

ZARA RESOURCES INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED
JANUARY 31, 2017
(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 January 31, 2017	As at July 31, 2016
ASSETS		
Current assets		
Cash	\$ 1,923	\$ 67
Government HST Recoverable	1,718	3,282
Total current assets	3,641	3,349
Non-current assets		
Exploration and evaluation assets (note 8)	23,080	23,080
Total non-current assets	23,080	23,080
Total assets	\$ 26,721	\$ 26,429
EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 9 and 11)	\$ 31,401	\$ 69,144
Due to related party (note 11)	32,878	43,411
Due to related company (note 11)	678	678
Total current liabilities	64,957	113,233
Shareholders' (Deficiency) Equity		
Common share capital (note 10(a))	1,630,782	1,603,221
Preferred share capital (note 10(a))	29,000	549,500
Reserve for warrants (note 10(c))	-	118,500
Reserve for share-based payments (note 10(d))	127,000	127,000
Contributed surplus	859,600	225,800
Deficit	(2,684,618)	(2,710,825)
Total shareholders' (deficiency) equity	(38,236)	(86,804)
Total liabilities and shareholders' (deficiency) equity	\$ 26,721	\$ 26,429

Nature of operations (note 1)

Going concern (note 2)

Events after the reporting period (note 13)

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 condensed interim financial statements are an integral part of these statements.

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

	Three months ended January 31,		Six months ended January 31,	
	2017	2016	2017	2016
Operating Expenses				
Bank charges	\$ 72	\$ 62	\$ 118	\$ 117
Consulting fees	150,000	240	150,000	240
Filing and listing fees	2,030	5,285	3,530	6,785
Legal and professional fees	2,120	5,370	5,370	9,110
Office and general expenses	-	1,325	1,325	3,210
Transfer agent fees	1,114	-	1,764	1,624
Share-based payments	-	1,122	-	1,122
Loss on disposition of exploration and evaluation assets	-	2,541	-	2,541
Loss (gain) on settlement of debt (note 10(b))	(201,241)	31,190	(201,241)	31,190
Net income (loss) and comprehensive income (loss)	\$ 45,905	\$ (47,135)	\$ 39,134	\$ (55,939)
Basic and diluted loss per share (note 10(f))	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding - basic and diluted (note 10(f))	6,910,677	4,349,904	5,952,062	4,341,285

The notes to the 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)**

Six Months Ended January 31,	2017	2016
Operating activities		
Income (loss) for the period	\$ 39,134	\$ (55,939)
Loss on disposition of exploration and evaluation assets	-	2,541
Loss (gain) on settlement of debt	(201,241)	31,190
Settlement of expenses with non-cash common share consideration	150,000	-
	(12,107)	(22,208)
Net changes in non-cash working capital:		
Government HST recoverable	1,564	(385)
Accounts payable and accrued liabilities	(20,479)	11,377
Net cash provided by (used in) operating activities	(31,022)	(11,216)
Financing activities		
Due to related companies	-	10,121
Due to related party	32,878	848
Net cash provided by financing activities	32,878	10,969
Net change in cash	1,856	(247)
Cash, beginning of period	67	762
Cash, end of period	\$ 1,923	\$ 515

The notes to the 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, 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	140,280	14,028	-	-	-	-	-	-	14,028
Shares issued for the settlement of dividend on series B convertible preferred shares	475,000	47,500	-	-	-	-	-	-	47,500
Shares issued for the settlement of dividend on series A convertible preferred shares	45,500	4,550	-	-	-	-	-	-	4,550
Dividends	-	-	-	-	-	-	-	(15,512)	(15,512)
Loss for the period	-	-	-	-	-	-	-	(55,939)	(55,939)
Balance, January 31, 2016	4,993,446	\$ 1,603,221	603,833	\$ 549,500	\$ 127,000	\$ 153,500	\$ 190,800	\$ (2,673,420)	\$ (49,399)
Balance, July 31, 2016	4,993,446	\$ 1,603,221	603,833	\$ 549,500	\$ 127,000	\$ 118,500	\$ 225,800	\$ (2,710,825)	\$ (86,804)
Shares issued for conversion of series A preferred shares	90,000	455	(45,500)	(45,500)	-	-	45,045	-	-
Warrants expired	-	-	-	-	-	(118,500)	118,500	-	-
Shares issued for conversion of series B preferred shares	950,000	4,745	(475,000)	(475,000)	-	-	470,255	-	-
Shares issued for the settlement of dividend on series C convertible preferred shares(note 10)	83,320	417	-	-	-	-	-	-	417
Shares issued for the settlement of dividend on series B convertible preferred shares (note 10)	475,000	2,375	-	-	-	-	-	-	2,375
Shares issued for the settlement of dividend on series A convertible preferred shares (note 10)	45,500	228	-	-	-	-	-	-	228
Shares issued for debt settlement	3,868,220	19,341	-	-	-	-	-	-	19,341
Dividends	-	-	-	-	-	-	-	(12,927)	(12,927)
Income for the period	-	-	-	-	-	-	-	39,134	39,134
Balance, January 31, 2017	10,505,486	\$ 1,630,782	83,333	\$ 29,000	\$ 127,000	\$ -	\$ 859,600	\$ (2,684,618)	\$ (57,577)

