

ZARA RESOURCES INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED
APRIL 30, 2016
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

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 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 condensed 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.

Condensed Interim Statements of Financial Position (Expressed in Canadian Dollars) (Unaudited)

	As at April 30, 2016	As at July 31, 2015
ASSETS		
Current assets		
Cash	\$ -	\$ 762
Government HST Recoverable	2,850	3,439
Due from related companies (note 12)	-	11,007
Total current assets	2,850	15,208
Non-current assets		
Exploration and evaluation assets (note 8)	23,080	34,622
Total non-current assets	23,080	34,622
Total assets	\$ 25,930	\$ 49,830
EQUITY AND LIABILITIES		
Current liabilities		
Bank indebtedness	\$ 34	\$ -
Accounts payable and accrued liabilities (note 12)	58,198	60,694
Due to related parties (note 12)	30,393	4,366
Due to related companies (note 12)	-	28,796
Total current liabilities	88,625	93,856
Shareholders' (Deficiency) Equity		
Common share capital (note 10(a))	1,603,221	1,537,143
Preferred share capital (note 10(a))	549,500	549,500
Reserve for warrants (note 10(c))	153,500	153,500
Reserve for share-based payments (note 10(d))	127,000	127,000
Contributed surplus	190,800	190,800
Deficit	(2,686,716)	(2,601,969)
Total shareholders' (deficiency) equity	(62,695)	(44,026)
Total liabilities and shareholders' (deficiency) equity	\$ 25,930	\$ 49,830

Nature of operations (note 1)

Going concern (note 2)

Approved on behalf of the Board of Directors:

"Daniel Wettreich" (signed) _____ Director
Daniel Wettreich, Director

"Mark Wettreich" (signed) _____ Director
Mark Wettreich, Director

The notes to the unaudited condensed interim financial statements are an integral part of these statements.

Zara Resources Inc.**Condensed Interim Statements of Loss and Comprehensive Loss****(Expressed in Canadian Dollars)****(Unaudited)**

	Three months ended April 30,		Nine months ended April 30,	
	2016	2015	2016	2015
Operating Expenses				
Bank charges	\$ 52	\$ 81	\$ 169	\$ 203
Consulting fees	-	-	240	-
Filing and listing fees	1,500	2,000	8,285	5,000
Legal and professional fees	(1,370)	3,500	7,740	10,250
Office and general expenses	1,327	1,100	4,537	2,426
Transfer agent fees	2,562	-	4,186	2,809
Shareholder information	1,469	(892)	2,591	6,522
Impairment of exploration and evaluation assets (note 8)	-	-	-	155,339
	5,540	5,789	27,748	182,549
Other expense (income)				
Loss on disposition of exploration and evaluation assets	-	2,541	2,541	2,541
Interest on convertible debentures	-	7,548	-	59,143
Loss (gain) on settlement of debt (note 10(b))	-	-	31,190	(428,322)
Net (loss) income and comprehensive (loss) income	\$ (5,540)	\$ (15,878)	\$ (61,479)	\$ 184,089
Basic and diluted (loss) earning per share (note 10(g))	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ 0.05
Weighted average number of common shares outstanding - basic and diluted (note 10(g)(h))	4,993,446	4,332,666	4,607,589	4,013,081

The notes to the unaudited condensed interim financial statements are an integral part of these statements.

Zara Resources Inc.**Condensed Interim Statements of Cash Flows****(Expressed in Canadian Dollars)****(Unaudited)**

Nine Months Ended April 30,	2016	2015
Operating activities		
(Loss) income for the period	\$ (61,479)	\$ 184,089
Non-cash adjustments for:		
Impairment of exploration and evaluation asset	-	155,339
Loss on disposition of exploration and evaluation assets	2,541	2,541
Loss (gain) on settlement of debt	31,190	(428,322)
Settlement of expenses with non-cash common share consideration	-	51,595
	(27,748)	(34,758)
Net changes in non-cash working capital:		
Government HST recoverable	589	12,859
Prepaid expenses	-	(2,222)
Accounts payable and accrued liabilities	9,124	16,362
Net cash (used in) operating activities	(18,035)	(7,759)
Investing activities		
Additions to exploration and evaluation assets (note 8)	-	(6,453)
Net cash (used in) investing activities	-	(6,453)
Financing activities		
Due to related companies	11,205	14,583
Due to related parties	6,034	-
Net cash provided by financing activities	17,239	14,583
Net change in cash	(796)	371
Cash, beginning of period	762	256
(Bank indebtedness) cash, end of period	\$ (34)	\$ 627

The notes to the unaudited condensed interim financial statements are an integral part of these statements.

