797,902</b>	1,650,888
	<b>\$ 958,324</b>	<b>\$ 1,888,001</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Trade payables and accrued liabilities <i>(Note 10, 11)</i>	493,092	148,764
Due to related companies <i>(Note 10)</i>	27,355	-
Due to a director <i>(Note 10)</i>	-	845
	<b>520,447</b>	149,609
<b>Shareholders' Equity</b>		
<b>Units Proceeds Received, Units Not Issued</b>	-	100,000
<b>Convertible Preferred Shares</b> <i>(Note 8)</i>	<b>549,500</b>	520,500
<b>Common Share Capital</b> <i>(Note 8)</i>	<b>1,435,222</b>	1,319,306
<b>Reserve for Share-based Compensation</b> <i>(Note 8)</i>	<b>196,800</b>	196,800
<b>Reserve for Warrants</b> <i>(Note 8)</i>	<b>274,500</b>	156,000
<b>Deficit</b>	<b>(2,018,145)</b>	(554,214)
	<b>437,877</b>	1,738,392
	<b>\$ 958,324</b>	<b>\$ 1,888,001</b>

Going concern *(Note 2)*

/s/ Daniel Wettreich  
\_\_\_\_\_, Director

/s/ Mark Wettreich  
\_\_\_\_\_, Director

*The accompanying notes are an integral part of these financial statements*

Zara Resources Inc.

Unaudited Interim Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

	Nine Months ended April 30 2014	Period from October 9, 2012 (date of incorporation) to April 30 2013	Three Months ended April 30 2014	Three Months ended April 30 2013
<b>Operating Expenses</b>				
Bank charges and interest	\$ 439	\$ 311	\$ 39	\$ 311
Consulting fees	40,000	-	37,000	-
Filing and listing fees	18,060	7,365	1,500	4,595
Investor relations and market research	2,220	-	-	-
Legal and professional fees	429,530	15,871	2,250	15,871
Management fees	-	31,500	-	21,000
Office and general expenses	11,522	1,044	5,289	1,044
Transfer agent fees	14,621	7,411	4,403	3,158
Share-based compensation	-	138,300	-	-
Shareholder information	95,811	1,370	26,319	1,370
Write-off of exploration and evaluation assets (Note 7)	501,439	10,000	-	-
	<b>1,113,642</b>	<b>213,172</b>	<b>76,800</b>	<b>47,349</b>
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (1,113,642)</b>	<b>\$ (213,172)</b>	<b>\$ (76,800)</b>	<b>\$ (47,349)</b>
<b>Loss per share - Basic and diluted</b>	<b>\$ (0.03)</b>	<b>\$ (0.01)</b>	<b>(0.00)</b>	<b>\$ (0.00)</b>
<b>Weighted average number of common shares</b>				
Basic and diluted	<b>37,275,974</b>	27,530,471	<b>37,275,974</b>	27,530,471

The accompanying notes are an integral part of these financial statements

**Zara Resources Inc.**  
**Unaudited Interim Statement of Changes in Equity**  
*(Expressed in Canadian Dollars)*

	Common Share Capital		Units	Convertible Preferred Share Capital		Reserves			Total Equity	
	Number of Shares	Amount		Number of Shares	Amount	Share-Based Compensation	Warrants	Deficit		
Common shares issued for cash upon incorporation date of October 9, 2012	1	\$ 1		-	\$ -	\$ -	-	\$ -	\$ -	\$ 1
Issued for exploration and evaluation assets and cash acquired from parent company (Note 7)	25,000,000	400,000		-	-	-	-	-	-	400,000
Issued on acquisition of exploration and evaluation assets (Note 7)	8,305,096	830,510		-	-	-	-	-	-	830,510
Valuation of warrants on acquisition of Exploration and evaluation assets (Note 8)		(8,000)					8,000			
Issued on private placement	833,333	100,000								100,000
Units proceeds received, units not issued (Note 12)			\$ 100,000							100,000
Valuation of warrants issued on private placement (Note 8)		(113,000)					113,000			-
Shares issued on debt settlement (Note 8)	1,247,534	144,795		-	-	-	-	-	-	144,795
Valuation of warrants issued on debt settlement (Note 8)	-	(35,000)					35,000			-
Share-based compensation (Note 8)	-	-				196,800	-			196,800
Convertible Series A preferred shares issued on acquisition of exploration and evaluation assets (Note 7)	-	-		455,000	45,500	-	-	-	-	45,500
Convertible Series B preferred shares issued on acquisition of exploration and evaluation assets (Note 7)	-	-		4,750,000	475,000	-	-	-	-	475,000
Loss for the period	-	-	-	-	-	-	-	(554,214)	(554,214)	(554,214)
<b>Balance at July 31, 2013</b>	<b>35,385,964</b>	<b>\$ 1,319,306</b>	<b>\$ 100,000</b>	<b>5,205,000</b>	<b>\$ 520,500</b>	<b>\$ 196,800</b>	<b>\$ 156,000</b>	<b>\$ (554,214)</b>	<b>\$ 1,738,392</b>	
Units consisting of Convertible Series C preferred shares and warrants issued for cash (Note 8)	-	-	(100,000)	833,333	33,333	-	66,667	-	-	-
Share issue costs (Note 8)					(4,333)		(8,667)			(13,000)
Distribution in kind (Note 8)	-	-	-	-	-	-	-	(358,000)	(358,000)	(358,000)
Effects of loss in control (Note 13)	-	-	-	-	-	-	-	7,711	7,711	7,711
Shares issued on debt settlement (Note 8)	2,948,416	176,416	-	-	-	-	-	-	-	176,416
Valuation of warrants issued on debt settlement (Note 8)	-	(60,500)	-	-	-	-	60,500	-	-	-
Loss for the period	-	-	-	-	-	-	-	(1,113,642)	(1,113,642)	(1,113,642)
<b>Balance at April 30, 2014</b>	<b>38,334,380</b>	<b>\$ 1,435,222</b>	<b>\$ -</b>	<b>6,038,333</b>	<b>\$ 549,500</b>	<b>\$ 196,800</b>	<b>\$ 274,500</b>	<b>\$ (2,018,145)</b>	<b>\$ 437,877</b>	

The accompanying notes are an integral part of these financial statements

Zara Resources Inc.

