



**MANAGEMENT DISCUSSION & ANALYSIS**

**FOR THE THREE MONTH PERIOD YEAR ENDING OCTOBER 31, 2014**

**(Prepared by Management on December 23, 2014)**

**208 Queens Quay West, Suite 2506**

**Toronto, Ontario, M5J2Y5**

**Tel: (647) 931-9775**

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) TO ACCOMPANY THE UNAUDITED FINANCIAL STATEMENTS OF ZARA RESOURCES INC (THE "COMPANY" OR "ZARA") FOR THE THREE MONTH PERIOD FROM AUGUST 1, 2014 TO OCTOBER 31, 2014.

The following Management's Discussion and Analysis should be read in conjunction with the unaudited financial statements of the Company for the period from August 1, 2014 to October 31, 2014, ("Reporting Period") which were prepared in accordance with International Financial Reporting Standards ("IFRS") and the notes thereto. All financial amounts are stated in Canadian currency unless stated otherwise.

This MD&A contains certain forward-looking statements based on the best beliefs, and reasonable assumptions of the management of the Company. There are many risks and uncertainties attached to the mineral exploration business. Given these risks and uncertainties, the reader should not place undue reliance on these forward-looking statements. (See "Risks and Uncertainties" in this MD&A for more information).

## DESCRIPTION OF THE BUSINESS

### Overview

Zara Resources is a minerals company incorporated October 9, 2012 focusing its main efforts on exploring and developing its 100% owned Forge Lake gold property and Pigeon River nickel-copper property in Ontario. Through its former subsidiary Leo Resources Inc ("Leo") Zara also owned 100% of the Riverbank nickel-copper property in Ontario. On August 2, 2013, all the shares of Leo were distributed to shareholders of Zara by way of a plan of arrangement (see "Leo Resources Spin Off"). The NI43-101 Technical reports for Pigeon River, Forge Lake, and Riverbank are available under Zara's profile on SEDAR at [www.sedar.com](http://www.sedar.com), and on the Company's website.

### Offer to acquire shares of Visible, Greencastle and Altai

On August 19, 2013 Zara announced its intention to offer to acquire shares of Visible, Greencastle Resources Ltd. ("Greencastle"), and Altai Resources Inc. ("Altai") (collectively the "Targets"). By an Offer Circular dated August 26, 2013, Zara offered 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 was 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 shares beneficially owned by Zara and its directors. On September 13, 2013, the Bureau de Decision et de Revision (Quebec) (“BDR”) issued a cease trade order on Zara’s simultaneous bid for Visible, Greencastle and Altai pending correction and translation of all offer documents into French and review by staff of the Autorité des marchés financiers (“AMF”). On May 14, 2014, the Company determined that it would no longer proceed with the take-over bids.

### **Proposed Acquisition of Lux Aquatica Assets**

On May 30, 2014, and as amended on June 19, 2014 the Company, announced that it has signed a Letter of Intent (“LOI”) and proposed 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”) from Chivas Land Limited (“Chivas”) for the sum of \$500,000.

Subject to numerous conditions, including shareholder and regulatory approvals and the closing of the acquisition of the Lux Aquatica assets, the Company proposed to distribute its Forge Lake and Pigeon River mineral exploration assets in Ontario to Company shareholders by way of a statutory plan of arrangement under the Business Corporations Act (British Columbia). The acquisition transaction was subject to, among other things, the completion of a private placement of no less than 7,000,000 new Company shares at \$0.05 per share. On October 17, 2014 the Company announced that it terminated the Letter of Intent due to Chivas not meeting its obligations in regard to completing the private placement.

### **Cancellation of shares related to the acquisition of Forge Lake**

On October 17, 2014 the Company announced that 5,715,780 common shares of Zara have been cancelled pursuant to that certain 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 Zara shares to Hudson shareholders within the required time frame.

### **Debt Conversion**

On November 27, 2014 Zara announced that it settled indebtedness 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.

The number of issued and outstanding shares of Zara are now 42,294,760.

