



**MANAGEMENT DISCUSSION & ANALYSIS**

**FOR THE INTERIM SIX MONTHS PERIOD ENDED JANUARY 31, 2017**

**(Prepared by Management on March 28, 2017)**

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## **Zara Resources Inc. MD&A for the Interim Six Months Period Ended January 31, 2017**

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MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) TO ACCOMPANY THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS OF ZARA RESOURCES INC (THE "COMPANY" OR "ZARA") FOR THE SIX MONTHS PERIOD ENDED JANUARY 31, 2017.

This MD&A is dated March 28, 2017

The following Management's Discussion and Analysis should be read in conjunction with the audited financial statements of the Company for the year ended July 31, 2016, and the unaudited condensed interim financial statements for the six months ended January 31, 2017, 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 on exploring and evaluating its 100% owned Forge Lake gold property and its 50% owned Pigeon River nickel-copper property in Ontario.

The NI43-101 Technical reports for Forge Lake and Pigeon River are available under Zara's profile on SEDAR at [www.sedar.com](http://www.sedar.com). The Qualified Person for the Forge Lake Technical Report is Alan Aubut and the Technical Report was prepared by Alan Aubut. Mr. Aubut is a "Qualified Person" and "independent" of Zara within the meaning of NI 43-101. The Qualified Person for the Pigeon River Technical Report is Alan Aubut and the Technical Report was prepared by Alan Aubut. Mr. Aubut is a "Qualified Person" and "independent" of Zara within the meaning of NI 43-101. While all geological information contained herein is derived from the Technical Report, the authors thereof have not reviewed or approved this MD&A.

#### **Proposed Transaction**

On March 2, 2017 Zara announced that it had signed a Letter of Intent which defines the essential terms under which it will enter into a definitive agreement (the "Acquisition Agreement") for the acquisition by Zara of all the issued share capital of Fox Automotive Switzerland AG, Magnum Pirex AG and its subsidiary Magnum Courb SAS ("Fox Magnum") for the sum of CAD\$126,000,000 payable by the issuance by Zara of 85,000,000 new common shares at a deemed price of CAD\$1.48235 per share. Fox Magnum is a group of European companies in the electric automotive industry, with interests in electric car manufacturing, fuel cell kits, and electric automotive intellectual property and patents. Fox Magnum intends to expand its European electric car manufacturing capabilities to satisfy its order backlog of approximately CAD\$40,000,000. Closing of the Acquisition Agreement will be subject to approval by Zara shareholders at a special shareholders meeting, and compliance with any required governmental and securities regulations and CSE listing requirements. Closing will also be subject to completion of a minimum CAD\$3,000,000 and a maximum CAD\$5,000,000 funding by Fox Magnum of 2% Coupon Convertible Loan Notes, convertible at any time into equity and repayable after 12 months from date of issue. There is no guarantee that the proposed Acquisition Agreement will close.

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At closing, Dr Hubert Maencher will be appointed director and Chairman of the Board of the Company, and Andreas Kratzer and Peter Wang will be appointed directors. Danny Wettreich, David Lonsdale and Paul Cullingham will remain as independent directors. Peter Wanner and Mark Wettreich will retire as directors. A CEO with automotive experience and a CFO with public company experience will be appointed.

Dr Hubert Maencher received his PhD in electrical and control engineering from the Technical University of Darmstadt, Germany. He is the founder and CEO of the Magnum companies since inception, with a background of 25 years of experience as a manager in automotive electronics, vehicle dynamics and electric drive trains. He is an expert on fuel cell technologies and its application in the automotive industry. He has developed a fuel cell based Range Extender for E-mobility which resolves the problem of electric cars limited range by enabling electric cars to go over 600 km (approximately 375 miles) without recharging. When all licensing approvals have been obtained, Fox Magnum intends to offer this range extension capability as an option with its electric cars.

Andreas Kratzer is a Partner & Managing Director of Lysis AG, a Swiss based investment advisory firm. He worked in investment banking with azemos Partner AG, and was previously leading cross-border M&A transactions with Ernst & Young in the USA and Switzerland. He has been a director of a number of European public companies, and is currently a director of the supervisory board of Softing AG an industrial and automotive automation firm publicly listed on the General Standard at the Frankfurt Stock Exchange, Germany.

Peter Wang is a USA based serial entrepreneur who has been a director of a number of international companies, including the USA and China. He is experienced in automotive, engineering and technology investments.