Unaudited Interim Statements of Cash Flows

(Expressed in Canadian Dollars)

	Nine Months ended	Period from October 9, 2012 (date of incorporation) to	Three Months ended	
	April 30 2014	April 30 2013	April 30 2014	April 30 2013
<b>Operating Activities</b>				
Loss for the period	\$ (1,113,642)	\$ (213,172)	\$ (76,800)	\$ (47,349)
<b>Non-cash items included in comprehensive loss:</b>				
Share-based compensation	-	138,300	-	-
Write-off of exploration and evaluation assets (Note 7)	501,439	10,000	-	-
Settlement of expenses with non-cash common share consideration (Note 8)	176,416	-	-	-
Effects of loss in control (Note 13)	7,711	-	-	-
	<b>(428,076)</b>	<b>(64,872)</b>	<b>(76,800)</b>	<b>(47,349)</b>
<b>Changes in non-cash working capital:</b>				
HST recoverable	(26,142)	(3,514)	(4,124)	(2,531)
Prepaid expenses	(4,200)	(10,185)	(2,145)	(10,185)
Trade payables and accrued liabilities	334,328	42,042	72,995	28,660
<i>Cash Used in Operating Activities</i>	<b>(124,090)</b>	<b>(36,529)</b>	<b>(10,074)</b>	<b>(31,405)</b>
<b>Financing Activities</b>				
Cash received on asset transfer from parent company	-	100,000	-	-
Share issue costs	(3,000)	-	(3,000)	-
Issuance of common shares	-	1	-	-
Due to director	(845)	-	-	-
Due from former parent	(629)	-	9,670	(4,674)
Due to related companies	27,355	-	3,170	-
<i>Cash from Financing Activities</i>	<b>22,881</b>	<b>100,001</b>	<b>9,840</b>	<b>(4,674)</b>
<b>Investing Activities</b>				
Investment in Series A Preferred Shares (Note 8)	(100,000)	-	-	-
Additions to exploration and evaluation assets (Note 7)	(6,453)	(3,834)	-	(3,294)
<i>Cash Used in Investing Activities</i>	<b>(106,453)</b>	<b>(3,834)</b>	<b>-</b>	<b>(3,294)</b>
<b>Increase (decrease) in cash during the period</b>	<b>(207,662)</b>	<b>59,638</b>	<b>(234)</b>	<b>(39,373)</b>
<b>Cash – beginning of period</b>	<b>207,689</b>	<b>-</b>	<b>261</b>	<b>99,011</b>
<b>Cash – end of period</b>	<b>\$ 27</b>	<b>\$ 59,638</b>	<b>\$ 27</b>	<b>\$ 59,638</b>

The accompanying notes are an integral part of these financial statements

# **Zara Resources Inc.**

## **Notes to Unaudited Interim Financial Statements**

**For the nine months ended April 30, 2014 and 2013**

**(Expressed in Canadian Dollars)**

### **1. Governing Statutes and Nature of Operations**

Zara Resources Inc. ("Zara" or "the Company") was incorporated on October 9, 2012 in the province of Ontario. On July 3, 2013 the Company received its Certificate of Continuation and is now a company governed under the British Columbia Business Corporations Act. The Company is engaged in the business of the acquisition, exploration and development of mining properties in Canada. At the period end, Zara is 35.1% owned by GreenBank Capital Inc. and 23.4% owned by Winston Resources Inc., both Canadian public companies. The Company is a public company whose common shares are listed for trading on the CSE under the symbol "ZRI". The head office of the Company is located at 208 Queens Quay West, Suite 2506, Toronto, Ontario M5J 2Y5.

### **2. Going Concern Assumption**

These financial statements have been prepared on the basis of accounting principles applicable to a going concern. The use of these principles assumes that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge its liabilities in the normal course of operations. The Company is newly incorporated and has recently acquired its first exploration and evaluation assets ("E&EA"), as such active exploration has not commenced. It is unknown whether the E&EA contain reserves that are economically recoverable. As a newly incorporated Company, that is commencing active operations; it incurs operating losses, which casts significant doubt about the Company's ability to continue as a going concern.

The business of exploration involves a high degree of risk, as such there is no assurance that the Company's expected exploration programs will result in profitable mining operations. Until it is determined that the E&EA contain mineral reserves or resources that can be economically mined, they are classified as exploration and evaluation assets. The Company's continued existence is dependent upon the discovery of economically recoverable reserves and resources, securing and maintaining title and beneficial interest in its E&EA, and making the required payments pursuant to E&EA share purchase agreements. The Company has yet to generate income and cash flows from its operations. There is no assurance that the Company will be able to obtain the external financing necessary to explore, develop and bring to commercial production its E&EA. The Company has no proven history of profitability, which casts doubt as to whether the Company will be able to continue as a going concern should it not be able to obtain the necessary financing to fund working capital and capital expenditures. The ability of the Company to arrange such financing in the future depends in part upon the prevailing capital market conditions as well as the business performance of the Company. If additional financing is raised by the issuance of shares from the treasury of the Company existing shareholders may have their interest diluted. If adequate financing is not available, the Company may be required to relinquish rights to certain of its interests or terminate its operations.



