

**Zara Resources Inc.**

**Unaudited Interim Financial Statements**

**Three Months ended October 31, 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 consolidated 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 October 31, 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 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.

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

	October 31, 2014	July 31, 2014
	<i>unaudited</i>	<i>audited</i>
<b>Assets</b>		
<b>Current Asset</b>		
Cash	\$ -	\$ 256
HST recoverable	858	14,336
Due from related company (Note 10)	3,332	4,657
Prepaid expenses	1,694	1,694
<b>Total current assets</b>	<b>5,884</b>	<b>20,943</b>
<b>Non-Current Assets</b>		
Investment in Series A Preferred Shares (Note 9,10)	100,000	100,000
Exploration and Evaluation Assets (Note 7)	804,895	798,442
<b>Total non-current assets</b>	<b>904,895</b>	<b>898,442</b>
<b>Total assets</b>	<b>\$ 910,779</b>	<b>\$ 919,385</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Bank indebtedness – overdraft	\$ 1,118	\$ -
Accounts payables and accrued liabilities (Note 10,11)	412,494	415,822
Due to related companies (Note 10)	106,279	105,778
<b>Total liabilities</b>	<b>519,891</b>	<b>521,600</b>
<b>Shareholders' Equity</b>		
Units Proceeds Received, Units Not Issued	-	-
Convertible Preferred Shares (Note 8)	549,500	549,500
Common Share Capital (Note 8)	1,435,222	1,435,222
Reserve for Share-based Payments (Note 8)	174,900	174,900
Reserve for Warrants (Note 8)	274,500	274,500
Contributed Surplus	21,900	21,900
Deficit	(2,065,134)	(2,058,237)
<b>Total shareholders' equity</b>	<b>390,888</b>	<b>397,785</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 910,779</b>	<b>\$ 919,385</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.**

**Statements of Loss and Comprehensive Loss  
For the Three Months ended October 31,  
(Expressed in Canadian Dollars)**

<i>Unaudited</i>	<b>2014</b>	<b>2013</b>
<hr/>		
<b>Operating Expenses</b>		
Bank charges and interest	\$ 69	\$ 326
Consulting fees (Note 10)	-	3,000
Filing and listing fees	1,500	12,000
Investor relations and market research	-	1,000
Legal and professional fees	1,550	173,128
Office and general expenses	1,325	1,795
Transfer agent fees	2,203	9,492
Shareholder information	250	62,567
	<hr/>	<hr/>
	6,897	263,308
<b>Net loss and comprehensive loss for the period</b>	<hr/> <b>\$ (6,897)</b> <hr/>	<hr/> <b>\$ (263,308)</b> <hr/>
 <b>Loss per share - Basic and diluted (Note 8)</b>	 <b>\$ (0.00)</b>	 <b>\$ (0.01)</b>
	<hr/>	<hr/>
<b>Weighted average number of common shares</b>		
Basic and diluted	37,445,259	35,385,964
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*The accompanying notes are an integral part of these financial statements*