Subsequent to closing, there will be 95,505,486 Zara shares issued and outstanding, of which the previous shareholders of Fox Magnum will own 89%. Upon closing of the Acquisition Agreement, and subject to approval by Zara shareholders and regulatory authorities, Zara will change its business to automotive, and its corporate name to Fox Magnum Automotive Inc. Fox Magnum has paid a fee of CAD\$150,000 to Sammiri Capital Inc, a private company owned by Danny Wettreich, and will pay a fee of CAD\$75,000 upon closing of the Acquisition Agreement.

The participation by Danny Wettreich, David Lonsdale and Paul Cullingham in this proposed transaction is considered to be a related party transaction as defined in Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions* ("MI 61-101") as they will receive benefits as continuing directors of the Company. A special committee consisting of independent directors established by the board of directors determined the related party transaction is fair and reasonable in the circumstances to the Company. The Company has relied on section 5.5(b) of MI 61-101 for an exemption from the formal valuation requirement. Neither the Company nor the related parties have knowledge of any material information concerning the Company or its securities that has not been generally

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disclosed. The transaction will not have an effect on the direct or indirect voting interests of the related parties. The process of approving the transaction involved the appointment of a special committee, the approval of the transaction by the special committee, the consideration of the transaction by the directors with Danny Wettreich, David Lonsdale and Paul Cullingham disclosing their interest, and the unanimous approval of the transaction by the directors. The special committee was comprised of one director who is independent within the meaning of MI 61-101. There are two directors who are independent within the meaning of MI 61-101. The proposed transaction is not exempt from the minority approval requirement under Section 5.7(b) of MI 61-101, and as such the Company will seek approval from the minority shareholders of the Company at a special shareholders meeting. A material change report in respect of the transaction was filed at least 21 days in advance of the closing of the transaction.

### **Debt Conversion**

On December 30, 2016 the Company announced that the outstanding yield due and payable on its Preferred Shares Series A, Series B, and Series C has been paid in full by the issuance of 603,820 common shares at \$0.05 per share. The common shares are subject to a hold period of four months and a day.

Zara also announced that effective December 30, 2016 the Preferred Shares Series A and the Preferred Shares Series B have been converted into common shares by the issuance of a total of 1,040,000 common shares at \$0.05 per share. The common shares are subject to a hold period of four months and one day.

Zara further announced that it has settled indebtedness owing to two related parties in the total amount of \$193,411 by the issuance of a total of 3,868,220 common shares at \$0.05 per common share (the "Debt Conversion"). No commission is payable in relation to the Debt Conversion. The common shares are subject to a hold period of four months and a day.

\$43,411 of the indebtedness was due to Daniel Wettreich, a director and CEO of Zara. \$150,000 of the indebtedness was due to Churchill Venture Capital LP, ("CVC") a private company of which Daniel Wettreich is the President. Immediately after the transaction and including the shares held by CVC, Daniel Wettreich holds, directly and indirectly, an aggregate of 6,069,954 common shares of the Company, representing approximately 57.79% of the Company's issued and outstanding common shares.

### **Share Consolidation**

On September 14, 2015 the Company approved 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. Following the consolidation, and a subsequent common share issuance to preferred shareholders, the company has 4,993,446 common shares issued and outstanding as at March 28, 2016. Outstanding stock options and warrants were adjusted by the Consolidation ratio. All common shares and per common share amounts reported in the financial statements and on this MD&A have been retroactively restated to reflect the share Consolidation.

As at the date hereof, the Company has 10,505,486 common shares issued and outstanding common shares.

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### **Previous Activity**

#### Proposed Change of Business Not to Proceed

On September 14, 2015 Zara announced that, conditional on completion of a dual listing on the London AIM Market, it intended to seek shareholder approval to change its business to a natural resources investment company. On January 11, 2016 the Company announced that it would not be proceeding with this change of business into a natural resources investment company due to depressed market conditions.

#### Proposed Acquisition of Lux Aquatica Assets terminated

On May 30, 2014, Zara announced that it signed a Letter of Intent to acquire certain recreational marine assets. On October 17, 2014 the Company announced that it terminated the Letter of Intent due to the sellers not meeting their obligations in regard to completing a private placement.