# Zara Resources Inc.

## Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

### 3. (a) Statement of Compliance

These interim financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) using accounting policies in full compliance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC")

These financial statements were authorized for issuance by the Board of Directors of the Company on June 9, 2014.

### (b) Basis of Presentation

These interim financial statements have been prepared on a going concern basis, under the historical cost convention, except fair value through profit and loss assets which are carried at fair value, and have been prepared using the accrual basis of accounting, as explained in the accounting policies set out in Note 4.

These interim financial statements are presented in Canadian Dollars, which is the functional currency of the Company.

### 4. Significant Accounting Policies

These financial statements have been prepared by management in accordance with IFRS. Outlined below are those policies considered particularly significant:

#### ***Principles of consolidation***

The comparative financial statements at July 31, 2013 include the accounts of the Company and its wholly-owned subsidiary Leo Resources Inc ("Leo"), which was incorporated on March 18, 2013. During the period ended April 30, 2014, the Company completed a plan or arrangement with Leo as detailed in Note 9 of the financial statements. As a result, at April 30, 2014, Leo was no longer a subsidiary of the Company. On consolidation at July 31, 2013, all intercompany transactions and balances were eliminated.

#### ***Significant Estimates and Judgments***

The preparation of these consolidated financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses.

# Zara Resources Inc.

## Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

### 4. Significant Accounting Policies (Continued)

#### ***Significant Estimates and Judgments*** (continued)

Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to impairment assessments of E&EA, recoverability of HST and the valuation of share-based payments. The most significant judgements relate to the use of the going concern assumption in the preparation of the financial statements, the recognition of deferred income tax assets and liabilities, and the determination of the economic viability of exploration and evaluation assets.

#### ***Related Party Transactions***

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be Individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

#### ***Deferred income taxes***

Deferred income taxes are provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing in the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is expected to be realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position. Deferred income taxes relating to items recognized directly in equity are recognized in equity and not in the statement of comprehensive income.

# Zara Resources Inc.

## Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

### 4. Significant Accounting Policies (Continued)

#### *Deferred income taxes* (Continued)

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

#### *Impairment of non-financial assets*

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that these assets suffer an impairment in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying amount, its carrying amount is reduced to its recoverable amount with a corresponding impairment loss recognized in the statement of comprehensive income in the period of impairment.

If an impairment loss reverses in a subsequent period then the carrying amount of the asset is increased to its revised value to the extent that the increased carrying amount does not exceed its original carrying amount at the initial date of acquisition.

#### *Exploration and evaluations assets ("E&E")*

E&E assets consist of exploration and mining concessions, options and contracts. Acquisition costs, lease costs and exploration costs are capitalized and deferred until such time as the asset is put into production or the properties are disposed of either through sale or abandonment.

E&E costs consist of:

- Acquisition of exploration properties;
- Gathering exploration data through topographical and geological studies;
- Exploratory drilling, trenching and sampling;
- Determining the volume and grade of the resource;
- Test work on geology, metallurgy, mining, geotechnical and environmental; and
- Conducting engineering, marketing and financial studies.

#### *Comprehensive loss*

Comprehensive loss is the change in equity of the Company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes to equity during a period except those resulting from investments by owners and distributions to owners.

Comprehensive loss is comprised of net loss for the period and other comprehensive income/loss. The standard requires certain gains and losses that would otherwise be recorded as part of net loss to be presented in "other comprehensive income" until they are considered appropriate to recognize into net loss.

The Company had no comprehensive income or loss transactions, other than its net loss, nor has the Company accumulated other comprehensive income/loss during the period presented.

# Zara Resources Inc.

## Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

### 4. Significant Accounting Policies (Continued)

#### ***Equity Settled Transactions***

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share based compensation reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

#### ***Share Capital***

Financial instruments issued by the Company are treated as equity only to the extent that they do not meet the definition of a financial liability. The Company's ordinary common shares are classified as equity instruments. Incremental Direct costs directly attributable to the issue of new shares are recognized in equity as a reduction from the gross proceeds received from the issued shares. The convertible preferred shares are classified as equity as they are non-redeemable and only convertible into common shares of Zara's common shares at the sole discretion of the Company.

#### ***Financial instruments***

##### Fair value through profit or loss

Financial assets that are held with the intention of generating profits in the near term are classified as held for trading. In addition, any other financial assets can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income or expense during the period.

# Zara Resources Inc.

## Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

### 4. Significant Accounting Policies (continued)

#### **Financial instruments** (Continued)

##### Other financial liabilities:

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost of a financial liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition.

Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

##### Financial instruments recorded at fair value:

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The company's cash is considered Level 1 in the hierarchy.

#### **Loss Per Share**

Loss per share is calculated based on the weighted average number of common shares issued and outstanding during the period. In the years when the Company reports a net loss, the effect of potential issuances of common shares are anti-dilutive, therefore, basic and fully diluted loss per common share is the same. The diluted loss per share reflects the potential dilution of common share equivalents, such as the conversion of preferred shares, outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The treasury stock method is used for the assumed proceeds upon exercise of the options and warrants and the conversion of preferred shares that are used to purchase common shares at the average market price during the period. For the period ended April 30, 2014, all the outstanding options, warrants and convertible preferred shares are anti-dilutive.

# Zara Resources Inc.

## Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

### 4. Significant Accounting Policies (Continued)

#### *Future Accounting Policies*

At the date of authorization of these Financial Statements, the IASB has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting period.

- IFRS 9 Financial Instruments  
IFRS 9, Financial Instruments was issued by the IASB and will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). IFRS 9 is effective for annual periods beginning on or after January 1, 2015.
- IAS 32 Offsetting Financial Assets and Liabilities  
IAS 32, this amendment clarifies certain aspects of offsetting and net and gross settlement. The Company has not yet determined the effect of adoption of amendment to IAS 32 on its financial statements.

