

# **ZARA RESOURCES INC.**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**THREE MONTHS ENDED OCTOBER 31, 2017**

**(Expressed in Canadian Dollars)**

## **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.**  
**Statements of Financial Position**  
**(Expressed in Canadian Dollars)**

	As at October 31 2017	As at July 31 2017
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 2,220	\$ -
Government HST Recoverable	1,177	3,062
<b>Total current assets</b>	<b>3,397</b>	<b>3,062</b>
<b>Non-current assets</b>		
Exploration and evaluation assets (note 9)	23,080	23,080
<b>Total non-current assets</b>	<b>23,080</b>	<b>23,080</b>
<b>Total assets</b>	<b>\$ 26,477</b>	<b>\$ 26,142</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness	\$ -	\$ 120
Accounts payable and accrued liabilities (note 13)	32,926	38,084
Due to related party (note 13)	48,700	38,744
Due to related company (note 13)	4,068	3,390
<b>Total current liabilities</b>	<b>85,694</b>	<b>80,338</b>
<b>Shareholders' (Deficiency) Equity</b>		
Common share capital (note 11(a))	1,630,782	1,630,782
Preferred share capital (note 11(a))	29,000	29,000
Reserve for warrants (note 11(c))	-	-
Reserve for share-based payments (note 11(d))	127,000	127,000
Contributed surplus	859,600	859,600
Deficit	(2,705,599)	(2,700,578)
<b>Total shareholders' (deficiency) equity</b>	<b>(59,217)</b>	<b>(54,196)</b>
<b>Total liabilities and shareholders' (deficiency) equity</b>	<b>\$ 26,477</b>	<b>\$ 26,142</b>

Nature of operations (note 1)  
 Going concern (note 2)  
 Events after the reporting period (note 15)

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 financial statements are an integral part of these statements.

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

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	As at October 31 2017	As at July 31 2017
<b>Operating Expenses</b>		
Bank charges	\$ 57	\$ 207
Consulting fees		150,000
Filing and listing fees	4,964	7,665
Legal and professional fees	-	13,822
Office and general expenses		1,325
Transfer agent fees		2,964
Shareholder information	-	-
Loss on disposition of exploration and evaluation assets	-	-
(Gain) loss on settlement of debt (note 11(b))		(201,241)
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ (5,021)</b>	<b>\$ (25,258)</b>
<b>Basic and diluted income (loss) per share</b> (note 11(f))	<b>\$ 0.00</b>	<b>\$ (0.00)</b>
<b>Weighted average number of common shares outstanding - basic and diluted</b> (note 11(f))	<b>10,505,486</b>	<b>10,505,486</b>

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

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

	As at October 31, 2017	As at July 31, 2017
<b>Operating activities</b>		
Income (loss) for the year	\$ (5,021)	\$ (25,258)
(Gain) loss on settlement of debt	-	(201,241)
Settlement of expenses with non-cash common share consideration	-	150,000
	<b>(5,021)</b>	<b>(25,983)</b>
Net changes in non-cash working capital:		
Government HST recoverable	<b>1,885</b>	220
Accounts payable and accrued liabilities	<b>(5,158)</b>	(15,880)
<b>Net cash used in operating activities</b>	<b>(8,294)</b>	<b>(41,643)</b>
<b>Financing activities</b>		
Due to related companies	<b>678</b>	2,712
Due to related party	<b>9,956</b>	38,744
<b>Net cash provided by financing activities</b>	<b>10,634</b>	41,456
<b>Net change in cash</b>	<b>2,340</b>	(187)
<b>Cash, beginning of year</b>	<b>(120)</b>	67
<b>Cash, end of year</b>	<b>\$ 2,220</b>	\$ -
<b>(Bank indebtedness), end of year</b>	<b>\$ -</b>	\$ (120)