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

	Common Share Capital		Proceeds received Units not issued	Convertible Preferred Share Capital		Reserves		Contributed Surplus	Deficit	Total Equity
	Number of Shares	Amount		Number of Shares	Amount	Share-Based Payments	Warrants			
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 <i>(Note 7)</i>	25,000,000	400,000	-	-	-	-	-	-	-	400,000
Issued on acquisition of exploration and evaluation assets <i>(Note 7)</i>	8,305,096	830,510	-	-	-	-	-	-	-	830,510
Valuation of warrants on acquisition of Exploration and evaluation assets <i>(Note 8)</i>	-	(8,000)	-	-	-	-	8,000	-	-	-
Issued on private placement	833,333	100,000	-	-	-	-	-	-	-	100,000
Units proceeds received, units not issued <i>(Note 8)</i>	-	-	100,000	-	-	-	-	-	-	100,000
Valuation of warrants issued on private placement <i>(Note 8)</i>	-	(113,000)	-	-	-	-	113,000	-	-	-
Shares issued on debt settlement <i>(Note 8)</i>	1,247,534	144,795	-	-	-	-	-	-	-	144,795
Valuation of warrants issued on debt settlement <i>(Note 8)</i>	-	(35,000)	-	-	-	-	35,000	-	-	-
Share-based compensation <i>(Note 8)</i>	-	-	-	-	-	196,800	-	-	-	196,800
Convertible Series A preferred shares issued on acquisition of exploration and evaluation assets <i>(Note 7)</i>	-	-	-	455,000	45,500	-	-	-	-	45,500
Convertible Series B preferred shares issued on acquisition of exploration and evaluation assets <i>(Note 7)</i>	-	-	-	4,750,000	475,000	-	-	-	-	475,000
Loss for the period	-	-	-	-	-	-	-	-	(554,214)	(554,214)
Balance at July 31, 2013 <i>(audited)</i>	35,385,964	\$ 1,319,306	\$ 100,000	5,205,000	\$ 520,500	\$ 196,800	\$ 156,000	\$ -	\$ (554,214)	\$ 1,738,392
Units consisting of Convertible Series C preferred shares and warrants issued for cash <i>(Note 8)</i>	-	-	(100,000)	833,333	33,333	-	66,667	-	-	-
Share issue costs <i>(Note 8)</i>	-	-	-	-	(4,333)	-	(8,667)	-	-	(13,000)
Distribution in kind <i>(Note 8)</i>	-	-	-	-	-	-	-	-	(358,000)	(358,000)
Effects of loss in control <i>(Note 13)</i>	-	-	-	-	-	-	-	-	7,711	7,711
Shares issued on debt settlement <i>(Note 8)</i>	2,948,416	176,416	-	-	-	-	-	-	-	176,416
Valuation of warrants issued on debt settlement <i>(Note 8)</i>	-	(60,500)	-	-	-	-	60,500	-	-	-
Cancellation of stock options <i>(Note 8)</i>	-	-	-	-	-	(21,900)	-	21,900	-	-
Loss for the year	-	-	-	-	-	-	-	-	(1,153,734)	(1,153,734)
Balance at July 31, 2014 <i>(audited)</i>	38,334,380	1,435,222	-	6,038,333	549,500	174,900	274,500	21,900	(2,058,237)	397,785
Cancellation of shares <i>(Note 8)</i>	(5,715,780)	-	-	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	-	-	-	(6,897)	(6,897)
<b>Balance at October 31, 2014 <i>(unaudited)</i></b>	<b>32,618,600</b>	<b>\$ 1,435,222</b>	<b>\$ -</b>	<b>6,038,333</b>	<b>\$ 549,500</b>	<b>\$ 174,900</b>	<b>\$ 274,500</b>	<b>\$ 21,900</b>	<b>\$ (2,065,134)</b>	<b>\$ 390,888</b>

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

**Zara Resources Inc.**  
**Interim Statements of Cash Flows**  
**For the Three Months ended October 31,**  
(Expressed in Canadian Dollars)

<i>Unaudited</i>	2014	2013
<b>Operating Activities</b>		
Net loss for the period	\$ (6,897)	\$ (263,308)
<b>Non-cash items included in net loss:</b>		
Effects of loss in control	-	7,711
	<b>(6,897)</b>	<b>(255,597)</b>
<b>Changes in non-cash working capital:</b>		
HST recoverable	13,478	(38,129)
Prepaid expenses	-	(8,585)
Accounts payable and accrued liabilities	1,673	157,794
<i>Cash Used in Operating Activities</i>	<b>8,254</b>	<b>(144,517)</b>
<b>Financing Activities</b>		
Due to related company	(4,500)	44,699
<i>Cash Provided by Financing Activities</i>	<b>(4,500)</b>	<b>44,699</b>
<b>Investing Activities</b>		
Investment in Series A Preferred Shares <i>(Note 8)</i>	-	(100,000)
Due from related company	1,325	-
Additions to exploration and evaluation assets <i>(Note 7)</i>	(6,453)	(6,453)
<i>Cash Used in Investing Activities</i>	<b>(5,128)</b>	<b>(106,453)</b>
<b>Net change in cash for the period</b>	<b>(1,374)</b>	<b>(206,271)</b>
<b>Cash – beginning of period</b>	<b>256</b>	<b>207,689</b>
<b>Cash (Bank indebtedness) – end of period</b>	<b>\$ (1,118)</b>	<b>\$ 1,418</b>