The Company has not early adopted these standards. The Company is currently assessing the impact the application of these standards may have on the consolidated financial statements of the Company.

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

#### 5. Financial Risk Management

##### ***Financial Risk Management Objectives and Policies***

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management manages financial risks. Where material, these risks will be reviewed and monitored by the Board of Directors. The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

##### ***Financial Risks***

The Company's main financial risk exposure and its financial risk management policies are as follows:

##### ***Credit risk***

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is limited to the carrying value amount carried on the statement of financial position. The Company's asset most susceptible to credit risk is its cash, which is held at a major Canadian bank in a non-interest bearing account, and HST recoverable, which is due from the Canadian government. As such, the risk of loss on these assets is minimal.

##### ***Market Risk***

Market risk is the risk of uncertainty arising primarily from possible commodity market price movements and their impact on the future economic viability of the Company's projects and ability of the Company to raise capital. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis and adjusting operating and exploration budgets accordingly.

##### ***Liquidity Risk***

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity needs by carefully monitoring cash outflows due in day-to-day business. Liquidity needs are monitored in various time bands, including 30-day, 180-day and 360-day lookout periods. As at April 30, 2014, the Company had \$27 in cash. Currently, the Company does not have sufficient funds and will need to raise financing to carry out its planned transaction as detailed in Note 15, and meet general and administration expenses.

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

#### 5. Financial Risk Management (Continued)

The carrying values of the Company's financial instruments approximate fair values.

The Company has designated its cash at fair value through profit and loss. The HST receivable is classified as loans and receivables whereby they are initially recognized at fair value and then subsequently carried at amortized cost. Trade payables and accrued liabilities, due to related companies and due to director are classified as other financial liabilities whereby they are initially recognized at fair value and then measured at amortized cost. The carrying values, which approximate fair values, of the Company's financial instruments are as follows:

	April 30, 2014	July 31, 2013
<u>Financial Assets</u>		
<i>Fair value through profit and loss</i>		
Cash	\$ 27	\$ 207,689
<u>Financial Liabilities</u>		
<i>Other financial liabilities</i>		
Trade payables and accrued liabilities	493,092	148,764
Due to related companies	27,355	-
Due to director	-	845

#### 6. Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of E&EA and to ensure it continues as a going concern. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's managements to sustain future development of the business.

All of the E&EA, in which the Company currently has an interest, are in the exploration stage with no operating revenues; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new E&EA and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.



## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

#### 6. Capital Management (Continued)

There has been significant market turbulence worldwide due to the credit crisis and potential of a global recession. These market conditions have, and are expected to continue to have, an adverse impact on the ability of junior mining exploration companies to secure equity funding. The Company has historically relied on equity financing to raise capital and expects to be able to continue to do so, but its ability to do so may be impacted by the current global situation and economic uncertainties. Management has considered how these conditions have impacted the Company's viability given its current capital structure and considers that until the outcome of future financing activities is known there is considerable uncertainty about the appropriateness of the use of the going concern basis of accounting.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements.

#### 7. Exploration and Evaluation Assets

Ontario Properties	Percent Interest	Balance at July 31, 2013	Property Acquisition Costs	Disposal/ Write-Off	Disposal (Note 9)	Balance at April 30, 2014
Riverbank and Broke Back	100%	\$ 358,000	\$ -	\$ -	\$ (358,000)	\$ -
Pigeon River	100%	702,400	-	(501,439)	-	200,961
Forge Lake	100%	590,488	6,453	-	-	596,941
		\$ 1,650,888	\$ 6,453	\$ (501,439)	\$ (358,000)	\$ 797,902

Ontario Properties	Percent Interest	Balance at October 9, 2012 (Date of Incorporation)	Property Acquisition Costs	Exploration Expenditures	Disposal/ Write-Off	Balance at July 31, 2013
Riverbank and Broke Back	100%	\$ -	\$ 368,000	\$ -	\$ (10,000)	\$ 358,000
Pigeon River	100%	-	700,000	2,400	-	702,400
Forge Lake	100%	-	584,444	6,044	-	590,488
		\$ -	\$ 1,652,444	\$ 8,444	\$ (10,000)	\$ 1,650,888

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

#### 7. Exploration and Evaluation Assets (Continued)

##### Riverbank

On October 12, 2012 Zara entered into a Purchase and Assignment Agreement (the "Agreement") with CNRP Mining Inc ('CNRP'), a company that is under common control. Under the terms of the Agreement Zara agreed to purchase from CNRP all of CNRP's rights, interests, obligations and benefits in an Option Agreement dated August 10, 2011 with Melkior Resources Inc. ("Melkior").

Under the terms of the Option Agreement dated August 10, 2011, the Company has the option to acquire from Melkior up to a 70% ownership interest in the Broke Back and Riverbank mining claims through the earning of two options. Under the first option Zara may earn a 51% interest by incurring \$1.0 million in exploration expenditures by December 14, 2014. After earning and exercising its option for the 51% interest, the Company may earn a second option for a further 19% interest in the mining claims by incurring an additional \$1.0 million in exploration expenditures within twenty-four months of exercising the first option. If the Company incurs exploration expenditures in excess of \$1.0 million prior to December 14, 2014 then the amount in excess of \$1.0 million shall be carried over and shall qualify and be accounted for as expenditures to effect the second option.

In consideration for the assignment of the Agreement, The Company issued 25.0 million common shares to CNRP's parent company, Winston Resources Inc. ("Winston"). In exchange for these shares, Winston paid the Company \$100,000 cash and CNRP assigned the Option Agreement to the Company.