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

	<u>Common Share Capital</u>		<u>Convertible Preferred Share Capital</u>		<u>Reserves</u>		<u>Contributed Surplus</u>	<u>Deficit</u>	<u>Total (Deficiency) Equity</u>
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>	<u>Share-Based Compensation</u>	<u>Warrants</u>			
Balance, July 31, 2014	3,833,438	\$ 1,435,222	603,833	\$ 549,500	\$ 174,900	\$ 274,500	\$ 21,900	\$ (2,058,237)	\$ 397,785
Shares issued for the settlement of dividend on series B convertible preferred shares	94,090	9,409	-	-	-	-	-	-	9,409
Warrants expired	-	-	-	-	-	(8,000)	8,000	-	-
Options expired	-	-	-	-	(21,900)	-	21,900	-	-
Shares issued on debt settlement	967,616	96,762	-	-	-	-	-	-	96,762
series A convertible preferred shares	9,100	910	-	-	-	-	-	-	910
Cancellation of shares	(571,578)	-	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	-	-	184,089	184,089
Balance, April 30, 2015	4,332,666	\$ 1,542,303	603,833	\$ 549,500	\$ 153,000	\$ 266,500	\$ 51,800	\$ (1,874,148)	\$ 688,955
Balance, July 31, 2015	4,332,666	\$ 1,537,143	603,833	\$ 549,500	\$ 127,000	\$ 153,500	\$ 190,800	\$ (2,601,969)	\$ (44,026)
Shares issued for the settlement of dividend on series C convertible preferred shares(note 10)	140,280	14,028	-	-	-	-	-	-	14,028
Shares issued for the settlement of dividend on series B convertible preferred shares (note 10)	475,000	47,500	-	-	-	-	-	-	47,500
Shares issued for the settlement of dividend on series A convertible preferred shares (note 10)	45,500	4,550	-	-	-	-	-	-	4,550
Dividends	-	-	-	-	-	-	-	(23,268)	(23,268)
Loss for the period	-	-	-	-	-	-	-	(61,479)	(61,479)
Balance, April 30, 2016	4,993,446	\$ 1,603,221	603,833	\$ 549,500	\$ 127,000	\$ 153,500	\$ 190,800	\$ (2,686,716)	\$ (62,695)

The notes to the unaudited condensed interim financial statements are an integral part of these statements.

Zara Resources Inc.

Notes to Condensed Interim Financial Statements

Three and Nine Months Ended April 30, 2016

(Expressed in Canadian Dollars)

(Unaudited)

1. 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. Zara was 31.07% owned by GreenBank Capital Inc. ("GreenBank") and 17.94% owned by Winston Resources Inc. ("Winston"), both GreenBank and Winston are Canadian public companies. On January 29, 2016, GreenBank and Winston declared share dividend in which they distributed all of their shareholding interest in Zara to their shareholders. GreenBank and Winston no longer have any shareholding interest in the Company. 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 not commenced active exploration on its exploration and evaluation assets ("E&E"). 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 using the full cost method allowed under IFRS 6. 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 April 30, 2016, the Company has yet to generate revenues from operations and had a deficit of \$2,686,716 (July 31, 2015 - \$2,601,969). 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 Condensed Interim Financial Statements
Three and Nine Months Ended April 30, 2016
(Expressed in Canadian Dollars)
(Unaudited)

3. Statement of Compliance and Basis of Presentation

(a) Statement of compliance

The Company applies IFRS as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB.

The policies applied in these unaudited condensed interim financial statements are based on IFRSs issued and outstanding as of June 24, 2016, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim financial statements as compared with the most recent annual financial statements as at and for the year ended July 31, 2015, except as noted below. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending July 31, 2016 could result in restatement of these unaudited condensed interim financial statements.

(b) Basis of Presentation

These financial statements have been prepared on a going concern basis, under the historical cost convention, except fair certain value through profit and loss assets which may be carried at fair value in subsequent periods, and have been prepared using the accrual basis of accounting except for cash flow information.

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

4. Significant Accounting Policies

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.

(i) IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 and will replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. 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. This standard also requires an expected loss impairment method to be used, replacing the incurred loss method.

In October 2010, the IASB added requirements for financial liabilities to IFRS 9. These requirements were largely carried forward from the existing requirements in IAS 39, however, fair value changes due to credit risk for liabilities designated at fair value through profit and loss are to be recorded in other comprehensive income. In November 2013, the IASB amended IFRS 9 to include a new general hedge accounting model.