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

# Zara Resources Inc.

## Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 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 and exploration of mining properties in Canada. At the period end, Zara is 41.3% owned by GreenBank Capital Inc. and 27.4% owned by Winston Resources Inc., both Canadian public companies. The Company is a public company whose common shares are listed for trading on the Canadian Securities Exchange ("CSE") under the symbol "ZRI". The head office of the Company is located at 208 Queens Quay West, Suite 2506, Toronto, Ontario M5J 2Y5, Canada.

### 2. Going Concern Assumption

These financial statements have been prepared on the basis of accounting principles applicable to a going concern under International Financial Reporting Standards ("IFRS"). The use of these principles under IFRS 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 has recently acquired its first exploration and evaluation assets ("E&E"), as such active exploration has not commenced. It is unknown whether the E&E 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&E 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&E, and making the required payments pursuant to E&E 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 if E&E are proven successful and bring to commercial production its E&E. 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.

As at October 31, 2014, the Company has yet to generate revenues from operations and had a deficit of \$2,065,134 (July 31, 2014 - \$2,058,237). The Company is actively seeking additional sources of financing. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern that these uncertainties are material and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore to realize its assets and discharge its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. These adjustments could be material.



# Zara Resources Inc.

## Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 2014 and 2013

(Expressed in Canadian Dollars)

### 3. Statement of Compliance and Basis of Presentation

#### (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 December 19, 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.

### 4. Significant Accounting Policies

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

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

The preparation of these financial statements in accordance with IFRS requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the 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.

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.

The most significant estimates relate to impairment assessments of E&E, recoverability of HST and the valuation of share-based payments. Other major assumptions is the fair value of related party accounts payable and accounts receivable and the classification of current and non-current. 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.

After capitalization, E&E assets are reviewed for indicators of impairment at each reporting period under IFRS 6. Determining if there are any facts and circumstances indicating impairment loss is a subjective process involving judgment and a number of estimates and interpretations in many cases. When an indication of impairment loss exists, the recoverable amount of the cash generating unit ("CGU") must be estimated. Identifying the CGUs requires management judgment. In testing CGUs for impairment, management estimates the recoverable amount of the CGUs. This requires management to make several assumptions as to future events or circumstances.

# Zara Resources Inc.

## Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 2014 and 2013

(Expressed in Canadian Dollars)

### 4. Significant Accounting Policies (Continued)

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

The Company records all share-based compensation using the fair value method. The Company uses the Black-Scholes option pricing model to determine the fair value of share-based compensation. The main factor affecting the estimates of the fair value of stock options is the stock price, expected volatility used and the expected duration of the instrument. The Company currently estimates the expected volatility of its common shares based on comparable information derived from the trading history of guideline public companies which are in a similar situation to the Company taking into consideration the expected life of the options.

The assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for its operations and working capital requirements as discussed in Note 2.

#### *Related Party Transactions and Disclosures*

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 are in the normal course of business and have commercial substance and are measured at the fair value.

#### *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 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 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 reporting 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 reporting 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.

# Zara Resources Inc.

## Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 2014 and 2013

(Expressed in Canadian Dollars)

### 4. Significant Accounting Policies (Continued)

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

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.

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 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 reporting 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 any impairment in value, except for E&E which is first assessed against the indicators of IFRS 6. If any such indication exists, the recoverable amount of the asset (or CGU) 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.

