



LARA EXPLORATION LTD.
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2021, AND 2020
(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Lara Exploration Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Lara Exploration Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of income (loss) and comprehensive income (loss), cash flows, and changes in equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has not achieved profitable operations and has accumulated losses since inception. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:


- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Guy Thomas.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 29, 2022

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

| | December 31, 2021 | December 31, 2020 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents (Note 3) | \$ 1,936,185 | \$ 1,606,871 |
| Receivables (Note 4) | 81,050 | 36,104 |
| Prepays and deposit (Note 5) | 159,889 | 39,596 |
| Total current assets | 2,177,124 | 1,682,571 |
| Non-current assets | | |
| Restricted cash equivalents (Note 6) | 57,500 | 57,500 |
| Equipment (Note 7) | 21,126 | 30,172 |
| Exploration and evaluation assets (Note 8) | 73,811 | 84,289 |
| Investment in associated company (Note 10) | 97,994 | - |
| Long-term investments (Note 11) | 3,385,514 | 375,068 |
| Total non-current assets | 3,635,945 | 547,029 |
| TOTAL ASSETS | \$ 5,813,069 | \$ 2,229,600 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 14) | \$ 251,976 | \$ 108,435 |
| Advances from joint venture partners (Note 9) | 1,223,725 | 198,742 |
| Total current liabilities | 1,475,701 | 307,177 |
| Deferred income tax liability (Note 18) | - | 11,203 |
| TOTAL LIABILITIES | 1,475,701 | 318,380 |
| EQUITY | | |
| Share capital (Note 12) | 26,806,296 | 26,806,296 |
| Share-based payments reserve (Note 12) | 9,811,222 | 9,794,586 |
| Deficit | (32,280,150) | (34,689,662) |
| TOTAL EQUITY | 4,337,368 | 1,911,220 |
| TOTAL LIABILITIES AND EQUITY | \$ 5,813,069 | \$ 2,229,600 |

Nature of operations and ability to continue as a going concern (Note 1)**Events after the reporting date (Note 19)**

These consolidated financial statements were authorized for issuance by the Board of Directors on April 29, 2022.

Approved by the Board of Directors"Miles Thompson" , Director"Christopher Jones" , Director

The accompanying notes are an integral part of these consolidated financial statements.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Expressed in Canadian dollars)

| | Year ended December 31, | |
|--|-------------------------|--------------|
| | 2021 | 2020 |
| EXPLORATION EXPENDITURES (Note 9) | \$ 535,555 | \$ 307,030 |
| GENERAL AND ADMINISTRATIVE EXPENSES | | |
| Depreciation (Note 7) | 1,806 | 1,576 |
| Management fees (Note 14) | 123,673 | 120,000 |
| Office, rent and administrative services (Note 14) | 333,918 | 327,545 |
| Professional fees | 100,121 | 82,811 |
| Shareholder communication and investor relations | 14,853 | 55,222 |
| Share-based payments (Notes 12 and 14) | 16,636 | 646,800 |
| Transfer agent and regulatory fees | 46,410 | 46,259 |
| Travel and related costs | 279 | 5,957 |
| Total general and administrative expenses | 637,696 | 1,286,170 |
| | (1,173,251) | (1,593,200) |
| Change in fair value of FVTPL investments (Note 11) | 3,206,846 | 13,846 |
| Equity income (loss) of associated company (Note 10) | 97,994 | (32,875) |
| Foreign exchange loss | (704) | (141,385) |
| Other income and expense (Note 8) | 252,934 | 793,627 |
| Gain on sale of investments (Note 11) | 72,539 | - |
| Write-off of exploration and evaluation assets (Note 8) | (58,049) | (9,351) |
| | 3,571,560 | 623,862 |
| Deferred income tax expense (recovery) (Note 18) | (11,203) | 11,203 |
| Income (loss) and comprehensive income (loss) for the year | \$ 2,409,512 | \$ (980,541) |
| Loss per common share | | |
| Basic and diluted loss per common share | \$ 0.06 | \$ (0.02) |
| Weighted average number of common shares outstanding (basic and diluted) | 39,627,608 | 39,185,172 |

The accompanying notes are an integral part of these consolidated financial statements.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

| | Year Ended December 31, | |
|--|-------------------------|---------------------|
| | 2021 | 2020 |
| OPERATING ACTIVITIES | | |
| Income (loss) for the year | \$ 2,409,512 | \$ (980,541) |
| Items not affecting cash: | | |
| Deferred income tax expense (recovery) | (11,203) | 11,203 |
| Depreciation | 1,806 | 1,576 |
| Depreciation included in exploration expenditures | 14,891 | 14,928 |
| Gain on sale of investments | (72,539) | - |
| Equity in income (loss) of associated company | (97,994) | 32,875 |
| Change in fair value of FVTPL investments | (3,206,846) | (13,846) |
| Unrealized foreign exchange gain | (17,754) | (81,667) |
| Write-off of exploration and evaluation assets | 58,049 | 9,351 |
| Write-off of investment in associated company | - | - |
| Share-based payments | 16,636 | 646,800 |
| Changes in non-cash working capital items: | | |
| Receivables | (44,946) | 20,454 |
| Prepays and deposits | (120,293) | 23,500 |
| Accounts payable and accrued liabilities | 143,541 | (36,297) |
| Advances from joint venture partners | 1,024,983 | (210,519) |
| | 97,843 | (562,183) |
| INVESTING ACTIVITIES | | |
| Net acquisition of exploration and evaluation assets | (47,571) | - |
| Cash received on sale of investments | 268,939 | - |
| Investment in associated companies and joint ventures | - | (32,875) |
| Long-term investments | - | (177,627) |
| Purchase of equipment | (7,651) | (369) |
| | 213,717 | (210,871) |
| FINANCING ACTIVITIES | | |
| Exercise of options | - | 227,500 |
| | - | 227,500 |
| Effect of exchange rate changes on cash and cash equivalents | 17,754 | 81,667 |
| Change in cash and cash equivalents | 329,314 | (463,887) |
| Cash and cash equivalents, beginning of year | 1,606,871 | 2,070,758 |
| Cash and cash equivalents, end of year | \$ 1,936,185 | \$ 1,606,871 |

Supplementary cash flow information (Note 15)

The accompanying notes are an integral part of these consolidated financial statements.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars)

| | Number of shares | Share capital | Commitment to issue shares | Share-based payments reserve | Deficit | Total |
|---|---------------------|------------------|----------------------------------|------------------------------------|-----------------|--------------|
| Balance as at December 31, 2020 | 39,627,608 | \$ 26,806,296 | \$ - | \$ 9,794,586 | \$ (34,689,662) | \$ 1,911,220 |
| Share-based payments | - | - | - | 16,636 | - | 16,636 |
| Income for the year | - | - | - | - | 2,409,512 | 2,409,512 |
| Balance as at December 31, 2021 | 39,627,608 | \$ 26,806,296 | \$ - | \$ 9,811,222 | \$ (32,280,150) | \$ 4,337,368 |
| Balance as at December 31, 2019 | 38,634,274 | \$ 26,433,900 | \$ 54,082 | \$ 9,238,600 | \$ (33,709,121) | \$ 2,017,461 |
| Exercise of stock options | 910,000 | 227,500 | - | - | - | 227,500 |
| Reclassify reserve upon exercise of options | - | 84,896 | - | (84,896) | - | - |
| Share-based payments | - | - | 5,918 | 640,882 | - | 646,800 |
| Bonus shares issued | 83,334 | 60,000 | (60,000) | - | - | - |
| Loss for the year | - | - | - | - | (980,541) | (980,541) |
| Balance as at December 31, 2020 | 39,627,608 | \$ 26,806,296 | \$ - | \$ 9,794,586 | \$ (34,689,662) | \$ 1,911,220 |

The accompanying notes are an integral part of these consolidated financial statements.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN

Lara Exploration Ltd. (the “Company” or “Lara”) was incorporated under the British Columbia Business Corporations Act on March 31, 2003. The Company’s principal business activities are the acquisition, and exploration, and development of mineral properties in South America, currently with exploration and evaluation properties in Brazil and Peru. These consolidated financial statements of the Company as at and for the years ended December 31, 2021, and 2020 are comprised of the Company and its subsidiaries. The Company’s common shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol of “LRA”. The Company’s address is #501 – 543 Granville Street, Vancouver, BC.