## **MINERAL PROPERTIES**

### **Pigeon River Nickel-Copper Project**

On January 7<sup>th</sup>, 2013 Zara acquired 100% of the Pigeon River property from Pele Mountain Resources Inc, and claim transfers and share issuances were completed February 8<sup>th</sup>, 2013. The Pigeon River property is located in the Southern Province of the Precambrian Shield area of northern-western Ontario, and is located approximately 60 km southwest of Thunder Bay, Ontario. The property consisted of 28 unpatented mining claims covering approximately 6688 ha. The property is underlain by sediments of the Animikie Group including sulphidic black shale of the Rove Formation that are believed to be host to ultramafic rocks that potentially could host nickel-copper mineralization.

The previous owner of Pigeon River completed an airborne VTEM survey and associated aeromagnetic survey over the property. This was followed by four diamond drill holes totaling 991 m. The work to date indicates that the property is underlain by areas with magnetic signatures indicating the presence of ultramafic rocks. The target model is one of mafic-ultramafic flows with associated nickel bearing magmatic sulphides being hosted by deep water extensional basin sediments. This setting is very similar to other areas of the world hosting world class nickel deposits including the Pechenga area of Russia and the Thompson Nickel Belt of Canada.

On February 19<sup>th</sup>, 2013 Zara completed an NI43-101 Technical Report (“The Pigeon River Report”) on the Pigeon River Property, which was updated on October 8, 2013. The Pigeon River Report was prepared by the Sibley Basin Group and authored by Alan Aubut P. Geo. The Pigeon River Report describes the geology and work done to date on Pigeon River and recommends a further drilling program consisting of diamond drilling along with borehole geophysics with a proposed budget of \$170,000. The full Pigeon River NI43-101 Technical Report is available on Zara’s profile on SEDAR and on its website [www.ZaraResourcesInc.com](http://www.ZaraResourcesInc.com)

On December 12, 2013 the Company decided to allow 20 of the 28 claims to lapse so as to concentrate future exploration on the most promising of the available claims.

### **Forge Lake Gold Project.**

On February 1, 2013, Zara agreed to acquire 100% of the Forge Lake Gold Project located in Ontario from Hudson River Minerals Ltd (“HRM”) for the sum of \$583,010. The acquisition closed on April 21<sup>st</sup>, 2013. Zara 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, the right to extend for another 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, Zara agreed to issue HRM 5,715,780 common shares of Zara at a deemed price of \$0.10 per common share. In addition, Zara agreed to issue 2% of the \$583,010 value to the Licensor or \$11,432 payable through the issue of 114,316 common shares and guarantee three years of license and tax payments to the Licensor.

HRM is restricted from transferring or otherwise disposing of the common shares of Zara received as consideration for the assignment of its rights in the Forge Lake Property for a period of 18 months following the closing date. HRM is, however, permitted to distribute the Zara common shares to its shareholders on a pro rata basis, at which time the contractual restriction on transfer would be removed. Additionally, HRM has entered into a voting trust agreement whereby HRM has granted the voting rights attached to its Zara common Shares to Danny Wettreich, CEO of Zara, for a period of 18 months following the closing. In the event the Zara common shares are distributed to HRM’s shareholders prior to the expiration of the 18 month period, the voting trust agreement will terminate at the time of such distribution. On October 17, 2014 the Company announced that 5,715,780 common shares of Zara have been cancelled pursuant to that certain 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 Zara shares to Hudson shareholders within the required time frame.

Forge Lake is located 32 km northeast of Wawa, Ontario, and 14 km south of the Richmond Gold Mine and Mill. The previous owners of the property conducted a surface sampling program, an airborne magnetic

survey and two diamond drill programs. Seventeen holes were drilled in November 2011 and intersected 3.25g/t Au over 12.7m. In April-June 2012 twelve holes were drilled designed to test for continuity of mineralization between the two main areas previously drilled, and intersected 7.07 g/t Au over 5.5 m. The exploration to date indicates that the gold-bearing quartz vein system is continuous and can contain high grade gold intersections, with a strike length of 650 m and a dip extent of 350 m.