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

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

	<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>			
<b>Balance, July 31, 2015</b>	<b>4,332,666</b>	<b>\$ 1,537,143</b>	<b>603,833</b>	<b>\$ 549,500</b>	<b>\$ 127,000</b>	<b>\$ 153,500</b>	<b>\$ 190,800</b>	<b>\$ (2,601,969)</b>	<b>\$ (44,026)</b>
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	-	-	-	-	-	-	-	(29,953)	(29,953)
Loss for the year	-	-	-	-	-	-	-	(78,903)	(78,903)
<b>Balance, July 31, 2016</b>	<b>4,993,446</b>	<b>\$ 1,603,221</b>	<b>603,833</b>	<b>\$ 549,500</b>	<b>\$ 127,000</b>	<b>\$ 118,500</b>	<b>\$ 225,800</b>	<b>\$ (2,710,825)</b>	<b>\$ (86,804)</b>
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 11)	83,320	417	-	-	-	-	-	-	417
Shares issued for the settlement of dividend on series B convertible preferred shares (note 11)	475,000	2,375	-	-	-	-	-	-	2,375
Shares issued for the settlement of dividend on series A convertible preferred shares (note 11)	45,500	228	-	-	-	-	-	-	228
Shares issued for debt settlement	3,868,220	19,341	-	-	-	-	-	-	19,341
Dividends	-	-	-	-	-	-	-	(15,011)	(15,011)
Income for the year	-	-	-	-	-	-	-	25,258	25,258
<b>Balance, July 31, 2017</b>	<b>10,505,486</b>	<b>\$ 1,630,782</b>	<b>83,333</b>	<b>\$ 29,000</b>	<b>\$ 127,000</b>	<b>\$ -</b>	<b>\$ 859,600</b>	<b>\$ (2,700,578)</b>	<b>\$ (54,196)</b>
Income for the year	-	-	-	-	-	-	-	(5,021)	(5,021)
<b>Balance, October 31, 2017</b>	<b>10,505,486</b>	<b>\$ 1,630,782</b>	<b>83,333</b>	<b>\$ 29,000</b>	<b>\$ 127,000</b>	<b>\$ -</b>	<b>\$ 859,000</b>	<b>\$ 2,705,599</b>	<b>\$ (59,217)</b>

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**Zara Resources Inc.**  
**Notes to Financial Statements**  
**Year Ended July 31, 2017**  
**(Expressed in Canadian Dollars)**

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**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.

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. 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.

On April 13, 2017, following on from the Letter of Intent announced on March 2, 2017, the Company signed a Definitive Agreement for the acquisition by Zara of Fox Magnum.

In September 2017, the Company announced that following due diligence discussions, it has amended the terms of its proposed acquisition of the Fox Magnum electric car business. The Company will proceed with the acquisition of all the issued share capital of Fox Automotive Switzerland AG ("Fox"). It will not proceed with the acquisition of Magnum Pirex AG and its subsidiary Magnum Courb SAS.

By the terms of the Amended Definitive Agreement, Zara will acquire all the issued share capital of Fox for the sum of CAD\$91,557,738 payable by the issuance by Zara of 61,765,263 new common shares at a deemed price of CAD\$1.48235 per share. Closing of the Amended Definitive Agreement will be subject to a number of conditions, including but not limited to approval by Zara shareholders at a shareholders meeting, completion of due diligence procedures, and compliance with any required governmental and securities regulations and CSE listing requirements. There is no guarantee that the Fox transaction will be completed.

**2. Going Concern Assumption**

These financial statements have been prepared on the basis of accounting principles applicable to a going concern under International Financial Reporting Standards ("IFRS"). The use of these principles under IFRS assumes that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge its liabilities in the normal course of operations. The Company has not commenced active exploration on its exploration and evaluation assets ("E&E"). It is unknown whether the E&E contain reserves that are economically recoverable. The Company continues to incur operating losses, which casts significant doubt about the Company's ability to continue as a going concern.

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

## **2. Going Concern Assumption (continued)**

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 October 31, 2017, the Company has yet to generate revenues from operations and had a deficit of \$2,705,599 (July 31, 2017 - \$2,700,578). 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.

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

### **(a) Statement of compliance**

These financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") as of November 28, 2017, the date the Company's Board of Directors approved these 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.



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**Zara Resources Inc.**  
**Notes to Financial Statements**  
**Year Ended July 31, 2017**  
**(Expressed in Canadian Dollars)**

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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:

**Income taxes**

Income tax expense consisting of current and deferred tax expense is recognized in the statement of loss and comprehensive loss. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years.

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.

#### **4. Significant Accounting Policies (continued)**

- Deferred income tax liabilities are recognized for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- Taxable temporary differences associated with investments in associates and interests in joint ventures, where the timing in the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is expected to be realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position. Deferred income taxes relating to items recognized directly in equity are recognized in equity and not in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

#### **4. Significant Accounting Policies (continued)**

##### **Impairment of non-financial assets**

At each 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 IFRS 6 indication exists, the recoverable amount of the asset (or CGU) is estimated in order to determine the extent, if any, of the impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying amount, its carrying amount is reduced to its recoverable amount with a corresponding impairment loss recognized in the statement of comprehensive income in the period of impairment.