The Company is in the process of exploring its exploration and evaluation assets and has not yet determined whether they contain reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete their exploration and development, confirmation of the Company’s interest in the underlying claims and leases, ability to obtain the necessary permits to mine, and future profitable production or proceeds from the disposition of these assets.

These consolidated financial statements are prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from the carrying values shown and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. The Company’s continuing operations and the ability of the Company to meet mineral property and other commitments are dependent upon the ability of the Company to continue to raise additional equity or debt financing and to seek joint venture partners. At the date of these consolidated financial statements, the Company has not identified a known body of commercial-grade mineral on any of its properties. The Company has not achieved profitable operations and has accumulated losses since inception. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business.

2. BASIS OF PRESENTATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

Basis of Presentation

These annual consolidated financial statements have been prepared on a historical cost basis, except for long-term investments, which are classified as fair value through profit or loss (“FVTPL”), and which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (continued)

of accounting except for cash flow information. The preparation of these consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the application of the policies and reported amounts of assets, liabilities, revenue, and expenses. Actual results may differ from these estimates. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of Consolidation

These consolidated financial statements comprise the accounts of the parent company, and its subsidiaries, after the elimination of all material intercompany balances and transactions.

Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases. The Company's principal operating subsidiaries and associated companies are as follows:

| Name | Principal Activity | Place of incorporation | Ownership % |
|--------------------------------|---------------------|--------------------------|-------------|
| Maxy Gold Corp. | Exploration company | British Columbia, Canada | 100% |
| Maxy Gold Peru S.A.C. | Exploration company | Peru | 100% |
| Lara Peru S.A.C. | Exploration company | Peru | 100% |
| Lara do Brasil Mineracao Ltda. | Exploration company | Brazil | 100% |
| Planalto Mineracao Ltda. | Exploration company | Brazil | 100% |
| Minas Dixon S.A. * | Exploration company | Peru | 45% |

* Accounted for using the equity method of accounting (Note 10).

Foreign Currencies

The functional and presentation currency of the Company is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the period-end exchange rate. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The Company has determined that the functional currency of its foreign subsidiaries is the Canadian dollar. Exchange differences arising from the translation of the net investment in its subsidiaries are recorded as a gain or loss on foreign currency translation in profit or loss.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (continued)

Royalty Revenue

The Company records royalty revenue from its 2% net smelter returns (“NSR”) royalty on the Celesta Copper Project (Note 8). Royalty revenue is recorded at 2% of the value of the provisional invoice issued upon each concentrate shipment. The provisional invoices are based on 90% of the market prices for copper and gold at the time of each shipment. Subsequent pricing adjustments for second provisional and final invoices are recorded when pricing is known.

Financial Instruments

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following two categories: amortized cost or FVTPL.

The Company’s cash and cash equivalents, restricted cash equivalents, and receivables are recorded at amortized cost.

The Company has long-term investments designated as FVTPL.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss (“FVTPL”) or amortized cost. Financial liabilities recorded at amortized cost are initially recognized at fair value less directly attributable transaction costs. The Company’s accounts payable and accrued liabilities and advances from joint venture partners are recorded at amortized cost. The Company does not currently have any FVTPL financial liabilities.

Impairment of financial assets

The expected credit loss model includes a three-stage assessment for calculating impairment for financial assets. An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on-hand, at banks, broker balances, and short-term deposits.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (continued)

Equipment

Equipment is carried at cost, less accumulated depreciation, and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Depreciation is provided at rates calculated to write-off the cost of equipment, less their estimated residual values, using the straight-line method at the following rates: office equipment – 10%; vehicles – 20%; and computer equipment – 33 1/3 % per annum. An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal of an asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Exploration and Evaluation Assets and Expenditures

Acquisition costs for exploration and evaluation assets, net of recoveries, are capitalized on a property-by-property basis. Acquisition costs include cash consideration and the value of common shares, based on recent issue prices, issued for mineral properties pursuant to the terms of the agreement. Exploration expenditures, net of recoveries, are recorded in profit or loss as incurred.

After an exploration and evaluation asset is determined by management to be commercially viable and technically feasible, exploration and evaluation expenditures on the property will first be assessed for impairment before being transferred to property under development. Thereafter, all costs will be capitalized to the property.

Option payments to acquire an exploration and evaluation asset, made at the sole discretion of the Company under an option agreement, are capitalized at the time of payment. Option payments received are treated as a reduction of the carrying value of the related acquisition cost for the mineral property until the payments are in excess of acquisition costs, at which time they are then credited to profit or loss. Option payments are at the discretion of the optionee and, accordingly, are accounted for when receipt is reasonably assured.

Capitalized acquisition costs are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. When there is little prospect of further work being carried out by the Company or its partners on a property, when a property is abandoned or when the capitalized costs are no longer considered recoverable, the related property costs are written down to management's estimate of their net recoverable amount. The recoverability of the carrying amount of mineral properties is dependent on the successful development and commercial exploitation or the sale of the respective areas of interest.

Investments in Joint Arrangements

The Company accounts for its investment in Minas Dixon using the equity method and accounts for investments in joint operations by recognizing the Company's direct rights to assets, obligations for liabilities, revenues, and expenses. Under the equity method, the interest in the joint venture is carried on the consolidated statement of financial position at cost plus changes in the Company's share of its net assets, less distributions received and less any impairment in the value of individual investments.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (continued)

Equity Investment

The Company accounts for its long-term investments in affiliated companies over which it has significant influence and investments in joint ventures using the equity method of accounting, whereby the investment is initially recorded at cost, adjusted to recognize the Company's share of earnings or losses and reduced by dividends received.

The Company assesses its equity investments for impairment if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the equity investment and that the event or events have an impact on the estimated future cash flow of the investment that can be reliably estimated. Objective evidence of impairment of equity investments includes:

- significant financial difficulty of the associated companies;
- becoming probable that the associated companies will enter bankruptcy or other financial reorganization; and
- national or local economic conditions that correlate with defaults of the associated companies.

Impairment

At each reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell ("FVLCS") and value in use ("VIU"). FVLCS is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing VIU, 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. If the recoverable amount of an asset is established to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount, and the impairment loss is recognized in profit or loss for the period.

For the purposes of impairment testing, mineral properties are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (continued)

Valuation of Equity Units Issued in Private Placements

The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in private placements is the more easily measurable component and they are valued at their fair value, as determined by the closing quoted bid price on the day prior to the announcement date. The residual balance, if any, is allocated to the attached warrants. Any value attributed to the warrants is recorded as other reserve.