On May 22, 2013 Zara completed an NI43-101 Technical Report on the Forge Lake Gold Property, which was updated on October 8, 2013. The Forge Lake NI-43101 Technical Report is available on Zara's profile on SEDAR and on its website at [www.ZaraResourcesInc.com](http://www.ZaraResourcesInc.com)

### **Riverbank Nickel/Copper Project and Leo Resources Spin-Off**

Zara completed the acquisition of 100% of the Riverbank claims ("Riverbank") from Melkior Resources Inc. in January 2013. A wholly owned subsidiary of Zara, Leo Resources Inc. acquired Riverbank, entered into a Plan of Arrangement to distribute the common shares of Leo to Zara shareholders, and following which Leo listed on the CNSX. Riverbank is located in the Kasabonika-McFauld's Greenstone Belt about 540 km to the north east of Thunder Bay and 350 km north of Geraldton, Ontario. It consists of 8 unpatented mining claims comprising 87 claim units covering an area of approximately 1392 ha. The property is believed to be underlain in part by mafic to ultramafic rocks that potentially could host nickel-copper mineralization. Exploration over the claims to date has consisted primarily of geophysics followed by limited diamond drilling. Melkior completed an airborne VTEM survey and associated aeromagnetic survey by Geotech. This was followed by three diamond drill holes in 2011 totaling 416 m. The work to date has not disproved that the properties are underlain by rocks that include ultramafic bodies. The geophysics done to date still indicates that the target model of mafic-ultramafic associated nickel bearing magmatic sulphides is valid.

The full Riverbank NI43-101 Technical Report is available on Zara's profile on SEDAR and on its website at [www.ZaraResourcesInc.com](http://www.ZaraResourcesInc.com)

On March 20, 2013, Zara announced that its board of directors unanimously approved a proposal to spin-off to its shareholders of 100% of Zara's wholly-owned subsidiary Leo. Following the spin-off, Leo applied for listing of its common shares on the CNSX. The spin-off was transacted by way of a statutory plan of arrangement (the "Leo Plan") under the Business Corporations Act (British Columbia). Upon completion of the Leo Plan, Leo owns 100% of Riverbank. Pursuant to the terms of the Leo Plan, Zara distributed 13,737,500 common shares of Leo to holders of common shares of Zara. Each Zara shareholder received 1 common share in the capital of Leo for every 2 common shares in the capital of Zara. A Special Meeting ("Meeting") of Zara shareholders was held on May 14, 2013 at which shareholders approved the Leo Plan. On August 2, 2013 the spin-off received all necessary court approvals and the plan of arrangement was subsequently completed. Leo listed on the CSE on August 16, 2013.

### **INTEREST IN MINERAL PROPERTIES**

The acquisitions of the Pigeon River property and the Forge Lake property occurred during the 2013 Reporting Period and the full capitalized cost of the properties is reflected in the accompanying financial statements.

### **RESULTS OF OPERATIONS**

The Company is in the exploration and evaluation stage and therefore did not have revenues from operations.

For the three month period ended October 31, 2014 the Company incurred a comprehensive loss of \$6,897 (\$0.00 per share) mainly comprised of \$2,203 transfer agent fees, \$1,550 legal and professional, \$1,500 filing and listing fees, and \$1,325 office and general. For the annual period ended July 31, 2014 the Company incurred a comprehensive loss of \$1,153,734 (\$0.03 loss per share) mainly comprised of \$501,439 write-off of exploration and evaluation assets, \$449,875 legal and professional fees, \$104,651 shareholder information, \$40,000 consulting fees and \$19,560 filing and listing fees. For the three month period ended October 31, 2014 the Company used cash in operating activities of \$8,254. For the annual period ended July 31, 2014 the Company used cash in operating activities of \$(197,716). For the three month period ended October 31, 2014 the Company used cash in investing activities of \$(5,128). For the annual period ended July 31, 2014 the Company used cash in investing activities of \$(111,650). For the three month period ended October 31, 2014 the Company used cash in financing activities of \$(4,500). For the annual period ended July 31, 2014 the Company generated cash in financing activities of \$101,933. Depending on future events, the rate of expenditures and general and administrative costs could increase or decrease.

Exploration of its properties will be limited until such time as further equity has been raised by Zara in order to further develop its properties. The NI43-101 Report for Pigeon River recommends further exploration work with a budget of \$170,000. The NI43-101 Report for Forge Lake recommends further exploration work with a budget of \$1,000,000. Market conditions for raising equity are difficult and there is no guarantee that such market conditions will be conducive to raising the additional equity capital required to carry out these exploration budgets. Depending on future events, the rate of expenditures and general and administrative costs could increase or decrease.