Under the terms of the Agreement, there was a contingent consideration whereby the Company was due to issue to CNRP a 10% Promissory Note if expenditures of \$235,000 were made on the Riverbank property and Brokeback property prior to December 2012. Such expenditures were not completed, and in accordance with the agreement, the contingent consideration was not due or paid.

On January 23, 2013, the Company acquired 100% of the Riverbank/Brokeback claims from Melkior, and accordingly the Option Agreement became null and void. The consideration was \$68,000 payable by the issuance of 225,000 common shares of the Company at a fair value of \$0.10 per share and 455,000 non-voting 5% convertible Series A preference shares of the Company at a fair value of \$0.10 per share. The preference shares annual yield will be payable in common shares of the Company at the prevailing market price, and are convertible at the discretion of the Company into common shares of the Company at the market price at the time of conversion. Riverbank is also subject to a pre-existing 2% NSR.

On January 31, 2013, management determined it would no longer pursue the Brokeback portion of the Riverbank/Brokeback property and the Brokeback claims were allowed to lapse. Accordingly, the cost of that property, which was estimated at \$10,000, has been written off in the statement of loss in the period ended July 31, 2013.

On August 2, 2013, the Company completed its Purchase Agreement (the "Agreement") with its subsidiary Leo Resources Inc. ("Leo") whereby Leo agreed to purchase from the Company, all of Company's rights, interests, obligations and benefits of the Riverbank property by way of a Plan of Arrangement for the amount of \$358,000. (Note 9)

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

#### 7. Exploration and Evaluation Assets (Continued)

##### Pigeon River

On January 7, 2013, the Company acquired 100% of 28 Pigeon River claims located in Ontario from Pele Mountain Resources ("Pele") for a purchase price of \$700,000. The purchase price was paid by the issuance of 2,250,000 common shares of the Company at a fair value of \$0.10 per share and 4,750,000 non-voting 5% convertible Series B preferred shares of the Company at a fair value of \$0.10 per share. The preference shares annual yield is payable in common shares of the Company at the prevailing market price. The property is also subject to a 2% NSR of which 0.5% is granted to Pele and 1.5% is granted to 2212150 Ontario Inc. (operating as Vanex Exploration). The 2,250,000 common shares were valued at \$225,000 and the non-voting convertible 5% preference shares were valued at \$475,000 and were issued during the period ended July 31, 2013.

During the period ended April 30, 2014, management made the decision to abandon 20 of the Pigeon River claims. As a result, the Company recognized a write-off of the evaluation and exploration assets of \$501,439 (2013 – \$10,000).

##### Forge Lake

On April 16, 2013, the Company completed the acquisition of 100% of the Forge Lake Gold Project located in Ontario from Hudson River Minerals Ltd ("HRM") for the sum of \$583,010. The Company acquired the property by the purchase of all the rights, title and interest to that certain Mineral Exploration Agreement dated November 1, 2011 ("the License") between HRM and 3011650 Nova Scotia Ltd. ("Licensor"). The License is subject to an original 5 years with an extension for a further 5 years and the right to convert from a license into a lease with rights to enter commercial production. If the property goes into production, there is a 3.0% royalty, of which the first 1% can be purchased for \$1 Million and the second 1% can be re-purchased for \$1 Million for each 0.5%. As consideration, the Company issued HRM 5,715,780 common shares of the Company at a fair value of \$0.10 per common share. The consideration is subject to an agreement whereby HRM distributes the shares to its shareholders within 18 months and until such time when the distribution takes place the shares cannot be sold and voting rights are to be exercised by Danny Wettreich, the CEO of Zara, under a voting rights agreement.

In addition, the Company issued 2% of the \$583,010 value to the Licensor or \$11,432 payable through the issue of 114,316 common shares during the period ended July 31, 2013 and guaranteed three years of license and tax payments to the Licensor.

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

#### 8. Share Capital

##### (a) Authorized Share Capital

The Company's authorized share capital consists of:

- (i) an unlimited number of voting common shares;
- (ii) an unlimited number of series A non-voting preferred shares
- (iii) an unlimited number of series B non-voting preferred shares
- (iv) an unlimited number of series C non-voting preferred shares

Each series of preferred shares may be converted into common shares at the option of the Company. Each series of preferred shares are convertible into such number of common shares equal to the quotient of the paid-up capital of the preferred shares divided by the market price of the common shares on the date of conversion. Each series of preferred shares are subject to cumulative dividends at the rate of 5% per annum, which is payable in common shares of the Company based upon the prevailing market price of the common shares. At April 30, 2014, no dividend amounts have been declared.

##### (b) *Private placement*

(i) On June 21, 2013, the Company closed a private placement raising gross proceeds of \$100,000. The Company issued 833,333 units at a price of \$0.12 per unit. Each unit is comprised of one common share and two share purchase warrants, with each warrant exercisable into one common share at an exercise price of \$0.12 per share until June 20, 2015. A total of \$113,000 was allocated to the warrants using the Black-Scholes pricing model based on the following assumptions: dividend yield rate of 0%, volatility of 109%, risk free interest rate of 1.23% and an executed life of 2 years.

(ii) On August 1, 2013, the Company completed a private placement of 833,333 Units in the capital of the Company at \$0.12 per unit for the aggregate subscription amount of \$100,000. Each Unit consists of one Series C Preferred Share with a 5% yield payable in common shares of the Company at the prevailing market price and convertible into common shares on a one for one basis and two common share purchase warrants, each warrant being exercisable for 36 months into one common share of the Company at \$0.18 per share. The fair value of the 1,666,666 warrants was \$66,667. Fair value was estimated using the Black-Scholes pricing model based on the following assumptions: dividend yield rate of 0%, volatility of 105%, risk free rate of 1.31%, and an executed life of 3 years. In connection with the private placement, the Company incurred \$13,000 of finder's fees (\$3,000 cash to an arm's length party and \$10,000 to a director which is to be settled in common shares as detailed in Note 15). The proceeds of the private placement will be used for general corporate purposes.