Share-based Payment Transactions

The stock option plan (Note 12) allows Company employees and consultants to acquire shares of the Company. Share-based payments to employees are measured at the fair value of the instruments issued and are amortized over the vesting period. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest.

The offset to the recorded cost is to share-based payment reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at the grant date, and each tranche is recognized on a straight-line basis over the period the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest.

The Company's bonus share plan allows it to grant bonus shares as long-term incentive compensation. Bonus shares granted entitle the holder to receive common shares of the Company at the completion date of the vesting period. Share-based payment expense is recognized over the vesting period based on the quoted market value of the common shares on the grant date.

Income Taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. 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 regarding previous years.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (continued)

The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting or taxable profit; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to the offset of current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Restoration, Rehabilitation and Environmental Obligations

An obligation to incur restoration, rehabilitation, and environmental costs arises when an environmental disturbance is caused by the exploration, development, or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for the restoration of subsequent site damage, which is created on an ongoing basis during production, are provided for at their net present values and charged against profit or loss as extraction progresses.

The Company has no material restoration, rehabilitation, and environmental costs as the disturbance to date is minimal.

Earnings (Loss) per Share

Basic earnings (loss) per share ("EPS") is calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by adjusting the loss attributable to equity shareholders, and the weighted average number of common shares outstanding for the effects of all potentially dilutive instruments. The calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year. In years where a loss is reported, diluted loss per share is the same as basic loss per share because the effects of potentially dilutive common shares would be anti-dilutive.

Segment Reporting

The Company operates in a single reportable operating segment – the acquisition and exploration of mineral properties in South America.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (continued)

Significant Accounting Judgments and Estimates

The preparation of consolidated financial statements in conformance with IFRS requires management to make estimates, judgments, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical Accounting Estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and include, but are not limited to, the following:

Estimated useful lives of equipment

The estimated useful lives of equipment, which is included in the consolidated statements of financial position, will impact the amount and timing of the related depreciation included in profit or loss.

Share-based payments (stock options)

The fair value of stock options issued, and options or warrants classified as FVTPL investments are subject to the limitations of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Recovery of deferred tax assets

The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

Critical Accounting Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include, but are not limited to, the following:

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (continued)

Functional currency

The Company applied judgment in determining its functional currency and the functional currency of its subsidiaries. The functional currency was determined based on the currency in which funds are sourced and the degree of dependence on the Company for financial support.

Investment in associated company

The Company has a minority position on the Board of Minas Dixon S.A. (“Minas”) and has had a joint control position on the Boards of Andean Coal (BVI) Ltd. (“Andean”) and Kiwanda Alliance (BVI) Ltd. (“Kiwanda”). The Company has determined that it has significant influence in its associated company and has had joint control over operational decisions in its joint ventures; therefore, the Company accounts for these investments using equity accounting. In November 2020, the Company relinquished joint control of Andean and Kiwanda.

Long-term investments

The Company has long-term investments in Sereno Minerals (BVI) Ltd., Estrella Gold SAC and Celesta Mineracao. There is no observable market data for these investments. The Company has applied judgment to determine that cost is the best estimate of fair value. The Company holds an investment in Bifox Limited (“Bifox”) that has been valued based on recent financings completed by Bifox.

Exploration and evaluation assets

Management is required to make judgments on the status of each mineral property and the future plans with respect to finding commercial resources. The nature of exploration and evaluation activity is such that only a few projects are ultimately successful, and some assets are likely to become impaired in future periods.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash-on-hand and in bank accounts and short-term deposits.

| | December 31, 2021 | | December 31, 2020 | |
|---------------------------|-------------------|-----------|-------------------|-----------|
| Cash | \$ | 1,786,798 | \$ | 1,424,354 |
| Term deposits | | 149,387 | | 182,517 |
| Cash and cash equivalents | | 1,936,185 | | 1,606,871 |

At December 31, 2021, and 2020, the Company’s cash and cash equivalents were held in interest-bearing accounts with its Canadian and South American banks.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

4. RECEIVABLES

The Company's receivables generally arise from goods and services tax ("GST") receivable from government taxation authorities and royalty accruals.

| | December 31, 2021 | December 31, 2020 |
|---------------------|-------------------|-------------------|
| Accounts receivable | \$ 76,599 | \$ 8,880 |
| GST receivable | 4,451 | 27,224 |
| Receivables | \$ 81,050 | \$ 36,104 |

5. PREPAIDS AND DEPOSIT

The Company's prepaids include the unamortized portion of insurance policies, expense advances to consultants, and costs incurred to apply for mineral claims. The deposit is with Seaboard Management Corp., a company which provides management services.

| | December 31, 2021 | December 31, 2020 |
|---------------------------------------|-------------------|-------------------|
| Prepaid expenses and expense advances | \$ 149,889 | \$ 29,596 |
| Deposit (Note 14) | 10,000 | 10,000 |
| Prepays and deposit | \$ 159,889 | \$ 35,596 |

6. RESTRICTED CASH EQUIVALENTS

At December 31, 2021, the Company classified \$57,500 (December 31, 2020 - \$57,500) as restricted cash equivalents. This amount is held as collateral for the Company's corporate credit cards and is invested in GICs at a rate of 0.25%.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

7. EQUIPMENT

| | Vehicles | Office equipment | Computer equipment | Total |
|---------------------------------|-----------------|-------------------------|---------------------------|--------------|
| Costs | | | | |
| December 31, 2019 | \$ 58,518 | \$ 95,887 | \$ 52,887 | \$ 207,282 |
| Additions | - | 369 | - | 369 |
| Disposals | - | - | - | - |
| December 31, 2020 | 58,518 | 96,256 | 52,877 | 207,651 |
| Additions | - | 1,057 | 6,594 | 7,651 |
| Disposals | - | - | - | - |
| December 31, 2021 | \$ 58,518 | \$ 97,313 | \$ 59,471 | \$ 215,302 |
| Accumulated depreciation | | | | |
| December 31, 2019 | \$ 26,345 | \$ 89,054 | \$ 45,576 | \$ 160,975 |
| Additions | 11,703 | 1,790 | 3,011 | 16,504 |
| Disposals | - | - | - | - |
| December 31, 2020 | 38,048 | 90,844 | 48,587 | 177,479 |
| Additions | 11,704 | 1,379 | 3,614 | 16,697 |
| Disposals | - | - | - | - |
| December 31, 2021 | \$ 49,752 | \$ 92,223 | \$ 52,201 | \$ 194,176 |
| Net book value | | | | |
| December 31, 2020 | \$ 20,470 | \$ 5,412 | \$ 4,290 | \$ 30,172 |
| December 31, 2021 | \$ 8,766 | \$ 5,090 | \$ 7,270 | \$ 21,126 |