#### *Functional currency*

The Company's presentation and functional currency is the Canadian dollar.

#### *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 moved to a mining asset (if meets the economic and feasible stage) or the properties are disposed of either through sale or abandonment.

E&E costs consist of such items as:

- 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.

# Zara Resources Inc.

## Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 2014 and 2013

(Expressed in Canadian Dollars)

### 4. Significant Accounting Policies (Continued)

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

E&E shall be assessed for impairment when one or more of the following facts and circumstances indicate that a specific CGU should be tested for impairment:

- The period for which the entity has the right to explore in the specific area has expired during the financial statement period or will expire in the near future and is not expected to be renewed.
- Substantive expenditures on further exploration for, and evaluation of, mineral resources in the specific area is neither budgeted nor planned.
- Exploration for and evaluation of mineral resources in the specific area has not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or sale.

The Company estimates the recoverable amount of each CGU, on the basis of areas of interest. Management groups mineral claims that are contiguous and specific to an area that encompasses the same prospective minerals, into one area of interest and assigns a name to this mineral property.

Recoverable amount is the higher of fair value less disposal costs and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. E&E are also tested for impairment before the assets are transferred to development properties.

#### ***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 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.

When the share-based payment arrangement has been cancelled or the terms have expired the fair value assigned to the share-based payment arrangement is transferred to contributed surplus.

# Zara Resources Inc.

## Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 2014 and 2013

(Expressed in Canadian Dollars)

### 4. Significant Accounting Policies (Continued)

#### ***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 common shares are classified as equity instruments. Incremental 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

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

##### Fair value through profit or loss (FVTPL)

Financial assets that are held with the intention of generating profits in the near term are classified as held for trading within FVTPL. 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 as gain or loss in the statement of loss and comprehensive loss during the period.

##### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such by management or not classified in any of the other categories. Available-for-sale financial assets are measured at fair value with changes recognized in other comprehensive income. Upon sale or impairment, the accumulated fair value adjustments recognized in other comprehensive income are recorded in the statements of loss and comprehensive loss.

Available-for-sale financial assets include investment in Series A Preferred Shares of Leo Resources Inc.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of loss and comprehensive loss. The losses arising from impairment are recognized in the statement of loss and comprehensive loss. The Company has classified HST recoverable and due from related company as loans and receivable.

##### 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. The effective interest rate (or amortized cost method) 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.

# Zara Resources Inc.

## Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 2014 and 2013

(Expressed in Canadian Dollars)

### 4. Significant Accounting Policies (Continued)

#### *Financial instruments (Continued)*

##### 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 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.

#### **Change in accounting policies**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after January 1, 2013. The following new standards have been adopted:

(i) IFRS 10 – Consolidated Financial Statements (“IFRS 10”) was issued by the IASB in May 2011. IFRS 10 is a standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure to variable returns from an investee; and the ability to use power to affect the reporting entity's returns. At August 1, 2013, the Company adopted this pronouncement and there was no impact on the Company's financial statements.

(ii) IFRS 11 – Joint Arrangements (“IFRS 11”) was issued by the IASB in May 2011. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: parties having rights to the assets and obligations for the liabilities of an arrangement, and rights to the net assets of an arrangement. Entities in the former case account for assets, liabilities, revenues and expenses in accordance with the arrangement, whereas entities in the latter case account for the arrangement using the equity method. At August 1, 2013, the Company adopted this pronouncement and there was no impact on the Company's financial statements.

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 2014 and 2013

(Expressed in Canadian Dollars)

#### 4. Significant Accounting Policies (Continued)

##### *Change in accounting policies*

(iii) IFRS 12 – Disclosure of Interests in Other Entities (“IFRS 12”) was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including unconsolidated structured entities. At August 1, 2013, the Company adopted this pronouncement and there was no impact on the Company’s financial statements.