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

#### 8. Share Capital

##### (c) *Shares issued on debt settlement*

(i) On May 24, 2013, the Company effected a conversion of \$10,000 of trade debt into Units of the Company, each Unit comprising of one common share at \$0.11 per share and one warrant exercisable at \$0.1375 and expiring May 24, 2016. The debt conversion resulted in the issuance of 90,909 common shares and 90,909 warrants. The debt was related to legal costs payable to an arm's length legal firm. The fair value of the warrants was \$6,000. Fair value was estimated using the Black-Scholes pricing model based on the following assumptions: dividend yield rate of 0%, volatility of 105%, risk free rate of 1.15%, and an executed life of 3 years.

(ii) On June 6, 2013, the Company effected a conversion of \$20,000 of trade debt into common shares of Zara at \$0.10 per share. The debt conversion resulted in the issuance of 200,000 common shares. No commission was payable in relation to this debt conversion. The debt was related to market research consultancy fees payable to an arm's length party. No commission was payable in relation to this debt conversion.

(iii) On June 24, 2013, the Company effected a conversion of \$41,250 of its trade debt into common shares of Zara at \$0.12 per share. The debt conversion resulted in the issuance of 343,750 common shares. No commission was payable in relation to this debt conversion. The debt was comprised of \$36,000 in consulting fees payable to a director and \$5,250 in video consultancy fees payable to an arm's length party. No commission was payable in relation to these debt conversions.

(iv) On July 2, 2013, the Company effected a conversion of \$49,545 of trade debt into units of the Company, each Unit comprising of one common share at \$0.12 per share and one warrant exercisable at \$0.18 per share and expiring July 2, 2016. The debt conversion resulted in the issuance of 412,875 common shares and 412,875 warrants. The debt was related to legal costs payable to an arm's length legal firm. The fair value of the warrants was \$29,000. Fair value was estimated using the Black-Scholes pricing model based on the following assumptions: dividend yield rate of 0%, volatility of 109%, risk free rate of 1.22%, and an executed life of 3 years. No commission was payable in relation to this debt conversion.

(v) On July 2, 2013, the Company effected a conversion of \$24,000 of trade debt into common shares of Zara at \$0.12 per share. The debt conversion resulted in the issuance of 200,000 common shares. The debt was incurred in June 2013 and related to video consultancy fees payable to an arm's length party. No commission was payable on this debt conversion.

(vi) On November 6, 2013, the Company effected a conversion of \$176,416 of trade debt into units of the Company, each unit comprising of one common share at \$0.06 per share and one warrant exercisable at \$0.09 per share and expiring November 6, 2015. The debt conversion resulted in the issuance of 2,948,416 common shares and 2,948,416 warrants. The debt was related to legal costs payable to an arm's length legal firm. The fair value of the warrants was \$60,500 and was estimated using the Black-Scholes pricing model based on the following assumptions: dividend yield rate of 0%, volatility of 109%, risk free rate of 1.24%, and an executed life of 3 years. No commission was payable in relation to this debt conversion.

**Zara Resources Inc.**

**Notes to Unaudited Interim Financial Statements**

**For the nine months ended April 30, 2014 and 2013**

**(Expressed in Canadian Dollars)**

**8. Share Capital (Continued)**

**(d) Shares issued on acquisition of mineral properties**

On January 7, 2013, the Company issued 2,250,000 common shares at an issue price of \$0.10 per share and 4,750,000 non-voting preference shares for a total of \$700,000. As part of the agreement 200,000 warrants were to be issued to Vanex with an exercise price of \$0.20 per share until January 6, 2015. A total of \$8,000 was allocated to the warrants using the Black-Scholes pricing model based on the following assumptions: dividend yield rate of 0%, volatility of 105%, risk free interest rate of 1.17% and an executed life of 2 years.

**Warrants**

The issued and outstanding warrants balance at April 30, 2014 is comprised as follows:

Date of Expiry	Description	Fair Value	Number of Warrants	Exercise Price
January 6, 2015	Warrants	\$ 8,000	200,000	\$ 0.20
May 24, 2016	Warrants	6,000	90,909	\$ 0.1375
June 21, 2015	Warrants	113,000	1,666,666	\$ 0.12
July 2, 2016	Warrants	29,000	412,875	\$ 0.18
August 1, 2016	Warrants	58,000	1,666,666	\$ 0.18
November 6, 2016	Warrants	60,500	2,948,416	\$ 0.09
		<b>\$ 274,500</b>	<b>6,985,532</b>	

**Stock Options**

The Company has a stock option plan under which the Board of Directors may grant options to acquire common shares of the Company to qualified directors, officers, employees and other service providers. The stock options vest according to the provisions of the individual option agreements approved by the directors' resolutions and have a maximum life of ten years. The plan allows for the issuance of up to 10% of the number of issued and outstanding common shares of the Company at any time on a non-diluted basis.

The following table summarizes the activity in the Plan over the period.

	Fair Value	Number of Options	Weighted Average Exercise Price
<b>Outstanding, October 9, 2012</b> <i>(date of incorporation)</i>		-	\$ -
Granted	196,800	2,850,000	0.103
Cancelled	-	-	-
<b>Outstanding, July 31, 2013 and April 30, 2014</b>	<b>196,800</b>	<b>2,850,000</b>	<b>\$ 0.103</b>
<b>Exercisable, July 31, 2013 and April 30, 2014</b>	<b>196,800</b>	<b>2,850,000</b>	<b>\$ 0.103</b>

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

#### 8. Share Capital (Continued)

The following table sets out the details of the stock options granted and outstanding as at April 30, 2014:

Number of stock options	Remaining contractual life	Exercise price per share	Expiry Date
1,650,000	3.66 years	\$ 0.10	December 28, 2017
800,000	0.66 years	0.10	December 28, 2014
400,000	1.14 years	0.12	June 21, 2015
2,850,000	2.46 years	\$ 0.103	

#### **Share-Based Compensation**

The fair value of the stock options granted and fully vested for the period ended April 30, 2014 was \$Nil (2013 - \$138,300). At April 30, 2014, there were 2,850,000 vested options.