Of the \$16,697 (2020 - \$16,504) of depreciation expense recognized during the year ended December 31, 2021, \$14,891 (2020 - \$14,928) was included as exploration expenditures and \$1,806 (2020 - \$1,576) was recorded as depreciation on the statements of comprehensive loss.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS

| | December 31, 2019 | | Additions | Recoveries | Write down | December 31, 2020 | |
|-----------------|----------------------|---------------|-------------------|---------------------|-------------------|----------------------|---------------|
| Brazil | | | | | | | |
| Planalto Copper | \$ | - | \$ 101,402 | \$ (101,402) | \$ | \$ | - |
| | | | | - | | | - |
| Peru | | | | | | | |
| Puituco | | 26,240 | - | - | - | | 26,240 |
| Buenos Aires | | 24,230 | - | - | (4,144) | | 20,086 |
| Rafa | | 31,628 | - | - | - | | 31,628 |
| Emilia | | 6,335 | - | - | - | | 6,335 |
| Pacollo | | 5,207 | - | - | (5,207) | | - |
| Total | \$ | 93,640 | \$ 101,402 | \$ (101,402) | \$ (9,351) | \$ | 84,289 |

| | December 31, 2020 | | Additions | Recoveries | Write down | December 31, 2021 | |
|------------------|----------------------|---------------|-------------------|---------------------|--------------------|----------------------|---------------|
| Brazil | | | | | | | |
| Planalto Copper | \$ | - | \$ 316,783 | \$ (316,783) | \$ | \$ | - |
| Peru | | | | | | | |
| Kenita / Puituco | | 26,240 | 13,503 | - | - | | 39,743 |
| Buenos Aires | | 20,086 | - | - | (20,086) | | - |
| Rafa | | 31,628 | - | - | (31,628) | | - |
| Emilia | | 6,335 | - | - | (6,335) | | - |
| Mantaro | | - | 34,068 | - | - | | 34,068 |
| Total | \$ | 84,289 | \$ 364,354 | \$ (316,783) | \$ (58,049) | \$ | 73,811 |

Brazil***Celesta Copper Project (formerly Curionópolis Copper-Gold Project)***

During the year ended December 31, 2021, the Company had a 5% ownership interest and received royalty payments on the Celesta Copper Project. Accordingly, the Project has been classified to investments (Note 11).

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS (continued)

Planalto Copper Project

In February 2013 (amended in June 2016 and June 2019), the Company entered into an option agreement to acquire a 100% interest in the Planalto Copper Project from Brazil Americas Investments & Participation Mineracao LLC (“Brazil Americas”), by paying US\$500,000 in cash and a 2% NSR royalty. The Company completed the acquisition by making payments totaling US\$250,000 (\$316,783) during the year ended December 31, 2021. Lara has the right to acquire 50% of the NSR royalty for US\$2,000,000.

On October 30, 2018, Capstone Mining Corp. (“Capstone”) signed a letter of intent with Lara to option the Planalto Copper Project and made a payment of US\$150,000 (\$197,854) to Lara. The option payment was first applied against the capitalized value of the Planalto Copper Project in the amount of \$127,486, with the balance of \$70,368 being recorded as a recovery of exploration expenses.

On February 4, 2019, the Company announced that it had signed a definitive agreement (“the Agreement”) (amended on June 20, 2019, and February 21, 2021) granting Capstone, an exclusive option to earn up to a 70% interest in the Company’s Planalto Copper Project. Capstone paid Lara a further US\$200,000 following receipt of a drill permit for the Project and assumed the costs of the underlying agreement. Capstone can earn an initial 49% interest by paying the Company US\$5,000,000 by the third anniversary of the Agreement and can then elect to purchase an additional 2% interest in the Planalto Copper Project by paying Lara US\$400,000 and committing to fund a Feasibility Study by the fifth anniversary, to reach a 61% interest. The third and final phase will comprise Capstone electing to finance, build and operate a commercial mining operation for the benefit of Lara 30% and Capstone 70%, with Lara repaying its pro-rata share of the financing out of production cash flow.

Lara will hold certain buy back rights to reacquire a majority interest in the Project should Capstone decide to discontinue investing.

Lara elected to accelerate the drill program at the Planalto Copper Project and, on May 28, 2019, filed a “Final Exploration Report” (“RFP”) with the National Agency of Mining (“ANM”) in Brazil. On June 20, 2019, Lara and Capstone amended their Agreement such that the initial three-year earn-in period for Capstone to acquire a 49% interest in the Planalto Copper Project, now starts from the date of approval of the RFP and the 2019 drill program as fulfilling Capstone’s first year work commitment. Capstone transferred US\$500,000 to Lara upon signing of the amendment to cover the payment to Lara due upon receipt of the permit to drill, the payment due to the underlying vendor and a partial reimbursement of Lara’s costs. The RFP was approved on October 31, 2019, and Capstone reimbursed Lara the additional costs of US\$600,000. The remaining conditions of the agreement are unchanged, and exploration work resumed in November 2019. Capstone advanced a further US\$400,000 to Lara in November 2019 to fund ongoing project expenditures. For the year ended December 31, 2021, Capstone advanced US\$1,790,000 (2020 - US\$800,000) for work on the Planalto property.

In August 2020, Lara entered into an option agreement to acquire mining rights adjacent to the original Planalto Project from Mineracao Zaspir Ltda. (“Zaspir”). Lara agreed to acquire a 100% interest in these mining rights for payments totaling US\$250,000. The first US\$25,000 was paid upon signing the option agreement and the Company will pay a further US\$25,000 upon filing of the license transfer to Lara. Lara must pay an additional US\$100,000 on the first anniversary of application to transfer the mining rights. A second US\$100,000 payment must be made on the second anniversary of the application to transfer the mining rights. In addition to the cash purchase price, the Company will grant Zaspir a 2% NSR royalty on any production, which can be repurchased for US\$250,000 within 2 years of granting of the exploration license. After the two-year period

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS (continued)

has passed, one half of the royalty (1%) can be purchased for the same price. On February 8, 2022, Lara and Zaspir amended their agreement to bring forward the payments, with US\$50,000 paid on signing and US\$75,000 paid upon publication of the transfer, which was completed on February 24, 2022. The remaining amount of US\$100,000 is payable by January 1, 2023.

In December 2020, the Company signed an option agreement with Mineração Tariana Ltda. (“Tariana”), a subsidiary of Anglo American do Brasil Ltda., to acquire an exploration licence adjacent to the Company’s Planalto Copper Project (“the Project”) in the Carajás Mineral Province of northern Brazil. Under the terms of the agreement the Company will make a payment of US\$50,000 upon the date of publication of the transfer of title by the Brazilian Mining Agency (“the ANM”) and payments of US\$50,000 on the first and second anniversaries of that date. The Company has committed to complete a minimum of 2,000 metres of diamond drilling together with resource and reserve studies by May 2022. On July 26, 2021, Lara and Tariana agreed to an amendment to the agreement, moving the deadline to complete the drilling and studies to May 16, 2023. The Company then has until the date of filing of the Final Exploration Report with the ANM to notify Tariana of its intention to exercise the option and put the project into production. The Company will pay a 1.25% NSR royalty to Tariana on production. If the project is not operating from July 31, 2026, at such date the Company will make advanced royalty payments of US\$50,000 per year for five years or until the start of production if that is sooner, which amounts are recoverable from 50% of the royalties payable to Tariana thereafter. The transfer of the license to Lara’s subsidiary Planalto Mineracao was published on March 9, 2022, and the initial US\$50,000 payment has been made.

The Tariana license and the Zaspir license form part of the Company’s staged earn-in agreement with Capstone Mining Corp.