### Selected Financial Information

The following table provides selected financial information that should be read in conjunction with the audited Financial Statements and Notes of the Company for the applicable period.

#### Summary of Results August 1, 2014 - October 31, 2014

Interest Income	\$0.00
Net Loss	\$6,897
Interest in Mineral Properties	\$804,895
Current Assets	\$5,884
Total Assets	\$910,779
Total Liabilities	\$518,891
Shareholders Equity	\$390,888

### Summary of Quarterly Results

Quarter ended	October 31, 2013	January 31, 2014	April 30, 2014	July 31, 2014
	\$	\$	\$	\$
Net loss	263,308	773,533	76,800	40,093
Loss per share	(0.01)	(0.02)	-	-
Expenses	263,308	773,533	76,800	40,093
Interest in Mineral Properties	1,299,341	797,902	797,902	798,442
Working Capital (Deficiency)	(274,546)	(370,224)	(460,025)	(500,657)
Interest Income	-	-	-	-
Share based compensation	-	-	-	-

<b>Quarter ended</b>	<b>October 31, 2014</b>
	\$
Net loss	6,897
Loss per share	-
Expenses	6,897
Interest in Mineral Properties	804,895
Working Capital (Deficiency)	(514,007)
Interest Income	-
Share based compensation	-

### **Liquidity and Solvency**

The Company will need access to equity capital to pursue its business plan and there is no guarantee that equity may be available, and if available it may not be on terms that Management finds is in the interest of the Company. The Company considers its investments in its mineral properties as long term investments, however it retains the option of disposing of some or all its properties to raise funds. Due to the difficult market conditions in the natural resource business, the Company may have difficulty selling some or all of its properties and any such sale may negatively impact the value of its properties. The Company may also borrow funds from its CEO. In order to maintain its operations the Company needs funds for primarily management fees, legal and accounting. Although management fees have been accrued to date by management and as a result do not represent a cash requirement for the Company, there is no assurance that management fees will continue to be accrued in the future. The Company would need to raise additional equity capital in order to pursue other investment opportunities or to support special projects. The exploration budgets for the Company will require additional equity to be raised in order to fund those exploration budgets, and there is no guarantee that such equity can be raised by the Company.

The following table summarizes the Company's cash on hand, working capital and cash flow as at July 31, 2014

Cash	-
Working Capital	\$(514,007)
Cash Used in Operating Activities	\$8,254
Cash Provided by Financing Activities	\$(4,500)
Increase in Cash	\$(1,374)

The Company is dependent on the sale of newly issued shares to finance its exploration activities, property maintenance payments and general and administrative costs. The Company will have to raise additional funds in the future to continue its operations. There can be no assurance, however, that the Company will be successful in its efforts. If such funds are not available or other sources of financing cannot be obtained, then the Company will be forced to curtail its activities.

## **Capital Resources**

The Company has no operations that generate cash flow. Its long term financial success is dependent on the Company making investments in, exploring, and successfully discovering properties that contain mineral reserves that are economically recoverable. The Company's primary capital assets as at July 31, 2014 are resource properties. The Company has no commitments for capital expenditure, and there are no known trends or expected fluctuations in the Company's capital resources, other than the \$100,000 additional private placements of equity that the Company completed subsequent to the period under review. The exploration budgets for the Company will require additional equity to be raised in order to fund those exploration budgets, and there is no guarantee that such equity can be raised by the Company.

The following is a summary of the Company's outstanding share, warrant and stock options data as of December 23, 2014

### Common Shares

The authorized common share capital of the issuer consists of an unlimited number of common shares without par value of which 42,294,760 are outstanding as of December 23, 2014. Holders of the issuer's common shares are entitled to vote at all meetings of shareholders declared by the directors, and subject to the rights of holders of any shares ranking in priority to or on a parity with the common shares, to participate ratably in any distribution of property or assets upon the liquidation, winding up or dissolution of the Issuer.