(iv) IFRS 13 - Fair Value Measurement (“IFRS 13”) was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a definition of fair value and a single source of fair value measurement considerations. IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. It also establishes disclosures about fair value measurement. The Company’s adoption of IFRS 13, on August 1, 2013, did not have a financial impact upon the financial statements. The disclosures have been provided accordingly.

(v) In October 2011, the IASB issued IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine. This interpretation requires the capitalization and depreciation of stripping costs in the production phase if an entity can demonstrate that it is probable future economic benefits will be realized, the costs can be reliably measured and the entity can identify the component of the ore body for which access has been improved. At August 1, 2013, the Company adopted this pronouncement and there was no impact on the Company’s financial statements.

(vi) IAS 27 - Separate Financial Statements (“IAS 27”) was effective for annual periods beginning on or after January 1, 2013, as a result of the issue of the new standards, IAS 27 has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. At August 1, 2013, the Company adopted this pronouncement and there was no impact on the Company’s financial statements.

##### *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”)  
IFRS 9 was issued by the IASB and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires an expected loss impairment method to be used, replacing the incurred loss impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

# Zara Resources Inc.

## Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 2014 and 2013

(Expressed in Canadian Dollars)

### 4. Significant Accounting Policies (Continued)

#### *Future Accounting Policies*

- IAS 32 Offsetting Financial Assets and Liabilities ("IAS 32")  
IAS 32, this amendment clarifies certain aspects of offsetting and net and gross settlement. The Company has determined there will be no effect on adoption of amendment to IAS 32 on its financial statements. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014.
- IAS 36 Impairment of Assets ("IAS 36")  
IAS 36 is effective for annual periods beginning on or after July 1, 2014. IAS 36 was amended to address the disclosure required for the recoverable amount of impaired assets or CGU for periods in which an impairment loss has been recognized or reversed. There will be no expected impact on the results of operations or presentation.

Various other accounting pronouncements (such as IFRS 14, IFRS 15, and the various annual improvements) that have no material impact to the Company are not included above. The Company has not early adopted these standards. The Company is currently assessing the impact the application of these standards may have on the financial statements of the Company.

### 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, with the Board of Directors oversight, 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 assets most susceptible to credit risk is its cash, which is held at a Canadian chartered bank in a non-interest bearing account, HST recoverable, which is due from the Canadian government, as well as the amount due from related company, as described in Note 10, and is expected to be recoverable. 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.



**Zara Resources Inc.**

**Notes to Unaudited Interim Financial Statements**

**For the three months ended October 31, 2014 and 2013**

**(Expressed in Canadian Dollars)**

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

***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 October 31, 2014, the Company had \$256 in cash. Currently, the Company does not have sufficient funds and will require financing to carry out an exploration and acquisition program, fund the property purchase obligations, and meet general and administration expenses for the next twelve months.

***Commodity Risk***

The value of the Company's exploration and evaluation assets are related to the price of gold and other mineral commodities, and the outlook for these mineral commodities. Adverse changes in the price of gold can also significantly impair the economic viability of the Company's projects, along with the ability to obtain future financing.

The carrying values of the Company's financial instruments carried at amortized cost approximate fair values due to their short duration.

The Company has designated its cash (bank overdraft) at fair value through profit and loss. The HST recoverable and due from related company are classified as loans and receivables whereby they are initially recognized at fair value and then subsequently carried at amortized cost. Investments in preferred shares of former parent company are classified as available for sale assets. Accounts payables and accrued liabilities, due to related companies and due to a 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:

	2014	2013
<u>Financial Assets</u>		
<i>Fair value through profit or loss</i>		
Cash (bank overdraft)	\$ (1,118)	\$ 256
<i>Loans and receivables</i>		
HST Recoverable	857	14,336
Due from related company	3,332	4,657
<i>Available for sale assets</i>		
Investment in preferred shares	100,000	100,000
<u>Financial Liabilities</u>		
<i>Other financial liabilities</i>		
Accounts payables and accrued liabilities	417,494	415,822
Due to related companies	101,279	105,778

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 2014 and 2013

(Expressed in Canadian Dollars)

#### 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 and exploration of E&E 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&E, 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&E 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.