Liberdade Copper Project

In September 2010 the Company signed an agreement with Codelco do Brasil Mineracao Ltda. (“Codelco”) to earn an initial 51% interest in the property by Codelco incurring US\$3,300,000 in exploration which has been completed. Work on the project is currently suspended, pending the renewal of the exploration license by the Brazilian Agency of Mines (“ANM”). The ANM has delayed analysis of the renewal, as Vale S.A. (“Vale”) has claimed to have a license dating back to 1986 that is still valid. Codelco has filed a lawsuit with the Federal Courts in Brasilia, against both the ANM and Vale to nullify Vale’s old license and safeguard its rights under the Liberdade exploration license.

Cumaru Manganese Royalty

On May 20, 2019, the Company signed a definitive agreement transferring all its rights and obligations for the Cumaru Manganese Project in northern Brazil, to local mining company Seven Mineração Limitada, in exchange for BRL 250,000 in cash (equivalent to approximately US\$60,975) and a royalty of US\$2/ton of ore taken from the property. The Company has received the first BRL 125,000 payment. The second payment was due on July 19, 2020, but is still outstanding, and accordingly no amount receivable has been recorded.

Fofoca South Gold Prospect

During the year ended December 31, 2020, the Company completed an agreement to sell its Fofoca South Gold Prospect, in the Tapajos Region of northern Brazil, to London-listed Serabi Gold plc. (“Serabi”), for US\$100,000 in cash and a 2% NSR. Under the terms of the agreement, Lara received US\$50,000 upon signing and received a

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS (continued)

further US\$50,000 upon completion of the transfer of the mineral rights, which was completed during fiscal 2020. Upon completion of a NI 43-101 compliant technical report, Serabi can elect to purchase half the royalty (1%) for the greater of US\$10 per gold ounce or US\$500,000.

Peru

Kenita (Puituco) Property

As at December 31, 2019, the Company had incurred filing and land fees to acquire exploration licenses for Puituco (\$26,240). During the year ended December 31, 2021, the Company signed a mining rights transfer agreement with BHP World Exploration Inc. Sucursal del Peru to acquire the Kenita property in exchange for a commitment to pay a 1% net smelter returns royalty on any future production. The Kenita property consists of 5 exploration licenses which are adjacent to and surround the Puituco licenses.

Buenos Aires Property

As at December 31, 2019, the Company had incurred filing and land fees to acquire exploration licenses for Buenos Aires (\$24,230). During the year ended December 31, 2020, the Company wrote off \$4,144 of costs on the Buenos Aires property. During the year ended December 31, 2021, the Company decided that the exploration results on the Buenos Aires property were not encouraging enough to warrant further work and wrote off the remaining capitalized costs of \$20,086.

Mantaro Project

During the year ended December 31, 2021, the Company incurred \$34,068 of acquisition costs on the Mantaro licenses in Peru.

Corina Gold Project

In July 2014, the Company signed a definitive agreement with Compañía Minera Ares S.A.C. ("Ares"), a subsidiary of London-listed Hochschild Mining plc., granting it an option to purchase Lara's Corina Gold Project in southern Peru. Upon the signing of the agreement, Lara received US\$150,000. Under the proposed terms, Ares can acquire the Corina property from Lara for staged cash payments totalling US\$4,150,000, (of which US\$650,000 has been paid to date), carrying out US\$2,000,000 in exploration (which has been completed), and paying a 2% NSR royalty on any future production. In October 2016, Ares signed a community agreement in support of their application to conduct drilling on the property and made a cash payment of US\$150,000 to Lara. In June 2020, Ares made a scheduled option payment of \$457,654 (\$US350,000) to Lara. The payment was recorded as other income. The schedule for the remaining option payments has been amended as follows:

| | US\$ |
|----------------|-----------------|
| August 4, 2021 | 1,000,000 |
| July 4, 2022 | 1,250,000 |
| July 4, 2023 | 1,250,000 |
| | <hr/> 3,500,000 |

The Company received a notification from Hochschild Mining plc. in July 2021, that it was invoking force majeure due to local unrest.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS (continued)

Rafa Emilia and Pacollo Properties

At December 31, 2019, the Company had capitalized costs of \$31,628 for the Rafa property and a total of \$11,542 for the Emilia and Pacollo exploration licenses in Peru. These properties are in the early stage of exploration and not subject to any third-party agreements. Lara wrote off the \$5,207 of capitalized costs for the Pacollo property in the year ended December 31, 2020. During the year ended December 31, 2021, the Company decided that the exploration results on the Rafa and Emilia properties were not encouraging enough to warrant further work and wrote off the remaining capitalized costs of \$31,628 and \$6,335 respectively.

Lara Copper Project

In July 2020, the Company, with its partner, Global Battery Metals Ltd. ("GBM"), signed an option and royalty agreement for the sale of the Lara Copper Project (the "Project") for US\$5,759,000 and a 1.5% NSR royalty, to Minsur S.A. ("Minsur"). The Project is owned 45% by Lara and 55% by GBM. Minsur retains the right to purchase a 0.25% NSR royalty for US\$2.5 million from each of Lara and GBM at any time before the commencement of commercial production. Under the terms of the agreement Lara and GBM have granted Minsur an exclusive option to acquire a 100% interest in the Project by making staged cash payments based on permitting milestones, as summarized in the table below:

| Milestone / Date | Option Payments (US\$) |
|--|-------------------------------|
| Upon registration of the agreement before a Public Notary | (received) 59,000 |
| One year from registration of the agreement | (received) 200,000 |
| Approval of environment study and start of work ("DIA-IA") | 200,000 |
| One year from approval from the DIA-IA | 300,000 |
| Approval of semi-detailed environmental study ("EIA-SD") | 500,000 |
| One year from the approval of EIA-SD | 1,500,000 |
| Upon transfer of title | 3,000,000 |
| Total | 5,759,000 |

Bifox Phosphate Project

During the year ended December 31, 2021, the Project has been reclassified to long term investments as the Company holds a 12.3% interest in Bifox (Note 11).

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS (continued)**Other Income and Expense**

The Company reported the following items as other income and expense for the years ended December 31, 2021, and 2020:

| | December 31, 2021 | December 31, 2020 |
|------------------------------------|-------------------|-------------------|
| Corina option payment | \$ - | \$ 457,654 |
| Celesta penalty payment | - | 107,584 |
| Celesta royalty | 174,693 | 119,083 |
| Planalto Operator's fee | 81,948 | - |
| Sale of Fofoca South Gold Prospect | - | 138,341 |
| Other expense | (3,707) | (29,035) |
| | \$ 252,934 | \$ 793,627 |

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

9. EXPLORATION EXPENDITURES

During the year ended December 31, 2021, the Company incurred the following exploration expenditures, which were expensed as incurred:

| | Planalto Brazil | General and other Brazil | General and other Peru | General and other Chile | Total |
|--------------------------|--------------------|--------------------------------|------------------------------|-------------------------------|------------|
| Administrative | \$ 119,543 | \$ 102,445 | \$ 31,401 | \$ 7,558 | \$ 260,947 |
| Assays | 17,166 | 16,089 | 2,736 | 1,480 | 37,471 |
| Drilling | 57,011 | - | - | - | 57,011 |
| Field costs | 105,303 | 36,345 | 10,796 | - | 152,444 |
| Geophysics | 68,259 | 1,308 | - | - | 69,567 |
| Property maintenance | 3,860 | 30,672 | 14,182 | - | 48,714 |
| Salaries and consultants | 387,959 | 109,584 | 114,383 | 34,463 | 646,389 |
| Telecommunications | 1,091 | 161 | 141 | - | 1,393 |
| Travel and related costs | 55,349 | 10,502 | 7,448 | 3,861 | 77,160 |
| Total expenditures | 815,541 | 307,106 | 181,087 | 47,362 | 1,351,096 |
| Recoveries | (815,541) | - | - | - | (815,541) |
| Net expenditures | \$ - | \$ 307,106 | \$ 181,087 | \$ 47,362 | \$ 535,555 |