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

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

#### Debt Conversion

On November 27, 2014 Zara settled indebtedness owing to four different parties in the total amount of \$483,808 by the issuance of a total of 967,616 common shares at \$0.50 per common share. On January 7, 2015 Zara settled indebtedness due on its Preferred Shares Series B by the issuance of 94,090 common shares at \$0.50 per common share. On January 26, 2015 Zara settled indebtedness due on its Preferred Shares Series A by the issuance of 9,100 common shares at \$0.50 per common share.

#### Leo and Riverbank

Through its former subsidiary Leo Resources Inc (“Leo”) Zara previously 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. Zara no longer has an interest in Riverbank or Leo.

### **MINERAL PROPERTIES**

#### **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

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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 a further 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 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 Resources Inc for the sum of \$9,000. As a result of this transaction, a loss in amount of \$2,541 was realized. The Company now has a 50% interest in Pigeon River.

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

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 Forge Lake property of \$603,394 was impaired.

### **INTEREST IN MINERAL PROPERTIES**

The full capitalized cost of the properties is reflected in the accompanying financial statements.

### **FINANCIAL STATEMENTS GOING CONCERN ASSUMPTION**

The financial statements have been prepared on the basis of accounting principles applicable to a going concern under 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,



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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 January 31, 2017, the Company has yet to generate revenues from operations and had a deficit of \$2,684,618 (July 31, 2016 - \$2,710,825). 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.

### **RESULTS OF OPERATIONS**

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

During the six month period ended January 31, 2017, the Company incurred a net income and comprehensive income of \$39,134 (loss in 2016 - \$55,939). This income is mainly comprised of gain on settlement of debt of \$201,241, which was offset by operating expenses mainly comprised of consulting fees of \$150,000, filing and listing fees of \$3,530 (2016- \$6,785), legal and professional fees \$5,370 (2016 -\$9,110), office and general expenses \$1,325 (2016 -\$3,210) and transfer agent fees \$1,764 (2016 -\$1,624).

For the six months ended January 31, 2017 the Company used cash in operating activities of \$(31,022) (2016 - \$(11,216)). For the six month period ended January 31, 2017, the Company provided cash in financing activities of \$32,878 (2016 - \$10,969), and net change in cash was \$1,856 (2016- \$247).

Depending on future events, the rate of expenditures and general and administrative costs could increase or decrease.

Exploration of its mineral properties will be limited until such time as further equity has been raised by Zara in order to further develop its mineral properties. The NI43-101 Report for Pigeon River recommends further exploration work with a budget of \$170,000. 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.

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### Summary of Quarterly Result

<u>Quarter ended</u>	<u>Jan 31, 2017</u>	<u>Oct.31, 2016</u>	<u>Jul.31, 2016</u>	<u>Apr.30. 2016</u>
	\$	\$	\$	\$
Net Income (Loss)	49,905	(5,771)	(17,424)	(5,540)
Interest in Exploration and Evaluation Assets	23,080	23,080	23,080	23,080
Current Assets	3,641	2,550	3,349	2,850
Total Assets	26,721	25,630	26,429	25,930
Total Liabilities	64,957	126,740	113,232	88,625
Total Shareholder's (Deficiency) Equity	(38,236)	(101,110)	(86,804)	(62,695)
<u>Quarter ended</u>	<u>Jan.31, 2016</u>	<u>Oct.31, 2015</u>	<u>Jul.31, 2015</u>	<u>Apr. 30, 2015</u>
	\$	\$	\$	\$
Net loss	(47,135)	(8,804)	(553,678)	(115,878)
Interest in Exploration and Evaluation Assets	23,080	34,622	34,622	638,015
Current Assets	24,346	14,064	15,206	15,020
Total Assets	47,427	48,686	49,830	653,035
Total Liabilities	96,826	109,272	93,856	64,080
Total Shareholder's Equity	(49,399)	(60,586)	(44,026)	588,955

### 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



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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 January 31, 2017:

	\$
Cash	1,923
Working Capital (Deficiency)	(61,316)
Cash Used in Operating Activities	(31,022)
Net Cash Used in Investing Activity	-
Cash Provided by Financing Activities	32,878
Net change in Cash	1,856

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 and its long term financial success is dependent on discovering properties that contain mineral reserves that are economically recoverable. The Company's primary capital assets as at January 31, 2017 are cash, due from related parties and exploration and evaluation assets. The Company has no commitments for capital expenditure, and there are no known trends or expected fluctuations in the Company's capital resources.