The Company's capital management objectives, policies and processes have remained unchanged during the period ended October 31, 2014. The Company is not subject to any capital requirements imposed by a lending institution.

#### 7. Exploration and Evaluation Assets

Ontario Properties	Percent Interest	Balance at July 31, 2014	Exploration Expenditures	Impairment	Disposal (Note 9)	Balance at October 31, 2014
Pigeon River	100%	\$ 201,501	\$ -	\$ -	\$ -	\$ 201,501
Forge Lake	100%	596,941	6,453	-	-	603,394
		\$ 798,442	\$ 6,453	\$ -	\$ -	\$ 804,895

Ontario Properties	Percent Interest	Balance at July 31, 2013	Exploration Expenditures	Impairment	Disposal (Note 9)	Balance at July 31, 2014
Riverbank and Broke Back	100%	\$ 358,000	\$ -	\$ -	\$ (358,000)	\$ -
Pigeon River	100%	702,400	540	(501,439)	-	201,501
Forge Lake	100%	590,488	6,453	-	-	596,941
		\$ 1,650,888	\$ 6,993	\$ (501,439)	\$ (358,000)	\$ 798,442

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 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 impaired in the statement of loss in the period ended July 31, 2013.

On August 2, 2013, the Company completed its Purchase Agreement with its then 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 three months ended October 31, 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 year ended July 31, 2014, management made the decision to abandon 20 of the Pigeon River claims. As a result, the Company recognized an impairment of the evaluation and exploration assets of \$501,439 (July 31, 2013 – \$10,000 re: Brokeback).

##### 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.

On October 17, 2014, the Company has cancelled 5,715,780 common shares based on the Mining Claim Assignment Agreement dated April 16, 2013 between the Company and Hudson River Minerals Ltd ("Hudson") due to Hudson failing to distribute the 5,715,780 Company common shares to Hudson shareholders within the required time frame.

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 2014 and 2013

(Expressed in Canadian Dollars)

#### 8. Share Capital

##### (i) *Authorized Share Capital*

The Company's authorized share capital consists of:

- (a) an unlimited number of voting common shares;
- (b) an unlimited number of series A non-voting preferred shares
- (c) an unlimited number of series B non-voting preferred shares
- (d) 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 original issue price divided by the current market price 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 October 31, 2014, no dividend amounts have been declared.

##### (ii) *Private placements*

(a) 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 expected life of 2 years.

(b) 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. Fair value for the warrants as estimated using the Black-Scholes pricing model based on the following assumptions: dividend yield rate of 0%, volatility of 109%, risk free rate of 1.31%, and an expected life of 3 years yielded a value greater than the \$100,000 face value. It was then determined by management, based on the proportion of shares and warrants issued, that an allocation of 2/3 to the warrants and 1/3 to the Series C Preferred shares would be reasonable. Accordingly the \$100,000 face value was allocated to the warrants in the amount of \$66,667 and to the Series C Preferred Shares in the amount of \$33,333. 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 10).

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 2014 and 2013

(Expressed in Canadian Dollars)

#### 8. Share Capital

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

(a) 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 factors: share price of \$0.11, dividend yield rate of 0%, volatility of 105%, risk free rate of 1.15%, and an expected life of 3 years.

(b) 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.

(c) 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.

(d) 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 factors: share price of \$0.12, dividend yield rate of 0%, volatility of 109%, risk free rate of 1.22%, and an expected life of 3 years. No commission was payable in relation to this debt conversion.

(e) 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.

(f) 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, 2016. 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 factors: share price of \$0.04, dividend yield rate of 0%, volatility of 109%, risk free rate of 1.24%, and an expected 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 three months ended October 31, 2014 and 2013**

**(Expressed in Canadian Dollars)**

**8. Share Capital (Continued)**

**(iv) 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 factors: share price of \$0.10, dividend yield rate of 0%, volatility of 105%, risk free interest rate of 1.17% and an expected life of 2 years.