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

Zara Resources Inc.

Notes to Condensed Interim Financial Statements

Three and Six Months Ended January 31, 2017

(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 100 King Street West, Suite 5700, Toronto, Ontario M5X 1C7, Canada.

2. Going Concern Assumption

These unaudited condensed interim 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. The Company continues to incur 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 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.

Zara Resources Inc.

Notes to Condensed Interim Financial Statements
Three and Six Months Ended January 31, 2017
(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 March 28, 2017, 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, 2016, 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, 2017 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

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

Changes in accounting policies

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after July 31, 2016. The following new standards have been adopted:

(i) 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. At August 1, 2016, the Company adopted this pronouncement and there was no material impact on the Company’s financial statements.

(ii) 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. At August 1, 2016, the Company adopted this pronouncement and there was no material impact on the Company’s financial statements.

Zara Resources Inc.

Notes to Condensed Interim Financial Statements
Three and Six Months Ended January 31, 2017
(Expressed in Canadian Dollars)
(Unaudited)

4. Significant Accounting Policies (continued)

Future accounting policies

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

(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.

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 such, the risk of loss on these assets is minimal.

Zara Resources Inc.

Notes to Condensed Interim Financial Statements
Three and Six Months Ended January 31, 2017
(Expressed in Canadian Dollars)
(Unaudited)

5. Financial Risk Management (continued)

Financial Risks (continued)

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 January 31, 2017, the Company had cash balance of \$1,923. 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.

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 is classified as loans and receivables whereby it is initially recognized at fair value and then subsequently carried at amortized cost. Accounts payables and accrued liabilities, due to related party and due to related company 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 January 31, 2017 \$	As at July 31, 2016 \$
Financial Assets		
<i>Fair value through profit or loss</i>		
Cash	1,923	67
<i>Loans and receivables</i>		
Government HST Recoverable	1,718	3,282
Financial Liabilities		
<i>Other financial liabilities</i>		
Accounts payable and accrued liabilities	31,401	69,144
Due to related company	678	678
Due to related party	32,878	43,411

Zara Resources Inc.

Notes to Condensed Interim Financial Statements
Three and Six Months Ended January 31, 2017
(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 January 31, 2017, the Company's capital resources amounted to a deficiency of \$38,236 (July 31, 2016 - \$86,804).

The Company's capital management objectives, policies and processes have remained unchanged during the three and six months ended January 31, 2017. The Company is not subject to any capital requirements imposed by a lending institution.

7. Government HST Recoverable

	As at January 31, 2017	As at July 31, 2016
Government HST receivables	\$ 1,718	\$ 3,282

Government HST recoverable is not past due.

8. Exploration and evaluation assets

	<u>Ontario Properties</u> Pigeon River (50% owned)
Balance, July 31, 2015	\$ 34,622
Disposal	(11,542)
Balance, January 31, 2016, July 31, 2016 and January 31, 2017	\$ 23,080

Zara Resources Inc.

Notes to Condensed Interim Financial Statements
Three and Six Months Ended January 31, 2017
(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.

9. Accounts Payable and Accrued Liabilities

	As at January 31, 2017	As at July 31, 2016
Accounts payable	\$ 27,728	\$ 35,992
Accrued liabilities	3,325	15,540
Others	348	17,612
	\$ 31,401	\$ 69,144

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

	As at January 31, 2017	As at July 31, 2016
Less than 30 days	\$ 4,508	\$ 17,482
From 30 days to 90 days	12,119	3,318
Greater than 90 days	14,774	48,344
	\$ 31,401	\$ 69,144

Zara Resources Inc.

Notes to Condensed Interim Financial Statements
Three and Six Months Ended January 31, 2017
(Expressed in Canadian Dollars)
(Unaudited)

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

The Series A and B preferred shares may be converted into common shares at the option of the Company. On December 30, 2016, all Series A and Series B preferred shares have been converted into common shares of the Company. The Series C preferred shares may be converted into common shares at the option of the holders. 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.