#### **Distributions in Kind**

In August 2013, pursuant to a plan of arrangement with Leo as detailed in Note 9, the Company declared a distribution to its shareholders of record 13,737,500 common shares of Leo at a value of \$358,000. The distribution was on a pro rata basis whereby one share of Leo was issued for every two share of the Company held.

#### 9. Plans of Arrangement

##### (i) Winston Plan of Arrangement

On October 12, 2012, The Company entered into a Plan of Arrangement (the "Winston Plan") to acquire certain assets from Winston, its then parent company. Under the terms of the Winston Plan and during the period ended July 31, 2013, the Company issued 25.0 million common shares to Winston in exchange for \$100,000 cash plus the Riverbank mineral property Option Agreement described in note 7(i) above. Of the Company's shares issued, 2,580,979 shares were immediately transferred to Winston's shareholders as a dividend. Upon completion of the Winston Plan, the Company became a reporting issuer in the Provinces of British Columbia, Alberta and Ontario, and was listed on the CNSX on December 10, 2012 under the symbol "ZRI".

##### (ii) Leo Plan of Arrangement

On March 20, 2013, the Company entered into a Purchase Agreement (the "Agreement") with its subsidiary Leo Resources Inc. ("Leo") Under the terms of the Agreement, Leo agreed to purchase from the Company, all of Company's rights, interests, obligations and benefits of the Riverbank property ("Riverbank") for \$358,000. The Riverbank property consists of 8 unpatented mining claims comprising 87 claim units covering an area of approximately 1,392 hectares. The claims are subject to a pre-existing 2% NSR payable to Melkior Resources Inc. (TSXV: "MKR").

In consideration, Leo issued 13,737,500 common shares of Leo to the Company. In addition, as part of the Agreement, Leo issued to the Company, 100,000 Series A preferred shares for the sum of \$100,000 cash.

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

#### 9. Plans of Arrangement (Continued)

On March 20, 2013, the Company announced that its board of directors has unanimously approved a proposal to spin-off to its shareholders 100% of its shares in Leo. Following the spin-off, Leo will apply for listing its common shares on the CNSX.

The spin-off will be transacted by way of a statutory plan of arrangement (the "Leo Plan") under the Business Corporations Act (British Columbia). Pursuant to the terms of the Leo Plan, the Company will distribute 13,737,500 common shares of Leo to holders of common shares of the Company on the Share Distribution Record Date. Each Company shareholder of record on the Share Distribution Record Date will receive one common share in the capital of Leo for every two common shares in the capital of the Company.

A Special Meeting ("Meeting") of shareholders of the Company was held on May 14, 2013 at which time the shareholders voted to approve Leo Plan and a continuance of the Company into British Columbia. The spin-off is subject to numerous conditions including court approval, and completion of all regulatory filings. The continuance will facilitate the spin off under the Business Corporations Act of British Columbia.

During the period, consent for the continuance was granted in Ontario and in British Columbia. On August 2, 2013 the Leo Plan was approved by the Supreme Court of British Columbia and the purchase by Leo of Riverbank and the spin off to Zara shareholders was completed. Accordingly, effective the date of the Supreme Court approval of the Leo Plan, Leo is no longer a subsidiary of the Company and the Riverbank property is no longer owned by the Company. Leo was listed on the CNSX on August 16, 2013.

#### 10. Related Party Transactions and Remuneration

The Company has incurred management fees of \$Nil (2013 - \$31,500) to Sammiri Capital Inc, a private company controlled by an officer, for the provision of management services. At April 30, 2014, the amount of \$59,325 (July 31, 2013 - \$59,325) related thereto has been included in trade payables and accrued liabilities. The Company has incurred fees of \$50,000 (2013 - \$Nil) to Visa Gold Resources Inc, a private company controlled by a director, for the provision of consulting and finder's fees. At April 30, 2014, the amount of \$50,000 (July 31, 2013 - \$Nil) related thereto has been included in trade payables and accrued liabilities.

The April 30, 2014 amount of \$Nil (July 31, 2013 - \$845) is due to a director of the Company and arose as a result of the officer paying normal operating expenses on behalf of the Company. The due to related companies at April 30, 2014 of \$27,355 consists of due to Leo Resources Inc. in the amount of \$24,185 (July 31, 2013 - \$Nil) and due to a private company controlled by a director in the amount of \$3,170 (July 31, 2013 - \$Nil). The due from former parent company at April 30, 2014 consists of due from Winston Resources Inc. in the amount of \$629 (July 31, 2014 - \$Nil) . All amounts are interest-free with no fixed terms of repayment.

As part of the plan of arrangement with the Leo, the Company subscribed to \$100,000 Series A convertible preferred shares of Leo during the period ended April 30, 2014.



## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

#### 10. Related Party Transactions and Remuneration (Continued)

Related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

#### 11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding for trade purchase relating to exploration activities and administrative activities.