At December 31, 2020, the Company reported advances from Capstone, a JV partner, of \$198,742. During the year ended December 31, 2021, Lara received additional advances of \$2,239,255 (US\$1,790,000) for the Planalto Copper Property from Capstone and incurred exploration expenses of \$815,541. Lara also recovered \$316,783 of capitalized exploration and evaluation costs and recovered \$81,948 of operators' fees. At December 31, 2021, there were \$1,223,725 of advances from JV partners. Depreciation expense of \$14,891 was included in administrative costs.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

9. EXPLORATION EXPENDITURES (continued)

During the year ended December 31, 2020, the Company incurred the following exploration expenditures, which were expensed as incurred:

| | Planalto Brazil | General and other Brazil | General and other Peru | Total |
|--------------------------|--------------------|--------------------------------|------------------------------|-------------|
| Administrative | \$ 108,731 | \$ 92,747 | \$ 22,210 | \$ 223,688 |
| Assays | 66,785 | - | - | 66,785 |
| Drilling | 323,372 | - | - | 323,372 |
| Field costs | 123,932 | - | 1,304 | 125,236 |
| Geophysics | 79,232 | - | - | 79,232 |
| Property maintenance | 26,460 | 8,755 | 49,397 | 84,612 |
| Salaries and consultants | 479,425 | 52,562 | 76,746 | 608,733 |
| Telecommunications | 2,002 | - | - | 2,002 |
| Travel and related costs | 19,803 | - | 3,309 | 23,112 |
| Total expenditures | 1,229,742 | 154,064 | 152,966 | 1,536,772 |
| Recoveries | (1,229,742) | - | - | (1,229,742) |
| Net expenditures | \$ - | \$ 154,064 | \$ 152,966 | \$ 307,030 |

At December 31, 2019, the Company reported advances from Capstone, a JV partner, of \$409,261. During the year ended December 31, 2020, Lara received additional advances of \$1,120,625 (US\$873,764) for the Planalto Copper Property from Capstone and incurred exploration expenses of \$1,229,742. Lara also recovered \$101,402 of capitalized exploration and evaluation costs. At December 31, 2020, there were \$198,742 (2019 - \$409,261) of advances due to JV partners. Depreciation expense of \$14,928 was included in administrative costs.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

10. INVESTMENT IN ASSOCIATED COMPANY AND JOINT VENTURES

Kiwanda Coal Alliance

The Company owned a 50% interest in Andean Coal (BVI) Ltd. ("Andean"). The Company had a net investment in Andean of \$131,243 at December 31, 2018. During the year ended December 31, 2019, the Company made an additional investment of \$1,278. The Company's share of the net income for the year ended December 31, 2019, was \$4,934, which increased its net investment in Andean Coal to \$137,455. The Company reviewed this investment for impairment at December 31, 2019, and wrote down the carrying value to \$Nil. On November 20, 2020, the Company provided an escrow release notice to Bifox (Note 11) and as at December 31, 2020, and 2021, no longer has an interest in Andean.

Kiwanda Phosphate Alliance

The Company owned a 50% interest in Kiwanda BVI Ltd. ("Kiwanda") At December 31, 2018, the Company's net investment in Kiwanda was \$nil and there were accumulated unrecognized losses of \$494,404. During the year ended December 31, 2019, the Company made an additional investment of \$1,172. The Company's share of the net loss for the year ended December 31, 2019, was \$133,038. Lara recognized a loss of \$1,172, resulting in accumulated unrecognized losses of \$626,270 and a net investment in Kiwanda of \$Nil at December 31, 2019. On November 20, 2020, the Company provided an escrow release notice to Bifox (Note 11) and as at December 31, 2020, and 2021 no longer has an interest in Kiwanda.

Minas Dixon S.A.

The Company has a 45% interest in Minas Dixon S.A. ("Minas"). During the year ended December 31, 2021, Minas had net income of \$233,070 as the result of an option payment. Lara's 45% share of the net income was \$104,882 (2020 – loss of \$31,460). Lara also recorded a previously unrecognized loss of \$6,888 from prior years. As a result, Lara's investment in Minas increased by \$97,994 with the offsetting amount recorded as equity in income of an associated company.

During the year ended December 31, 2020, the Company made an additional investment of \$31,460. The Company's share of the net gain for the year ended December 31, 2020, was \$10,926, which resulted in a recognized loss of \$31,460 and reversal of losses of \$10,926. At December 31, 2020, the Company's net investment in Minas was \$Nil, and the accumulated unrecognized losses were \$6,888.

| | Minas | Kiwanda | Andean Coal | Total |
|--|-----------|---------|-------------|-----------|
| <u>Investment in associated company and joint ventures</u> | | | | |
| Net investment at December 31, 2019 | \$ - | \$ - | \$ - | \$ - |
| Additional investment for the year ended December 31, 2020 | 31,460 | 1,415 | - | 32,875 |
| Share of net loss | (31,460) | (1,415) | - | (32,875) |
| Net investment at December 31, 2020 | - | - | - | - |
| Additional investment for the year ended December 31, 2021 | - | - | - | - |
| Share of equity in income of associate | 97,994 | - | - | 97,994 |
| Net investment at December 31, 2021 | \$ 97,994 | \$ - | \$ - | \$ 97,994 |

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

10. INVESTMENT IN ASSOCIATED COMPANY AND JOINT VENTURES (continued)

As at December 31, 2021, Minas' aggregate assets, aggregate liabilities and income or losses are as follows:

| | 2021 | 2020 |
|---|------------|-----------|
| Current assets | \$ 256,600 | \$ 61,088 |
| Non-current assets | 309 | 309 |
| Current liabilities | 4,682 | 42,240 |
| Income (loss) for the year | 233,070 | 24,279 |
| Company's ownership percentage | 45% | 45% |
| Company's share of income (loss) for the year | 97,994 | 10,926 |

11. LONG-TERM INVESTMENTS

The Company has an investment in the common shares of Valor Resources Ltd. ("Valor") which trades on the Australia Securities Exchange ("ASX"). In the year ended December 31, 2019, the Company signed an agreement with Estrella (Note 8 – Ancash Royalties) and received 5% of the shares of Estrella for \$1,041. Estrella is a private exploration company. The common shares of these two companies have been classified as FVTPL financial assets and are valued at their fair market value as at December 31, 2020, and 2021. In the year ended December 31, 2020, the Company purchased a right from Sereno Minerals (BVI) Ltd., a private mineral exploration company, to 5% of the proceeds of two lawsuits in Brazil. Lara paid \$177,627 (US\$140,000) for the right. The investment has been valued at cost which is the best estimate of fair value.