In July 2014, the IASB issued the final version IFRS 9 that supersedes the requirements of earlier versions of the standard. The new standard will replace both IAS 39 and IFRIC 9 - Reassessment of Embedded Derivatives. The standard will retain the classification and measurements requirements and new hedge accounting model introduced by the previous versions while introducing a single forward-looking expected credit loss impairment model. The final version of this new standard is effective for annual periods beginning on or after January 1, 2018. The Company is still in the process of assessing the impact of this pronouncement.

Zara Resources Inc.

Notes to Condensed Interim Financial Statements
Three and Nine Months Ended April 30, 2016
(Expressed in Canadian Dollars)
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4. Significant Accounting Policies (continued)

Future accounting policies (continued)

(ii) IFRS 11 - Joint Arrangements ("IFRS 11") was amended in May 2014 to require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted. The Company is still in the process of assessing the impact of this pronouncement.

(iii) IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted. The Company is still in the process of assessing the impact of this pronouncement.

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.

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 major Canadian bank in a non-interest bearing account, and government HST recoverable, which is due from the Canadian government, as well as the amount due from related companies, as described in note 12, and is expected to be recoverable. As such, the risk of loss on these assets is minimal.

Market and other risk

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

Liquidity Risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity needs by carefully monitoring cash outflows due in day-to-day business. Liquidity needs are monitored in various time bands, including 30-day, 180-day and 360-day lookout periods. As at April 30, 2016, the Company had bank indebtedness of \$34. Currently, the Company does not have sufficient funds and will need to raise financing to carry out an exploration and evaluation program, fund the property purchase obligations, and meet general and administration expenses for the next twelve months.

Zara Resources Inc.

Notes to Condensed Interim Financial Statements
Three and Nine Months Ended April 30, 2016
(Expressed in Canadian Dollars)
(Unaudited)

5. Financial Risk Management (continued)

Financial Risks (continued)

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 at fair value through profit and loss. The government 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. Accounts payables and accrued liabilities, due to related parties and due to related companies 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:

The carrying values, which approximate fair values, of the Company's financial instruments are as follows:

	As at April 30, 2016 \$	As at July 31, 2015 \$
Financial Assets		
<i>Fair value through profit or loss</i>		
Cash	-	762
<i>Loans and receivables</i>		
Government HST Recoverable	2,850	3,439
Due from related companies	-	11,007
Financial Liabilities		
<i>Fair value through profit or loss</i>		
Bank indebtedness	34	-
<i>Other financial liabilities</i>		
Accounts payable and accrued liabilities	58,198	60,694
Due to related companies	-	28,796
Due to related parties	30,393	4,366

Zara Resources Inc.

Notes to Condensed Interim Financial Statements
Three and Nine Months Ended April 30, 2016
(Expressed in Canadian Dollars)
(Unaudited)

6. Capital Management

The Company considers its capital to be comprised of shareholder' equity. 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 defines its capital as its shareholders' deficiency. As at April 30, 2016, the Company's capital resources amounted to a deficiency of \$62,695 (July 31, 2015 - \$44,026).

The Company's capital management objectives, policies and processes have remained unchanged during the three and nine months ended April 30, 2016. The Company is not subject to any capital requirements imposed by a lending institution.

7. Government HST Recoverable

	As at April 30, 2016	As at July 31, 2015
Government HST receivables	\$ 2,850	\$ 3,439

Government HST recoverable is not past due.

8. Exploration and evaluation assets

	<u>Ontario Properties</u>		
	Pigeon River (50% owned)	Forge Lake (75% owned)	Total
Balance, July 31, 2014	\$ 201,501	\$ 596,941	\$ 798,442
Changes during the period:			
Exploration expenditures	-	6,453	6,453
Impairment	(155,339)	(603,394)	(758,733)
Disposal/Write-off	(11,541)	-	(11,541)
Balance, April 30, 2015 and July 31, 2015	\$ 34,621	\$ -	\$ 34,621
Change during the period:			
Disposal	(11,541)	-	(11,541)
Balance, April 30, 2016	\$ 23,080	\$ -	\$ 23,080

Zara Resources Inc.

Notes to Condensed Interim Financial Statements
Three and Nine Months Ended April 30, 2016
(Expressed in Canadian Dollars)
(Unaudited)

8. 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 225,000 common shares of the Company at a fair value of \$1.00 per share and 475,000 non-voting 5% convertible Series B preferred shares of the Company at a fair value of \$1.00 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 225,000 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 exploration and evaluation assets of \$501,439.

During the year ended July 31, 2015, the Company allowed seven out of eight claims to lapse. As a result, the Company recognized an impairment of \$155,339 on the exploration and evaluation assets.