### Preferred Shares

The Authorized preferred share capital of the Issuer consists of an unlimited number of preferred shares without par value, of which 6,038,333 are issued or outstanding as of December 23, 2014. The preferred shares rank in priority to the common shares upon the liquidation, winding up or other dissolution of the Company. The issuance of each series of preferred shares is subject to the filing of Articles of Amendment with the directors fixing the number of shares that comprise each series and the designations, rights, privileges, restrictions and conditions attaching to each series. The 455,000 Series A and the 4,750,000 Series B preferred shares are non-voting, and may be converted into common shares at the option of the Company 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. The 833,333 Series C preferred shares are voting and may be converted into common shares on a one for one basis. All Series 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.

### Stock Options

Options to purchase common shares in the capital of Zara are granted by the Board of Directors to eligible persons pursuant to Zara's Stock Option Incentive Plan. 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.

During the annual period ended October 31, 2014, Zara granted no stock options. At December 23, 2014,



2,450,000 options were outstanding entitling holders to purchase an aggregate 2,450,000 common shares in the capital of Zara. Details of these stock options grants as provided in the following table.

Date	Number	Name of Optionee if Related Person and relationship	Exercise Price	Expiry Date	Market Price on date of Grant
12/28/2012	1,250,000	Daniel Wettreich, Director	\$0.10	12/28/2017	\$0.10
12/28/2012	400,000	Mark Wettreich, Director	\$0.10	12/28/2017	\$0.10
12/28/2012	400,000	Peter Wanner, Director	\$0.10	12/28/2014	\$0.10
06/21/2013	400,000	Sethu Raman, Director	\$0.12	06/21/2015	\$0.12

### Warrants

At December 23, 2014 the Company had 6,985,532 warrants and no brokers warrants outstanding.

The issued and outstanding warrants is comprised as follows:

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

### **Outlook and Capital Requirements**

There is no guarantee that market conditions will be conducive to raising additional equity capital. Depending on future events, the rate of Company expenditures and general and administrative costs could increase or decrease.

### **Related Parties Transactions**

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.

The Company has incurred management fees of \$Nil (2013 - \$52,500) to a private company controlled by an officer for the provision of management services. At July 31, 2014, the amount of \$59,325 related thereto has been included in trade payables and accrued liabilities.

The Company has incurred fees of \$50,000 to a private company controlled by a former director for the provision of consulting and finder's fees. At July 31, 2014, the amount of \$50,000 related thereto has been included in trade payables and accrued liabilities.

The due to related companies at October 31, 2014 of \$106,279 is due to a private company controlled by a director in the amount of \$101,279 and due to Leo in the amount of \$5,000. The due from related company at October 31, 2014 consists of due from Winston Resources Inc. in the amount of \$3,332. 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 year ended July 31, 2014.

### **Off-Balance Sheet Arrangements**

The Company does not utilize off-balance sheet transactions.

### **Proposed Transactions**

There are no proposed transactions that will materially affect the performance of the Company other than those disclosed in this MD&A.

### **Accounting Policies**

The accounting policies and methods employed by the Company determine how it reports its financial condition and results of operations, and may require management to make judgments or rely on assumptions about matters that are inherently uncertain. The Company's results of operations are reported using policies and methods in accordance with IFRS. In preparing financial statements in accordance with IFRS, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses for the period. Management reviews its estimates and assumptions on an ongoing basis using the most current information available. 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.

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.

#### ***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.

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 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.

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:

1. 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.
2. Substantive expenditures on further exploration for, and evaluation of, mineral resources in the specific area is neither budgeted nor planned.
3. 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.
4. 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 reporting 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

### ***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.

#### 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 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 companies 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.

#### 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.

(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.

(vii) 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.
- **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

### ***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 related party receivables which are described in Note 10 to the financial statement 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.

### ***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 July 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 this mineral. 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 Company has designated its cash at fair value through profit and loss. The HST recoverable and due from related companies 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 company 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:

	<b>2014</b>	<b>2013</b>
<b><u>Financial Assets</u></b>		
<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
<b><u>Financial Liabilities</u></b>		
<i>Other financial liabilities</i>		
Accounts payables and accrued liabilities	417,494	415,822
Due to related companies	101,279	105,778

## **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 mineral properties 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 properties 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 properties 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.