If an impairment loss reverses in a subsequent period then the carrying amount of the asset is increased to its revised value to the extent that the increased carrying amount does not exceed its original carrying amount as would be determined under IFRS 6.

##### **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, abandonment or impairment.

E&E costs consist of such items as:

- Acquisition of exploration properties;
- Gathering exploration data through topographical and geological studies;
- Exploratory drilling, trenching and sampling;
- Determining the volume and grade of the resource;
- Test work on geology, metallurgy, mining, geotechnical and environmental; and
- Conducting engineering, marketing and financial studies.

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

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

#### **4. Significant Accounting Policies (continued)**

##### **Exploration and evaluations assets (“E&E”) (continued)**

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.

##### **Functional currency**

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

##### **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 and vested, ending on the date on which the relevant employees become fully entitled to the award (“the vesting period or date”). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share based compensation reserve.

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

##### **Share Capital**

Financial instruments issued by the Company are treated as equity only to the extent that they do not meet the definition of a financial liability. The Company's common shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares are recognized in equity as a reduction from the gross proceeds received from the issued shares.

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**Zara Resources Inc.**  
**Notes to Financial Statements**  
**Year Ended July 31, 2017**  
**(Expressed in Canadian Dollars)**

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**4. Significant Accounting Policies (continued)**

**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 income (loss) and comprehensive income (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 income (loss) and comprehensive income (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 income (loss) and comprehensive income (loss). The losses arising from impairment are recognized in the statement of income (loss) and comprehensive income (loss). The Company has classified government HST recoverable as loans and receivable.

Other financial liabilities

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost. The effective interest rate (or amortized cost method) is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

Financial instruments recorded at fair value

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The company's cash is considered Level 1 in the hierarchy.

**4. Significant Accounting Policies (continued)**

**Financial instruments (continued)**

**Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial  
The notes to the financial statements are an integral part of these statements.

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**Zara Resources Inc.**  
**Notes to Financial Statements**  
**Year Ended July 31, 2017**  
**(Expressed in Canadian Dollars)**

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assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

**Income (Loss) Per Share**

Income (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.

**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.

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**Zara Resources Inc.**  
**Notes to Financial Statements**  
**Year Ended July 31, 2017**  
**(Expressed in Canadian Dollars)**

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**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.

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**Notes to Financial Statements**  
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**5. Critical Accounting Estimates and Judgments**

The preparation of these financial statements in accordance with IFRS requires management to make judgments 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 judgments 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 judgments and estimates. Actual outcomes may differ from these estimates.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income/loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Critical judgments in applying accounting policies

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

(a) Impairment of exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation expenditure and impairment of the capitalized expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year the new information becomes available.

(b) Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

(c) Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.



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**5. Critical Accounting Estimates and Judgments (continued)**

(d) Going concern risk assessment

The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to fund its existing acquisition and exploration commitments on its exploration and evaluation assets when they come due, which would cease to exist if the Company decides to terminate its commitments, and to cover its operating costs. The Company may be able to generate working capital to fund its operations by the sale of its exploration and evaluation assets or raising additional capital through equity markets. However, there is no assurance it will be able to raise funds in the future. These financial statements do not give effect to any adjustments required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in material adjustments to the financial statements.

(a) Share based compensation

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. This estimate also requires determining the most appropriate inputs to the valuation model. 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.

(b) Impairment of investments

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.

(c) Valuation of receivables and payables

The amounts due to/from parent company and companies under common control have no stated terms of repayment or interest rate attached to it. Management must make judgments about the valuation and recoverability of receivables. Events and circumstances arising during the year, or that are foreseeable at year-end, are reflected in the valuation of these receivables in the statement of financial position and reflect management's best estimate of the fair value of these financial instruments.

**6. 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.

***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 July 31, 2017, the Company had a negative cash balance of \$120. 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.

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**6. Financial Risk Management (continued)**

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 Oct. 31, 2017 \$	As at July 31, 2017 \$
<b>Financial Assets</b>		
<i><b>Fair value through profit or loss</b></i>		
Cash	2,220	-
<i><b>Loans and receivables</b></i>		
Government HST Recoverable	1,177	3,062
<b>Financial Liabilities</b>		
<i><b>Fair value through profit or loss</b></i>		
Bank indebtedness	-	120
<i><b>Other financial liabilities</b></i>		
Accounts payable and accrued liabilities	32,926	38,084
Due to related company	4,068	3,390
Due to related party	48,700	38,744

**7. 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 October 31, 2017, the Company's capital resources amounted to a deficiency of \$59,217 (July 31, 2017 - \$54,196).