**(v) Warrants**

The issued and outstanding warrants balance at October 31, 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>	

**(vi) 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> (date of incorporation)	\$ -	-	\$ -
Granted during the period	196,800	2,850,000	0.103
<b>Outstanding, July 31, 2013</b>	196,800	2,850,000	0.103
Cancelled during the year	(21,900)	(400,000)	(0.10)
<b>Outstanding, July 31, 2014 and October 31, 2014</b>	<b>\$174,900</b>	<b>2,450,000</b>	<b>\$ 0.103</b>
<b>Exercisable, July 31, 2014 and October 31, 2014</b>	<b>\$174,900</b>	<b>2,450,000</b>	<b>\$ 0.103</b>

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 2014 and 2013

(Expressed in Canadian Dollars)

#### 8. Share Capital (Continued)

##### (vi) *Stock Options (Continued)*

The following table sets out the details of the stock options granted and outstanding as at October 31, 2014:

Number of stock options	Remaining contractual life	Exercise price per share	Expiry Date
1,650,000	3.16 years	\$ 0.10	December 28, 2017
400,000	0.16 years	0.10	December 28, 2014
400,000	0.64 years	0.12	June 21, 2015
2,450,000	2.26 years	\$ 0.103	

##### *Share-Based Compensation*

The fair value of the stock options granted and fully vested during the period ended October 31, 2014 was \$Nil. At October 31, 2014, there were 2,450,000 vested options.

##### (vii) *Distribution 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.

##### (viii) *Contributed Surplus*

Contributed surplus includes the accumulated fair value of share-based compensation and warrants transferred from share-based payment reserve and warrant reserve upon cancellation or expiry of the stock options and warrants. During fiscal 2014, 400,000 options granted in the previous years were cancelled and its fair value of \$21,900 was transferred to contributed surplus.

##### (ix) *Cancellation of common shares*

On October 17, 2014, the Company cancelled 5,715,780 common shares based on the Mining Claim Assignment Agreement dated April 16, 2013 between the Company and Hudson River Minerals Ltd ("Hudson") due to Hudson failing to distribute the 5,715,780 Company common shares to Hudson shareholders within the required time frame.

##### (x) *Basic and Diluted Loss per Share*

The calculation of basic and diluted loss per share for the period ended October 31, 2014 was based on the loss attributable to common shareholders of \$6,897 (2013 – \$263,308) and the weighted average number of common shares outstanding of 37,445,259 (2013 – 35,385,964). Diluted loss per share did not include the effect of 2,450,000 options and 6,985,532 warrants (2013 – 2,850,000 options and 4,037,116 warrants) as they are anti-dilutive.



## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 2014 and 2013

(Expressed in Canadian Dollars)

#### 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 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 CSE 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. The claims are subject to a pre-existing 2% NSR payable to Melkior Resources Inc.

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.

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 CSE.

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 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 CSE on August 16, 2013.

## Zara Resources Inc.

### Notes to Unaudited Interim Financial Statements

For the three months ended October 31, 2014 and 2013

(Expressed in Canadian Dollars)

#### 10. Related Party Transactions and Disclosures

Related party transactions were in the normal course of operations. The due to related companies at October 31, 2014 of \$106,279 (July 31, 2014 - \$105,778) is comprised of due to a private company controlled by a director in the amount of \$101,279 (July 31, 2014 - \$100,778) and due to Leo in the amount of \$5,000 (July 31, 2014 - \$5,000). The due from related company at July 31, 2014 consists of due from Winston Resources Inc. in the amount of \$3,332 (July 31, 2014 - \$4,657). 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 preferred shares of Leo during the year ended July 31, 2014.

#### Key Management Compensation

During the period ended October 31, 2014, the Company incurred management fees expenses of \$Nil (2013 - \$Nil) to a private company controlled by an officer, for the provision of management services. As at October 31, 2014, the amount of \$59,325 (July 31, 2014 - \$59,325) was owed thereto and has been included in accounts payables and accrued liabilities.