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.

In order to maintain or adjust the capital structure, the Company may issue new shares and acquire or sell mining properties to improve its financial performance and flexibility. The Company defines its capital as its shareholder's equity. To effectively manage the Company's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has appropriate liquidity to meet its operating and growth objectives. As needed, the Company raises funds through private placements or other equity financings. The Company does not utilize long term debt as the Company does not currently generate operating revenues. There is no dividend policy.

## **Risks and Uncertainties**

The Company's principal activity is mineral exploration and development. Companies in this industry are subject to many and varied kinds of risk, including but not limited to, environmental, metal prices, political and economics. The Company may offer an opportunity to a mining company to acquire an interest in a property in return for funding all or part of the exploration and development of the property. For the funding of property acquisitions and exploration that the Company conducts, the Company depends on the issue of shares from the treasury to investors. These stock issues depend on numerous factors including a positive mineral exploration environment, positive stock market conditions, a company's track record and the experience of management. The Company has no significant source of operating cash flow and no revenues from operations. The Company has not yet determined whether its mineral property contains mineral reserves that are economically recoverable. The Company has limited financial resources. Substantial expenditures are required to be made by the Company to establish reserves. There is no guarantee that the Company will be able to

contribute or obtain all necessary resources and funds for the exploration and exploitation of its properties and may fail to meet its exploration commitments. Mineral exploration involves a high degree of risk and few properties, that are explored, are ultimately developed into producing mines. Exploration of the Company's mineral property may not result in any discoveries of commercial bodies of mineralization. If the Company's efforts do not result in any discovery of commercial mineralization, the Company will be forced to look for other exploration projects or cease operations. The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company is in the process of making a takeover bid for three public companies and the likely costs of these bids, the length of time required to conclude these bids, and the likely outcome of these bids is undetermined.

### **Conflicts of Interest**

Certain of the directors and officers of the Company may also serve as directors and officers of other companies involved in other natural resource exploration and development and consequently the possibility of conflict exists. Any decisions made by such directors or officers involving the Company will be made in accordance with the duties and obligations of directors and officers to deal fairly and in good faith with the Company and such other companies. In addition, such directors declare their interest and refrain from voting on any matters in which such directors may have a conflict of interest.

### **Management's Responsibility for Financial Statements**

The information provided in this report is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the audited consolidated financial statements.

### **Other**

Additional information relating to the Company's operations and activities can be found by visiting the Company's website at [www.ZaraResources.com](http://www.ZaraResources.com) and [www.sedar.com](http://www.sedar.com).

### **Trends**

Trends in the industry can materially affect how well any junior exploration company is performing. Fluctuations in the price of precious metals and natural resources are commonplace. Significant drops in the prices of nickel, copper, and gold could have an adverse effect on Zara's business. The prices of certain specific precious metals and natural resources have undergone a recent retracement, and worldwide exploration is being reduced. Company management believes that prices in natural resources and precious metals will be higher over time.

### **Outlook**

The long term outlook for precious metals and natural resources in the opinion of management continues to be positive and this is reflected in the Company's ongoing activity.

### **Cautionary Statement**

This document contains "forward-looking statements" within the meaning of applicable Canadian securities regulations. All statements other than statements of historical fact herein, including, without limitation, statements

regarding the Company's expectation of future trends in the natural resource development sector, its development plans and the Company's other future plans and objectives are forward-looking statements that involve various risks and uncertainties. The material factors and assumptions that management has used to determine such forward-looking statements include, without limitation, (1) estimates of stock-based compensation expense (2) expectations of industry trends (3) expectations of future funding (4) expectation of exploration activities and (5) expectation of successful negotiation with First Nations. There can be no assurance that such statements will prove to be accurate, and future events and actual results could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed in the Company's documents filed from time to time via SEDAR with the Canadian regulatory agencies to whose policies the Company is bound. Forward-looking statements are based on the estimates and opinions of management on the date of statements are made, and the Company endeavours to update corporate information and material facts on a timely basis. Forward-looking statements are subject to risks, uncertainties and other factors, including risks associated with mergers and acquisitions activities, mineral property portfolio risk, and operational and political risks.