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

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**8. Government HST Recoverable**

	As at October 31, 2017	As at July 31, 2017
Government HST receivables	\$ 1,177	\$ 3,062

Government HST recoverable is not past due.

**9. Exploration and evaluation assets**

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

**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.

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**10. Accounts Payable and Accrued Liabilities**

	As at October 31, 2017	As at July 31, 2017
Accounts payable	\$ 25,694	\$ 29,327
Accrued liabilities	4,800	6,325
Others	2,432	2,432
	<b>\$ 32,926</b>	<b>\$ 38,084</b>

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

As at July 31,	As at October 31, 2017	As at July 31, 2017
Less than 30 days	\$ -	\$ 9,673
From 30 days to 90 days	226	1,700
Greater than 90 days	26,711	26,711
	<b>\$ 32,700</b>	<b>\$ 38,984</b>

**11. 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.

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**11. Share Capital (continued)**

**(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.

**(c) Warrants**

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

	<b>Fair Value</b>	<b>Number of warrants</b>
<b>Balance, July 31, 2016 and October 31, 2016</b> Expired	<b>\$ 153,500</b> (35,000)	<b>511,887</b> (50,379)
<b>Balance, July 31, 2017</b> Expired	<b>\$ 118,500</b> (118,500)	<b>461,508</b> (461,508)
<b>Balance, October 31, 2017</b>	<b>\$ -</b>	<b>-</b>

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

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**11. Share Capital (continued)**

**(d) Stock Options**

The Company has a stock option plan under which the Board of Directors may grant options to acquire common shares of the Company to qualified directors, officers, employees and other service providers. The stock options vest according to the provisions of the individual option agreements approved by the directors' resolutions and have a maximum life of ten years. The plan allows for the issuance of up to 10% of the number of issued and outstanding common shares of the Company at any time on a non-diluted basis.

The following table summarizes the activity in the Plan over the period.

	Fair Value	Number of Options	Weighted average exercise price (\$)
<b>Balance, July 31, 2016 and Oct. 31, 2016</b>	<b>\$ 127,000</b>	<b>165,000</b>	<b>\$ 1.00</b>
<b>Balance, July 31, 2017 and Oct. 31, 2017</b>	<b>\$ 127,000</b>	<b>165,000</b>	<b>\$ 1.00</b>

The following table sets out the details of the stock options granted and outstanding as at October 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	0.41	165,000	165,000	-
	<b>1.00</b>	<b>0.41</b>	<b>165,000</b>	<b>165,000</b>	<b>-</b>

**(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 months ended October 31, 2017 was based on the income (loss) attributable to common shareholders of \$0.00 (three months ended July 31, 2017 – \$(0.00)) and the weighted average number of common shares outstanding of 8,210,061 (three months ended October 31, 2016 – 0.00). Diluted loss per share did not include the effect of 165,000 options and 511,887 warrants (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.

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**12. Related Party Transactions and Disclosures**

Related party transactions were in the normal course of operations.

The due to related company at October 31, 2017 of \$4,068 (July 31, 2017 - \$3,390) is comprised of due to GreenBank of \$4,068 (July 31, 2017 - \$3,390), which amounts were made to provide working capital. Daniel Wettreich is a director and CEO of both Zara and GreenBank.

At October 31, 2017, the Company has a due to related party of \$48,700 (July 31, 2017 - \$38,744), which is made up of amount due to Daniel Wettreich of \$48,700 (July 31, 2017 - \$38,744). These amounts were made to provide working capital to the Company.

During the three months ended October 31, 2017, the Company incurred transfer agent fees of \$Nil (year ended July 31, 2017 - \$2,964) to Reliable Stock Transfer Inc., ("Reliable") a company owned by Daniel Wettreich for the provision of share transfer services. As at October 31, 2017, amount owed to Reliable is \$Nil (July 31, 2017 - \$10,474) and has been included in the accounts payable and accrued liabilities.

**13. Segmented Information**

The Company's operations are comprised of a single reporting operating segment engaged in the exploration and evaluation of mineral resources. As the operations comprise a single reporting segment, amounts disclosed in the financial statements also represent a single reporting segment. As at October 31, 2017, all of the Company's exploration and evaluation assets and liabilities are situated in Canada.