On April 10, 2015, the Company sold a 25% interest in its Pigeon River mining claim to Hadley Mining Inc ("Hadley"), a company in which Daniel Wettreich, the director and officer of the Company, is also a director, for the sum of \$9,000. As a result of this transaction, a loss in amount of \$2,541 was realized.

On January 19, 2016, the Company sold a 25% interest in its Pigeon River mining claim to Winston a company in which Daniel Wettreich, the director and officer of the Company, is also a director, for the sum of \$9,000. As a result of this transaction, a loss in amount of \$2,541 was realized.

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 571,578 common shares of the Company at a fair value of \$1.00 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 11,432 common shares during the period ended July 31, 2013 and guaranteed three years of license and tax payments to the Licensor. As these shares were not distributed within the required time, they were cancelled.

During the year ended July 31, 2015, management determined that the Company did not have the financing to further the project and hence the carrying value of the property of \$603,394 was impaired.

Zara Resources Inc.

Notes to Condensed Interim Financial Statements
Three and Nine Months Ended April 30, 2016
(Expressed in Canadian Dollars)
(Unaudited)

9. Accounts Payable and Accrued Liabilities

	As at April 30, 2016	As at July 31, 2015
Accounts payable	\$ 44,765	\$ 29,148
Accrued liabilities	2,507	9,000
Others	10,927	22,546
	\$ 58,198	\$ 60,694

The aging of the accounts payable and accrued liabilities is as follows:

	As at April 30, 2016	As at July 31, 2015
Less than 30 days	\$ 14,250	\$ 13,407
From 30 days to 90 days	603	226
Greater than 90 days	43,345	47,061
	\$ 58,198	\$ 60,694

10. Share Capital

(a) Authorized Share Capital

The Company's authorized share capital consists of:

- (i) an unlimited number of voting common shares, with no par value
- (ii) an unlimited number of series A non-voting preferred shares
- (iii) an unlimited number of series B non-voting preferred shares
- (iv) an unlimited number of series C non-voting preferred shares

Each series of preferred shares may be converted into common shares at the option of the Company. Each series of preferred shares are convertible into such number of common shares equal to the quotient of the paid-up capital of the preferred shares divided by the market price of the common shares on the date of conversion. Each series of preferred shares are subject to cumulative dividends at the rate of 5% per annum, which is payable in common shares of the Company based upon the prevailing market price of the common shares.

Zara Resources Inc.

Notes to Condensed Interim Financial Statements
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(Expressed in Canadian Dollars)
(Unaudited)

10. Share Capital (continued)

(b) Shares issued on debt settlement

On January 7, 2016, the Company issued 475,000 common shares with a fair value of \$47,500 (at \$0.10 per share at the time of the issuance) in order to settle accumulated interest on the Series B Convertible Preferred shares. (See note 8) The accumulated interest at the time of the issue amounted to \$21,195, resulting in a loss on settlement of debt of \$26,305 which has been included in the statement of loss and comprehensive loss.

On January 7, 2016, the Company issued 140,280 common shares with a fair value of \$14,028 (at \$0.10 per share at the time of the issuance) in order to settle accumulated interest on the Series C Convertible Preferred shares. (See note 8) The accumulated interest at the time of the issue amounted to \$11,458, resulting in a loss on settlement of debt of \$2,570 which has been included in the statement of loss and comprehensive loss.

On January 7, 2016, the Company issued 45,500 common shares with a fair value of \$4,550 (at \$0.10 per share at the time of the issuance) in order to settle accumulated interest on the Series A Convertible Preferred shares. (See note 8) The accumulated interest at the time of issue amounted to \$2,235, resulting in a loss on settlement of debt of \$2,315 which has been included in the statement of loss and comprehensive loss.

(c) Warrants

The issued and outstanding warrants balance at April 30, 2016 is comprised as follows:

	Fair Value	Number of warrants
Balance, July 31, 2014	\$ 274,500	698,553
Expired	(8,000)	(20,000)
Balance, April 30, 2015	\$ 266,500	678,553
Balance, July 31, 2015 and April 30, 2016	\$ 153,500	511,887

The issued and outstanding warrants balance at April 30, 2016 is comprised as follows:

Expiry Date	Fair value	Exercise price	Number of warrants
May 24, 2016*	\$ 6,000	\$1.40	9,091
July 2, 2016	29,000	\$1.80	41,288
August 1, 2016	58,000	\$1.80	166,666
November 6, 2016	60,500	\$0.90	294,842
	\$ 153,500	\$1.27	511,887

* These warrants expired unexercised subsequent to the end of the period

Zara Resources Inc.