The following is a summary of the Company's outstanding share, warrant and stock options data as of March 28, 2017:

### Common Shares

The authorized common share capital of the issuer consists of an unlimited number of common shares without par value of which 10,505,486 are outstanding as of March 28, 2017. Holders of the issuer's common shares are entitled to vote at all meetings of shareholders declared by the directors, and subject to

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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 83,333 Series C are issued or outstanding as of March 28, 2017. The preferred shares rank in priority to the common shares upon the liquidation, winding up or other dissolution of the Company. The 83,333 Series C preferred shares are voting and may be converted into common shares on a one for one basis with consent of the owner. 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 six months period ended January 31, 2017, Zara granted no stock options. At March 28, 2017, 165,000 options were outstanding entitling holders to purchase an aggregate 165,000 common shares in the capital of Zara. Details of these stock options grants as provided in the following table.

<b>Date</b>	<b>Number</b>	<b>Name of Optionee if Related Person and relationship</b>	<b>Exercise Price</b>	<b>Expiry Date</b>	<b>Market Price on date of Grant</b>
12/28/2012	125,000	Daniel Wettreich, Director	\$1.00	12/28/2017	\$1.00
12/28/2012	40,000	Mark Wettreich, Director	\$1.00	12/28/2017	\$1.00

### Warrants

At March 28, 2017 the Company had no warrants and no brokers warrants outstanding.

### **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.

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### **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 due to related company at January 31, 2017 of \$678 (July 31, 2016 - \$678) is comprised of due to GreenBank of \$678 (July 31, 2016 - \$678), which amounts were made to provide working capital. Daniel Wettreich is a director and CEO of both Zara and GreenBank.

At January 31, 2017, the Company has a due to related party of \$32,878 (July 31, 2016 - \$43,411), which is made up of amount due to Daniel Wettreich of \$32,878 (July 31, 2016 - \$43,411). These amounts were made to provide working capital to the Company.

During the six months ended January 31, 2017, the Company incurred transfer agent fees of \$1,764 (six months ended January 31, 2016 - \$1,624) to Reliable Stock Transfer Inc., ("Reliable") a company owned by Daniel Wettreich for the provision of share transfer services. As at January 31, 2017, amount owed to Reliable is \$9,118 (July 31, 2016 - \$7,125) and has been included in the accounts payable and accrued liabilities.

### **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.

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The most significant estimates relate to impairment assessments of E&E, recoverability of government HST recoverable 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 determination of whether an impairment exist on investment due to changes in the financial condition of the investee and the Company ability to dispose or redeem the investments for cash.

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.

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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;

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- 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

## **Zara Resources Inc. MD&A for the Interim Six Months Period Ended January 31, 2017**

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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

#### 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).



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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.

### *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 in November 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 replace 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: amortization costs 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 model.

In October 2010, the IASB added requirements for financial liabilities to IFRS 9. These requirements were largely carry forward from the existing requirements in IAS 39, however, fair value changes due to credit risk for financial 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. The amendment also removed the January 1, 2015 effective date.

In July 2014, the IASB issued the final version of 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 new 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.

- IFRS 11 Joint Arrangements ("IFRS 11")

Joint Arrangements 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. Early adoption is permitted. The Company is still in the process of assessing the impact of this pronouncement.

- IAS 1 Presentation of Financial Statements ("IAS 1")

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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.

### ***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, government HST recoverable, which is due from the Canadian Government, as well as the related party receivables which are described in Note 14 of the Company's financial statement 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 January 31, 2017, the Company had \$1,923 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.

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### 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 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 companies and due to related parties 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:

As at	January 31, 2017	July 31, 2016
<b>Financial Assets</b>		
<i>Fair value through profit and loss</i>		
Cash	\$ 1,923	\$ 67
<i>Loans and receivables</i>		
Government HST Recoverable	1,718	3,282
<b>Financial Liabilities</b>		
<i>Other financial liabilities</i>		
Amounts payables and accrued liabilities	31,401	69,144
Due to related companies	678	678
Due to related parties	32,878	43,411

### Capital Management

The Company defines its capital as its shareholders' (deficiency) equity. As at January 31, 2017, the Company's capital resources amounted to a deficiency of \$38,236 (July 31, 2016 - \$86,804). 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 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 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

## **Zara Resources Inc. MD&A for the Interim Six Months Period Ended January 31, 2017**

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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

### **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.

### **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).