| | Fair value December 31, 2019 | Additions | Change in fair value | Fair value December 31, 2020 |
|----------------------------|---------------------------------|-------------------|-------------------------|------------------------------------|
| <u>FVTPL investments</u> | | | | |
| Valor Resources Limited | \$ 182,554 | \$ - | \$ 13,846 | \$ 196,400 |
| Estrella Gold SAC | 1,041 | - | - | 1,041 |
| Sereno Minerals (BVI) Ltd. | - | 177,627 | - | 177,627 |
| Total | \$ 183,595 | \$ 177,627 | \$ 13,846 | \$ 375,068 |

| | Fair value December 31, 2020 | Disposals | Change in fair value | Fair value December 31, 2021 |
|----------------------------|---------------------------------|---------------------|-------------------------|------------------------------------|
| <u>FVTPL investments</u> | | | | |
| Valor Resources Limited | \$ 196,400 | \$ (268,939) | \$ 72,539 | \$ - |
| Estrella Gold SAC | 1,041 | - | - | 1,041 |
| Sereno Minerals (BVI) Ltd. | 177,627 | - | - | 177,627 |
| Bifox Limited | - | - | 3,206,846 | 3,206,846 |
| Total | \$ 375,068 | \$ (268,939) | \$ 3,279,385 | \$ 3,385,514 |

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

11. LONG-TERM INVESTMENTS (continued)

The Company holds a 5% interest in Celesta Mineracao ("Celesta") and a 2% NSR royalty, previously classified as an exploration and evaluation asset (Note 8). A nominal value has been attributed to the 5% interest. The Company has recorded royalty revenue of \$174,693 for 2021 copper concentrate sales and has accrued a balance receivable of \$75,292 as at December 31, 2021.

At December 31, 2021, Lara owned 13,935,236 shares or approximately 12.3% of Bifox Limited ("Bifox") previously classified as an exploration and evaluation asset (Note 8). A nominal value was attributed to the ownership interest as at December 31, 2020. The Company has valued its investment in Bifox at December 31, 2021, at \$0.25 Australian dollars per share based on recent financings by Bifox. Upon relisting of the shares Bifox will be obligated to reimburse Lara for US\$570,000 of project expenses. Lara also holds a 2% production royalty that is triggered once the production rate exceeds 20,000 tonnes per annum. Lara's Bifox shares were subject to an escrow agreement. On November 20, 2020, Bifox and Lara signed an escrow release notice whereby Bifox agreed to release Lara's Bifox shares in exchange for Lara's 50% interests in Andean and Kiwanda (Note 10).

12. EQUITY

Authorized

As at December 31, 2021, the authorized share capital of the Company was an unlimited number of common shares without par value.

Share Issuances

In the year ending December 31, 2020, the Company issued 83,334 bonus shares with a grant date fair value of \$60,000 to senior management. These bonus shares were originally granted in the year ended December 31, 2018, and vested one-third on the grant date, one-third on the first anniversary of the grant date and one-third on the second anniversary of the grant date.

Stock Options

The changes in stock options outstanding are as follows:

| | Number of Options | Weighted Average Exercise Price |
|--|----------------------|---------------------------------------|
| Balance as at December 31, 2019 | 3,255,000 | \$ 0.61 |
| Granted | 1,565,000 | 0.76 |
| Exercised | (910,000) | (0.25) |
| Cancelled | (160,000) | (0.76) |
| Balance as at December 31, 2020 | 3,750,000 | \$ 0.75 |
| Granted | 50,000 | 0.70 |
| Expired | (150,000) | \$ (0.88) |
| Balance as at December 31, 2021 | 3,650,000 | 0.74 |

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

12. EQUITY (continued)

The following table summarizes the stock options outstanding and exercisable at December 31, 2021:

| Date Granted | Expiry Date | Exercise Price | Number Outstanding | Number Exercisable |
|-------------------|-------------------|----------------|--------------------|--------------------|
| November 21, 2017 | November 21, 2022 | \$0.76 | 1,495,000 | 1,495,000 |
| March 14, 2018 | March 14, 2023 | \$0.72 | 350,000 | 350,000 |
| November 13, 2019 | November 13, 2024 | \$0.50 | 200,000 | 200,000 |
| September 1, 2020 | September 1, 2025 | \$0.76 | 1,555,000 | 1,555,000 |
| June 28, 2021 | June 28, 2026 | \$0.70 | 50,000 | 50,000 |
| Total | | | 3,650,000 | 3,650,000 |

At December 31, 2021, the weighted average remaining life of the outstanding stock options was 2.23 years (December 31, 2020 – 3.12 years). During the year ended December 31, 2021, 150,000 options with exercise prices ranging from \$0.76 to \$1.02 expired unexercised. During the year ended December 31, 2020, 160,000 options with an exercise price of \$0.76 were cancelled.

Share Purchase Warrants

The changes in share purchase warrants outstanding were as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|--|--------------------|---------------------------------|
| Balance as at December 31, 2021, and 2020 | 2,000,000 | \$ 0.70 |

The share purchase warrants had an initial expiry date of March 26, 2021. During the year ended December 31, 2021, the expiry date was extended to March 26, 2022.

Share-based Payments

For the year ended December 31, 2021, the Company granted 50,000 (2020 – 1,565,000) stock options to certain directors, officers, and consultants at an option price of \$0.70 (2020 - \$0.76) that were fully vested on the grant date. The Company recorded \$16,636 (2020 - \$640,882) of stock-based compensation expense for options granted. The Company also recorded \$Nil (2020 - \$5,918) of share-based payments for bonus shares issued. The options were valued using the Black-Scholes option pricing model based on the following assumptions:

| | Year ended December 31, 2021 | Year ended December 31, 2020 |
|-------------------------|------------------------------|------------------------------|
| Grant date fair value | \$0.70 | \$0.76 |
| Risk free interest rate | 0.98% | 0.36% |
| Expected life | 5 years | 5 years |
| Expected volatility | 55% | 65% |
| Dividend yield | 0% | 0% |
| Forfeiture rate | 0% | 0% |

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

13. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the exploration and development of exploration and evaluation assets. Except for exploration and evaluation assets, equipment, and exploration expenditures, substantially all of the Company's assets and expenditures are located and incurred in Canada. Exploration and evaluation assets are located in Brazil and Peru, equipment is mainly located in Brazil, and all exploration expenditures are incurred in Brazil and Peru (Notes 8, and 9).

14. RELATED PARTY TRANSACTIONS AND BALANCES

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, which includes the directors and officers of the Company. The aggregate value of transactions and outstanding balances relating to key management personnel are as follows:

| | Year ended | |
|---|----------------------|----------------------|
| | December 31, 2021 | December 31, 2020 |
| Management fees - CEO | \$ 123,673 | \$ 120,000 |
| Exploration expenses – VP Exploration | 169,038 | 172,551 |
| Office, rent and administrative services | | |
| Seabord Management Corp. | 213,600 | 213,600 |
| VP Corporate Development | 48,000 | 48,000 |
| Share-based payments | - | 480,962 |
| | \$ 554,311 | \$ 1,035,113 |

Seabord Management Corp. is related to Lara because it provides Lara key management personnel services.

Amounts due to related parties are included in accounts payable and accrued liabilities and, as at December 31, 2021, and 2020, were as follows:

| Related party assets and liabilities | Service or items | December 31, 2021 | December 31, 2020 |
|---------------------------------------|-------------------|----------------------|----------------------|
| Amounts due from (to): | | | |
| Seabord Management Corp. | Deposit | \$ 10,000 | \$ 10,000 |
| Chief Executive Officer | Fees and expenses | (31,370) | (946) |
| Vice President, Corporate Development | Fees and expenses | (12,600) | (2,677) |
| Vice President, Exploration | Fees and expenses | (14,043) | - |

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended December 31, 2021, the Company recorded the following non-cash transactions:

- Shares issued for commitment to issue shares of \$Nil (2020 - \$54,082)
- Allocation of reserves to share capital of \$Nil (2020 - \$84,896).
- Depreciation included in exploration expense of \$14,891 (2020 - \$14,928).