(b) Shares issued on debt settlement

On December 30, 2016, the Company issued 3,868,220 common shares with a fair value of \$19,341 (at \$0.005 per share at the time of the issuance) pursuant to the debt settlement agreement; both creditors are related parties. Pursuant to the agreements the Company settled a total of \$193,411, resulting in a gain on settlement of debt of \$174,070 which has been included in the statement of income (loss) and comprehensive income (loss).

On December 30, 2016, the Company issued 475,000 common shares with a fair value of \$2,375 (at \$0.005 per share at the time of the issuance) in order to settle accumulated interest on the Series B Convertible Preferred shares. The accumulated interest at the time of the issue amounted to \$23,750, resulting in a gain on settlement of debt of \$21,375 which has been included in the statement of income (loss) and comprehensive income (loss).

On December 30, 2016, the Company issued 45,500 common shares with a fair value of \$228 (at \$0.005 per share at the time of the issuance) in order to settle accumulated interest on the Series A Convertible Preferred shares. The accumulated interest at the time of issue amounted to \$2,275, resulting in a gain on settlement of debt of \$2,047 which has been included in the statement of income (loss) and comprehensive income (loss).

On December 30, 2016, the Company issued 83,320 common shares with a fair value of \$417 (at \$0.005 per share at the time of the issuance) in order to settle accumulated interest on the Series C Convertible Preferred shares. The accumulated interest at the time of the issue amounted to \$4,166, resulting in a gain on settlement of debt of \$3,749 which has been included in the statement of income (loss) and comprehensive income (loss).

On December 30, 2016, the Company issued 1,040,000 common shares with a fair value of \$5,200 (at \$0.005 per share at the time of the issuance) in order to convert the Series A and Series B Convertible Preferred Shares into the common shares of the Company. These convertible preferred shares had a reported value of \$520,500 at the time of the issuance. The difference of \$515,300 was reported as contributed surplus.

Zara Resources Inc.

Notes to Condensed Interim Financial Statements
Three and Six Months Ended January 31, 2017
(Expressed in Canadian Dollars)
(Unaudited)

10. Share Capital (continued)

(c) Warrants

The issued and outstanding warrants balance at January 31, 2017 is comprised as follows:

	Fair Value	Number of warrants
Balance, July 31, 2015 and January 31, 2016	\$ 153,500	511,887
Balance, July 31, 2016	\$ 118,500	461,508
Expired	(118,500)	(461,508)
Balance, January 31, 2017	\$ -	-

There were no issued and outstanding warrants as at January 31, 2017.

(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, 2015 and January 31, 2016	\$ 127,000	165,000	\$ 1.00
Balance, July 31, 2016 and January 31, 2017	\$ 127,000	165,000	\$ 1.00

The following table sets out the details of the stock options granted and outstanding as at January 31, 2017:

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	0.91	165,000	165,000	-
	1.00	0.91	165,000	165,000	-

Zara Resources Inc.

Notes to Condensed Interim Financial Statements
Three and Six Months Ended January 31, 2017
(Expressed in Canadian Dollars)
(Unaudited)

10. Share Capital (continued)

(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. Contributed surplus also includes the difference in the book value of preferred shares and the fair value of common shares issued to convert preferred shares into common shares of the Company.

(f) Basic and Diluted Loss per Share

The calculation of basic and diluted income (loss) per share for the three and six months ended January 31, 2017 was based on the income (loss) attributable to common shareholders of \$45,905 and \$39,134 respectively (three and six months ended January 31, 2016 – \$(47,135) and \$(55,939), respectively) and the weighted average number of common shares outstanding of 6,910,677 and 5,952,062, respectively (three and six months ended January 31, 2016 – 4,349,904 and 4,341,285, respectively). Diluted loss per share did not include the effect of 165,000 options (2016 – 165,000 options and 511,887 warrants) as they are anti-dilutive.

(g) 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. Related Party Transactions and Disclosures

Related party transactions were in the normal course of operations.

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 three and six months ended January 31, 2017, the Company incurred transfer agent fees of \$1,764 and \$1,114, respectively (three and six months ended January 31, 2016 - \$nil and \$1,624, respectively) 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.

12. 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 January 31, 2017, all of the Company's exploration and evaluation assets and liabilities are situated in Canada.

Zara Resources Inc.

Notes to Condensed Interim Financial Statements

Three and Six Months Ended January 31, 2017

(Expressed in Canadian Dollars)

(Unaudited)

13. Events after the reporting period

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. 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.