Notes to Condensed Interim Financial Statements
Three and Nine Months Ended April 30, 2016
(Expressed in Canadian Dollars)
(Unaudited)

10. Share Capital (continued)

(d) 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 (\$)
Balance, July 31, 2014	\$ 174,900	245,000	\$ 1.03
Expired	(21,900)	(40,000)	(1.00)
Balance, April 30, 2015	\$ 153,000	205,000	\$ 1.03
Balance, July 31, 2015 and April 30, 2016	\$ 127,000	165,000	\$ 1.00

The following table sets out the details of the stock options granted and outstanding as at April 30, 2016:

Expiry date	Exercise price (\$)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)	Number of options unvested
December 28, 2017	1.00	1.66	165,000	165,000	-
	1.00	1.66	165,000	165,000	-

(e) 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.

(f) Cancellation of common shares

On October 17, 2014, the Company cancelled 571,578 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 571,578 Company common shares to Hudson shareholders within the required time frame.

(g) Basic and Diluted Loss per Share

The calculation of basic and diluted loss per share for the three and nine months ended April 30, 2016 was based on the loss attributable to common shareholders of \$5,540 and \$61,479, respectively (three and nine months ended April 30, 2015 – loss of \$15,878 and income of \$184,089, respectively) and the weighted average number of common shares outstanding of 4,993,446 and 4,607,589, respectively (three and nine months ended April 30, 2015 – 4,332,666 and 4,013,081, respectively). Diluted loss per share did not include the effect of 165,000 options and 511,887 warrants (2015 – 205,000 options and 678,553 warrants) as they are anti-dilutive.

Zara Resources Inc.

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(Unaudited)

10. Share Capital (continued)

(h) Share Consolidation

The Company completed a share consolidation of its common shares on the basis of one (1) new common share for ten (10) old common shares to be effective October 15, 2015. All common shares and per common share price reported in this financial statements has been retroactively restated to reflect the share consolidation. The outstanding stock options and warrants were adjusted by the consolidation ratio.

11. Plans of Arrangement

Leo Plan of Arrangement

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

In consideration, Leo issued 13,737,500 common shares of Leo to the Company. In addition, as part of the Agreement, Leo issued to the Company, 100,000 Series A preferred shares for the sum of \$100,000 cash. During the year ended July 31, 2015, the Company's management analyzed the fair value of the investment in Series A preferred shares and determined an impairment in the value of the investment. As such, a full impairment of \$100,000 has been recorded.

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 applied for listing its common shares on the CSE.

The spin-off was 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 distributed 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 received ten common share in the capital of Leo for every twenty common shares in the capital of the Company.

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

During the year ended July 31, 2014, 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.

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(Unaudited)

12. Related Party Transactions and Disclosures

Related party transactions were in the normal course of operations.

The due to related companies at April 30, 2016 of \$nil (July 31, 2015 - \$28,796) is comprised of due to Leo, in the amount of \$nil (July 31, 2015 - \$7,500) and due to GreenBank of \$nil (July 31, 2015 - \$21,296), which amounts were made to provide working capital. All these companies have Daniel Wettreich, a director and CEO of the Company, as director.

At April 30, 2016, the Company has a due to related parties of \$30,393 (July 31, 2015 - \$4,366), which is made up of amount due from Sammiri Capital Inc. ("Sammiri"), a private company controlled by Daniel Wettreich, a director and an officer of the Company, in the amount of \$nil (July 31, 2015 - \$500) and the amount due to Daniel Wettreich of \$30,393 (July 31, 2015 - \$3,866). These amounts were made to provide working capital to the Company.

As at April 30, 2016, the Company also has an amount due from related companies of \$nil (July 31, 2015 - \$11,007), which is comprised of due from Hadley of \$nil (July 31, 2015 - \$9,000) and an amount due from Winston of \$nil (July 31, 2015 - \$2,007). All these companies have Daniel Wettreich, a director and CEO of the Company, as director. These amounts were made to provide working capital to those related companies. All amounts are interest-free with no fixed terms of repayment.

During the three and nine months ended April 30, 2016, the Company incurred transfer agent fees of \$2,562 and \$4,186, respectively (three and nine months ended April 30, 2015 - \$nil) to Reliable Stock Transfer Inc., ("Reliable") a company owned by Daniel Wettreich for the provision of share transfer services. As at April 30, 2016, amount owed to Reliable is \$4,957 (July 31, 2015 - \$3,520) and has been included in the accounts payable and accrued liabilities.

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. There has been no further developments and the Company has not received any formal claim.

14. 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 April 30, 2016, all of the Company's exploration and evaluation assets and liabilities are situated in Canada.