During the period ended October 31, 2014, the Company has incurred consulting fees of \$Nil (2013 - \$Nil) and finder's fees of \$Nil (2013 - \$Nil) to a private company controlled by a director for the provision of consulting services. At October 31, 2014, the amount of \$50,000 (July 31, 2014 - \$50,000) related thereto has been included in accounts payable and accrued liabilities.

#### 11. Accounts Payable and Accrued Liabilities

	October 31, 2014	July 31, 2014
Accounts payable	\$ 402,494	\$ 405,822
Accrued liabilities	10,000	10,000
	<b>\$ 412,494</b>	<b>\$ 415,822</b>

The accounts payable and accrued liabilities which arise from the Company's day to day operations have standard vendor terms and are normally settled between one and two months.

The following is an aged analysis of the accounts payable and accrued liabilities:

	October 31, 2014	July 31, 2014
Less than one month	\$ 791	\$ 10,643
One to three months	-	80,277
Over three months	411,704	324,902
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 412,494</b>	<b>\$ 415,822</b>

**Zara Resources Inc.**

**Notes to Unaudited Interim Financial Statements**

**For the three months ended October 31, 2014 and 2013**

**(Expressed in Canadian Dollars)**

**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:

	<b>2014</b>	2013
Loss before income taxes	\$ (6,897)	\$ (263,308)
Combined statutory rate	<b>26.50%</b>	26.50%
	<b>(2,000)</b>	(70,000)
Tax benefits (not recognized)	<b>2,000</b>	70,000
Income taxes	\$ -	\$ -

As at October 31, 2014, the Company has Canadian non-capital losses of approximately \$1,016,000 (July 31, 2014 - \$1,009,000) available for deduction against future Canadian taxable income, the balances of which will expire as follows:

2033	\$ 347,000
2034	662,000
2035	7,000
	<u>\$ 1,016,000</u>

***Deferred income tax assets***

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

	<b>October 31, 2014</b>	July 31, 2014
Mineral properties exploration	\$ 136,000	\$ 136,000
Share issue costs	<b>3,000</b>	3,000
Benefit of losses	<b>269,000</b>	267,000
Less: valuation allowance (impairment)	<b>(408,000)</b>	(406,000)
	\$ -	\$ -

Deferred income tax assets have been impaired in respect of these items because it is not probable that future profit will be available against which the Company can utilize the benefits therefrom.

## **Zara Resources Inc.**

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

**For the three months ended October 31, 2014 and 2013**

**(Expressed in Canadian Dollars)**

#### **13. Contingency**

On November 26, 2014, the Company became aware of a claim by a law firm for legal expenses. The Company is of the opinion that if a formal claim is made, such a claim would be frivolous and completely without merit and has commenced investigation into the matter. As such, a contingent liability has not been set up on the financial statements as the outcome is not determinable.

#### **14. 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.

#### **15. Segmented Information**

The Company's operations are comprised of a single reporting operating segment engaged in the exploration and evaluation of mineral resources. As the operations comprise a single reporting segment, amounts disclosed in the financial statements also represent a single reporting segment. As at October 31, 2014, all of the Company's exploration and evaluation assets and liabilities are situated in Canada.

#### **16. Events after the Reporting Period**

(a) 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 proposed settlement date of the debt is November 27, 2014 (see Note 16 (c) below)

(b) On June 1, 2014, the Company reached an agreement for 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 proposed settlement date of the debt is November 27, 2014 (see Note 16 (c) below)

(c) On November 27, 2014 the Company settled indebtedness (including indebtedness described in Note 16 (a) and 16 (b) above) owing to four different parties in the total amount of \$483,808 by the issuance of a total of 9,676,160 common shares at \$0.05 per common share. No commission was payable in relation to the Debt Conversion. The common shares are subject to a hold period of four months and a day.