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

16. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial Risk Management

The Company's financial instruments are exposed to certain financial risks, which include credit risk, currency risk, market risk, interest rate risk and liquidity risk.

Credit Risk

The Company's cash and cash equivalents are mainly held through large Canadian or South American financial institutions and, as at December 31, 2021, are mainly held in interest-bearing accounts; accordingly, credit risk is minimized. The Company assesses the collectability of other receivables, and records allowances for non-collection based on management's assessment of specific accounts.

Currency Risk

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, Brazil, and Peru. The Company funds cash calls to its subsidiary companies outside of Canada in Canadian and US dollars, and a portion of its expenditures are also incurred in the local currencies. The risk is that there could be a significant change in the exchange rate of the Canadian dollar relative to the US dollar, the Brazilian real, and the Peruvian sol. A significant change in these rates could have an adverse effect on the Company's results of operations, financial position, or cash flows. The Company has not hedged its exposure to currency fluctuations.

As at December 31, 2021, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars, Brazilian reals, and Peruvian sols:

| | US dollars | Brazilian reals | Peruvian sols | Total |
|---|---------------|--------------------|------------------|-------------|
| Cash and cash equivalents | 1,361,487 | 655,839 | 9,324 | |
| Receivables | - | 330,726 | 42,121 | |
| Accounts payable and accrued liabilities | (27,581) | (286,656) | (25,309) | |
| Net exposure | 1,333,906 | 699,909 | 26,136 | |
| Canadian dollar equivalent | \$1,693,700 | \$159,456 | \$8,262 | \$1,861,418 |

Based on the above net exposures as at December 31, 2021, and assuming all other variables remain constant, a 10% change in the value of the Canadian dollar against the above foreign currencies would result in an increase / decrease of approximately \$186,100 (2020 - \$154,700) to profit or loss.

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

16. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

Market and Interest Rate Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in values because of volatility of quoted market prices. Interest rate risk is the risk that the fair value of cash flows from a financial instrument will fluctuate due to changes in market interest rates. The Company holds FVTPL investments in exploration companies which have significant market risk, due to the weak equity markets for exploration companies. The Company's cash and cash equivalents are held mainly in interest-bearing bank accounts.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company manages liquidity risk through the management of its capital resources as outlined below. The Company is exposed to liquidity risk.

Management of Capital

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties. The Company relies mainly on equity issuances to raise new capital and on entering into joint venture agreements on certain properties, which enables it to conserve capital and to reduce risk. Lara can liquidate long-term investments in order to raise additional cash resources. In the management of capital, the Company includes the components of shareholders' equity. The Company prepares annual estimates of exploration and administrative expenditures and monitors actual expenditures compared to the estimates to ensure that there is sufficient capital on-hand to meet ongoing obligations. The Company's investment policy is to invest its cash in savings accounts or highly liquid short-term deposits with terms of one year or less and which can be liquidated after 30 days without penalty. Management believes that the Company may have to raise additional capital to fund its operations for the next twelve months. The Company is not subject to any capital restrictions, and there were no changes to capital management during 2021.

17. FINANCIAL INSTRUMENTS

The Company classified its financial instruments as follows:

| December 31, 2021 | FVTPL | Amortized Cost | Total |
|--|--------------|----------------|--------------|
| Cash and cash equivalents | \$ - | \$ 1,936,185 | \$ 1,936,185 |
| Restricted cash equivalents | - | 57,500 | 57,500 |
| Receivables | - | 81,050 | 81,050 |
| Long-term investments | 3,385,514 | - | 3,385,514 |
| Accounts payable and accrued liabilities | - | (251,976) | (251,976) |
| Advances from joint venture partners | - | (1,223,725) | (1,223,725) |
| | \$ 3,385,514 | \$ 599,034 | \$ 3,984,548 |

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

17. FINANCIAL INSTRUMENTS (continued)

| December 31, 2020 | FVTPL | Amortized Cost | Total |
|--|------------|----------------|--------------|
| Cash and cash equivalents | \$ - | \$ 1,606,871 | \$ 1,606,871 |
| Restricted cash equivalents | - | 57,500 | 57,500 |
| Receivables | - | 36,104 | 36,104 |
| Long-term investments | 375,068 | - | 375,068 |
| Accounts payable and accrued liabilities | - | (108,435) | (108,435) |
| Advances from joint venture partners | - | (198,742) | (198,742) |
| | \$ 375,068 | \$ 1,393,298 | \$ 1,768,366 |

Fair Value

Financial instruments measured at fair value on the consolidated statement of financial position are summarized into the following fair value hierarchy levels:

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

The carrying value of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximated their fair value due to the short-term nature of these instruments. The Company's level 3 investments include a right to a 5% interest in two lawsuits, a 5% interest in Celesta, and a 12.3% interest in Bifox (Note 11). Cost is the best measure of fair value. Financial instruments measured at fair value on the consolidated statements of financial position are summarized in levels of fair value hierarchy as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------|------------|---------|--------------|--------------|
| December 31, 2021 | | | | |
| Long-term investments | \$ - | \$ - | \$ 3,385,514 | \$ 3,385,514 |
| December 31, 2020 | | | | |
| Long-term investments | \$ 196,400 | \$ - | \$ 178,668 | \$ 375,068 |

LARA EXPLORATION LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

18. INCOME TAXES

As at December 31, 2021, and 2020, no deferred tax assets are recognized on the following temporary differences as it is not probable that sufficient future taxable profit will be available to realize such assets:

| | December 31 2021 | December 31 2020 |
|----------------------------------|---------------------|---------------------|
| Mineral properties | \$ 3,156,824 | \$ 2,961,104 |
| Tax loss carry-forwards | 3,807,083 | 3,684,712 |
| Other | 166,634 | 599,428 |
| Unrecognized deferred tax assets | \$ 7,130,541 | \$ 7,235,244 |

As at December 31, 2021, the Company has non-capital losses of approximately \$13.3 million (2020 - \$13.2 million) and \$0.7 million (2020 - \$0.4 million) to reduce future income tax in Canada and Peru, respectively. The losses in Canada expire between 2025 and 2041 and, in Peru, between 2022 and 2026.

The provision for income taxes differs from the amount calculated using the Canadian federal and provincial statutory income tax rate of 27.0% (2020 – 27.0%) as follows:

| | December 31 2021 | December 31 2020 |
|---|---------------------|---------------------|
| Pre-tax income (loss) for the year | \$ 2,398,309 | \$ (969,338) |
| Expected income tax expense (recovery) | 647,543 | (261,722) |
| Non-deductible items | (551,424) | 695,869 |
| Deferred income tax assets not recognized | (107,322) | (422,944) |
| Deferred Income tax expense (recovery) | \$ (11,203) | \$ 11,203 |

Tax attributes are subject to review, and potential adjustments, by tax authorities.

19. EVENTS AFTER THE REPORTING DATE

Subsequent to December 31, 2021, the Company entered into an agreement to acquire additional mineral concessions which are part of Lara's Mantaro project. Lara has committed to invest US\$500,000 in expenditures on these concessions by December 31, 2025.

On March 26, 2022, 2,000,000 share purchase warrants with an exercise price of \$0.70 expired unexercised.