#### 12. Income Taxes

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate. A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rate is as follows:

	April 30, 2014	April 30, 2013
Loss before income taxes	\$ (1,113,642)	\$ (213,172)
Combined statutory rate	<b>26.50%</b>	26.50%
	<b>(295,000)</b>	(56,000)
Stock-based compensation	-	37,000
Write-off of exploration and evaluation assets	<b>133,000</b>	3,000
Tax benefits (not recognized)	<b>162,000</b>	16,000
Income taxes	-	-

As at April 30, 2014, the Company has Canadian non-capital losses of approximately \$966,000 (July 31, 2013 - \$354,000) available for deduction against future Canadian taxable income, the balances of which will expire as follows:

2033	\$ 380,000
2034	586,000
	<u>\$ 966,000</u>

#### **Deferred income tax assets**

The tax effects of temporary differences that give rise to significant portions of future tax assets are as follows:

	April 30, 2014	July 31, 2013
Mineral properties exploration	\$ 133,000	\$ 3,000
Share issue costs	<b>3,000</b>	-
Benefit of losses	<b>256,000</b>	94,000
Less: valuation allowance	<b>(392,000)</b>	(97,000)
	<b>\$ -</b>	<b>\$ -</b>

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

#### 13. Effects of Loss of Control

Pursuant to plans of arrangement as detailed in Note 9, the Company no longer consolidates its investment in Leo effective August 2, 2013. As a result, the Company recorded an adjustment to the opening deficit in the amount of \$7,711.

#### 14. Take-Over Bids

(i) On August 19, 2013, the Company announced its intention to offer to acquire shares of Visible Gold Mines Inc. ("Visible"), Greencastle Resources Ltd. ("Greencastle"), and Altai Resources Inc. ("Altai") (collectively the "Targets"). By take over bid circular dated August 26, 2013, the Company is offering to acquire Shares of the Targets in consideration of the issuance of Zara common shares as follows:

Target	Offer Price	Consideration Payable
Visible	\$0.05 per Visible Share	0.4167 Zara Shares
Greencastle	\$0.14 per Greencastle Share	1.667 Zara Shares
Altai	\$0.17 per Altai Share	1.4167 Zara Shares

The Offer is conditional on, among other things, there being validly deposited under the Offer and not withdrawn at the expiry time, such number of shares of the respective Targets that constitutes at least 50% plus one share, of the outstanding shares of the respective Targets, excluding in the case of Visible the shares beneficially owned by Zara and its related parties (if any).

- (ii) On August 26, 2013 the Company announced they retained the services of a third party corporation to provide information agent and advisory services in connection with the Company's simultaneous offers for 100% of Visible, Greencastle and Altai. The compensation upon closing of the acquisition is an estimated \$275,000.
- (iii) On September 13, 2013, the Bureau de Decision et de Revision (Quebec) ("BDR") issued a cease trade order on the Company's simultaneous bid for Visible, Greencastle and Altai pending correction and translation of all offer documents into French and review by the Autorité des marchés financiers ("AMF").

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the nine months ended April 30, 2014 and 2013

(Expressed in Canadian Dollars)

#### 15. Events After Reporting Period

(a) On May 14, 2014, the Company determined that they would no longer proceed with the take-over bids as detailed in Note 14.

(b) On May 30, 2014, and as amended on June 19, 2014 the Company, announced that it has signed a Letter of Intent ("LOI") and proposes to enter into a definitive binding agreement (the "Agreement") to acquire certain recreational marine assets comprising two recreational submarines, a 10 year lease on a luxury yacht named Avery Claire, and the website [www.LuxAquatica.com](http://www.LuxAquatica.com) offering luxury yacht and diving services ("Lux Aquaticata") for the sum of \$500,000 (the "Consideration").

Subject to numerous conditions, including shareholder and regulatory approvals and the closing of the acquisition of the Lux Aquatica assets, the Company proposes to transfer 100% ownership of its Forge Lake mineral exploration assets in Ontario to Desi Assets Inc ("Desi"), and its Pigeon River mineral exploration property in Ontario to Sonjo Assets Inc ("Sonjo"), both of which are wholly owned subsidiaries of the Company, and will spin off 100% of Desi and Sonjo as a distribution to Company shareholders. The spin-offs will be transacted by way of a statutory plan of arrangement under the Business Corporations Act (British Columbia). Following the spin-offs, Desi and Sonjo will apply for listing of their common shares on the CSE, although there is no guarantee that such listing applications will be successful.

The Letter of intent sets out the basic terms of the Agreement to acquire all rights, title and interest to the Lux Aquatica assets from Chivas Land Limited. The Consideration will be payable \$500,000 by the issuance of 10,000,000 new Company shares at \$0.05 per share. Closing of the Agreement will be subject to compliance with any required governmental and securities regulations, and the approval of a majority of Company shareholders at a special shareholders meeting. Closing of the Agreement will further be subject to the completion of a private placement of no less than 7,000,000 new Company shares at \$0.05 per share higher. Upon closing, a Finders' Fee of 5% of the Consideration will be paid to an unrelated third party and a Negotiation Bonus of 5% of the Consideration will be paid to a director of the Company. It is proposed that the Company will change its business to luxury recreational marine investments, and will change its corporate name to Zara Assets Inc.

(c) During the period, the Company reached an agreement to settle \$206,766 of trade debt into units of the Company, each unit comprising of one common share at \$0.05 per share and one warrant exercisable at \$0.05 for 24 months. The debt conversion has not yet been transacted but will result in the issue of 4,135,320 common shares and 4,135,320 warrants. The debt is related to legal costs payable to an arm's length legal firm. No commission will be payable in relation to this settlement. The actual settlement date of the debt is yet to be determined.

(d) On June 1, 2014, the Company agreed to effect a conversion of \$50,000 of trade debt into warrants to acquire 1,000,000 common shares of the Company at \$0.05 per share or the market price whichever is the higher. The debt is related to consulting and finder's fee services provided by a director of the Company. The debt conversion has not yet been transacted and the actual settlement date of the debt is yet to be determined.